

REGULAR REPORT

FROM THE COMMISSION

ON

LITHUANIA'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

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

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

A dynamic approach should be maintained in assessing the progress made by applicant States in the regular reports which the Commission will submit to the Council.”

The European Council in Cardiff supported those conclusions, stating that “The Union’s priority is to maintain the enlargement process for the countries covered in the Luxembourg European Council conclusions, within which they can actively pursue their candidatures and make progress towards taking on the obligations of membership, including the Copenhagen criteria. Each of these candidate countries will be judged on the basis of the same criteria and will proceed in its candidature at its own rate, depending on its degree of preparedness. Much will depend on the efforts made by the candidate countries themselves to meet the criteria. All will benefit from strengthened relations with the EU including through political dialogue and tailored strategies to help them prepared for accession.”

In accordance with the guidance provided by these Council Conclusions, the progress report on Lithuania follows the same structure as the Opinion. It

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

- addresses the question of Lithuania's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union

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

This approach ensures equal treatment for all the candidate countries. The report takes into consideration progress since the Opinion. It looks at whether intended reforms referred to in the Opinion have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which examines the extent to which Lithuania has addressed the short term priorities set out in the Accession Partnerships.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the Opinion, the economic assessment is based on a longer term evaluation of Lithuania's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. Only in this manner was it possible to objectively measure and compare concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the Opinion. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis* and the information provided in the context of the analytical examination of the *acquis* provided were additional sources of information. Council deliberations on the Opinion and the reports and resolutions of the European Parliament on the Commission Opinions¹ and in particular the report on the application of Lithuania for accession to the EU prepared by Mr. Kristoffersen were taken into account in the preparation of the reports. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

¹ European Parliament Doc. 224.339 'Report on the Communication from the Commission Agenda 2000' (Rapporteurs: A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens)

b) Relations between the European Union and Lithuania

The Enhanced Pre-Accession Strategy

On 30 March 1998 the accession process was formally launched by a meeting of the Ministers for Foreign Affairs of the fifteen EU Member States, the ten Central and East European applicant states and Cyprus. In advance of this meeting country specific Accession Partnerships were adopted to support the applicant countries in their preparations for membership. These documents set out the priorities for further work and the supporting financial assistance available from the EU. In March Lithuania presented a first version of its National Programme for the Adoption of the *Acquis* (NPAA) which describes in more detail the actions needed to reach the objectives set out in the Accession Partnership. An analytical examination of the *acquis* (“screening”) started on 3 April. Pre-accession aid will be increased substantially. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agriculture and a structural instrument which will give priority to measures similar to those of the Cohesion Fund in environment and transport. The Phare programme will concentrate on institution building and investment in other areas.

Recent developments in bilateral relations

The Europe Agreement between the European Union and Lithuania entered into force on 1 February 1998 following the completion of the ratification procedures. Lithuania has implemented the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The first meetings of the Association Council and the Association Committee were held in February and June 1998 respectively. The June 1998 meeting was the first to discuss the implementation of the Accession Partnership priorities. Since the entry into force of the Europe Agreement seven sub-committee meetings have taken place. Since the issuing of the Opinion the Joint Parliamentary Committee comprising representatives of the Lithuanian and European Parliament met twice, in January and in September 1998.

Lithuania’s trade with the EU has continued to increase its share of total trade. During the first five months of 1998 Lithuanian exports to the EU accounted for 33% of total exports (Germany 12%, UK 3.6% and Denmark 3.3%). Imports from the EU amounted to 44% (Germany 16.9%, Italy 3.8% and Denmark 3.7%).

Under the Europe Agreement an adaptation protocol, covering in particular non processed agricultural and processed agricultural products, has been signed to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

There are no major trade problem in the relations between Lithuania and the EU. A new protocol to the Europe Agreement providing for the liberalisation of trade in textiles was initialled. Pending its formal conclusion, it has been applied provisionally since 1 January 1998.

The 1998 Phare programme consists of a national allocation (32 MECU), based on the Accession Partnership priorities, to support in particular administrative capacity reinforcement, environment, transport, energy, as well as the participation in Community programmes and Tempus. An additional 4 MECU have been allocated for a cross-border co-operation programme.

In addition, funding will be provided under the Catch-up Facility², for projects in financial sector reform, anticorruption measures.

Lithuania also participates in and benefits from Phare funded multi-country and horizontal programmes such as customs, environment, statistics, public administration reform and TAIEX.

B. Criteria for membership

1. Political Criteria

Introduction

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

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

Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.”

Recent developments

As a result of presidential elections held in December 1997 and January 1998, a new President, Mr Adamkus, took office on 26 February 1998. The transfer of power took place smoothly and in accordance with the law. A minor Government reshuffle took place in March 1998. Lithuania's accession to the EU is seen by the government as a political priority.

1.1. Democracy and the Rule of Law

The Parliament

The Parliament (Seimas) has continued to operate in a satisfactory way. Its powers are respected and the opposition plays a full part in its activities.

In September 1997 a European Affairs Committee was established at the Seimas.

² Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

The Executive

The executive continues to function satisfactorily. The Presidential elections were free and fair.

While Lithuania continues to make progress in the field of Public Administration, it has to be noted that the Seimas has not yet approved a new Law on the Civil Service which aims to ensuring the independence of civil servants and to improve the competence and efficiency of the Public Administration. Further efforts will be needed in this regard.

A particular effort has been made to reform the police, although they continue to face problems in recruiting suitable staff, training them and in keeping well qualified officers in the service.

The Judiciary

A concern expressed in the Opinion was the excessive length of court proceedings due to the lack of qualified staff and organisational problems.

In order to cope with these problems, the Lithuanian authorities have taken several measures, the effectiveness of which has yet to be tested.

- The number of judges has increased to 518. However there are still 101 vacancies to be filled.
- A special training department has been set up within the Ministry of Justice and an independent Training centre for Lithuanian Judges has been established in order to remedy the problem of inadequate specialist training.
- The Law on Courts has been amended to reorganise the work of court bailiffs and to make them more efficient
- A four-tier judicial system has been set up in Lithuania in order to reduce the workload of the Supreme Court but organisational changes may have actually lengthened court proceedings. The recent amendments to the Law on Courts have established a special Court Department in the Ministry of Justice. One of the major tasks of this department is to administer the work of the Courts.
- The length of court proceedings has created problems, particularly in commercial cases. This has resulted in an inadequate application of the bankruptcy law. In order to speed up the settlement of commercial disputes, arbitration tribunals have been set up and the Commercial Court was abolished as of 1 September 1998.
- A law was passed on 1 November 1997 to provide for Remedies for Damages inflicted by the Unlawful Acts of investigative and judicial bodies.

Finally, it has to be noted that the law establishing Administrative Courts has not been adopted by the Seimas.

Anti-corruption measures

The Opinion recommended that Lithuania should intensify the fight against corruption.

A law on the Compatibility of Public and Private interests in the Public Service was enacted on 2 July 1997. The purpose of the law is to secure the impartiality of decisions and to prevent the emergence and spread of corruption in the public service. A special “clean hands” Commission set up in 1997 has investigated cases of abuse of their official positions by officials. In November 1997 the Parliament passed a Law on Financing Political Campaigns. In April 1998 the Government adopted a decree on measures against economic and financial crimes and organised crime and corruption.

In the framework of the Phare Catch-up facility³, Community assistance will be provided to design a comprehensive national policy for the reduction and elimination of corruption.

Efforts still need to be made in the fight against corruption. Although stamping out corruption is one of the Government’s highest priorities, it remains to be seen whether the measures taken so far will be sufficient.

1.2 Human Rights and the Protection of Minorities

While Lithuania has already ratified the European Convention for the Protection of Human Rights and most of its protocols, Protocol 6 on the death penalty has not yet been ratified.

On 16 September 1998, the Seimas unanimously authorised the ratification of the European Convention for the Prevention of Torture and other Inhuman Treatment or Punishment. The Framework Convention for the Protection of National Minorities has not yet been ratified. The revised European Social Charter was signed on 8 September 1997.

Civil and political rights

Lithuania has taken measures aimed at addressing some of the problems identified in the Opinion in the following areas:

- The death penalty still exists, though it has been suspended *de facto* since 1996. A group of MPs has asked the Constitutional court to rule whether capital punishment is in line with the Constitution.
- The measure extending pre-trial detention up to two months in case of suspicion of a serious offence reported in the Opinion ceased to be applied as of 30 June 1997 and was

³ Special EU financial assistance given to Latvia, Lithuania, Slovakia, Bulgaria and Romania for projects aimed at accelerating EU accession preparations in certain areas.

replaced by a new Law on crime prevention which codifies the procedures and grounds for detention. The new law provides safeguards against arbitrary detention by requiring a judge's order. However, according to some reports, pre-trial detention foreseen in such orders can still apply for periods of one to three years. There are also persons who are held in pre-trial facilities after the expiry of the term of the legal detention period. The situation is expected to improve thanks to a recent amendment to the Code of Criminal Procedure which sets a 18 months maximum period for the pre-trial detention during the investigation phase.

- The number of qualified lawyers has risen to 627. However there are still not sufficient lawyers to provide all defendants with the right to counsel as foreseen in the Constitution. In addition, while the law provides, in penal cases, for free legal aid for those not able to afford a lawyer, State remuneration is so low that lawyers often do not carry out their work properly.
- The Lithuanian authorities have adopted provisions allowing nationals of the EU Member States to own non-agricultural land. These provisions will enter into force in 1999.
- The right to privacy is now enshrined in clear guidelines in the July 1997 Law on Crime Prevention. This Law provides the legal basis for respect of privacy, as monitoring of communications must receive prior authorisation by a judge.

There have been some positive administrative developments. In April 98 the Department of Prisons was transferred from the Interior to the Justice Ministry with a view to ensuring a more coherent approach to Prison reform. In addition, mutual assistance training programmes are being established. A juvenile detention centre was opened in Kaunas in 1998. However, prison conditions remain poor, especially due to overcrowding.

On 24 March 1998, a new Law on the Protection of Children's Rights was adopted (in line with the UN convention of the Right of the Child). It also established an Ombudsman for Children Rights who reports directly to the Seimas.

The Vilnius District Court has decided to bring to trial Aleksandras Lileikis, accused of genocide. The court session began in September 1998.

Twenty-two cases of illegal rehabilitation of persons suspected of crimes against humanity have so far been annulled in Lithuania.

The UN Geneva Convention and the New York Protocol relating to the Status of Refugees came into force with the Law on the Status of Refugees in the Republic of Lithuania in July 1997. The process of granting asylum has started. Asylum seekers whose application is rejected can appeal to the Council for Refugees Affairs and, finally, the Court. However, some aspects of the admission procedure established by the law are not in line with the relevant international Conventions.

A point of concern is the situation of the Pabrade foreigner registration centre where conditions are reported to be very poor. The number of migrants in the centre has decreased thanks to return programmes financed by the international community. The Phare Programme is financing some structural improvements. However, additional efforts from the Lithuanian authorities are required.

It should be also noted that the NGO sector is growing but not yet very strong in part because the general public is not educated about the role of NGOs in society.

Economic, Social and Cultural Rights

Economic, social and cultural rights continue to be respected. Trade unions are becoming more active and beginning to have an influence on public policy development. In 1998, about 15% of workers were registered trade union members.

Minority rights and Protection of Minorities

There is nothing new to report in this area compared to last year's Opinion. Although small in number, the two main minority communities in Lithuania (Polish and Russian) have well established rights (schools, language etc.) which have not changed since last year.

