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Foreword

Co-operation between Lithuania and the OECD goes back to the early 1990s. To support the Lithuanian government's endeavour to raise its foreign investment inflows, the OECD Centre for Co-operation with Non-Members (CCNM) published an *Investment Guide for Lithuania* in 1998. In the CCNM's Baltic Regional Programme, which was launched in the same year, foreign direct investment (FDI) has been a key item. One of its principal objectives has been to associate Lithuania with the OECD's standards on FDI policy, in particular its Declaration on International Investment and Multinational Enterprises.

This Declaration promotes national treatment of foreign direct investment, proposes voluntary standards of behaviour to multinational enterprises and encourages moderation and restraint in the use of investment incentives and conflicting regulatory requirements. On 26 July 2001, Lithuania became eligible for adherence to the Declaration. Upon accepting the OECD's invitation, Lithuania will be entitled to participate in the work related to the Declaration implemented by the OECD's Committee on International Investment and Multinational Enterprises. This Committee is composed of officials from Ministries of Economic Affairs, Finance, Foreign Affairs, Trade and Industry.

The OECD has invited Lithuania to join the Declaration, considering that Lithuania has pursued a successful FDI policy, with the emphasis on liberalisation and non-discrimination. It has created a stable legal framework. Foreign investment is allowed in almost all economic sectors and investor and investment protection are effective. The tenfold increase of annual FDI inflows since 1993 – to US$380 million in 2000 – stands as a testimony to Lithuania's success in securing a welcoming environment for foreign investors. Lithuania will now need to consolidate its gains by making further improvements in the transparency of law enforcement, the relations between government and business, the completion of its privatisation process, the pursuance of a comprehensive anti-corruption strategy and by further reducing its exceptions to national treatment for foreign investors.

This report explores the role of foreign direct investment in the economic transformation of Lithuania since it regained its independence in 1990, outlines Lithuania's policies to attract FDI and analyses the country's capacity as a venue for foreign investors. It has been prepared under the auspices of the OECD Centre for Co-operation with Non-Members, by Marie-France Houde and Catherine Yannaca-Small, with the assistance of Rosemary Morris, of the Directorate for Financial, Fiscal and Enterprises Affairs of the OECD Secretariat. It has been edited by Kathleen Gray. The information presented is based on information available through to June 2001. The authors are grateful to the Lithuanian authorities for their valuable assistance, as well as to Inkeri Hirvensalo, Director of the Centre for Markets in Transition at the Helsinki School of Economics and Business Administration, and Ms Tuuli Juurikkala, of the School's Department of Economics, for their important contribution. The report is published on the responsibility of the Secretary-General of the OECD.

Eric Burgeat
Director
Centre for Co-operation with Non-Members

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Overview

A small country, but the largest of the three Baltic States, located in the one of the most dynamic regions of Europe, Lithuania has made impressive progress towards establishing itself, since regaining independence in 1990, as an attractive location for foreign direct investment (FDI). Lithuania offers strong economic growth potential and a receptive business environment. Its strategic geographical location, between Germany and Poland, on the one hand, and Russia, on the other, combined with its low-cost skilled labour and its industrial history, make it a natural candidate for FDI.

Slow privatisation and insufficient development of domestic capital markets hampered the beginning of the transition process, however. In order to create a transparent and open market capable of attracting foreign investment, Lithuania was obliged to overhaul its legal regime (in particular with regard to competition, company law, investment and intellectual property), re-define its privatisation strategy and reform its administration. The country also mobilised to align itself with international norms. At the beginning of 2000, it began accession negotiations with the EU, joined the WTO on 31 May 2001, and became eligible to adhere to the OECD Declaration on International Investment and Multinational Enterprises on 26 July 2001.

The extent of progress is evident in the tenfold increase in FDI inflows from US$30.18 million in 1993 to US$379.87 million in 2000 spread over greenfield investment, acquisitions and purchase of state property. The largest proportion of FDI was directed at the manufacturing sector, followed by the wholesale and retail trade. The share of services has also grown, however, with the privatisation of banks, post and telecommunications. Lithuania's three principal cities – Vilnius, Kaunas and Klaipeda – attracted the lion's share of inflows. Klaipeda attracted most of the investment in manufacturing, while the bulk of the investment in wholesale and retail trading went to the capital, Vilnius.

Initially, large US multinationals dominated FDI in Lithuania. From 1999 onwards, however, important amounts of investment originated from Sweden and Denmark. Norway, Finland and Estonia have also begun to show increasing interest in Lithuania as an investment location. On the other hand, the share of investment from the countries of the Commonwealth of Independent States (CIS) has diminished though they remain significant trading partners for Lithuania. CIS countries, and in particular Russia, continue to supply large amounts of raw materials to Lithuania, and in turn, Lithuania exports a significant amount to CIS countries.

Most foreign-capital companies operating in the country are either fully or majority foreign-owned. In October 2000, less than a third of enterprises were joint ventures, with the foreign capital share accounting for between 10 and 50 per cent. Small and medium-sized enterprises account for only a small portion of FDI.

The importance of FDI in the economic development of Lithuania can be seen in its expanded share in gross fixed capital formation – up from 5 per cent in 1995 to 35 per cent in 1998. It has also been a major source of financing of Lithuania's current account deficit, notably in 1998 when its share reached 71 per cent following the privatisation of *Lietuvos Telekomas*. Other positive effects include improved quality standards and delivery performances and backward linkages with local suppliers.

By far the main factor behind FDI growth into Lithuania has been in the methods of privatisation of state-owned enterprises. The first phase of Lithuania's privatisation process, starting in 1991, took as its central feature the privatisation of state property using a voucher system. This initial phase offered limited possibilities for foreign investors. The second phase, beginning in 1995 with the enactment of the new Law on Privatisation of State and Municipal Property, put in place a more flexible and open legal regime for privatisation and released large infrastructure companies for sale. The Privatisation Agency was replaced by the State Property Fund as administrator of privatisation assets, and the functions of privatisation institutions, procedures and methods were clarified.

In 1997, the Lithuanian government offered to privatise by international tender several large enterprises in essential sectors, including transport, energy and telecommunications. The most significant privatisation took place in the latter, with the transfer of 60 per cent of shares in the national telecom operator, *Lietuvos Telekomas*, to a Swedish/Finnish consortium. This was followed by other significant privatisations: the *Klaipeda Stevedore Company* and the State insurance company in 1999 are just two such examples, all of which were carried out under conditions of national treatment. Further privatisations of large state-owned enterprises are envisaged for the near future, in the gas, agriculture, air and rail transport sectors. The State has retained a golden share in only three privatised companies in the telecommunications, aviation and oil exploitation and exploration sectors, until 2003, 2004 and 2005 respectively. The government has announced that it will not make use of special shares in future privatisation deals.

Monopolies remain in a limited number of specific activities that can only be supplied under licence, such as the production of products containing alcohol exceeding a certain limit, the issuance of currency and stamps, basic postal services and fixed-line telephone services. A number of objects may be eligible for supply on the basis of concessions. None have yet been granted, however, and the Lithuanian government is in the process of reviewing the relevant law in order to make it more effective.

The important role that FDI has played in the country's economic transformation process is largely a result of the Lithuanian government's decision to concentrate its efforts on creating a stable legal framework with democratic institutional and regulatory processes. Recognised at the beginning of the transition process as the most effective way to encourage and induce investment, this policy has been followed by successive governments.

An agency for the promotion of foreign investment was established in 1995. The central principle of the Foreign Investment law was to guarantee equal operating conditions to both Lithuanian and foreign investors. The latest version – which came into force in 1999 – allows foreign investment in all sectors with the exception of national security and defence, the organisation of lotteries and the purchase of agricultural land. It provides for the unrestricted repatriation of profits and protection against expropriation. Limitations or discriminatory conditions are imposed in only a few sectors *e.g.* air, maritime and road transport, fisheries, tourism, health, and audio-visual works.

The FDI policy on investment incentives also shifted to national treatment. Taxation incentives, such as special tax concessions for foreign investors, have been generally phased out, with only a few examples remaining. Free economic zones, created to grant tax incentives to foreign investors, have had very limited success, prompting the Lithuanian authorities to consider abandoning the concept altogether.

As is the case with many transition economies, further efforts need to be concentrated on implementation. Improvement of inter-agency co-operation to cut down redundant administrative functions (the "Sunset" Commission), and improve relations with the business community (the "Sunrise" Commission) as well as the adoption of a comprehensive anti-corruption strategy are the top priorities in this context. In addition, Lithuania needs to complete its privatisation process, attract more greenfield investment, and further reduce exceptions to national treatment, particularly in relation to state aid.

Overall, however, the successful transformation of Lithuania's economy and its investment regime, with its emphasis on liberalisation and non-discrimination, is widely recognised. The OECD Committee on International Investment and Multinational Enterprises reviewed the country's legal regime in June 2001 and concluded that Lithuania is both able and willing to adhere to the Declaration on International Investment and Multinational Enterprises and its related Decisions and Recommendations, with the same rights and obligations as OECD Member countries and other adherents to the OECD. This brings an important component of the OECD's Baltic Regional Programme to a successful conclusion.

Part I

Foreign Direct Investment Trends, Factors and Prospects

1.1. General facts

Lithuania is a small transition economy with a GDP per capita of $2 880 and a population of about 3.7 million. Among the Baltic States, Lithuania has the lowest GDP per capita, but the largest economy and the most diversified industrial base. It also has a large agricultural sector. Since independence from the Soviet Union in 1990, economic development has been both strong and volatile. Economic growth resumed in 1994, when full current account convertibility and a currency board regime were also introduced. GDP grew at a rate of 2.9 per cent in 2000, much lower than the record 7.4 per cent in 1997. Lithuania was more dependent on exports to Russia than the other two Baltic states and, hence, more severely hit by the Russian crisis. In 2000, considerable progress was made in reducing the current account deficit and during the first nine months of 2000, it decreased to 4 per cent of GDP.[1]

Given its small size, FDI inflows into Lithuania are low in terms of world and European levels and outflows almost negligible.

This section begins with an overview of the increase in and main characteristics of FDI since 1991. It then proceeds to identify the main factors behind FDI trends and presents findings on the investment climate in Lithuania. The section ends with an up-to-date assessment of statistical sources on FDI in Lithuania.