1.3 General evaluation

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

2. Economic criteria

2.1 Introduction

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

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

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion.

2.2 Economic developments since the commission published its opinion

The economic situation in Lithuania has improved further since mid-1997. The positive developments that were already noted in the Opinion have continued and strengthened. Macroeconomic stability has improved, through a prudent fiscal policy and the continuation of the currency board arrangement. The authorities have begun implementing the strategy for

an eventual exit from the currency board system and a switch to a fixed-peg regime. On the structural front, reforms have advanced. Plans for the accelerated privatisation of financial and non-financial enterprises are bearing fruit, albeit later than originally envisaged. Although the current account is deteriorating, Lithuania's enhanced economic environment is attracting increasing flows of foreign direct investment (FDI) which will help finance the deficit. The three-year Extended Fund Facility with the International Monetary Fund has been successfully completed.

Macroeconomic developments

During 1997, the economy grew by 5.7% in volume terms. Fast and accelerating economic growth continued into 1998, with GDP growth estimated at 7% during the first part of the year. Last year, both agriculture and the service sector played a leading role in the recovery. Industrial production, on the other hand, rose only by 0.7% and its share in total gross value added dropped nearly two percentage points to 24%. Production in mining, quarrying and manufacturing, however, is picking up. After rising by 5%, it grew by 8.8% year-on-year in the first seven months of 1998.

The recovery, which started in 1995, is being driven by domestic demand, in particular by consumption. Investment grew fast, albeit at a slower pace than nominal GDP, resulting in a reduction of the investment share in GDP to 22%.

As a result of the recovery, the unemployment rate fell but significant differences in regional rates persisted. Total employment remained nearly unchanged but the share of the public sector employment continued to decline as did for the first time the share of workers employed in the agricultural sector, thus reversing past trends.

During 1997, average wage growth in the national economy was close to 25% in nominal terms. Thanks to declining inflation, real wage growth rose sharply, by nearly 13%, fuelling the strong rise in household consumption. Public sector wages grew by a similar amount, with the most sizeable increases concentrated in health and education. Sustained wage growth has continued into 1998, but abated somewhat in the public sector.

Inflation has continued to fall: the annual average inflation rate dropped from 24.6% in 1996 to 8.9% in 1997. This was remarkable, notably in the light of the indirect tax increases and adjustments in energy prices, heating tariffs and communication rates. The year-on-year inflation rate has continued to fall in 1998, helped by the appreciation of the US dollar, to which the litas is pegged, and the decline in oil prices.

Lithuania: Main economic trends		1994	1995	1996	1997	1998 latest	
Real GDP growth rate	<i>per cent</i>	-9.8	3.3	4.7	5.7	7.3	Jan-Jun
Inflation rate							
annual average	<i>per cent</i>	72.2	39.6	24.6	8.8	5.9	Jan-Sep
December-on-December	<i>per cent</i>	45.1	35.7	13.1	8.4	3.6	Sep-on-Sep
Unemployment rate, end-year							
ILO definition	<i>per cent</i>	17.4	17.1	16.4	14.1		
registered	<i>per cent</i>	3.5	6.3	6.4	5.6	5.6	Sept
General government budget balance	<i>per cent of GDP</i>		-1.8	-2.7	-0.5		
Current account balance	<i>per cent of GDP</i>	-2.1	-10.2	-9.2	-10.3		
	<i>billion ECU</i>	0.0	-0.5	-0.6	-0.9	-0.6	Jan-Jun
Foreign debt							
debt/export ratio ¹	<i>per cent</i>	20	25	29	27		
gross foreign debt	<i>billion ECU</i>	0.4	0.6	0.9	1.2	1.4	Jul
Foreign direct investment inflow							
net inflow according to EBRD	<i>per cent of GDP</i>	1.4	0.9	1.0	3.4		
balance of payments data	<i>million ECU</i>	26	55	120	313	187	Jan-Jun

Source: Commission services, national sources, EBRD

¹ Gross hard currency debt as a percentage of exports of goods and services

Lithuania has implemented the prudent fiscal policy needed to preserve the sustainability of the currency board arrangement. After a moderate slippage in 1996, the public finances in 1997 did better than targeted: the general government deficit fell to an estimated 0.5% of GDP. Fiscal revenues as a percentage of GDP increased, reversing a negative trend. For the first time since independence, there was no recourse to expenditure sequestration. Budget execution during 1998 is being tightened and the deficit is expected to fall below the target for the year (1.6% of GDP). Moreover, the authorities have decided to bring forward the achievement of a balanced budget by one year, to 1999. Finally, part of the proceeds from privatisation is being channelled to a savings restitution fund which will be used to compensate households for the financial losses incurred at the beginning of the 1990s. The Ministry of Finance and the Bank of Lithuania have set out guidelines designed to avoid any disruption of macroeconomic stability as a result of this process.

After narrowing somewhat in 1996, the current account deficit widened again in 1997 to 10.3% of GDP as a larger imbalance in goods trade and increasing net income payments abroad were only partially offset by higher transfers. Imports of goods grew by some 24%. Exports rose very strongly for the second year in a row, increasing by nearly 23%. Export growth was concentrated on refined mineral products, textiles, machinery and vehicles. The highest growth in imports concerned vehicles, machinery, mineral fuels and chemical products. So far, rising external imbalances have been easily financed at increasingly favourable rates. Sustained macroeconomic stability and the acceleration of structural reforms have encouraged increasing net foreign direct investment inflows. These doubled for the second year in a row reaching an estimated 3.4% of GDP. As a result, foreign debt as a percentage of GDP has declined in spite of the worsening current account. These positive trends continued into the first half of 1998. The sale of Lithuanian Telecom in July, just before the start of Russia's financial crisis, has boosted official reserves above ECU 1.4

billion, thus strengthening the ability of the currency board to cope with any short term pressures on the litas.

The Bank of Lithuania has begun implementing its strategy for the gradual exit from the currency board regime in an orderly and prudent manner. A wider set of monetary instruments was introduced in 1997, but in line with the Bank's intention their use has been rather limited. An overnight lending facility was established in June 1998.

After the banking crisis of 1996, confidence was gradually restored from 1997 onwards; banking activity increased rapidly. Broad money and total deposits have both been growing at double-digit rates, in real terms, after negative growth in 1995 and 1996. The real value of loans extended by the banking sector has also been growing rapidly since mid-1997, mainly thanks to a sharp growth in foreign currency lending. Credit conditions eased while the recovery strengthened. Nominal interest rates on deposits and loans, average annual rates on Treasury bills and premia on financial instruments denominated in litas all tended to fall until late into 1997.

The initial impact of the Russian crisis has been fairly limited. The banking sector, in particular, has little direct exposure. In spite of increased integration with the EU, Russia remains Lithuania's main trading partner, accounting for more than 20% of all exports in the first five months of 1998. The crisis could therefore worsen the trade balance and slow down growth in the industrial sectors exporting to Russia. While a deterioration of exporters' financial performance could negatively affect the loan portfolio of commercial banks, their reserve position should be more than sufficient to make provisions for such a deterioration. Finally, the uncertainty generated by the Russian crisis can worsen financing conditions, as shown by the recent sharp rises in T-bill rates, as well as reduce the interest of investors in privatisation.

Structural reforms

Since its investiture, the current government has aimed to broaden the scope of privatisation and to quicken its pace. During 1997, the state planned to sell majority stake in 89 enterprises and residual minority holdings in 741 companies. Moreover, 14 strategic enterprises were earmarked for accelerated privatisation. During the year, 272 entities were sold, generating 81 million litas in revenues. This performance constituted a marked improvement compared to 1996, but remained unsatisfactory. Only one enterprise slated for accelerated privatisation was divested and many of the enterprises included in the privatisation programme for 1997 were not sold, mainly due to lack of interest at the prevailing offer conditions.

A new Law on Privatisation in December 1997 adjusted the procedural aspects of the whole process. The privatisation list was extended to include 186 enterprises in which the state holds a majority stake, and minority holdings in some 1400 companies. A new Fund for State Property was instituted. It began operating after various delays in May 1998. In the first nine months of the year, stakes in 206 enterprises, including some forty companies where the state held a majority of shares, were sold for total revenues of some 2.2 billion litas. Among the enterprises originally slated for accelerated privatisation, four more were sold, a letter of intent was signed for one, and procedures are in advanced stage of preparation for at least three others.

In parallel, the government aims to increase the involvement of private capital in a selected number of companies in the energy and oil sectors. A letter of intent has been signed for the sale of a one-third stake in the only oil refinery in the three Baltic countries, an oil terminal being built at Butinge (with recurring financing difficulties), and an oil pipeline connecting the two. Similarly, direct negotiations are being held for private participation in a capital increase in Lithuanian Gas, after the failure of a first tender. The authorities also plan to separate the electricity distribution networks from Lithuanian Electricity and eventually to privatise them. These planned measures are part of wider efforts to overhaul the energy sector. An independent energy pricing commission was established and prices were brought to cost-recovery levels. Payment arrears have fallen considerably and past losses suffered by the energy companies due to preferential tariffs arrangements were recognised as public debt. District heating has been decentralised to the municipal level.

In the area of corporate governance, a new bankruptcy law has been in effect since October 1997. Under the previous legislation, introduced in October 1992 and amended in 1994, procedures were lengthy, with only a very limited share of judicial proceedings being resolved. By July 1998, bankruptcy petitions had been filed against a total of 288 economic entities and proceedings had been completed in only 36 cases. The imposition of potentially strict time limits and changes in the priority rankings among creditors are some of the modifications introduced by the new law. Parallel initiatives have been taken to improve the qualifications of enterprise administrators and judges involved in bankruptcy cases.

Lithuania: Main indicators of economic structure in 1997		
Population	<i>million</i>	3.7
GDP per head	<i>PPS-ECU</i>	5800
as % of EU-15 average	<i>per cent</i>	31
Share of agriculture in:		
gross value added	<i>per cent</i>	12.7
employment	<i>per cent</i>	21.9
Investment-to-GDP ratio	<i>per cent</i>	22
Gross foreign debt/GDP	<i>per cent</i>	15
Exports of goods & services/GDP	<i>per cent</i>	55
Stock of foreign direct investment ¹	<i>billion ECU</i>	0.4
	<i>ECU per head</i>	115
<i>Source: Commission services, national sources, EBRD, IMF</i>		
<i>¹ FDI stock converted at end-1997 exchange rate of 1ECU=\$1.10421</i>		

Banking reform moved forward. Advances were most noticeable in the area of supervision and prudential requirements. International accounting standards and Basle capital requirements were introduced, provisioning regulations and exposure rules tightened, reporting obligations enhanced, on-site inspections improved and deposit insurance for private and public banks put on the same footing.

As of July 1998, 10 commercial banks were operating along with two branches of foreign institutions and five representative offices. At the beginning of the year, foreign investors

owned one third of the share capital of Lithuanian banks and had controlling stakes in the two largest private institutions. Strengthened regulation triggered bankruptcy proceedings against one private bank in the summer of 1997. Since 1994, thirteen banks saw their banking licences removed and entered bankruptcy proceedings. For eight of them, liquidation has begun. A law enacted in April 1997 granted a one-year exemption from prudential requirements for the two state-owned banks slated for privatisation. A year later, the authorities decided to liquidate one of these (State Commercial Bank), after repeatedly failing to find a buyer. In September 1998, the privatisation tender for the other, Agricultural Bank, failed. However, this bank meets all prudential requirements and the authorities intend to launch a new tender. In addition, the government has announced plans to sell the largest Lithuanian insurance company as well as the other remaining state-owned bank (Savings Bank).