1.2. Inward and outward flows and stocks

The calculation of foreign direct investment data up to 1995 is based on information from the register of joint ventures and foreign capital companies operated by the Ministry of Economic Affairs. After 1995 the Lithuanian Department of Statistics began to collect information on foreign direct investment in line with OECD recommendations. FDI statistics are published as part of the balance of payments statistics. The survey basis used in 1996 was revised in 1997, so the data is only directly comparable from 1997 onwards.[2]

Table 1.1. **Lithuanian Economic Indicators**

	1999	2000	Latest (as of period)	2001
GDP (real annual change)	[3.9]	3.3	2.8 I Q 2001	3.7[4]
Inflation (%)	0.3	1.4	0.5 I Q 2001	1.8
General Government operations fiscal deficits as a per cent of GDP[3]	7.6	2.8	1.4	
Total exports (annual change)	[19]	26.8	15.0 I Q 2001	13.5
Current account as a per cent of GDP[1]	[11.2]	[6.0]		
FDI annual change (USD mln) (%)	+437.7 26.9	+271.3 13.2		
Unemployment average annual rate (%)[2]	8.4	11.5	12.8 Apr 2001	10.7

Square brackets indicate a negative value.
Exchange rate is fixed at US$1 = 4 LTL.
Data provided by Statistics Department, [1]Bank of Lithuania; [2]Labour Exchange; [3]Ministry of Finance; [4]Ministry for Economic Affairs.

Table 1.2. **FDI inflows to Lithuania – key indicators, in million US$ and percentage**
(Net inflows recorded in the balance of payments)

	Cumulative FDI net inflows as of 1989-2000 1989-2000	Cumulative FDI net inflows per capita	FDI net inflows per capita 1999	FDI net inflows per capita 2000	FDI net inflows as a % of GDP 1999	FDI net inflows as a % of GDP 2000
Lithuania	2 335	558	131	102	4.6	3.3

Source: Bank of Lithuania.

Table 1.3. **FDI inflows to Lithuania, US$ million, 1993-2000**

	1 Q	2 Q	3 Q	4 Q	Total
2000	79.31	113.39	72.15	114.02	378.87
1999	105.72	156.10	101.25	123.40	486.47
1998	83.01	140.42	584.39	117.70	925.52
1997	69.07	67.77	151.65	66.02	354.51
1996	15.68	26.16	45.24	65.35	152.43
1995	12.72	17.28	18.55	24.01	72.56
1994	6.28	8.50	10.26	6.26	31.30
1993	1.22	13.81	10.37	4.78	30.18

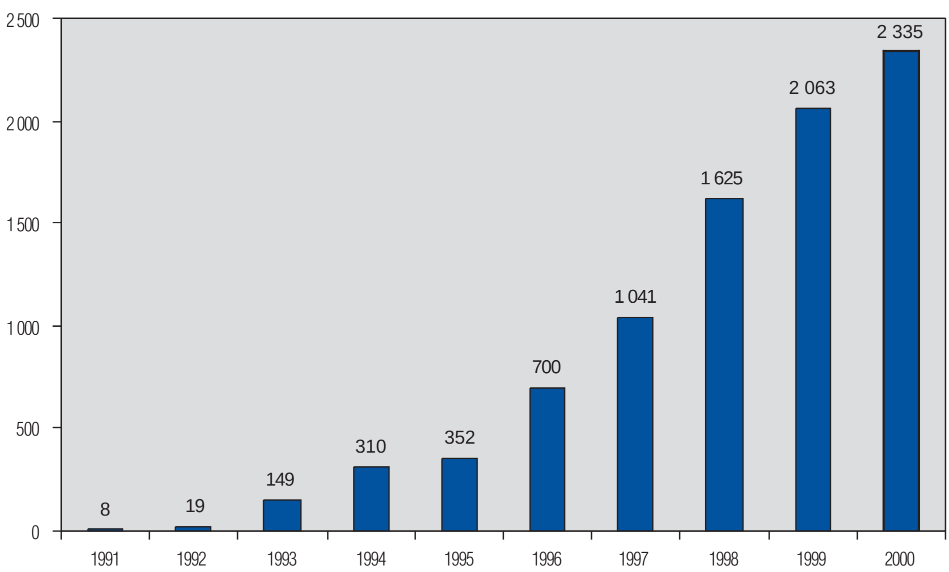
Source: Bank of Lithuania at *www.lbank.lt*

Table 1.3 and Figure 1.1 show the development of FDI in Lithuania during the 1990s. Over the five-year period 1994 to 1998, it grew constantly, largely due to the mass privatisation programme that was taking place in the country, but slowed down during the years 1999 and 2000. The growth of FDI accelerated with the second phase of privatisation involving the sale of large enterprises that began in 1995. From 1996 to 1997, the accumulated stock of FDI in Lithuania grew by 50 per cent.

During 1998, FDI in Lithuania experienced even stronger growth, reaching an accumulated level of US$1 625 million by the end of the year. The substantial increase in FDI during 1998 was mainly due to the privatisation of *Lietuvos Telekomas* in the third quarter.

In 1999, the flow of foreign direct investment into Lithuania reached US$486 million, which represented a significant decline from 1998. If, however, receipts from the privatisation of the telecommunications joint-stock company, *Lietuvos Telekomas*, are excluded, FDI flows expanded by 17.1 per cent. This expansion resulted mainly from the privatisation of the major companies *Mazeikiu Nafta* (energy) and *Lietuvos Draudimas* (insurance) and the growth of reinvested

Figure 1.1. **FDI Stock in Lithuania***
(US$ million)



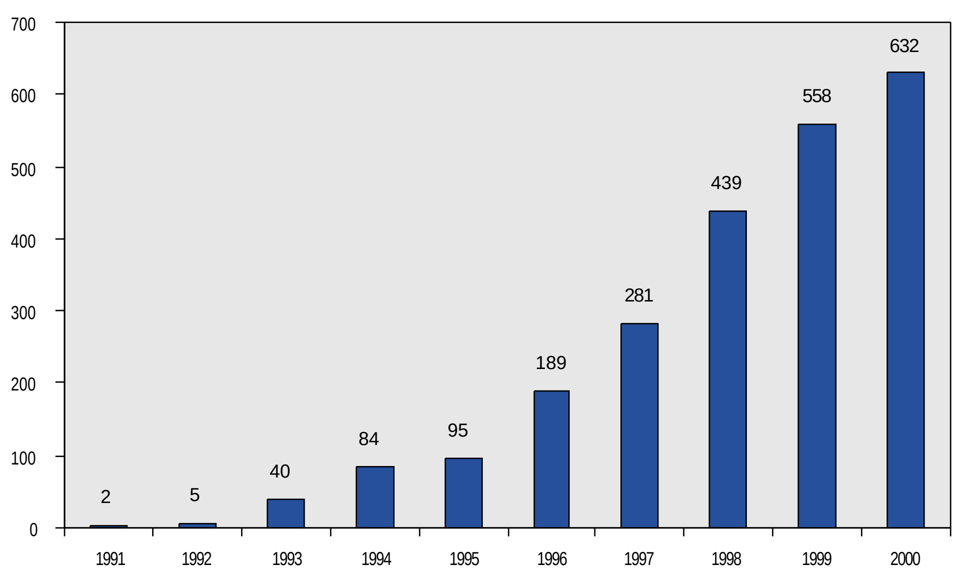
* 4 LTL = 1 US$ from April 1994 on.
Source: Statistics Department of Lithuania website.

earnings. These totalled LTL 589.9 million accounting for 30.1 per cent of the FDI flow (LTL 4 = US$1). The positive growth of FDI (including reinvested earnings) in 1999 shows that, despite the economic recession, foreign investors' assessment of the long-term prospects for Lithuania's economic development has been favourable. As of 1 January 2000, FDI stock in Lithuania totalled US$2 063 million. The stock of FDI per capita was US$558 (see Figure 1.2).[3]

In 1999, major investments (including reinvestments) flowed into the production of refined petroleum products (16 per cent). 14.4 per cent of FDI was invested in long-distance telecommunications facilities, 14 per cent in the manufacture of food products, beverages and tobacco, 9.3 per cent in the retail and commission trade, 7.7 per cent in financial services and 7.3 per cent in insurance activities. Among the countries that made the largest investments are Denmark (LTL 372.4 million or 19.1 per cent of FDI flows), Switzerland (LTL 354.7 or 18.2 per cent), and Sweden (LTL 308.5 or 15.9 per cent).

In 2000, net inflow of FDI further declined to US$379 million. In the first three-quarters of 2000, investment flowed mainly to the financial intermediation sector, electricity, gas and water supplies, post and telecommunications and real estate, renting, and business activities.

Figure 1.2. **FDI Stock per Capita**
(US$ million)



Source: Statistics Department of Lithuania website.

Outflows of direct investment from Lithuania have been negligible compared to inflows, as indicated in Table 1.4. In 1997 for instance, inflows were over 13 times higher than inflows.

Table 1.4. **Flows of Lithuania's direct investment abroad, US$ million, 1995-2000**

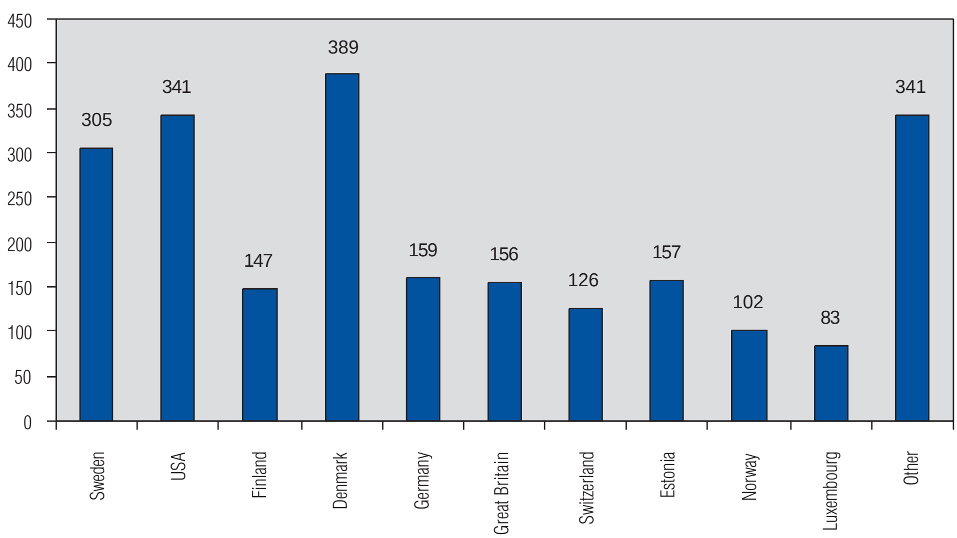
1995	1996	1997	1998	1999	2000
1.00	0.11	26.98	4.17	8.63	3.69

Source: Bank of Lithuania balance of payments statistics.

1.3. Countries of origin

As Table 1.5 and Figure 1.3 show, the United States was the largest investing country in Lithuania until 1999, but it ceded this position to Denmark in 2000. Sweden has been another important investor. As of 1 October 2000, the shares of these countries in the FDI stock were: Denmark, 16.9 per cent, the United States, 14.8 per cent, and Sweden, 13.2 per cent.

Figure 1.3. **Cumulative FDI by country of origin as at 1 October 2000**
(US$ million)



Source: *Foreign Direct Investment in Lithuania* 2000 10 01, Statistics Lithuania B413.

In recent years, Sweden, Finland, Denmark and Norway have shown an increased interest in investment opportunities in Lithuania. In general, investment from EU countries constitutes the major share of total FDI stock. As investors, EU countries accounted for 63.1 per cent of FDI in the country in 1999. At the beginning of the year 2000 this had dropped to approximately 61 per cent, and as of 1 October 2000 this had decreased even further, with EU countries accounting for 59.3 per cent of FDI in Lithuania.

Among the EU countries, over the past few years there has been a drop in the FDI share of the larger countries, such as Germany and the United Kingdom, whereas the role of the smaller and, in particular the neighbouring Scandinavian countries, has been growing. At the beginning of 1996, Germany occupied first position in the cumulative FDI by country of origin with a 19.4 per cent share of the total and the United Kingdom accounted for 11.5 per cent. By the beginning of the year 2001, Germany's share had dropped to 7.4 per cent and that of the United Kingdom to below 6.7 per cent.

Table 1.5. **Major investing countries**

	Accumulated FDI, US$ million									
	1996 01 01		1997 01 01		1998 01 01		1999 01 01		2000 10 01	
	Total	%	Total	%	Total	%	Total	%	Total	%
TOTAL	352	100	700	100	1 041	100	1 625	100	2 307	100
Sweden	30	8.5	84	12.0	127	12.2	274	16.9	305	13.2
United States	60	17.2	200	28.5	270	25.9	304	18.7	341	14.8
Finland	14	3.9	33	4.7	45	4.3	173	10.7	147	6.4
Denmark	16	4.5	39	5.6	65	6.2	107	6.6	389	16.9
Germany	68	19.4	91	13.0	117	11.2	133	8.2	159	6.9
United Kingdom	41	11.5	62	8.9	82	7.9	110	6.8	156	6.8
Switzerland	9	2.5	11	1.6	16	1.6	27	1.7	126	5.5
Estonia	3	1.0	6	0.9	44	4.3	70	4.3	157	6.8
Norway	6	1.7	18	2.5	33	3.1	68	4.2	102	4.4
Luxembourg	5	1.3	30	4.3	40	3.9	75	4.6	83	3.6
Other	100	28.5	126	18.0	202	19.4	284	17.3	341	14.8

Source: Publication of Department of Statistics – *Foreign Direct Investment in Lithuania* 2001 10 01.

The importance of the CIS countries as investors is marginal and diminishing. As of 1 October 2000, their combined share in the total was only 0.8 per cent. At the beginning of 1996, Russia alone accounted for 6.5 per cent of total FDI in Lithuania, whereas by 1 October 2000 this share had declined to below 0.5 per cent.

Estonian investors have shown an increasing interest in Lithuania over the last three years. In the first three-quarters of the year 2000 their investments in Lithuania nearly doubled. As of 1 October 2000, it was the fourth biggest investor country with a share of 7.2 per cent. Latvia's share in FDI in Lithuania also increased and accounted for 1.2 per cent. Among the other neighbouring countries, some investment came from Poland (1.7 per cent of the accumulated FDI inflows to Lithuania at the beginning of the last quarter of 2000).

In terms of the number of enterprises, as of 1 October 2000 Germany occupied first place among foreign investors in Lithuania. 372 companies with German capital were operating in the country, accounting for 18.9 per cent of all 1 964 operating joint ventures and companies with foreign capital. The United States was in second place, with 162 companies, followed by Sweden with 138.

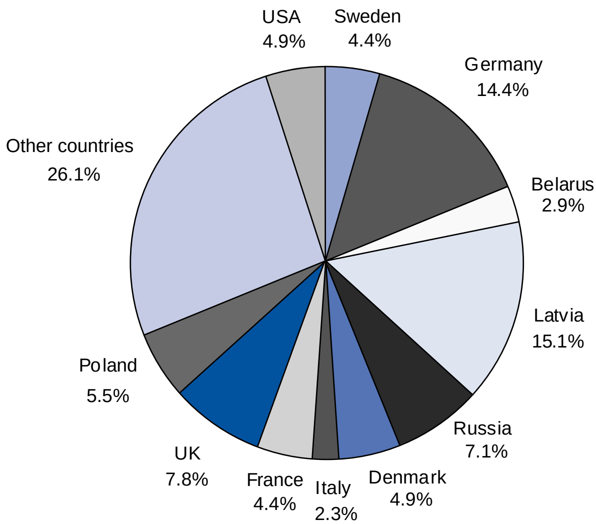
Comparing FDI by country of origin to trade statistics indicates that, in line with the trends in shares of FDI flows, the share of trade with EU countries decreased during the year 2000. In 2000, Lithuanian foreign trade amounted to US$9 266 million, of which the EU accounted for 45.2 per cent. Lithuania's exports to the EU in 2000 amounted to 47.9 per cent (US$1 824 million) of the country's total exports of US$3 809 million. Compared to 1999, exports to the EU increased by 21.2 per cent. In 2000, imports from the EU were US$2 361 million or equivalent to 43.3 per cent of the total imports (US$5 457 million).[4]

Despite their modest share in FDI in the country, the CIS countries still remain important trading partners for Lithuania. The export volume to CIS countries in 2000 amounted to 16.3 per cent (US$619 million) of total exports. Due to Russia's gradual recovery after the crisis, Lithuania's exports to Russia increased by 28.6 per cent in 2000 compared to 1999 and amounted to US$271 million. After a three-year decline, imports from the CIS countries started to rise in 2000. As before, the CIS countries are the most important suppliers of raw materials to Lithuania, with a share of 31.7 per cent (US$1 182 million) of the country's total imports. The CIS countries combined accounted for approximately 25 per cent of Lithuania's total foreign trade in 2000. Russia again became Lithuania's main trading partner, leaving Germany in second place, followed by Latvia. The major investor countries for Lithuania, namely Denmark, the United States and Sweden, are not among its seven most important trading partners.

Figure 1.4 shows Lithuanian exports by trading partner in 2000. Latvia alone accounted for 15 per cent of exports, compared to 14.2 per cent for the three major investor countries, Denmark, the United States and Sweden combined.

Before turning to the sectoral distribution of FDI, it should be noted that the statistics reflecting the origin of FDI can be misleading, as the source of investment capital and project control may be different from that of the country of origin of the investor. For example, Statoil of Norway invested in Lithuania through its Swedish subsidiary.[5]

Figure 1.4. **Exports by trade partner, 2000**
(% of total exports)



Source: Statistics Department of Lithuania.

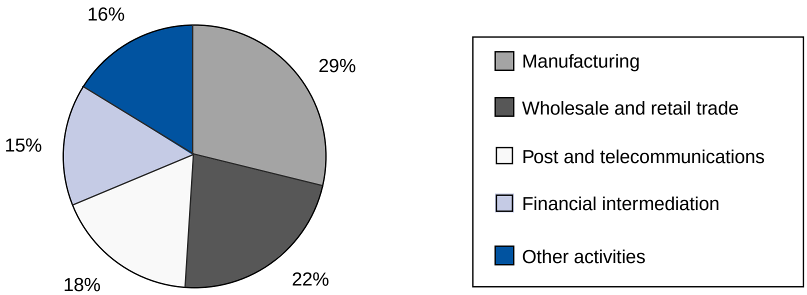
1.4. Distribution by economic activity[6]

The manufacturing sector attracted the largest proportion of FDI in Lithuania throughout the 1990s, followed by the wholesale and retail sectors. There was a surge of foreign investment in the post and telecommunications sector in 1998, mostly as a result of the Telekomas privatisation deal. Figure 1.5 shows the distribution of the cumulative FDI by economic activities as of 1 October 2000. Table 1.6 shows the percentage FDI shares of all sectors of the economy between the end of 1995 and 1 October 2000.

As of 1 October 2000, foreign capital, totalling US$665 million or 28.8. per cent of total FDI was invested in 377 manufacturing enterprises. US$264 million was invested in manufacturing of food products, beverages and tobacco. This was followed by the textiles industry and the refined petroleum and chemical industries, with FDI levels of US$78 million and US$63 million respectively. Fourth and fifth in order of importance as recipients of FDI were the transport equipment and electrical and optical instrument industries.

After manufacturing, the second major target for investors is wholesale and retail trade, including repair services for vehicles, motorcycles and household

Figure 1.5. **Cumulative FDI by Economic Activity as at 1 October 2000**



Source: *Foreign Direct Investment in Lithuania* 2000 10 01, Statistics Lithuania B413.