The National Stock Exchange has developed quickly. Its capitalisation reached 27% of GDP at the end of 1997 and turnover has increased substantially. Enterprise financing through the issues of equity and debt securities has been growing.

Tax reform advanced, most notably as regards VAT. The government has taken a tougher stance on evasion, and excise rates on alcohol, tobacco and oil products were increased considerably. Further measures were taken to improve receipts from social security tax in an attempt to eliminate the short-term liquidity problems routinely affecting the social insurance fund (SoDra). Finally, a number of reforms in the area of public expenditure management are being implemented, including modifications to the budgetary process, the establishment of a treasury system and the elimination of most extra-budgetary funds.

2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

Lithuania has taken further steps in liberalising and stabilising its economy. Against the background of strengthening macroeconomic stability, important price adjustments were implemented and sustained. Administered prices represent 16% of the CPI basket. The trade regime has remained liberal although a five percent tariff was introduced on imported petroleum products in April 1998.

Financial discipline for enterprises is tightening. Tax evasion has decreased, along with exemptions and preferential rates, and payment arrears to energy companies were reduced. It is still too early to assess the effectiveness of the 1997 bankruptcy law. This will depend on the extent to which the authorities ensure a tight enforcement of the new legislation, correct any weakness in the new framework and strengthen current programmes aimed at raising the competence of judges and administrators.

Enterprise privatisation has moved forward. Some 70% of GDP is now produced by the private sector which owns the majority of registered capital in nearly all manufacturing sub-

sectors. The sale of companies has accelerated, especially in the second half of 1998 when the changes to privatisation procedures became fully operational. However, the completion of the privatisation of majority and minority stakes held by the state in numerous smaller enterprises still has a long way to go. The persistent lack of interest from investors for some enterprises could change when corporate governance is strengthened and the bankruptcy law is applied more aggressively.

The process of land restitution has advanced but remains far from complete. As of September 1998, private ownership was restored for some 55% of all land for which restitution claims have been made. In the mean time, a fairly active leasing market has facilitated a measure of agricultural restructuring. To speed up this process, the rapid completion of land restitution is needed along with the proper implementation of recent government measures to support the development of rural areas and agricultural credit.

The legal framework for a market economy has improved. However, Lithuanian laws are frequently amended while the establishment of proper implementation structures often lags behind. To a certain extent, this is due to a lack of administrative capacity and, at times, to the absence of clearly defined medium-term strategies. Advances in bank restructuring and strategic privatisation, for instance, have often been driven by ad hoc decisions. Lithuania would benefit from drafting a medium-term economic strategy providing a coherent macroeconomic framework for the implementation of reforms in preparation for accession. The recent establishment of a working group charged with this task is an indication of progress towards achieving this short-term priority of the Accession Partnership.

The financial sector and the legislative framework governing it are both developing rapidly. Notable advances were recorded in the supervision of the banking sector. Supervision of the non-bank financial sector is still weak but the authorities are making an effort to strengthen it. Since 1997, the banking sector is increasingly fulfilling its role as a financial intermediary. Nevertheless, the overall level of development of the financial system remains low. At the end of 1997, broad money represented only 19% of GDP, credit only 11%. It will be important to ensure that on-going credit growth does not lead to a deterioration in the quality of the loan portfolio or to dangerous mismatches in the currency denomination (or terms of maturity) of banks' assets and liabilities.

At the end of August 1998, public-owned banks still accounted for some 40% of all outstanding loans from functioning commercial banks. However, this share has been falling sharply and direct funding of the agriculture sector by public banks has stopped. Moreover, preparations for the privatisation of the two remaining state banks as well as Lietuvos Draudimas, the insurance company, which now has a 55% market share, have begun. They are very advanced in the case of one bank.

Over recent years, the authorities' commitment to prudent monetary and fiscal policies has considerably improved the climate for economic decision making and investment. This commitment needs to be maintained in the face of changing internal and external conditions. The authorities are moving towards the eventual exit from the currency board regime in an orderly manner. They also intend to use privatisation revenues in a prudent way. The main risk on the macroeconomic side is that, at some point in the future, it may become difficult to finance the high and rising current account deficit. Moreover, while greatly beneficial in the longer term, deepening reforms are likely to entail an increased burden on the public budget over the medium term. To accommodate the spending requirements within the budget,

without undermining Lithuania's fiscal position, the authorities have started to work on a medium term strategy, which includes the improvement of tax compliance and the reform of the pension system and local government finance.

The measures implemented since the Opinion, at times amid controversy and domestic opposition, have led to further progress towards the creation of a market economy. However, most of the progress still needed lies in the completion of the reform programme and in the sustained implementation of recent legislative measures, particularly in the area of bankruptcy proceedings.

The Capacity to Cope with Competitive Pressure and Market Forces within the Union

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

The consolidation of macroeconomic stability and the advances in Lithuania's transition to a fully functioning market economy are progressively improving its prospects of being able to cope with competitive pressures within the single market. There are indications that economic restructuring has deepened and that the upgrading of the country's production capabilities has accelerated.

FDI has increased sharply, contributing to the modernisation of the capital stock. However, since a large proportion of the FDI has been accumulated very recently, the impact of these later inflows on the restructuring and reorientation of the economy is only likely to materialise in the next few years.

The prospects for lasting inflows of foreign capital will be further strengthened if the authorities advance the privatisation process and focus on its potential impact on efficiency, rather than on its revenue-raising potential. Privatisation has already become a main component of the restructuring process in an increasing number of industries, such as shipping, telecommunications, dairy and sugar industries. However, the impact of private ownership on enterprise efficiency cannot yet be assessed since it will only materialise in the coming years, provided the incentives for investment and restructuring are in place. These include proper implementation of competition and regulatory policies.

Other signs of enhanced economic restructuring are: the fall in the share of workers employed in the agricultural sector, a sector that in the past acted as an important safety net; the rise in investment spending; and the increase in the share of capital goods in total imports. There are also indications that, on the back of the strengthening recovery, industrial production is picking up in various sectors but remaining stagnant or falling in others, hinting at a deepening of industrial restructuring. Average labour productivity has increased but this is

partly due to the economic recovery. Moreover, real wages cannot continue growing faster than productivity without undermining domestic and external stabilisation and, hence, the whole reform process.

Lithuanian exports consist for the largest part of goods that require substantial inputs of labour and natural resources. They have been growing rapidly but the share of Lithuanian exports going to the EU has remained stable at nearly 33% since 1996. The two main groups of exports to the EU are textiles and chemical products. In recent years, the share of textiles has been rising, reaching some 34% of total exports to the EU in 1997. The share of chemical products, instead, has been falling, dropping to 12.7% last year. Machinery exports accounted for some 10% of total exports to the EU in both 1996 and 1997. Their share increased to 11.5% during the first semester of 1998. The share of imports from the EU has climbed steadily through the years, reaching 46.5% in 1997. The two main groups of imports from the EU are machinery and vehicles. These trade trends show that Lithuania is importing the capital goods needed to upgrade its production capacity. Industrial restructuring has begun to modify the pattern of exports to the EU. If this process is sustained, it is likely to lead to further trade re-orientation towards the EU.

Since Lithuania is extremely inefficient in its use of energy, the establishment of cost-recovering energy prices has been crucial in creating the incentives for the more efficient use of economic resources. It will need to be maintained to induce business in Lithuania to shift away from energy-intensive production techniques. In addition, reform of the energy sector itself should be advanced. This will require, *inter alia*, strengthening the independence of energy enterprises management, furthering privatisation, and establishing a proper regulatory and financing framework. Lithuania also needs a strategy to cope with the costs of the future decommissioning of the Ignalina nuclear power plant, on which it now relies for a large part of its energy needs.

Although Lithuania has a relatively well-educated population, large numbers of workers will need to be re-trained and re-skilled before they can be productively re-employed, especially as new technologies and working practices arrive with FDI.

The advance of reform in Lithuania is progressively increasing its competitiveness and laying the structural basis for the long term sustainability of growth. Preserving macroeconomic stability and completing the reform agenda, in particular the planned privatisation banks and financial enterprises and the reform of the energy sector, would strengthen favourable trends, enabling Lithuania to make the progress necessary to cope with competitive pressure and market forces within the Union in the medium term.

2.4. General evaluation

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

Since the Opinion, macroeconomic stability has been consolidated. Structural reforms are advancing and there has been progress in the adoption of related legislative measures. Moreover, the conditions for tighter financial discipline on enterprises are being put in place. The banking sector is strengthening and expanding its role as financial intermediary. As a result of privatisation and rising foreign direct investment, the availability of physical,

managerial and technological capital for enterprise restructuring is increasing. There is also a need to diversify exports and to increase their added value.

Priority should now be given to completing the remaining structural reform agenda, and to the implementation and enforcement of existing and new legislation. Particular attention should be paid to bankruptcy regulations. The authorities should also focus on maintaining macroeconomic stability, notably by ensuring the sustainability of the external accounts. This will be an important condition for continued economic restructuring. In this respect, Lithuania would benefit from the design of a medium-term economic strategy providing a coherent macroeconomic framework for the implementation of structural reforms.

3. Ability to assume the obligations of membership

This section aims to up-date the Commission's Opinion of 1997 as concerns Lithuania's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1997 Commission's Opinion on Lithuania's application for EU-membership, the Commission concluded that

“Lithuania has made some progress in transposing and implementing the *acquis* relating particularly to the single market. With considerable further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the *acquis* fully in sectors such as agriculture, energy and environment”.

The presentation which follows uses the same structure as the 1997 Opinion, but the general descriptions of each sector have been omitted. Instead, the report focuses on progress made since July 1997. Under each heading legislative decisions and progress in implementing and enforcing the legislation is reported.

3.1 Internal market without frontiers

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

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

General Framework

The Public Procurement Office became operational in the second half of 1997 although no progress can be reported on legislation designed to ensure full harmonisation with the *acquis* in public procurement.

In the area of intellectual and industrial property, in 1997 and 1998 Lithuania acceded to the Madrid Protocol, Nice Agreement and Budapest Treaty of the World Intellectual Property Organisation. The Patent Office has achieved good results. An Intellectual Property Rights Protection Unit has been established in the Tax Police Department.

There have been no major developments as regards company law. No notable progress has been made in the field of Auditing.

In March 1998 the law on the Protection of Personal Data was amended in order to be more in line with the *acquis*. In addition a Government decree concerning the protection of data in the public sector has been adopted. A State Data Protection Office was established in 1997 and restructured in 1998. Further efforts will be needed both in legislation and enforcement in order to ensure an adequate degree of protection.

The four freedoms

Free movement of goods

It is important that the Parliament rapidly adopt laws on conformity assessment and standardisation which should implement the basic principles of the EC New Approach. There has been some limited progress in the transposition of harmonised European standards.

The infrastructure for the implementation of the New Approach (standardisation, accreditation and conformity assessment bodies, testing laboratories and market surveillance authorities) is in place. The separation of functions between the various institutions has been secured.

However, the strengthening of these institutions, and in particular capacity building, will be Lithuania's main challenge with a view to making the quality system fully operational. Another challenge for the near future will be to increase the technical and financial participation of Lithuanian industry in standardisation activity, which will enable the Lithuanian Standards Board to become fully independent of state funding.

As regards the Specific New Approach directives, since last year there is no evidence of alignment in the area. In the area of Old Approach Directives, some limited progress concerning the quality control system for foodstuffs has been made. It should be noted that in the field of **cosmetics** a market authorisation system exists, which is contrary to EC rules. A reinforced market surveillance system has been introduced in order to fight against fraud.