Table 1.6. **Trends of FDI by economic activity, 1995-2000**

Foreign Direct Investment by economic activity, per cent, end of period

	1995	1996	1997	1998	1999	2000
Total	100	100	100	100	100	100
Agriculture, fisheries, forestry	2.06	0.66	1.18	0.86	0.51	0.44
Mining	1.94	2.50	2.02	1.04	0.96	1.15
Manufacturing	44.13	41.17	36.64	32.39	31.81	28.84
Construction	1.18	0.36	0.35	0.50	0.70	0.65
Wholesale and retail trade, repair services for personal and household goods	29.35	32.50	29.91	25.10	24.53	22.51
Hotels and restaurants	1.85	2.38	3.93	3.27	2.53	2.23
Transportation and warehousing	1.30	0.89	3.34	3.43	2.42	2.06
Post and telecommunications	4.14	10.29	8.45	17.43	17.94	18.01
Financial services	6.74	5.45	6.42	9.84	13.65	15.48
Real estate, rent and lease of property and commercial activity	1.77	1.73	4.41	3.82	2.58	4.58
Education, health, recreation and culture	1.80	0.96	2.26	0.82	0.87	1.39
Other activities	3.74	1.11	1.09	1.50	1.50	2.66

Source: Publication of Department of Statistics – *Foreign Direct Investment in Lithuania* 2001 10 01.

appliances. As of 1 October 2000, 47 per cent of all 1 764 operational joint ventures and foreign capital companies were engaged in these activities. The wholesale and retail sector accounted for US$519 million or 22.5 per cent of all investment and a total of 836 enterprises.

The field of postal and telecommunications technologies has also attracted considerable foreign investment. From the beginning of 1997 to October 2000, FDI into postal and telecommunications services increased from US$72 million to US$415 million. As of 1 October 2000, investment in this sector accounted for 18 per cent of all FDI.

The percentage share of FDI in financial services rose to 15.5 per cent. At the beginning of 1998, this sector had an accumulated FDI of US$67 million, which rose to US$357 million by October 2000.

Of the major investing countries – Denmark, the United States, Sweden, Estonia and Germany – Denmark's largest investments are in the post and, more particularly, the telecommunications sector as well as considerable amounts in food production and transport equipment. Sweden has invested most in financial services (see Table 1.7). The United States is the major investor in food, beverages and tobacco production.

Table 1.7. **Major investing countries[7] by economic activity as of 1 October 2000, US$ thousand**

	Sweden	United States	Finland	Denmark	Germany
Total	305 181	340 888	218 034	389 209	158 012
Manufacturing	65 321	78 678	35 447	113 019	67 853
Food, beverages and tobacco	39 551	61 840	12 644	52 301	5 494
Textiles and leather products	492	3 558	44	9 157	23 391
Wood and paper products	15 910	6 051	12 383	5 629	1 534
Refined petroleum and chemical products	10 023	3 027	6 438	10 033	
Transport equipment	–	–	–	26 896	10 313
Other manufactured goods	7 567	3 438	3 938	9 004	27 121
Wholesale and retail trade, repair services for personal and household goods	25 561	78 180	72 586	21 133	57 703
Hotels and restaurants	522	16 619	–	578	1 909
Transport and warehousing	11 773	5 460	405	2 048	7 395
Post and telecommunications	55 940	101 754	101 237	218 341	40
Financial services	67 370	37 106	4 918	12 044	13 515
Other activities[8]	78 695	23 093	3 441	22 046	9 597

4 LTL = 1 US$.
Source: Publication of Department of Statistics, Ministry of Finance – *Foreign Direct Investment in Lithuania* 2001.10.01.

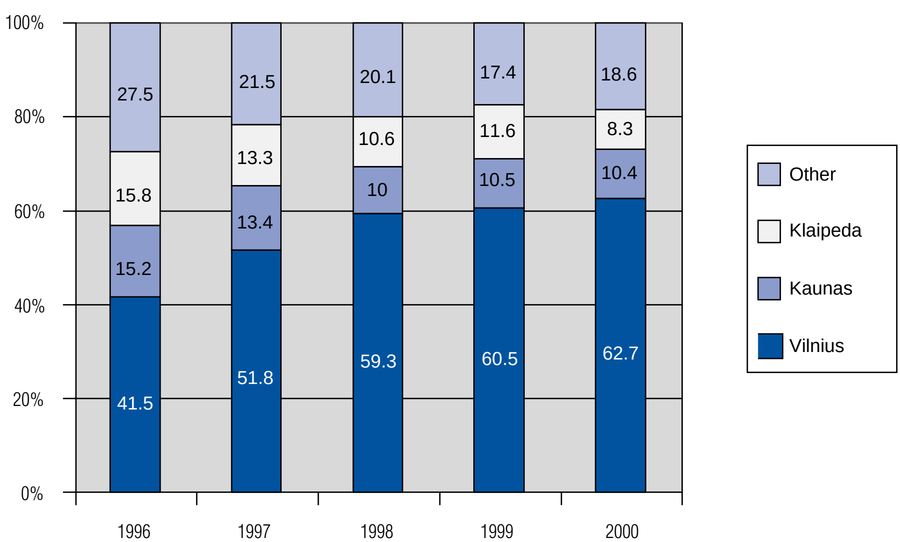
1.5. Geographic distribution

In Lithuania, the population, production activities and GDP are concentrated in three cities: Vilnius, Kaunas and Klaipeda, which have also benefited from the highest levels of FDI. During the last few years, Vilnius has gradually increased its share of the total FDI in Lithuania to reach 60.5 per cent at the beginning of 2000. At the same time, the shares of both Kaunas and Klaipeda have declined from approximately 15 per cent at the end of 1996 to 10.5 per cent in Kaunas and 11.6 per cent in Klaipeda in 2000 (see Figure 1.6).

The largest Western enterprises have typically set up trading subsidiaries in Vilnius. At the beginning of 2000, 28 per cent or US$350 million of the total FDI of US$1 248 million in Vilnius was in the wholesale and retail trade. Another 30 per cent, US$370 million, was invested in the post and telecommunications sector. Manufacturing accounted for only 10 per cent, or US$126 million, of the FDI in Vilnius.

In contrast with Vilnius, foreign investment in Kaunas (US$216 million in total) and Klaipeda (US$240 million in total) has gone mostly into the manufacturing industry, with shares of 51 and 71 per cent respectively, at the beginning of 2000. In Kaunas, the production of food, beverages and tobacco attracted most FDI within manufacturing, accounting for almost 41 per cent of the total within the sector. In Klaipeda, over 50 per cent of foreign capital in manufacturing was invested in the production of food, beverages and tobacco, whilst the second most favoured sector in the city, production of transport equipment, attracted 25 per cent of FDI inflows.

Figure 1.6. **Cumulative FDI by Major Cities**
(%)



Source: *Foreign Direct Investment in Lithuania* 2000 10 01, Statistics Lithuania B413.

1.6. Enterprise structures

In Lithuania, most companies with foreign capital are either totally or majority foreign-owned. As of 1 October 2000, 38.5 per cent of enterprises were wholly foreign-owned and, in the case of an additional 31.5 per cent of the companies, over 50 per cent of the capital was foreign-owned. Only 30.0 per cent were joint ventures with foreign capital shares of 10-50 per cent.

Table 1.8 shows the number of companies by capital ownership structure and the relative importance of these categories in terms of the amount of capital invested. Not surprisingly, companies with less than 50 per cent of foreign capital account for 14.5 per cent of FDI, even though they represent almost one-third of the number of companies with foreign participation.

Table 1.8. **Foreign direct investment by foreign capital share, as of 1 October 2000**

	Foreign capital share			
	10%-50%	Over 50%	100%	Total
Number of enterprises	529	556	679	1 764
Per cent	30%	31.5%	38.5%	100%
Amount of FDI, US$ million	335	1 082	891	2 307
Per cent	14.5%	46.9%	38.6%	100%

Source: *Foreign Direct Investment in Lithuania*, Statistics Lithuania B413.

When analysing the breakdown of enterprises by the number of employees, it was found that, at the beginning of 2000, almost 76.1 per cent of companies with foreign participation had fewer than 50 employees, while, at the same time, this considerable majority of companies accounted for only 23.9 per cent of the total foreign capital invested. Table 1.9 provides more details on the employee structure of companies.

Table 1.9. **Foreign direct investment by number of employees, as of 1 January 2000**

	Enterprises by number of employees						
	0-9	10-19	20-49	50-99	100-499	Over 500	Total
Number of enterprises	820	318	295	125	132	28	1 718
Per cent	47.7	18.5	17.2	7.3	7.7	1.6	100.0
Amount of FDI, LTL million	125	155	213	159	736	675	8 252
Per cent	6.1	7.5	10.3	7.7	35.7	32.7	100.0

Source: *Foreign Direct Investment in Lithuania* 2000 01 01, Statistics Lithuania B413.

As indicated in the previous table, small companies account for a relatively low share of FDI. Some small and medium-sized enterprises (SMEs) have invested in the processes of their Lithuanian suppliers, providing equipment and other supplies, although the amount of equity investments by SMEs in Lithuanian companies is not fully known.

FDI has been dominated by the privatisation of large companies. At the end of 1998, US$582 million, or 34 per cent of the total FDI stock of US$1 625 million in Lithuania originated from the sale of privatised firms. An additional US$300 million, or 18 per cent of total FDI, was granted as investment guarantees.[9]

1.7. Major investors

In the early 1990s, many of the first investors who came to Lithuania were large US multinational corporations, such as McDonalds, Philip Morris and Coca-Cola. These were followed by major European companies such as the Swedish-Finnish concern Amber Teleholdings Consortium, the Danish brewery Carlsberg, Norwegian Statoil and the Anglo-Dutch corporation Royal Dutch/Shell.

Table 1.10 lists the largest investments in Lithuania according to a survey carried out by the Lithuanian Development Agency in January 2000. American and Nordic companies are well represented. Other groups of note are large international oil-related businesses from various countries of origin, as well as producers of food, beverages and tobacco. The average volume of all foreign direct investments made in Lithuania up to 1 January 2000 was US$1.1 million. The corresponding figure was US$2.7 and 2.5 million for Sweden and Finland respectively, US$1.8 million for the United States and 1.7 million for Denmark, compared to, for example, the average German investment of US$0.4 million.