Free movement of capital

Lithuania has reached already a high degree of liberalisation of capital movements. There are no restrictions on the inflow or expatriation of capital by investment companies.

Free movement of services

Since mid-1997 the Lithuanian authorities have made important efforts to align national legislation with the *acquis*. A new banking law was adopted in 1997. The Bank of Lithuania has been empowered to issue by-laws to complete the prudential regulations. Consolidated supervision and anti money laundering measures are in force since January 1998. The deposit guarantee scheme is being progressively improved (last amendment entered into force in January 1998). The first stage of implementation of the capital adequacy directive has been launched. In the field of payment systems Lithuania is making good progress, and the implementation of an RTGS (real-time gross settlement system) will be an important step toward the harmonisation of its payment system to those of the Member States of the European Union.

A law prohibiting insider trading entered into force at the beginning of 1998.

In the insurance sector, since mid-1997 Lithuania has taken steps to implement the 1996 Law on Insurance. In this respect, a positive role has been played by the National Insurance Supervision Office which is entitled to adopt implementing regulations. All insurance companies completed reorganisation of their activities and amendments to their regulations.

Free movement of persons

(a) Free movement of persons, freedom of establishment and mutual recognition of diplomas and qualifications

Lithuania has achieved some progress concerning the approximation of its national legislation with the Regulation on freedom of movement of workers which may facilitate its further alignment in the field of free movement of persons. Concerning mutual recognition of professional qualifications and diplomas, there has been no progress since mid-1997.

(b) Abolition of checks on persons at internal frontiers

The participants in the Baltics consular service consultations in January 1998 agreed on the need to introduce a joint information system based on the model of the Schengen information system. This will increase the effectiveness of cooperation in migration control and the issuing of entry documents (visa and resident permits).

No other progress is reported in this field.

Competition

As regards anti-trust, despite the fact that the current legislation is broadly in line with the *acquis*, there are still areas where further progress is necessary.

Basic provisions for monitoring state aids were adopted in 1997. Progress in the field is slow. A first Report on State aid was submitted to the Commission in April 1998. While this has improved transparency further efforts are needed. Lithuania still needs to establish a monitoring system, enabling the monitoring authority to receive all information on State aid prior to its granting. A State Aid Monitoring Division was established within the Competition Office in April 1997.

Conclusion

Some progress has been made in meeting the short term priorities of the Accession Partnership in the area of financial services, and in alignment to the *acquis* in the field of standards.

However, attention needs to be paid to ensuring effective implementation and enforcement of the new legislation. Particular efforts are needed in the field of public procurement, in the enforcement of the protection of copyright and the fight against piracy, border enforcement and personal data protection.

In the competition field, despite the fact that steps have been taken in meeting the short term priorities of the Accession Partnership and while there has been some progress in the implementation of the competition policy, state aid control clearly remains a problem. Efforts to create full transparency in the granting of state aid should be pursued in order to establish a comprehensive and updated state aid inventory. The legal framework for the granting of state aid needs further alignment to Community law. Finally, the necessary powers and procedures must be adopted to allow the State Aid Monitoring Authority to control existing and future aid measures on a systematic basis. Its independence should be also ensured.

3.2 Innovation

The Information Society

Lithuania participates in the high level committee on information society and supports the development of information society. The creation of an information society in Lithuania is being carried out in accordance with the National Communications and Information Development Programme approved by the Seimas.

Major efforts have been made to modernise the information system of the State including the land registry.

Education, Vocational Training and Youth

In the field of mutual recognition of professional qualifications and diplomas there has been no progress since 1997.

A law on Vocational Training was adopted in October 1997 to address specific issues of training. A law on non-formal education of adults was adopted in June 1998.

In October 1997, vocational training qualification levels were adopted to bring them into compliance with Commission's Recommendation.

Lithuania is expected to participate in the Community Programmes Leonardo, Socrates and Youth for Europe in 1998.

Research and technological development

In April 1998, Lithuania asked for full association with the fifth Framework Programme. Two rounds of exploratory talks aimed at preparing negotiations were held.

Research is not mentioned as a priority in the National Programme for the Adoption of the *Acquis*. The creation of a new Department of Science and Studies under the Ministry of Education and Science shows the importance which Lithuanian authorities attach to the development of this sector.

Telecommunications

There has been a notable expansion of the telecoms network in 1997 (up by 29 lines per 100 inhabitants) a three-fold increase on the previous five year average.

The Law on Telecommunications adopted in June 1998 provides for the liberalisation of the telecommunications market as of 31 December 2002. Until this date "Lietuvos Telekomas" (Lithuania Telecom-LT) will be the only company providing local, inter-city or international services through the common fixed telephone network and will be the single operator of fixed telephony service. By giving a *de jure* monopoly to LT, the government boosted its privatisation value. The government will now have to demonstrate its commitment to

liberalisation and also its ability to operate the new regulatory regime in accordance with EU law.

The state-owned Lithuanian Post has exclusive rights to collect and deliver mail and postal orders. An ongoing effort will be needed both at the regulatory and the operational levels to ensure that the universal postal service within Lithuania is provided in accordance with *acquis*.

Audio-visual

No significant progress has been made in Lithuania with respect to the transposition of the audio-visual *acquis*: the Directive “Television without Frontiers”.

The existing administrative structures (the Lithuanian Radio and Television Commission) work effectively within the limits of existing legislation. In 1998, licences were granted to 8 radio and 9 cable TV stations.

The effective adoption and implementation of the *acquis* could be delayed due to existing licences for commercial broadcasters as well as existing advertising contracts with tobacco companies.

Conclusion

There has been some progress in education and telecommunications but no progress in the audio-visual sector.

3.3 Economic and fiscal affairs

Economic and monetary union

Lithuania has made little additional progress in its preparation for joining the Economic and Monetary Union.

Until now, Lithuania’s monetary policy has been based on the currency board arrangement. The Bank of Lithuania has been implementing in a pragmatic and prudent manner a strategy foreseeing the eventual exit from the currency board arrangement. In the course of this process, Central Bank legislation will have to be made fully compatible with EC rules.

Taxation

With regard to **indirect taxation**, since 1997 Lithuania has continued the approximation of its VAT legislation in order to bring it into line with the Community *acquis*. Recent changes to Lithuanian VAT legislation include elimination of the reduced VAT rate applicable only to domestic agricultural products and increasing the registration threshold in order to reduce the number of taxpayers obliged to register for VAT. Although progress has been made, substantial efforts are still required in the field of VAT. Administrative capacity, arrangements for administrative co-operation and mutual assistance should be strengthened.

Discrepancies remain between the Lithuanian **excise** system and Community requirements. Most importantly, Lithuania has no tax warehousing system. Moreover, it continues to charge *ad valorem* rather than specific rates and retains important revenue raising taxes on goods other than those subject to the common Excise Duties.

Lithuania's existing excise duty legislation falls far short of requirements. A significant effort is required to comply with the *acquis*.

Conclusion

Although some progress has been made in VAT, substantial efforts are still required in VAT and excise duty alignment.

Statistics

Most of the administrative structures required to implement the *acquis* in the field of statistics are in place. However, cooperation and coordination between the different institutions involved still have to be improved.

Lithuania already provides statistics in a number of areas according to EU rules and classifications.

In the process towards full alignment, the following issues will require particular attention: business and agricultural registers; classification of industrial products; national accounts, public debt and deficit statistics, external trade statistics, agricultural, labour force, labour cost and transport statistics.

3.4 Sectoral policies

Industry

The declared goal of Lithuania's strategy in the industrial sector is to enhance the competitiveness of its industry in the EU Single Market. Elements of a horizontal industrial competitiveness policy are being gradually developed in Lithuania. They include the promotion of quality, the promotion of small businesses (through the guarantee fund, business incubators, regional information centres) as well as the promotion of exports and investment promotion. The completion of the privatisation programme is viewed as the most efficient tool to attract foreign investors on a large scale.

Sector specific programmes have also been developed (e.g. in the food processing, wood processing, textiles and shipbuilding sectors). In addition a programme for the revitalisation of declining industries is under preparation. State industrial investment programmes are also part of the strategy.

The Lithuanian industrial policy has not been defined explicitly in a global governmental document, and strategy continues to be debated within the government.

Progress has been made towards a more market-based business environment. Increased inflows of FDI suggest continued international confidence in Lithuania's privatised industrial sector but there is still a need to further increase the volume of productive investments in the manufacturing sector. In this respect, export sectors (i.e. refined petroleum products, clothing, wood products, fertilisers, electrical equipment and construction materials) have continued to be successful, whereas traditional state-supported sectors (i.e. electronics and machinery) have further declined. Also, the Lithuanian authorities will have to pay more attention to the development of an EU compatible system for quality management. The authorities should make sure that industry takes over full responsibility for product conformity, which will allow them to acquire important skills to compete on the internal market, both before and after accession.

Conclusion

Lithuania has made progress in creating a market-based business environment.

Agriculture

Agricultural situation

Following a 10 % rise in 1996, agricultural output rose by about 6 % in 1997, due to an increase of both crop and livestock production. The downward trend in the livestock sector would appear to have stabilised for the first time since 1989. As a result, the share of agriculture in GDP was about 12 % in 1997, much the same as in 1996.

As compared to the 1996 figures, agri-food exports increased by 7 %, and imports rose by 4 %. The trade deficit in agricultural commodities fell in 1997 to about 9 MECU (18 MECU in 1996).

Little progress was made in land reform and privatisation. By 1 July 1998, the land restitution process had only resulted in legal ownership of about 55 % of the agricultural land. However, a relatively active leasing market allowed farm structures to evolve with some further restructuring of agricultural companies, family farms and household plots. Delays in land titling have seriously constrained the development of a proper land market. Further restructuring is needed for a more efficient and viable farming sector.

Agricultural policy

The core laws harmonising the internal market regulations (veterinary and phytosanitary sectors) still need to be adopted. Herd registration and animal identification are not complete.

Hygiene standards laid down in the Directive on milk and milk products are not applied. Maintenance in the plants is inadequate and there are cases of non-EC approved plants supplying products to EC approved ones. Veterinary and hygiene controls need to be improved both in the establishments and also on farms. This latter aspect will require some considerable input in order to achieve EU levels.

A new single service in charge of the monitoring of plant protection, is being introduced. While significant progress has been made in the privatisation of agri-food enterprises, low capacity utilisation, obsolete technology, lack of capital and low profitability are all obstacles

to be overcome if Lithuania is to develop a sustainable and competitive primary processing industry. Because of the nature of the privatisation process, there has been little change in the management and decision making structure, hampering the restructuring of the sector.

Quotas for grain exports and input subsidies (electricity and natural gas) have been abolished.

A new *Rural Support Fund* came into force in 1997, with an allocation of 5,8 % of the state budget. For 1998 the amount of the allocation has been somewhat reduced. About 62 % of the 1997 agricultural budget was devoted to price subsidies. Rural development policies are at an early stage. In 1997 high priority was given to the new *Farm Establishment Programme*, co-financing farmers' start up costs. Environmental and less favoured areas programmes have been pursued, but on a modest scale.

A new system was introduced in May 1998 to move from a price administration to a price regulation system more in line with the basic principles of the Common Agricultural Policy (CAP). The new system is being applied in the cereal sector. A Lithuanian Agency for the Regulation of Agricultural and Food products was established and is responsible for the management of the new price regulation system.

Conclusion

Steps towards meeting the relevant short term priorities of the Accession Partnership have been taken. Progress has been made in aligning agricultural policy with the CAP. However, further efforts are necessary to restructure the agri-food sector, and to develop environmental and rural development policies. Lithuania should sustain its efforts to implement and enforce the Community veterinary and phytosanitary requirements and to upgrade the establishments to meet Community standards

Fisheries

No progress has been made in this area. Lithuania needs to undertake legislative and administrative reforms to implement the Common Fisheries Policy.

Energy

Lithuania has continued to adapt its energy sector at a slow pace to EU competition and the requirements of the internal market. Pursuant to a June 1997 Law amending the Law on Energy, the Government ceased regulating electric energy, district heating and natural gas prices. This responsibility has been fully transferred to the State Commission on control of energy resources prices and energy activities. This Commission adjusted new energy prices quoted by the supplier of energy resources, which cover reasonable expenses of energy production, transmission and distribution. Emergency preparedness in the energy sector including the obligation to hold ninety days of oil stocks does still not yet comply with *acquis*. Partial privatisation is being prepared particularly in the oil sector and for parts of the national gas company. With a view to privatise the Butinge Oil Terminal, the government has decided to sell a third of the shares to a US investor. Some progress has been made on energy efficiency (e.g. compulsory certification of electric appliances and rules on labelling goods came into force on 1 July 1998).

As regards energy and, in particular, nuclear power, the Accession Partnership requires as a short term priority the establishment of a comprehensive, long-term, energy strategy and decommissioning plan for the nuclear power plant Ignalina according to commitments entered into in the Nuclear Safety Account (NSA) agreement. Lithuania's 1994 National Energy Strategy has been under revision for the last six months.

According to the NSA requirements, Unit 1 of Ignalina Nuclear Power Plant should be closed unless the National Safety Authority confirms that continued operation would be safe and that the level of electricity demand justifies investment in upgrades identified through a safety assessment, on a least cost basis. The lifetime of Unit 1 and 2 should not be extended beyond the time at which their fuel channels should be replaced (i.e. in the very near future for Unit 1 and a few years later for Unit 2). The time limit for the issuance of a long term license for Ignalina Unit 1 by the Safety Authority has been extended by the NSA Assembly of Contributors from June 1998 to 17 May 1999. The Commission has repeatedly made clear its opposition to rechannelling Unit 1 which would be contrary to Lithuania's NSA obligations. The Assembly of NSA contributors meeting in London on 7 October also felt that the Nuclear Safety Advisory Committee of Lithuania must have regard to the requirements for permanent shutdown of units 1 and 2 without rechannelling.

There has been no progress on the issue of the intermediate and long term storage of the spent fuel.

Lithuania ratified the Energy Charter Treaty in June 1998. The Lithuanian authorities continue to give priority to regional energy cooperation in the Baltic Sea/Nordic area. This cooperation includes the establishment of Baltrel (Regional Association of electricity companies) as an element of preparation of connection to the Western/ Northern European electricity grids and the ongoing (re)construction of the oil ports. These developments will help create physical links for the future internal energy market. It has also to be noted that Lithuania has recently signed an Additional Protocol to its comprehensive safeguards agreement with the IAEA.

Conclusion

Limited progress has taken place in this area. The presentation of a satisfactory energy strategy is still outstanding. Linked to it, the safety of the Ignalina nuclear power plant requires continued particular attention and Lithuania's international NSA commitments must be respected. This includes the need for a firm commitment by the government not to rechannel Unit 1. The independence of the safety authority should be further strengthened. Longer term solutions for waste need to be found. The following matters also still need attention: the adaptation of the internal energy market including adjustment of monopolies, access to networks and energy pricing; emergency preparedness including building up of mandatory oil stocks; energy efficiency and environmental norms in the field of energy.

Transport

Lithuania continued to align and implement its legislation.

- *Road transport:* New driver qualification requirements and rules for access to the profession (licences) complying with the *acquis* entered into force in 1997.
- *Railways:* Rules for licensing of economic activities were amended in 1998 in line with EC requirements.
- *Maritime safety:* Lithuania is following an ambitious programme to improve maritime safety. The progress achieved so far is demonstrated by the recent decision of the Paris Memorandum of Understanding Secretariat to delete Lithuania from the list of ships to be examined first.
- *Civil aviation:* Efforts are being made to ensure safety through regulating the use of air space.
- *Environmental protection measures in the transport sector:* Various legal and administrative instruments and measures complying with the EC *acquis* were approved in 1997/1998, in particular in the field of transport of dangerous goods by road. In June 1998 Lithuania acceded to the Convention on the transport of dangerous goods which is part of the EC *acquis*.
- *Infrastructure:* One of the key priorities of Lithuania is its further integration into the Trans-European Networks, taking into account the Transport Infrastructure Needs Assessment (TINA). Funding continues to account for 1.2% of the GDP, which is satisfactory.

Airport concession charges are being gradually decreased. Concessions on seaport charges for Lithuanian navigation were revoked on 31 March 1998.

Lithuania made further progress in implementing the *acquis* in particular in the waterborne and aviation sector. The Civil Aviation Administration was reorganised in 1998. Nevertheless the implementation of the aviation *acquis* needs specific attention. Maritime safety supervision bodies and inspectors have reinforced their activities. A State Inspectorate of

Inland Waterways Navigation was established at the end of 1997.

Conclusion

Lithuania has made progress in adopting and implementing the *acquis* in the transport field, nonetheless maritime and aviation safety, which is slowly beginning to improve, must be strengthened.

Small and medium-sized enterprises

In January 1998 the Government approved a Small and Medium Business Development Programme aiming at the creation of a more SME-friendly legal and economic environment. In May 1998 the Statutes of the Small and Medium Business Promotion Fund were approved. In August 1998 the Lithuanian Credit Insurance Company for Small and Medium Enterprises was established.

The Lithuanian Government has confirmed its interest in participating in the third multiannual programme for SMEs in the EU.

3.5 Economic and social cohesion

Employment and Social Affairs

The unemployment rate was 6.7 % of the labour force in 1997 and 5,5 % in June 1998.

Several legal instruments for the transposition of legislation on health and safety at the workplace have already been adopted. It should be underlined, however, that the transposition of the health and safety directives needs to be accompanied by a strong supervising authority with sufficient resources to ensure effective practical implementation of the legislation.

In the field of social dialogue, even though a tripartite model of labour market management has been established, both the national employment board and territorial tripartite commissions perform their functions more as a formality and have no significant effect on the labour market.

In the field of equal opportunities, while some of the basic provisions of Community non discrimination law is covered by Lithuanian legislation, the principle of non-discrimination is not always respected. Among the measures designed to correct this imbalance is the setting up of an Ombudsman office. Lithuania will participate in the Fourth Community Action Programme on Equal Opportunities.

Public health is a key area where important steps need to be taken. Lithuania has already adopted the Directives on tobacco, and has expressed its willingness to participate in Community programmes on the prevention of AIDS and other communicable diseases, and on drug dependence.

Conclusion

Some progress has been made on health and safety legislation. However, significant efforts are still necessary to transpose and implement the employment and Social affairs *acquis*.

Regional policy and cohesion

Regional policy guidelines were approved in July 1998. The Guidelines determine principles, objectives as well as basic institutional structures and financial instruments for Lithuania's regional policy. However, these provisions still need to be implemented. Financial procedures, monitoring and control, and the financial instruments for regional policy remain weak.

Conclusion

Lithuania has achieved little progress in establishing the legal, institutional and budgetary structures in this field and regional policy is still at a conceptual stage. The Lithuanian authorities have addressed some of the short term priorities identified in the Accession Partnership but concrete progress is still limited.

3.6 Quality of Life and Environment

Environment

Since 1997, Lithuania has adopted a significant number of legal acts in the environmental field, with a view to aligning its legislation with the *acquis* including the Directive on transport of dangerous goods, the Regulation on ozone depleting substances, the Directive on asbestos, the Genetically Modified Organisms Directives, the Directive on access to information, Directives on noise emission from motor vehicles, the Directives on hazardous waste, the shipment of waste and packaging waste, and finally the Nitrate and urban waste water Directives.

Lithuania has partially transposed the water and waste framework Directives, the nature protection Directives as well as the environmental impact assessment directive and its amendments.

Lithuania is advanced in the development of directive-specific implementation strategies. These strategies cover all the directives in the water, municipal waste, hazardous waste, nature protection and chemical sectors. Lithuania is also developing an implementation programme for the IPPC directive. In cooperation with the two other Baltic States, Lithuania is developing implementation programmes for the Genetically Modified Organisms, Good Laboratory Practice Directives, and the noise Directives.

Lithuania's enforcement structures are being reorganised. These changes include streamlining the administration, the re-enforcement of the inspectorate particularly through training programmes, the development of enforcement guidebooks, assessments of monitoring needs, the improvement of laboratories, supplies of equipment.

There is a need to strengthen capacity at local level to implement the environmental *acquis* and manage large-scale investment projects.

The air monitoring system is being improved through institution building and the instalment of an on-line monitoring system that will put Lithuania in line with the requirements of the *acquis*.

Lithuania's total environmental public-private expenditure is still too low and will need to be increased. There is also a concern as regards the sustainability of investment plans as a substantial share are currently financed through bilateral and multilateral assistance programmes.

Conclusion

Lithuania has made good progress towards meeting the short term priorities of the Accession Partnership, in particular as regards legal transposition. However, efforts are still needed in the industrial, air, water and radiation protection sectors. Lithuania should further concentrate its efforts on reinforcing the monitoring infrastructure in the air and water sectors as well as on strengthening capacity at local level. Major efforts are still required in order to ensure the necessary investments, in close cooperation with the International Financial Institutions, with a view to complying with EU standards.

Consumer Protection

Lithuania adopted new rules on the Labelling of Goods which are in line with the *acquis*. They ensure protection of consumers' interests by providing comprehensive, understandable and necessary information on the producer, origin and properties of goods.

In March 1998 Lithuania adopted a Law on Tourism which partially complies with the EC Directive on package tours.

In view of the fact that consumer protection is a medium term priority in the Accession Partnership, Lithuania will have to make substantial efforts in this field. Since the Opinion, very limited transposition has been made. Support for the establishment and development of consumer organisations is needed.

3.7 Justice and home affairs

In its Opinion of July 1997 the Commission said that Lithuania's immediate priorities should be the fight against illegal immigration and organised crime and to set up effective border controls.

Immigration/border controls

On 13 February Lithuania signed a cooperation treaty with the international migration organisation under which it is developing a project to improve management of legal and illegal immigration. The mounting number of readmission agreements, the introduction of new identity cards and the adoption of an amendment to the penal code bringing in stiffer sanctions for trafficking in human beings should all help master migrant flows.

Regarding border controls, Lithuania has fulfilled its obligations under the agreement on the demarcation of its eastern border. It is now up to Belarus to do the same. Lithuania is in the process of setting up a professional border guard service and equipping its border with electronic surveillance equipment. It is stepping up cooperation on border controls with the other two Baltic countries but controls are not yet up to EU standards. The lack of an automatic data-exchange network and lax controls at some crossing points are the main weaknesses.

Police

In 1998 the parliament adopted a law to combat money laundering under which a financial investigation unit was set up. Other laws against corruption and organised crime have been passed. But for this legislation to work effectively, there has to be a reinforcement in the short-term of the branches of the police fighting organised crime, improved coordination between national and local levels and greater international cooperation.

Drugs

In accordance with the UN Convention against illicit trafficking in narcotic drugs and psychotropic substances, the parliament adopted in January this year a law to control these substances and lay down rules on classification, legal movement and controls. It has not yet adopted the draft law to control chemical precursors, however. It is desirable that the national drugs control commission, which is currently being restructured, and the national contact point for information on drugs will be strengthened.