Table 1.10. **The largest foreign investors in Lithuania as at January 2000**

	Investor	Origin	Joint Venture/ Investment	Activities	US$ million
1.	Amber Teleholdings Consortium (Telia/Sonera)	Sweden/Finland	Lietuvos Telekomas	Tele-communications	510 comm. 210
2.	Williams International	United States	Mazeikiu Nafta	Oil Refinery, Pipelines, Sea Terminal	150 comm. 75
3.	Telia/Sonera	Sweden/Finland	Omnitel	Telecommunications	66
4.	Philip Morris International Finance Corporation	United States	Philip Morris Lietuva	Tobacco products	62
5.	SEB-Skandinaviska Enskilda Banken AB	Sweden	Vilniaus Bankas	Banking	57
6.	Tele Denmark A/S Millicom East Holding B.V.	Denmark/ Luxembourg	Bite GSM	Telecommunications	49
7.	Carlsberg	Denmark	Svyturys	Brewery	45
8.	Den Norske Stats Oljeselskap	Norway	Lietuva Statoil	Petroleum products	38
9.	Danisco Sugar A/S	Denmark	Sugar Factories	Sugar production	34
10.	The Coca-Cola Corporation	United States	Coca-Cola Bottlers Lietuva	Soft drinks	32
11.	Shell Overseas Holdings Ltd	Great Britain / The Netherlands	Shell Lietuva	Petroleum products	29
12.	Codan Insurance Ltd., A/S	Denmark	Lietuvos Draudimas	Insurance	27
13.	AS Hansa Liising	Estonia	Hanza Lizingas	Financial services	26
14.	Euro Oil Invest S.A.	Luxembourg	Lukoil Baltija	Petroleum products	25
15.	Henley Trading Ltd. Private person	Ireland/Switzerland	Ekranas	Electronics	25
16.	Neste OY	Finland	Neste Lietuva	Petroleum products	25
17.	Baltic Beverages Holding (Pripps-Hartwall company)	Sweden/Finland	Kalnapilis and Utena	Brewery	24
18.	Kraft Food International	United States	Kraft Foods Lietuva	Confectionery	24
19.	Partec Insulation; Finnfund; NEFCO	Sweden/Finland	Partek Paroc	Construction materials	20
20.	Odense Steel Shipyard Ltd.	Denmark	Baltijos Laivu Statykla	Ship building	18
21.	Osman Trading AB; Woodison Trading AB; Ferrous Investment Ltd; Duboil Ltd.	Sweden / Ireland / Great Britain	Klaipedos Nafta	Oil terminal	17
22.	EFFEM, Inc.	United States	Masterfoods Lietuva	Pet food	15

Table 1.10. **The largest foreign investors in Lithuania as at January 2000** (*cont.*)

	Investor	Origin	Joint Venture/ Investment	Activities	US$ million
23.	Tuch Fabrik Wilhelm Becker	Germany	Eurotextil	Textiles	15
24.	Svenska Petroleum Exploration AB	Sweden	Genciu Nafta	Oil extraction	14
25.	Cargill, Inc.	United States	Lifosa	Fertilisers	14
26.	Siemens AG	Germany	Baltijos Automobiliu Technika	Electronics	14
27.	AGA AB	Sweden	AGA	Trade in gas for technical and medical purposes	13
28.	Huta Szakla Warta P.S.	Poland	Panevezio stiklas	Glassware	13
29.	Icelandic Health Company Limited; Swedfund International AB	Iceland/Sweden	Ilsanta	Pharmaceuticals	12
30.	Indutech s.p.a.	Italy	Lifosa	Chemical products	10

Source: Informal survey by the Lithuanian Development Agency.

1.8. Assessment of statistical sources[10]

During the period 1991-1994, FDI statistics were collected and published by the Ministry for Economic Affairs. In 1995, the responsibility for FDI statistics was transferred to the Statistics Department. In 1996, Lithuania designed a new questionnaire, which was tested during that year. Since 1997, the present more comprehensive survey method has been used, and FDI data are compiled in compliance with the OECD, IMF and World Bank requirements.

A commercial register was established by the Law on the Register of Enterprises in 1990. The Ministry for Economic Affairs was responsible for the register until February 1995, when its management was transferred to the Statistics Department of Lithuania. The list of enterprises used in FDI data compilation is based on the commercial register and includes wholly and partly foreign-owned enterprises. Information on newly-created units or new acquisitions is constantly updated as fully as possible. For this purpose, a variety of sources are used, including:

– administrative registers;

– various questionnaires by sections and divisions of the Statistics Department of Lithuania, which are not directly involved in FDI data compilation;

– data from external registers, such as one maintained by the Ministry for Economic Affairs, in which foreign capital is registered;

– press sources.

The compilation of official FDI is the joint responsibility of the Statistics Department of Lithuania and the Bank of Lithuania. First, a list of companies that have reported having foreign capital is compiled on the basis of the commercial register. Second, a questionnaire is sent to all relevant companies. The department responsible for collecting the information on FDI sends out a questionnaire to all those companies in which foreign investment exceeds the level of 10 per cent. Other companies provide information for the unit, which collects data on portfolio investment. Third, the Statistics Department analyses the information provided by the companies and sends the results to the Central Bank. Fourth, the Central Bank adds information concerning the banking sector, this being mainly data on commercial banks produced by the banking supervisory authority, and checks against other balance of payments items. It also receives some information on privatised companies from the Privatisation Fund. The Bank checks certain information with the Ministry for Economic Affairs (joint ventures and wholly foreign-owned companies) and, finally, sends its complete set of FDI statistics to the Statistics Department of Lithuania to be published as part of the balance of payments information.[11]

Most of the balance of payments information, including the FDI data, is collected quarterly. About 2000 questionnaires are sent out four times a year and the number of respondent companies is about 1600. This discrepancy can be accounted for by companies whose foreign shares have been bought by domestic owners or which have ceased operations.

Before 1997 the major differences in the data collected by the Statistics Department and the Central Bank were due to the modifications in the shareholdings that had changed hands on the Lithuanian Stock Exchange. Since 1997 the Statistics Department and the Central Bank publish the same figures.

During the period 1995-1996, there were major discrepancies between the various information sources due in part to registered investment commitments being treated as actual FDI for statistical purposes. In reality, some of these registered investment commitments are never realised in the country. The actual status has to be checked on the basis of the balance of payments statistics.

It is not easy to get all the necessary information from companies, in particular from those that are 100 per cent foreign-owned. Companies with some Lithuanian ownership are more likely to comply with the information requirements. In general, companies are believed to be rather honest in their answers, partly due to the fact that the Central Bank has the authority to verify the information.

EU membership should not make any significant difference to the collection of FDI statistics in Lithuania, since it already complies with the EU directives. To reach this level of quality, Statistics Lithuania has co-operated to some extent with foreign specialists, especially Swedish and Danish officials.

In sum, FDI statistics generated in Lithuania can be considered as reliable from 1997 onwards. With older data it should be remembered that the current process was not yet in place and therefore figures from different sources may vary.[12]

1.9. Economic impact of foreign direct investment

The economic impact of FDI can be assessed by factors such as the share of FDI in domestic fixed capital formation, the impact on the capital account, the development of the financial sector, the contribution to privatisation, or the spill-over effects of investments. The role of FDI in the Lithuanian privatisation process is discussed in more detail in Part II, Section 2.5. This chapter assesses the other areas of interest, as well as the financial structure of FDI in Lithuania.

a) **FDI** ***and fixed capital formation***

Since the middle of the 1990s the recorded gross fixed capital formation in Lithuania has grown at approximately the same rate as the gross domestic product. The share of gross fixed capital formation fluctuated between 23 and 25 per cent of the gross domestic product between 1995 and 1999. The development of foreign direct investment has, however, been much more rapid and, as a result, its share in the gross fixed capital formation increased considerably from five per cent in 1995 to about one-third in 1998 (see Table 1.11). In 1999, as a result of the Russian crisis, gross fixed capital formation decreased at a higher rate than GDP and the FDI inflow was lower. Even though the share fell to 20 per cent in 1999, this indicates that the significance of FDI in the economic development of the country has also increased considerably since the middle of the 1990s.

Table 1.11. **Foreign direct investment and gross fixed capital formation in Lithuania during the period 1995-1999.**

	Gross fixed capital formation (GFCF), US$ million	Foreign direct investment (FDI), US$ million	FDI as per cent of GFCF
1995	1 388.5	72.6	5.2
1996	1 817.3	152.4	8.4
1997	2 334.2	354.5	15.2
1998	2 615.8	925.5	35.4
1999/ I-VI month	2 395.2	486.5	20.3

Source: *Economic and Social Development in Lithuania*, Statistics Lithuania 3/00, B 111.

b) FDI *and the balance of payments*

Foreign direct investment in Lithuania has also grown in significance when compared to current account development. Between 1993 and 1997 foreign direct investments provided finance for an average of 27 per cent of the current account deficit. In 1998, as a result of the large privatisation deal of *Lietuvos Telekomas*, this share was as high as 71 per cent (see Table 1.12). It fell to 41 per cent in 1999 and rose again to 56 per cent in 2000 indicating that it has proved a significant source of financing for the current account deficit.

Table 1.12. **FDI and current account development during the period 1993-2000, in US$ million**

	1993	1994	1995	1996	1997	1998	1999	2000
Current account credit	2 351.92	2 534.22	3 354.54	4 411.97	5 541.37	5 435.70	4 520.58	5 541.64
Current account debit	–2 437.63	–2 628.21	–3 968.97	–5 134.58	–6 522.77	–6 733.84	–5 714.68	6 216.46
Current account balance	–85.71	–93.99	–614.43	–722.61	–981.40	–1 298.14	–1 194.10	–674.82
FDI	30.18	31.30	72.56	152.43	354.51	925.52	486.47	378.87
FDI in comparison with the current account balance	35.2%	33.3%	11.8%	21.1%	36.1%	71.3%	40.7%	56.1

Source: Lithuanian balance of payments, Bank of Lithuania 2000.

c) *Sources of financing of* FDI

Foreign direct investors have financed the bulk of their investments in Lithuania through equity capital (see Table 1.13). Financing through reinvested earnings was first recorded in 1995. Thereafter, it only increased moderately until the end of 1998, when it accounted for slightly over 10 per cent of the total FDI. In 1999, however, the share of reinvested earnings as a source of FDI financing increased to about 30 per cent. Financing through other forms of capital, such as short-term and long-term loans, was first recorded in 1997 and accounted then for one-quarter of the total FDI. The large equity investment in *Lietuvos Telekomas* in 1998, however, is behind the dominant position of equity capital in that year.

Table 1.14 illustrates the sources of financing of FDI on the basis of the international investment position or stock of FDI. From 1997 to 1999 the share of other capital, which includes short and long-term loans, decreased by 20 percentage points while the share of equity capital and reinvested earnings increased correspondingly, but in 2000 the share of other capital slightly

Table 1.13. **Sources of financing of FDI flows to Lithuania during the period 1993-2000, US$ million**

	1993	1994	1995	1996	1997	1998	1999	2000
Foreign direct investment	30.18	31.30	72.56	152.43	354.51	925.52	486.47	378.87
Equity capital	30.18	31.30	65.37	127.79	217.63	772.12	371.66	181.36
Reinvested earnings			7.19	24.64	43.35	99.76	146.47	88.41
Other capital					93.53	53.64	–31.66	109.10

Source: Lithuanian balance of payments, Bank of Lithuania 2000.

increased. The information in Table 1.14 is not fully comparable to that in Table 1.13 even though both are based on balance of payments statistics, due to a different breakdown of the items. However, they both testify to an increased significance of equity capital as a source of financing for FDI over the last few years, partly explained by the large share of privatisation deals involved.

Table 1.14. **Sources of financing of FDI position in Lithuania during the period 1997-2000, US$ million**

	Total FDI US$ million	Equity capital and reinvested earnings, US$ million	Share of equity capital and reinvested earnings in total, per cent	Other capital, including short-term and long-term loans, US$ million	Share of other capital in total, per cent
1997	700.31	412.65	58.9	287.66	41.1
1998	1 040.61	666.74	64.1	373.87	35.9
1999	1 625.30	1 133.71	69.8	491.59	30.2
2000	2 334.31	1 809.49	77.5	524.82	22.5

Source: Lithuanian balance of payments, Bank of Lithuania 2000.

About half of FDI in Lithuania is related to the privatisation of state-owned companies. In order to acquire partial or full ownership of privatised companies it was first necessary to purchase shares giving title to voting rights in the acquired companies. Second, the Lithuanian Privatisation Fund has been able to record equity sales as direct income to the fund, whereas loan arrangements would not have allowed this.

Part II

Legal and Regulatory Framework for FDI

2.1. Introduction

According to different government agencies, right from the beginning FDI policy was given an important strategic role in structural transformation. In the early 1990s, the government's FDI policy relied on a wide range of incentives. Later on it changed to principles based on national treatment.

Consecutive Lithuanian governments have worked to establish the legal, institutional and regulatory framework of an independent, democratic state and have shown a solid commitment to a market economy. As a result, Lithuania has developed stable foundations as a business-friendly and opportunity-filled economy. The Fraser Institute (Canada)[13] recently rated Lithuania's economy as one of the most liberal in central Europe. According to the *Wall Street Journal Europe's* evaluation of twenty seven post-communist countries in January 2000, based on ten criteria,[14] Lithuania ranked among the first seven countries together with Poland, Hungary and the Czech Republic.

The Lithuanian Development Agency (LDA) was set up in 1995 for the promotion of investment. It supplies information, services and expertise tailored to investor's needs and since its establishment has sought various ways to make it easier for large strategic investors in particular to come into the country.

Under the Government of the Republic of Lithuania, the European Committee's responsibilities include co-ordinating the foreign direct investment promotion programme. It works as a mediator between investors and the authorities and deals particularly with legislative and administrative barriers to FDI. At the beginning of 1999, the Committee established a Council of foreign investors. It organises seminars on topical investment issues for the investors and government authorities. Concrete issues discussed so far include customs and related problems such as border clearance procedures.

In April 2000, two commissions were set up to implement further measures: the "Sunset Commission" identifies overlapping and redundant administrative functions, and the "Sunrise Commission" (with the full participation of the business community) speeds up the implementation of measures to streamline the functions and procedures governing business and economic matters.

The Lithuanian government continued its commitment of integration into western structures, and in December 1999 the EU gave Lithuania the go-ahead to start accession negotiations. In 2000, Lithuania began pre-accession negotiations on 16 of the 31 chapters of the *acquis communautaire*, 15 of which have been provisionally concluded. Negotiations on the remaining chapters are continuing in 2001, adding further impetus to structural reforms. The aim is to conclude the negotiations on all the chapters in 2002 and be ready to take up EU membership obligations by 2004.

In addition, on 24 April 2001, Parliament approved Lithuania's membership of the WTO, and on 31 May 2001 Lithuania became the organisation's 141st member. This will contribute to accelerating the process of Lithuania's integration into the world economy as well as harmonising the country's trade policy with internationally accepted standards.

2.2. Legal framework

The main laws relevant to foreign investment as a whole include the Law on Investment, the new Company Law, the new Civil Code, Competition Law, laws on the Protection of Intellectual and Industrial Property Rights, laws related to the fight against corruption and money laundering and the Bankruptcy Law.

a) Investment law

Lithuania set itself the goal of attracting foreign investment shortly after it regained its independence. The first law on foreign investment was adopted on 29 December 1990. Until summer 1999, the main law regulating foreign investment was the Law on Foreign Capital Investment in the Republic of Lithuania, approved on 13 June 1995. A new Investment Law was passed by the Lithuanian Parliament and came into force in July 1999.

The new Law stipulates the conditions for investment in Lithuania, the rights of investors and protection measures for all forms of investment. The Law defines different forms of investment and determines the direct investment concept. It does not regulate investment in enterprises involved in financial activities.

One of its most noticeable features is that it grants the government the right to approve transactions directly with strategic investors, for whom special investment and business conditions may be set. According to the Lithuanian authorities this right has been rarely used and only in cases of privatisation of shares where the State Property Fund and the Ministry for Economic Affairs were involved.

Repatriation of profits derived from earnings (both foreign and local currency) is not restricted. There are guaranteed rights to withdraw profits, royalties and interest in convertible currencies. Property is protected from expropriation. It can only be expropriated in extraordinary circumstances with prompt compensation at market value in convertible currency. The Law sets procedures for resolving investment disputes and dealing with cases of compensation.

The Law guarantees equal operating conditions to Lithuanian and foreign investors.[15] Foreign investment is permitted in all sectors except in the following areas:

– national security and defence;
– organisation of lotteries;
– purchase of agricultural land.

Licenses are required in financial and some specialised sectors such as pharmaceutical activities, and granted to foreign investors on equivalent conditions to those applicable to domestic investors.

b) *Company law*

The basic provisions of company law are laid down in the Law on Companies of 5 July 1994, the Law on the Register of Enterprises of 31 July 1990, the Law on Enterprises of 8 May 1990 and further amendments to the said laws.

The new Company Law was adopted by Parliament on 13 July 2000 and entered into force on 1 July 2001. The law simplifies requirements related to the content of statutes, excludes the form of "the company of special purpose" and abolishes special (golden) shares. It also contains more extensive provisions in respect of mergers and acquisitions, changes in the legal form of companies, and strengthens the protection of creditors' rights.

The new law eliminates certain shortcomings and puts greater emphasis on the rights of shareholders, particularly regarding their access to information. It includes provisions protecting a shareholder's right to transfer shares, to obtain relevant information about the company from the company itself or from the Enterprise Register, to participate and vote in general meetings of shareholders. It also provides for equitable treatment of all shareholders and a more detailed list of the responsibilities of the board and the supervision council of the company. It includes requirements for disclosure of the company's annual accounts, and ensures access to relevant information by users. The Law also includes the requirement for audit of annual accounts of public limited companies and large private limited companies conducted by an independent auditor.

c) *The Civil Code*

The new Civil Code was adopted by the Parliament on 18 July 2000. It provides detailed rules for registration of legal persons, including companies.

It lays down in detail the registration data and the documents to be submitted to the register, establishes preventive control of these documents, sets the requirement for the companies to file with the register of annual accounts, provides for the establishment of special official publication, etc. The Civil Code entered into force on 1 July 2001.

d) Competition law

A new Law on Competition was adopted by Parliament on 23 March 1999. The new Law, which replaced the 1992 law on Competition, improved the control of restrictions of competition in Lithuania. Supervised by the Competition Council, the Law is applied to all enterprises irrespective of ownership or type of economic activity across the entire territory of Lithuania. In the field of anti-trust, in December 1999 the Competition Council adopted secondary legislation in the form of block exemptions for a number of different categories of restrictive agreements (franchising agreements, exclusive distribution, exclusive purchasing). It also adopted resolutions on the definition of relevant markets and merger notifications in February and April 2000 respectively.

In the field of State aid, the Law on the control of State aid entered into force in June 2000 and seeks to prevent distortions to competition being created by State aid provided to individual operators in the market. In September 2000, Parliament amended the Law on Free Economic Zones to ensure that any aid measures granted through the zones would have to be subject to the provisions of the Law of the Control of State aid and also scrutinised individually by the Competition Council.

Lithuania has reported an exception to National Treatment with respect to state aid. This exception stipulates that foreign legal and natural persons in any sector of the economy are not allowed to receive state subsidies from the Lithuanian government. As one example, according to certain legal acts, state resources can be used to pay insurance premiums to the Lithuanian Export and Import Insurance Company (LEII), when the LEII concludes insurance contracts with undertakings that are producing and exporting goods and services of Lithuanian origin.

e) Protection of intellectual and industrial property rights

Lithuania joined the World Intellectual Property Organisation (WIPO) in 1992 and the Paris Convention in 1994. In 1996, the Parliament ratified the Bern Convention for the Protection of Literary and Artistic Works, and in 1997 it ratified the Protocol relating to the Madrid Agreement concerning the International Registration of Marks and the Trademark Law Treaty.

In April 2000, Parliament amended the Criminal Code and the Code of Criminal Procedure to provide for criminal liability for violation of intellectual and industrial property rights. These amendments are intended to improve police performance and judicial system efficiency in their fight against piracy and counterfeiting and also to improve co-operation among enforcement bodies, police and customs. In September 2000, the government adopted a strategy on the Enforcement of Copyright and related Rights, including an action plan until 2003.

In December 2000, Parliament adopted the Law on the Protection of Intellectual Property for Imported and Exported Goods.

f) Fight against corruption and money laundering

The main institution to combat fraud and corruption – the Special Investigation Service (established in February 1997) – has been reorganised in accordance with the provisions of the Law on Special Investigation Service, adopted by Parliament in May 2000. The Law establishes the Service as the main anti-corruption agency in Lithuania, independent and accountable to Parliament and the President. This Law is expected to improve administrative capacity against corruption.