Judicial cooperation

Between 1 July 1997 and 1 July this year Lithuania ratified four conventions and four bilateral agreements that will enhance its capacity to play its part in international judicial cooperation. Over the same period it received 757 requests for assistance on criminal and civil matters and made 1432 itself.

Conclusion

The short-term priorities for Lithuania in the Accession Partnership were to make a greater effort to fight corruption and organised crime and to improve border controls and the reception of refugees.

Lithuania has made little progress on border controls and organised crime, subjects that also came up in the Opinion of July 1997. On the reception of refugees there is no information on whether anything has been done. Nor is there much improvement in other sectors.

Lithuania therefore has to pay more attention to justice and home affairs issues, speed up work to improve border controls and improve the effectiveness of the forces fighting organised crime.

3.8 External policies

Trade and international economic relations

Lithuania has entered the final stages of its WTO accession negotiations. It is expected that Lithuania will finalise its Accession Protocol during 1999. In view of Lithuanian's future membership of the EU it is to be welcomed that Lithuania is aligning itself closely with EC Common Commercial Policy in the context of WTO accession negotiations.

Trade with the countries with which Lithuania has signed a free trade agreement accounts for around one half of Lithuania's total trade turnover. Preferential free trade agreements were concluded only with the EU and EFTA countries. Since the publication of the Opinion the following have entered into force: a free trade area agreement with Turkey; a treaty on the abolition of non-tariff barriers with Estonia and Latvia, and amendments to a treaty with Poland. A free trade agreement has been initialled with Hungary, and negotiations with Romania are proceeding. Lithuania is seeking to become a CEFTA member.

Development

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

Lithuania has not yet taken any step to adopt development policy in line with that of the Union.

Customs

A new Customs Code, largely compatible with the Community Customs Code, entered into force on 1 January 1998. However, some of the implementing provisions have not yet been adopted, which leads to certain gaps.

A law on customs tariffs, which aligns with integrated tariffs, entered into force on 1 July 1998.

The three Baltic States have signed an agreement on common transit procedures. A common customs computer system was chosen jointly by the Baltic States. However, there is no network connecting all the Lithuanian customs offices, and the computer databases are insufficient.

Infrastructure at the border stations, specifically at the eastern border, has improved. Joint control stations with Latvia have been established. However, the capacity of the customs offices in the fight against fraud needs to be strengthened.

The Lithuanian customs service is also developing its control in companies reflecting modernisation of its customs methods.

Conclusion

Lithuania has made progress both with regard to the approximation of legislation and the modernisation of customs administrative structures.

Common foreign and security policy

Lithuania has continued to participate actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP) since July 1997. It participates in the regular meetings of political directors, European and associate European correspondents and in CFSP working groups. Except for the EU statement on Belarussian attitude towards embassies in Minsk, Lithuania has aligned itself to EU positions and has adhered to EU statement, declarations and démarches, including in the context of the UN and OSCE.

Lithuania has actively participated in the work of the Euro-Atlantic Co-operation Council and in the Partnership for Peace programmes, modernised the Lithuanian defence forces, developed military co-operation with the Baltic countries, Poland and NATO member states, proceeded with the work in the field of harmonisation of national legislation with regard to NATO requirements and standards, increased defence spending and took an active part in international peace keeping operations.

Good and constructive relations are cultivated with all the states neighbouring Lithuania. Regional co-operation is developed not only with Latvia and Estonia, but also with Nordic and Central European countries. Since 10 July 1998 Lithuania has assumed the rotating presidency of the Council of the Baltic Sea States.

The assessment of Lithuania's foreign and security policy in the period under review leads to the conclusion that, with the exception of the above-mentioned divergence concerning Belarus, Lithuania has made progress in its alignment with the CFSP.

3.9 Financial questions

Financial Control

With regard to external financial control, no particular development can be reported.

With regard to internal financial control, presently, there is no central control institution. However, in February 1998, the Government has adopted a Programme to establish such an institution. Future EU-funds will be budgeted.

Conclusion

Steps have been made towards meeting the priorities of the Accession Partnership. There are considerable weaknesses in the present internal control institutions which should be addressed in the near future, in particular in view of the EU pre-accession and structural funds.

3.10 General Evaluation

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

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

4. Administrative capacity to apply the *acquis*

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

In this year's report the Commission has worked with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on whether these bodies have sufficient legal powers to implement the *acquis*, on staffing levels and on staff qualifications and on budget availability. In some cases it is already possible to give information on the quality of decisions being taken. The Commission intends to further develop this aspect in future reports.

In its Opinion the Commission concluded that ‘strengthening of the administrative structure will be indispensable if Lithuania is to have the structures to apply and enforce the *acquis* effectively’.

4.1 Administrative structures

The law adopted by the Seimas on 28 April 1998 makes a distinction between the recruitment of career civil servants and political appointees. The Prime Minister’s Office, with officials appointed on a political basis, has been separated from the Government Office, with officials from the career system. Following the reorganisation of the Government on 25 March 1998 the number of ministries was reduced from 17 to 14.

During 1998, the number of civil servants in ministries and state institutions has been cut by 30 percent, but European Integration Departments in line ministries were not affected by these cuts. Officials in highly qualified positions have received increased salaries. A Strategy for the Training of the Lithuanian Civil Service for the Accession to the EU has been prepared during 1998.

During 1997-98, the management of the integration process has been strengthened. The European Integration Commission, chaired by the Prime Minister, has been expanded to include all sectoral Ministers dealing with integration. The European Committee was set up in May 1998 and employs 65 persons. The European Committee is responsible for the coordination and supervision of the integration process including the implementation of the National Programme for the Adoption of the *Acquis*. At the same time, the European Law Department was reorganised and its independence strengthened (it employs 9 lawyers). The Department provides legal opinions to the Government and the Parliament on compliance of draft laws and draft regulations with EC Law. During 1998, the Department delivered more than 1,100 legal opinions. Within Parliament, in September 1997, the European Affairs Committee was established and it plays an active role in legal harmonisation and integration issues.

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

The uniform application of EC law: Progress has taken place in Lithuania in 1998 in the area of improvement of the court system and the creation of specialised courts. On the basis of the Law on Legal Proceedings of Administrative Cases which has not yet been adopted by the Seimas, Administrative Courts should start operating in mid-1999. They are expected to reduce the delays experienced under the current court system. The main task of the Administrative courts will be to ensure legality of acts adopted by central and local governments, settle tax disputes and judge civil servants in cases of corruption charges. The total number of judges in Lithuania is 518, however there are still 101 vacancies partly linked to recruitment under way for the Administrative Courts.

The amendments to the Law on Courts (adopted in April 1998) enabled restructuring of administration of courts in 1998. In order to implement this law, in June 1998 the Government established the Department of Courts under the Ministry of Justice. It employs

staff of 42 persons. Its principal tasks are to plan the location of court institutions and the number of judges in courts, implement the organisational measures on the supervision of courts' administration, ensure technical and material provision of courts, inspect and audit the economic and financial activities of county, district courts and the Court of Appeal, also control the administrative and organisational performance of courts. The Department of Courts is drafting a strategy for the Judiciary Training Programme, together with the Judicial Training Centre. The Department for Professional Training and Education of Lawyers, under the Ministry of Justice, works out and implements judicial training programmes for judges, court personnel and bailiffs to prepare them to apply EC legislation, together with the Judicial Training Centre (established in 1997). In the second half of 1997, the Judicial Training Centre held over 50 training workshops on different subjects of law which were attended by 495 judges.

Although a number of actions have been taken to improve the functioning of the judiciary (court system reforms are being implemented and practical cooperation with the EU has improved, further efforts in this area will be necessary. Training in EU law will be included in the Judicial Training Programme but, so far, there have been no cases where EC Law has been applied by a court. The effective administration of the *acquis* in this area will require greater human and technical resources, and further steps to combat corruption.

An Enterprise Bankruptcy Management Department was set up at the Ministry of Economy on 1 January 1998. The number of employees in 1998 is 12. Its mission is to protect state interests in insolvent enterprises, to take preventive measures in poorly performing enterprises, to shape and manage the informational and analytical database of insolvent and bankrupt enterprises. By July 1998, bankruptcy petitions had been filed against a total of 288 economic entities and proceedings had been completed in 36 cases.

A new bankruptcy law has been in effect since October 1997. The imposition of potentially strict time limits and changes in the priority ranking among creditors are some of the modifications introduced by the new law. The establishment of the Bankruptcy Department in 1998 is a positive step in enforcement. However, further efforts are needed to improve the qualification of enterprise administrators and judges involved in bankruptcy cases.

Single market: In January 1998, the Lithuanian Standardisation Department has been reorganised into three separate institutions, but with budgetary revenues coming from the Ministry of Public Administration Reforms and Local Government. These are:

- The Lithuanian Standardisation Department has 45 employees. Its main task, as the national standardisation institution is the implementation of a long-term Programme for the Adoption of basic European standards as Lithuanian standards to ensure efficient implementation of the *acquis*. European and international standards adopted as Lithuanian standards for the time being make up 41%
- The National Accreditation Bureau, employs 8 persons. It assesses and accredits the conformity assessment institutions (testing laboratories, calibration laboratories, certification bodies for products, quality systems and personnel as well as inspection bodies) and supervises their activities. At present, 18 testing laboratories, 10 calibration laboratories, 3 product certification bodies (1 testing laboratory was accredited by the National Accreditation Bureau and the German accreditation institution at the same time; the results of the given laboratory are recognised not only in Lithuania and Germany but in

the EU and EFTA states as well) have been granted accreditation in Lithuania. The Bureau will make the assessment of those conformity assessment bodies, which will be notified by the government institutions to perform the procedure of conformity assessment according to the requirements of the new approach directives.

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

Despite progress in the area of standardisation and accreditation, the institutions need to be further strengthened in terms of specialised staff. The Lithuanian Standardisation Department is still depending on state funding and should in future be made fully independent. It also needs to speed up the adoption of European standards. As regards conformity assessment infrastructure, no quality system certification body exists yet.

A Unit for the Protection of Intellectual Property Rights was established at the Tax Police Department (under the Ministry of the Interior) in June 1998 with a staff of 3 people. The main functions are crime investigation and tax collection. In 1998, 8 cases on infringements of intellectual property rights have been investigated by the Unit.

The State Patent Bureau has the responsibility for the EU integration policy in the field of protection of industrial property. It was established in 1991 under the supervision of the Government of Republic of Lithuania, since 1994 the supervision was delegated to the Ministry of Administration Reforms and Local Authorities. It employs 63 persons. Additionally 30 persons in Lithuanian Technical Library and 45 persons in Association of Lithuanian Patent Attorneys work for the Bureau.

Considerable efforts will be needed to ensure protection of intellectual and industrial property rights. It is necessary to improve administrative capacity by increasing human resources, especially in the protection of intellectual property, and improving the qualification of staff in all institutions. Improvements are needed to streamline the current organisational set up amongst different institutions involved in the process.

The Public Procurement office began its operations in July 1997. It has 28 employees. It drafts regulations and prepares materials on methodology, stores and supplies information about public procurement, consults the representatives or purchaser organisations, carries out a preliminary valuation of procurement procedures, analyses complaints of suppliers. In July 1998 alone, 23 complaints were handled by the Office.

In the field of public procurement, the new Public Procurement Law should improve compatibility with the *Acquis*. The Public Procurement Office needs further strengthening, particularly in the area of enforcement.