Although a number of Laws have been adopted in this field[16] further progress is needed before the adoption of an overall national anti-corruption strategy can be finalised. According to the Lithuanian authorities, a Working Group is already in place and studying the modalities for co-ordinating the different relevant institutions.

According to the 2000 EU Commission's Progress Report, "implementation and enforcement of existing anti-corruption measures need to be further addressed. In particular, the capacity of the Special Investigation Service needs to be strengthened through staff training, and its ability to ensure co-ordination needs to be proved effectively".

Lithuania ratified the Council of Europe Criminal Law Convention on Corruption in January 2000. It has applied for accession to the OECD Convention and its request will be examined soon by the OECD Working Party on Bribery.

In November 1999, Parliament amended the Law on the Prevention of Money Laundering. In 2000, a new Unit on Economic Crime was established at the State Security Department. According to the above mentioned EU Commission's report "progress has been made in strengthening capacities to deal with money laundering at the national level, however, inter-agency co-operation does not function well".

g) *Bankruptcy law*

Largely due to the Russian crisis and declining state support, the number of bankruptcy procedures increased during the last two years (249 procedures in 1999 and 400 in 2000). The 400 bankruptcies account for about 0.25 per cent of all registered enterprises. The main reasons for the increasing backlog were administrative bottlenecks in dealing with the rapidly increasing number of bankruptcy cases and unsettled disputes about the settling of debts. In order to address this deficiency, the government has strengthened the Enterprise Bankruptcy Management Department set up at the Ministry for Economic Affairs. The Department prepared proposals for the revision of the laws on bankruptcy and restructuring as well as an action plan detailing the provisions necessary for a speedy implementation of the laws. Both bankruptcy and restructuring legislation were passed by the Parliament in March 2001.

h) *Administrative capacities and implementation*

In its 2000 Progress Report, the EU Commission drew attention to the fact that despite significant progress in structural reforms in areas including FDI, there is a need to strengthen institutional and administrative capacities if these reforms are to be successfully implemented.

While their first concern was to put in place the legal framework necessary to support the structural reforms bringing them into line with the *acquis communautaire*, the Lithuanian authorities recognise that there have been some failures in implementing these policies and draw attention to the fact that their efforts in the future will concentrate on the issues of strengthening administrative capacity and implementation. The main reasons cited for difficulties in this field are the high cost of financing the institutional setting, *i.e.* in the case of environmental safety, which is a problem not only for Lithuania but also for all the other transition countries.

2.3. General requirements

a) *Registration requirements*

Requirements for the registration of an enterprise are the same irrespective of the nationality of ownership, except that a foreign investor would need to submit certificates of incorporation in the home country for legal persons, documentation on the financial condition/status, and verification of the origin of foreign capital.

Enterprises must register at the Enterprise Register of the municipality where they operate. The Ministry for Economic Affairs is in charge of centralising this data. The new Civil Code entering into force on 1st July 2001 sets new rules on registration. Enterprises will have to register only in the central Enterprise register without having to go through the municipalities.

b) *Ownership rights to land*

On 20 June 1996, Article 47 of the Constitution of the Republic of Lithuania was supplemented with Part 2, which provides that foreign entities registered and performing business activity in Lithuania, owned under effective control rights by foreign enterprises or persons, and foreign legal entities having established, for business purposes, affiliates or branches without the status of a legal person in Lithuania, and Lithuanian entities (municipalities, Lithuanian enterprises having the rights of legal persons, etc) are entitled to acquire the non-agricultural land plots necessary for the operation of premises and structures intended for their direct business activities, as well as land plots for the construction and operation of such premises and structures, provided the following conditions are met:

a) The foreign enterprise is registered in a member state of the European Union (EU), or in a state which is a party to the European Agreement with the EU and the member states thereof, or in a state which, at the time of the adoption of the Constitutional Law, was a member of the Organisation for Economic Co-operation and Development (OECD) or a member of the North Atlantic Treaty Organisation (NATO).

b) The foreign state of registration provides equal rights to Lithuanian entities, *i.e.* the rights are applied on a reciprocal basis.

c) The foreign enterprise has its main place of business in the state of registration for at least five years.

Entities complying with the above criteria may acquire land plots owned by private persons by way of purchase, exchange or other means according to the Laws;[17] state- or municipal-owned land plots may be acquired (only where ownership is possible) by way of public sale and purchase or by way of purchase (without an auction or tender) if the land plot is leased from the state, and buildings owned by the lessee are located on it.

In order to ensure full compatibility with the European Union *acquis* concerning the acquisition of real estate and free movement of capital, on 21 February 2001 the Lithuanian government decided, in line with Lithuania's European and transatlantic integration criteria, to abolish the last two restrictions (a and b) on the sale of land through appropriate constitutional amendments to enter into force not later than 1 January, 2004.[18]

On 19 January 2001, Lithuanian parliamentary political parties reached an agreement on the most important steps leading to Lithuania's EU membership in the first wave of enlargement. This agreement includes initiation of amendments to Article 47 of the Constitution of Lithuania on the sale of land for agricultural use to foreigners. On 23 January 2001, Parliament adopted a resolution on priority laws for its extraordinary and spring sessions in which this issue was listed as a top priority. On 31 January 2001, a special Constitutional Amendments Commission was established in the Parliament to draft an appropriate constitutional solution.

There are no restrictions on the ownership or purchase of buildings in Lithuania by any Lithuanian or foreign entities. The right of ownership of buildings is separated from the right of ownership of land. The ownership right to buildings itself does not create the ownership right to the land on which these buildings are located.

c) Movement of key personnel

Foreign nationals and stateless persons who are not permanent residents of Lithuania may work temporarily in Lithuania under an employment contract or agreement, provided they have a *work permit* issued by the Lithuanian Labour Exchange under the Ministry of Social Protection and Labour. They also require a *special visa* issued by Lithuanian diplomatic missions or consular offices abroad, after permission is obtained from the Migration Department under the Ministry of Internal Affairs of the Republic of Lithuania. Employers may invite foreigners to Lithuania for temporary employment under an employment contract or a contract between a foreign company and a Lithuanian company only if the employer has a *license* to do so.

The law includes a list of exemptions for persons employed in certain situations. Exempted foreigners require *only a special visa*. Managing directors, or authorised representatives of managing directors of foreign companies[19] which have established economic or trade relations with a company established in Lithuania do not require work permits or license requirements, nor do managing directors, or authorised representatives of managing directors of companies with capital of foreign origin. The duration of temporary stay of transferee managers and executives is initially for three years, which can be extended for as long as the enterprise exists. Also exempt are specialists who come to start up or maintain equipment acquired abroad or to train employees to work with it; consultants who come to work for a period of no longer than 3 months; or persons who are improving their educational or professional qualifications at educational and training institutions in Lithuania.

In order to ensure free movement of persons and services, the Ministry of Internal Affairs has drafted the Law on the Amendment and Supplement to the Law on Legal Status of Foreigners, which is currently at the stage of inter-ministerial co-ordination. When this law comes into force, work permit and license requirements will be waived for citizens of EU member states who intend to work in Lithuania under an employment contract.

d) *Branches*

According to the "Law on the amendments and supplements to Articles 1, 2, 12, 24 of Enterprise Law supplemented by Article no. 25" adopted on December 7, 1999 (No. VIII-1465), foreign enterprises can establish branches and representative offices in Lithuania. The number of branches and representative offices is not limited. The branch of a foreign enterprise is a subdivision of a foreign enterprise having its residence in Lithuania which can carry out commercial economic activity, make transactions and undertake liabilities only according to the authority delegated to it by its established enterprise. The branch is not a separate legal person. Branches of foreign companies with legal personality were possible until 1995. In 1995-1996, they were converted into subsidiaries or closed.

e) *Special shares* (*golden shares*)

Article 79 of the new Company Law which entered into force on 1 July 2001 states that no special status shall be applied to a share or shares owned by the state or municipality by the right of ownership, unless the application of such status is announced in the privatisation programme at commencement. It is not clear whether this status could be applied to new privatisations.

Currently, special shares status exists in three companies that have already been privatised, namely JSC *Sportine Aviacija*, JSC *Geonafta* and JSC *Lietuvos Telecomas*. According to the sale contracts signed by the above-mentioned companies and private investors, validity of the special shares will expire respectively: JSC *Lietuvos Telecomas* – on 1 January 2003, *Sportine Aviacija* on 5 February 2004 and *Geonafta* on 18 October 2005. The "special share" status granted to one share of JSC *Lietuvos Juru Laivininkyste* (LISCO) was annulled at the meeting of the Company's shareholders. The government therefore retains no special shares status in the recently privatised LISCO.

2.4. Sectoral measures

a) *Financial sector*

Lithuania does not maintain any specific measures limiting market access or national treatment in the financial services sector.

There are three supervisory authorities in the financial sector: *i*) the Bank of Lithuania which supervises the credit institutions; *ii*) the State Insurance Supervisory Authority which grants licences and performs supervision of insurance activity and *iii*) the Lithuanian Securities Commission which grants licences and supervises the operations of securities brokers, investment management and consulting companies and other participants in the capital market, and registers issues of securities; it will also supervise the newly created private pension funds.

Lithuania does not envisage establishing a joint supervisory authority in the medium term. However, co-operation between the authorities responsible for the above supervisory bodies is intensifying. On 22 December 2000, the three supervisory authorities under the Ministry of Finance signed an Agreement on Co-operation in Exercising Supervision of Credit and Financial Institutions. This will help to co-ordinate the actions of these three authorities and facilitate the exchange of information on the main changes in the activities of supervised institutions.

i) *Banking*

According to the Law on Commercial Banks of 21 December 1994, foreign banks can establish subsidiaries; acquire shares of a new or operating bank (acquisition of a block of shares – 10 per cent or more – in an operating bank required the consent of the Bank of Lithuania); and establish branches and representative offices, subject to conditions equivalent to those applicable to domestic investors. An individual acquiring 10 per cent or more of the shares in a bank without permission from the Bank of Lithuania would not be entitled to vote at the shareholders' general meeting. Permission from the Bank of Lithuania is required for foreign banks to establish bank branches and representative offices. Minimum capital requirements are the same for domestic and foreign banks; as of 1 January 1998, the minimum has been set at ECU 5 million (in litas equivalent).