The State Data Protection Office was established in September 1997 and reinforced in 98, under the Ministry of Administration Reforms and Local Authorities. It employs 8 persons. Its tasks include the obligation to monitor the lawfulness of disclosing and using personal data stored in the national and local government information systems (state registers as well). It registers the managers of personal data, checks the lawfulness of the personal data release as

well as its protection, and issues permits to release personal data to foreign states in accordance with the procedure established by the legal acts.

The Data Protection Office does not have the administrative capacity to handle the expanded scope of tasks foreseen under the new law and its staff need additional training. The scope of data protection is not yet fully comprehended, particularly in the judiciary and amongst other institutions dealing with state security.

Concerning the free movement of services, the Securities Commission which is the institution supervising the securities market has been reinforced. It now has 50 employees. Its tasks include market supervision, law infringements and violations in the sphere of ethics.

The tasks of the State Insurance Supervision Office include calculation of solvency reserve ratios for insurance companies, calculations of technical provision, values of insurance, the order of public announcement of financial statements, as well as obligations requested to fulfil the supervision function.

Concerning free movement of services the situation remains somewhat unsatisfactory as it is not clear that the Lithuanian authorities have the administrative resources to implement quickly the large legislative programme to which they have committed themselves. In order to meet EU requirements in this area it will be necessary to improve the overall quality of staff

Competition: The State Competition and Consumer Protection Office is responsible for the enforcement of the Competition Act. It employs 56 persons, of which 5 are working on state aids and 30 on competition. The Office functions adequately with current level of staff; but as new Competition Law enters into force (expected January 1999) specialised training will be needed to increase the level of staff expertise. During the first half of 1998, 46 investigations were carried out and 14 infringement cases and decisions were taken by the Competition Council, the executive body of the Office.

In 1997, a separate State Aid Monitoring unit was established inside the Competition Office. The ability to implement effectively EC requirements in this field will require further investment in human resources.

Consumer protection: Consumer protection tasks are performed by a variety of institutions and agencies. The main responsibility lies with the State Competition and Consumer Protection Office which has a Quality Control Office reporting to it. The Quality Control office deals mainly with trade rules and misleading advertisement. In the Office, there are 7 staff working on consumer protection and 240 staff throughout the regions. Other functions are carried out by the Ministry of the Economy and various ministries. The control over the safety of goods is carried out by regional branches of the State Hygiene Inspectorate under the Ministry of Health (11 territorial public health centres and 39 branches in the regions).

One non governmental Consumer Association is functioning at the Representative Office of Trade Unions. However, it is still weak and needs reinforcing.

Consumer protection is still far from meeting the *acquis*. The new Product Safety Law, expected to be adopted in 1999, will improve compliance with the *acquis* but require reorganisation of the current administrative set-up. As regards non-governmental consumer bodies these remain too weak. There remains confusion about the exact scope and objectives

of consumer policy. This in part explains difficulties in the effective enforcement of consumer laws. Other factors which need to be addressed include a lack of expert staff, organisational deficits, and a lack of sensitivity to consumer questions among the judiciary.

Telecommunications: The new Law on Telecommunications adopted in June 1998 provides for the establishment in January 1999 of a new regulatory body called the Communications Regulation Service. Until then the tasks are performed by the State Radio Frequencies Services. The Communications Regulation Service will allocate radio frequencies and telephone numbers, issue general permits, supervise licensing conditions, settle disputes among telecommunication operators and will also control the use of telecommunication networks and radio communication.

The new regulatory body, the Communications Regulation Service, will need to provide specialised training for its staff.

Indirect taxation: The Ministry of Finance together with its subordinated institutions is responsible for indirect taxation. The Ministry in total employs 221 persons and the Department of Fiscal Policy of the Ministry, which is responsible for the drafting of legislation on indirect taxation has 11 employees.

The State Tax Inspectorate under the Ministry of Finance employs 168 persons and in addition to that the 56 territorial tax inspectorates employ 3196 persons. A reorganisation of the 56 territorial tax inspectorates into 10 county tax inspectorates with regional offices is planned for the autumn 1998. The aim is to simplify the management and to improve the tax administration. The Law on the Prevention of Money Laundering provides that the State Tax Inspectorate must gather information and conduct interrogations in cases of illegal currency transactions.

The tax administration in Lithuania needs to be modernised and strengthened. In order to ensure the effective administration of the *acquis* in this area it will be necessary to consolidate and improve overall the professional standards of the staff, including training measures and improvements in pay.

Agriculture: The State Veterinary Services report directly to the government. It has 25 employees in headquarters (of which 14 veterinarians and 4 at European Integration Department) and a further 1444 employees in its regional branches.

The State Veterinary Services lacks personnel, premises and equipment, especially in the areas of border inspection services, food control laboratory testing and animal identification and registration.

The Plant Protection Service under the Ministry of Agriculture monitors plant protection in Lithuania and currently employs about 200 people. An EU Integration Division was set up in the Plant Protection Services on 1 January 1998.

The Lithuanian Agency for Regulation of Agricultural and Food Products Market was set up in July 1998, under the Ministry of Agriculture. It will be responsible for implementing CAP measures. It employs 14 people.

Concerning the administrative capacity in respect of veterinary and phytosanitary controls in

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

Transport: The responsible authority in Lithuania is the Ministry of Transport which currently has a staff of 153 persons. The Road Traffic Safety Service, with 6 employees, is engaged in identifying high risk road sections and accident risks. The State Road Transport Inspectorate under the Ministry of Transport supervises the enforcement of legislation in the area of road transport. It has a staff of 100 persons including its branches in the five largest cities of Lithuania. The Lithuanian Railways established a Chief Safety Inspectorate with 23 employees in April 1998. It includes the Traffic Safety Service and the Divisions of Environment and Labour Safety. In the waterborne and aviation sectors, progress was made in 1998 with the reorganisation of the Civil Aviation Administration and the establishment of a State Inspectorate of Inland Waterways Navigation.

In order to comply with the *acquis* in the transport sector, Lithuania needs to further strengthen administrative capacity, particularly in the maritime and aviation safety sectors.

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

The Lithuanian Labour Exchange (LLE) is comprised of the National Labour Exchange and 47 territorial (city and district) labour exchanges. LLE drafts and implements national and regional employment programmes, enforces state employment guarantees on the labour market, manages the funds of the Employment Fund, and distributes them to territorial (city and district) labour exchanges. In 1998, the number of staff was 1151. In 1997, the LLE offered jobs for 73.000 unemployed, and 46.000 in the first half of 1998.

The Lithuanian Labour Market Training Office is a system of vocational training and counselling of adults which covers the whole territory of the country. The system is composed of 15 Labour Market Training Centres, 6 Regional Counselling Offices and the Central Office in Vilnius. The training centres are currently responsible for implementation of more than 300 training programmes. It employs more than 400 employees. About 30.000 persons are trained within the labour market vocational education and training system every year.

The State Labour Inspectorate, a supervisory body under the Ministry of Social Security and Labour, is responsible for implementing policy in the area of labour safety and supervision of legal acts regulating this area. It currently has 226 employees (of which 147 labour inspectors and 120 in the regions) which is a reinforcement compared to last year. Since 1997 the State Labour Inspectorate, has carried out inspections of 13.000 enterprises (with almost one million employees), approved the launch of the operations of 1581 enterprises, investigated 2950 complaints, imposed fines, participated in 278 court trials and carried out examinations of 11.100 persons.

In the area of employment and social affairs, the State Labour Inspectorate requires further reinforcement of staff resources and expertise.

Regional policy and cohesion: The development of regional policy is coordinated by the Ministry of Public Administration Reform and Local Authorities. An operational institutional

structure for the implementation of regional policy has not yet been established in Lithuania. Regional policy will be implemented through the 10 counties.

The creation of administrative and budgetary control frameworks in this area is necessary to ensure the effective implementation and administration of the *acquis*.

Environment: The Ministry of Environment is the ministry responsible for environmental protection. The whole system employs 1624 persons, of which 180 in the Ministry and the rest in subordinated organisations such as Regional Environmental Protection Departments, District Agencies, Inspectorates, Joint Research Centre, Department of Fish Resources, Department of Forests and Protected Areas and Service of Hydrographic Network.

The air monitoring system is being improved through institutional building and the instalment of on-line monitoring system which will put Lithuania totally in line with the requirements of EU legislation.

The environment ministry needs further specialised legal training in view of the approximation process.

Justice and home affairs: The Ministry of Interior was reformed during 1997 and the number of administrative posts was cut from 536 to 226. The Police Department, which used to be part of the Ministry of Interior is now an independent structure. There are 15,000 police officers (excluding tax, border and special investigation police). The Tax Police Department has been established under the Ministry of Interior. A Unit on the Prevention of Money Laundering with 12 employees has been established in the Tax Police Department.

Border Management capacity needs to be improved. A total of 4,300 border guards are employed in the border police department and are expected to reach 6,000 by next year. The Border Police needs to be reinforced to properly control the Eastern border and to meet European standards. The capacity to handle asylum and migration questions has improved since the processing of asylum applications began in May '97, and facilities for refugee reception are being built up. The police service is being restructured to help tackle organised crime, but needs further strengthening.

Customs: The Customs Department under the Ministry of Finance was reorganised in August 1998 and now has 143 employees. The customs service employs in total 3102 persons. 118 employees were dismissed during the first seven months of 1998, the main reason being corruption. In July 1998 a Customs Control Division with 15 employees was established in the Customs Department. The Customs Control Division is responsible for the fight against smuggling and corruption, including customs intelligence.

A training strategy for customs officials has been developed and training has been given on different topics such as customs procedures, origin of goods. A Customs Information Centre was created in August 1998; the aim is that 50 percent of customs offices and posts shall be connected to the customs information network in 1999.

Further strengthening of the institutions will be necessary to ensure an effective implementation of the *acquis*.

Financial control: The external control body in Lithuania is the State Control. It is directly accountable to the Parliament. It monitors revenue collection and expenditure as well as the management and use of state property. It prepares an Annual Report on the Execution of the State Budget. In 1998 it employs 300 persons (including 4 regional offices with 140 staff). A Parliamentary State Control Supervision Commission with 9 members started operations in 1998. Regarding internal control, internal audit divisions exist in certain ministries, but do not meet internationally accepted standards.

The effective administration of the *acquis* in this area will require continued preparations to establish the necessary management and control systems. Regarding internal control, further efforts are needed to develop an efficient internal financial control system to prepare Lithuania to monitor the use of Community funds. An assessment should be made of the staff and training needs.

4.3 Twinning

In order to help candidate countries meet the challenge of strengthening their administrative capacity and adapting their administrations to implement the *acquis* the Commission and the Member States are developing a process of twinning under the Phare programme. In the EU the *acquis* is implemented in the Member States by national administrations (at central, regional and local level) and by agencies, professional bodies and the private sector. This vast body of administrative and technical expertise is now being made available to the candidate countries. Initially twinning will cover four sectors – agriculture, environment, finance and justice and home affairs but will gradually be extended to the whole of the *acquis*.

Poland is participating actively in twinning.

4.4. General evaluation

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

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

C. Conclusion

Lithuania continues to fulfil the Copenhagen political criteria. It should intensify the fight against corruption and pursue reform in the judiciary.

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

Further efforts are needed in internal market and to establish a comprehensive long term energy plan including the closure of Ignalina. Lithuania has made progress in transposing the *acquis*, although this is uneven. Efforts are needed to consolidate implementation and enforcement capacity.

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

The purpose of the Accession Partnership is to set out in a single framework the priority areas for further work identified in the Commission's Opinions; the financial means available to help the candidate countries implement these priorities and the conditions which will apply to that assistance. Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis* setting out how it would deal with the Accession partnership, the timetable for implementing its priorities and outlining human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short-term priorities

The short-term priorities in the Accession Partnership are the following:

- **Economic reform:** establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe Agreement; acceleration of large-scale privatisation and progress towards the restructuring of the banking, energy and agri-food sectors, enforcement of financial discipline for enterprises.
- **Reinforcement of institutional and administrative capacity:** in particular major efforts on public administration reform, border control, customs, taxation and finance, as well as preparation of training strategy for civil servants and the judiciary, veterinary and phytosanitary administrations, particularly as regards facilities at the external borders, institutional strengthening in the area of environment, begin to set up structures needed for regional and structural policy.
- **Internal market:** including further alignment in the areas of intellectual and industrial property, public procurement, financial services, phytosanitary and veterinary administration, and upgrading of independent standardisation and conformity assessment structures. Adoption of new competition law and establishment of transparent State aid inventory.
- **Justice and home affairs:** in particular further efforts to implement measures to combat corruption and organised crime and improve border management in facilities for refugee reception.
- **Environment:** continue transposition of framework legislation, establishment and commencement of implementation of detailed approximation programmes and

implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.

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

Progress concerning the short term priorities of the Accession Partnership can be summarised as follows:

- **Economic reform:** Lithuania has not yet established a medium term economic strategy. It has progressed as regards the large-scale privatisation, the restructuring of the banking sector and the enforcement of the financial discipline for enterprises. However, major efforts are still needed in the restructuring of the energy and agri-food sector.
- **Reinforcement of institutional and administrative capacity:** While a number of institutions have been established or reorganised during 1997-1998, their capacity to implement relevant legislation is untested. Some progress has been made as regards the preparation of the training strategy for the judiciary. However, hardly any progress has been made in setting up regional development policies and institutions and strengthening financial control institution.
- **Internal market:** Lithuania has made progress in the field of financial services, standardisation and conformity assessment structures and, to a less extent, as regards competition policy. However, efforts have to be taken especially in the field of public procurement, phytosanitary and veterinary administration, intellectual property and state aid.
- **Justice and home affairs:** Lithuania has taken measures to combat corruption and organised crime. However, these efforts must be strengthened. There is still a need to improve border management.
- **Environment:** Lithuania has made good progress in this field, in particular as regards legal transposition.
- **Energy:** Limited progress has taken place in this area. The presentation of a satisfactory energy strategy is still outstanding and Lithuania has not yet given a firm commitment not to rechannel Unit 1 of the Ignalina nuclear power plant.

Lithuania has taken steps to address some of the Accession Partnership short-term priorities in the area of financial services, standards and certification and the environment. However, Lithuania has not satisfactorily addressed the short term priorities in the areas of energy (establishment of the energy strategy); economic reform (establishment of a medium term economic programme); administrative capacity (especially public administration reform); internal market (public procurement, intellectual property, state aids) and JHA (improvement of border management).

2. National Programme for the Adoption of the *Acquis* -Assessment

The National Programme for the Adoption of the *Acquis* was presented to the European Commission in March 1998 and a modified version of the National Programme for the Adoption of the *Acquis* was transmitted on 25 June 1998.

The National Programme for the Adoption of the *Acquis* is presented in the form of tables which makes the document a useful reference guide. However, the table format is detrimental to depth and detail particularly as far as the assessment of administrative implications of the adoption of the *acquis* is concerned. The National Programme for the Adoption of the *Acquis* covers almost all sectors of the *acquis* (with the exception, in particular, of fisheries). However, the coverage of the *acquis* varies from one sector to the other and is often not complete.

While in some sectors (economic reform, capital movement, industry, competition, environment, home and justice affairs) the priorities of the Accession Partnership have been reflected adequately, in other cases it appears that the Accession Partnership priorities have been reflected only to a limited extent. The National Programme for the Adoption of the *Acquis* does not include the Accession Partnership medium term priorities on establishing capacity to implement the common fisheries policy, on alignment of audio-visual policies and on nuclear safety.

There is a lack of adequate information on timing and it is not always possible to assess how realistic the schedules are. The institutional and infrastructure resources needed to support implementation of the National Programme for the Adoption of the *Acquis* are not clearly identified. As for budgetary aspects, the assessment needs to be further refined.

The above comments and a number of more specific details have been communicated to the Lithuanian authorities, who are revising the National Programme for the Adoption of the *Acquis* accordingly. On the basis of a revised version, the Commission will take a position on the National Programme for the Adoption of the *Acquis* which it will then communicate to the Council. This assessment is expected to take place during the second half of 1999 at the time of the re-examination of the Accession Partnership.

Annex
STATISTICAL DATA

STATISTICAL DATA

	1993	1994	1995	1996	1997
Basic data	in 1000				
Population (end of period)	3724	3718	3712	3707	3705
Total Area	in 1000 hectares				
	6530	6530	6530	6530	6530
National Accounts	in Bn Litás				
Gross Domestic Product at current prices	11.6	16.9	24.1	31.6	38.2
	in Bn ECU				
Gross Domestic Product at current prices	2.3	3.6	4.6	6.2	8.4
	in ECU per capita				
Gross Domestic Product at current prices	600	1000	1200	1700	2300
Structure of Production	in % of Total Gross Value Added				
- Agriculture	14.2	10.7	11.7	12.2	12.7
- Industry	34.2	27.0	26.1	25.8	24.0
- Construction	5.1	7.2	7.1	7.1	7.3
- Services	46.5	55.1	55.0	54.9	56.0
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	:	:	87.1	85.4	86.7
- household and NPISH	:	:	67.4	66.5	67.1
- general government	:	:	19.7	18.9	19.6
- Gross fixed capital formation	:	:	23.0	23.0	22.0
- Exports of goods and services	:	:	53.0	53.4	54.6
- Imports of goods and services	:	:	64.8	63.2	64.8
	% change over the previous year				
Gross Domestic Product	-16.2	-9.8	3.3	4.7	5.7
	in Purchasing Power parities				
Gross Domestic Product per capita	:	:	4800	5300	5800
Inflation rate	% change over the previous year				
Consumer Price Index	410.2	72.2	39.6	24.6	:
Balance of payments	in millions of ECU				
-Exports of goods	1730	1706	2069	2688	3697
-Imports of goods	1862	1878	2602	3394	4709
-Trade balance	-132	-172	-534	-706	-1012
-Services, net	-47	-46	-10	95	119
-Income, net	7	7	-10	-72	-175
-Net current transfers	99	132	84	113	203
-of which government transfers	81	99	47	57	89
-Current account balance	-73	-79	-470	-569	-865
-Reserve assets (incl. gold)	379	485	631	671	964
-Reserve assets (excl. gold)	314	427	576	616	915
Public Finance	in % of Gross Domestic Product				
General Government Deficit/Surplus	2.1	-1.7	-1.6	-2.8	:
Gross foreign debt	:	13.1	12.3	12.4	:

	1993	1994	1995	1996	1997
Financial indicators					
Monetary Aggregates					
	in Bn ECU				
- M1	0.4	0.5	0.7	0.7	1.2
- M2	0.6	0.9	1.1	1.1	1.6
- Total credit	:	0.6	0.6	0.7	1
% per annum					
- Lending rate	91.8	62.3	27.1	21.6	14.4
- Deposit rate	88.3	48.4	20.1	14.0	7.9
(1ECU=..National currency)					
- Average of period	5.087	4.731	5.232	5.079	4.536
- End of period	4.351	4.864	5.126	4.968	4.419
- Effective exchange rate	100	275.9	255.9	279.9	313.6
Foreign Trade					
	in millions of ECU				
Imports	1926	1978	2789	3590	4934
Exports	1712	1708	2068	2642	3382
Balance	-214	-270	-721	-948	-1552
corresponding period of the previous year = 100					
Terms of trade	:	:	:	:	:
as % of total					
Imports with EU-15	18.73	26.39	37.13	42.42	:
Exports with EU-15	16.86	25.76	36.36	32.89	:
Demography					
	per 1000 of population				
Natural growth rate	0.4	-1.1	-1.1	-1.0	:
Net migration rate	-3.7	-0.6	-0.5	-0.2	:
per 1000 live-births					
Infant mortality rate	16.0	14.1	12.5	10.1	10.4
at birth					
Life expectancy : Males	63.3	62.8	63.6	65.0	:
Females	75	74.9	75.2	76.1	:
Labour market					
	in % of labour force				
Economic Activity rate (ILO methodology)	65.3	61.1	61.4	62.3	62.3
Unemployment rate (ILO methodology) :	:	:	:	15.6	14.1
< 25 years	:	:	:	26.1	26.2
> 25 years	:	:	:	13.9	12.1
in % of total					
Average employment by NACE branches					
- Agriculture and Forestry	22.5	23.4	23.8	24.2	21.9
- Industry	25.7	22.4	21.2	20.2	20.1
- Construction	7.1	6.6	7	7.2	7.1
- Services	44.7	47.6	48	48.4	50.9
Infrastructure					
	in Km per 1000 Km2				
Railway network	:	:	40.8	39.8	:
in km					
Length of motorways	:	:	394	404	:

Industry and Agriculture	previous year = 100			
	Industrial production volume indices	73.4	105.3	105
Gross agricultural production volume indices	95	80	106	110

Methodological Notes

Gross domestic Product per capita in PPS: Revised data using the new PPP results from the 1996 International Comparison Project.

Imports and exports (current prices): The data is based upon the “general trade” system. *Trade Classification:* Merchandise trade flows are using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

Eurostat has converted the National Currency to the US dollar by applying the International Monetary Fund annual average exchange rates.

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

General government deficit / surplus: is an approximation of the national accounts definition, derived from data based on the IMF’s GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts.

Monetary aggregates: are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government and private sectors. It should be noted that the problem of measuring the circulation of foreign currency in some Applicant Countries may affect the reliability of the data.

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

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

Imports and exports with EU-15: National source. Data for years 1993 and 1994 refer to trade with EU-12 only.

Economic activity rate - Percentage of labour force in the total population aged 15+. This rate is derived observing the following ILO definitions and recommendations: *Labour force*: employed and unemployed persons in the sense of the ILO definitions stated below.

The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

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

Due to the fact that LFSS are not carried out periodically the indicator has been estimated from the number of employed which was calculated on the base of reports provided by enterprises and organisations. Residents of 16 years of age and older are considered as those of the working age. Residents of 14 years of age and older are interviewed in labour force surveys.

Unemployment rate (by ILO methodology): - Percentage of the unemployed labour force. This rate is derived from LFSS (Labour Force Survey) observing the ILO definitions and recommendations (see ILO definitions above)

Average employment by NACE branches: This indicator is not derived from LFSS, but from data reported by all types of enterprises, institutions and organisations. In addition, data of sole proprietorships and persons holding a patent for various kind of activities as well as questioning of farmers are used..

Data covers all enterprises and other organisations (private and public sector).

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,E).

Sources

Basic data, National Accounts, Foreign trade, Demography, Labour market, Infrastructure, Industry and Agriculture : New Cronos.

Reserve assets and Financial indicators : Where possible Eurostat B-4's questionnaire on monetary and financial statistics has been used as the source. Applicant Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission (DG II) is used as the source for exchange rates against the ECU, where possible

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source.

Concerning general government deficit / surplus, Applicant Countries are presently unable to provide reliable data. Unit B-4 is working closely with these countries with the aim of improving their national accounts based government finance statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).