The Lithuanian banking sector is small. At present, it consists of ten commercial, one special purpose bank – *Turto Bankas* (Asset Management Bank), which does not keep current deposits – three foreign bank branches and five representative offices of foreign banks. The number of commercial banks recently increased when the Bank of Lithuania expanded the limited banking license of one specialised bank, the *Development Bank*, to a full commercial license.

At the end of March 2000, there were two foreign bank subsidiaries operating in Lithuania – the Swedish owned Estonian joint-stock company *Hansabank*, which received its licence from the Bank of Lithuania in May 1999, and the joint-stock company *Industrijos Bankas*, which was acquired by the Latvian Parex Bank in March 2000. Two other foreign banks, the Polish *Kredit Bank* S.A. and the French Bank *Société Générale* were also carrying out banking operations in Lithuania through their Vilnius branch offices. *Nord*/LB opened a branch in Vilnius during 1999. At the beginning of 2000 Merita Bank purchased the former branch of *Société Générale* and a branch of the German bank *Vereins und Westbank* opened in Vilnius in April 2001.

At the end of 1998, two state-owned banks, the *Savings Bank* and the *Agricultural Bank*, held 50 per cent of total bank deposits. *Vilniaus Bankas* – owned by Skandinavska Enskilda Banken (SEB) of Sweden – and *Bank Hermis* are the leading banking institutions among the private banks. These two banks doubled their share in the total amount of deposits from 15 per cent in 1996 to 33 per cent in 1998. The other banks are small and provide services in specialised areas. Foreign ownership exceeds 80 per cent of the share capital in the two leading private banks and both of them are major lenders to the corporate sector. They were about to merge in 1998, in anticipation of growing competition as foreign banks started moving into the Lithuanian market. The merger was not completed until July 1999, however, when *Vilniaus Bankas* finally submitted an application to the Bank of Lithuania requesting permission to acquire a block of *Bank Hermis* shares, after protracted negotiations between the two banks. In September 1999 the Bank of Lithuania approved the merger by allowing *Vilniaus Bankas* to acquire and control more than two-thirds of Bank Hermis shares. The resulting banking institution holds about 41 per cent of total bank assets in Lithuania and 44 per cent of total loans.

- Privatisation of banks

Negotiations for the privatisation of the remaining two state-owned banks are quite advanced. Privatisation transaction of the *Lithuanian Savings Bank* (LTB) with *Hansabank* was signed in April 2001. Negotiations were complicated by the announcement by Swedbank, the owner of Hansabank, of a merger plan with SEB Bank, the owner of *Vilniaus Bankas* (VB).[20] Nevertheless, the authorities decided to go ahead with the sale of the *Savings Bank*, on the condition that, if the merger occurs, one of the two Lithuanian banks will have to be sold. A new tender for hiring advisors to privatise the *Agricultural Bank* was announced in February 2001. The selected advisor was to be approved and to start working in May 2001. It is reported that Germany's *Nord* LB has expressed an interest. The Lithuanian government does not retain any golden share in the state bank.

ii) *Insurance*

The new Law on Insurance was adopted on 31 March 2000. The Law enables foreign insurance companies to establish wholly-owned companies, joint-ventures, subsidiaries or branches, on conditions equivalent to those applicable to domestic investors, provided the foreign insurance company obtains a licence from the Supervisory Authority Board and has permission from its own government to conduct insurance activities in its own country. It should also submit a certificate from its own supervisory authority that authorises Lithuanian insurance companies to engage in the insurance business in the country where the foreign insurance company has its headquarters, in cases where the foreign country is not a member of the WTO. Non-established financial institutions are permitted to deliver transportation insurance (maritime and aviation) and reinsurance services across the border. Insurance inter-mediation on behalf of foreign insurance companies is allowed for intermediaries registered in Lithuania.

As at 1 January 2001, insurance services were provided by 33 companies, of which 24 were non-life insurance companies, six life insurance companies and three credit insurance companies. The number of companies with foreign capital participation and foreign insurance companies active in Lithuania has reached eleven. Foreign shareholders owned 37.25 per cent of the total equity of insurance companies. The State Insurance Company (*Lietuvos Draudimas*) had held exclusive rights to issue all types of mandatory insurance and pensions insurance. In May 1999, the government sold its 70 per cent stake in the company to Danish Codan Insurance for LTL 100 million through an international tender. Codan, later increased its holding in *Lietuvos Draudimas* to 78 per cent. According to the EBRD Transition Report 2001, *Lietuvos Draudimas* accounts for 83 per cent of all life insurance premiums in the country. Early in 2001 the credit guarantee company, Hermes Kreditversicherung (Germany), bought 49 per cent of the credit arm of Lietuvos Draudimas.

iii) Securities market

The main institutions shaping the Lithuanian capital markets are the Lithuanian Securities Commission (LSC), the National Stock Exchange (NSEL) and the Lithuanian Central Securities Depository (LCSD), which are regulated by the Law on Public Trading in Securities adopted in 1996. According to this Law, only financial brokerage firms and departments of commercial banks with licenses from the LSC to operate in securities can act as intermediaries in public trading. National Treatment applies to foreign investors applying for licenses. The regulatory framework improved as a result of amendments to the Law in 1998. The amendments stipulate more comprehensive disclosure requirements for listed companies, provide sanctions against insider trading, and enhance the supervisory and sanctioning powers of the LSC.

The National Stock Exchange[21] is a corporation with 246 shareholders and 44 per cent of capital held by the Ministry of Finance. In 1998, the NSEL, a non-profit organisation was reorganised into a public company and joined the International Federation of Stock Exchanges. In 2000 it became the corresponding exchange of the Federation of European Securities Exchanges. Total market capitalisation at the end of 2000 amounted to LTL 13.7 million (Euro 3.7 million).

iv) Pension scheme

The New Pension Law took effect in January 1995 and is applicable to those retiring after this date. The Law is based on the principle of a contribution defined pay-as-you-go (PAYG) system and provides for a gradual increase in the pension age and the contribution period, as well as the elimination of the Soviet-type early retirement privileged groups.

To strengthen the incentives for retirement savings and promote the development of financial markets, Parliament instructed the government to prepare a plan for pension reform in 2000.[22] A special Governmental Committee prepared a *White Book* outlining various reform options. The government is considering a number of reform options involving the setting-up of a three-pillar pension system by 2003. The legislation for the voluntary third pillar has already passed, and the government is preparing relevant legislation to set up a mandatory privately funded pension scheme (second pillar). The current plans are to limit the diversion of the payroll tax to the second pillar to 5 to 7 points while making the second pillar mandatory for only the younger cohort of the population. It is envisaged that the reform-related deficit of the Social Insurance Fund, ranging from 1.0 to 1.5 per cent of GDP per year at an early stage depending on options, will be financed by privatisation proceeds during the first three to four years and subsequently by transfers from the state budget. Privatisation proceeds earmarked for pension reform would be accumulated in the Reserve Stabilisation Fund, which would be set up in accordance with an amendment to the Law on Privatisation. The Lithuanian authorities have reported that no restrictions are envisaged with respect to foreign participation in the newly founded private pension funds.

b) *Non-financial sectors*

Lithuania has reported the following sectoral restrictions, which constitute exceptions to National Treatment:

– Audio-visual sector
– Air transport
– Maritime transport
– Road transport
– Fisheries
– Gambling and betting
– Tourism services
– Health Services

i) *Energy*

There are no exceptions to National Treatment in the Energy sector.

The law regulating the reorganisation of the energy sector joint stock companies, *Butinges Nafta*, *Mazeikiu Nafta* and *Naftotieki*, was adopted on 29 September 1998. It established the procedures for the reorganisation of these enterprises and stipulated that the privatisation of the state shareholding in *Mazeikiu Nafta*, the largest oil refinery complex in the Baltic region, would follow the provisions of the Law on the Privatisation of State and Municipal Property after a new issue of the company shares had been acquired by a strategic investor. In June 1999, the Parliament adopted amendments to the law governing the status of *Mazeikiu Nafta* (MN) so that a strategic investor could acquire a controlling stake of up to 66 per cent.

The sale of *Mazeikiu Nafta*, which was concluded in late October 1999 after almost two years of negotiations, was the largest privatisation in the energy sector. United States-based Williams International bought a 33 per cent stake in the company for US$150 million (US$75 million in cash to the company and US$75 million by a promissory note payable in 2002). Apart from the US$150 million payment by Williams International, the final terms involved a new government loan of US$125 million to MN (in addition to an existing US$177 million loan) and a government guarantee for a US$75 million loan from Williams to MN. The government also promised guarantees for loans required for the capital expenditure programme. In addition, special benefits (concessions on taxes and railway tariffs and import tariff protection) were promised to the company. MN reported losses but almost doubled its turnover in 2000.

In October 2000 Lithuania's constitutional court objected to parts of the law approving the sale and giving Williams operational control of the refinery.[23] The court's objections concerned the law's stipulation obliging the government to take on unspecified liabilities, and the removal of minority shareholders' right to sell their stock to whoever they want. The government has asked experts of UK law to review the deal to find out whether changes to the original contract, which was drafted according to UK law, are now needed.

There have been certain concerns about Russian capital participation in Lithuania. These are mainly political and have been particularly intense in relation to strategic sectors such as energy, oil and gas. In those sectors, however, Russian investors are needed to ensure the availability of relatively cheap raw materials. When these industries are restructured and production costs reduced, the situation might change. In 1999, for example, a major Russian oil company, Lukoil, was interested in acquiring a stake in *Mazeikiu Nafta*. A few times during that year, Russia cut crude oil supplies to the refinery in protest against the company being sold to a United States investor. *Mazeikiu Nafta*, which alone accounts for 10 per cent of GDP and 20 per cent of government tax revenues, is still encountering difficulties in reaching a long-term supply agreement with Russian oil companies. Without such an agreement, the company is operating below capacity and cannot proceed with modernisation and expansion plans for which additional government guarantees may again be required.

The Electricity Law was adopted by Parliament in July 2000. Full market opening is forecast for the end of the decade. The reform and privatisation of the main Lithuanian electricity utility *Lietuvos Energija* (LE) has started. In May 2000, a law on the restructuring of LE was passed to separate its production, transmission and distribution functions. LE will retain the transmission network. In March 2001 the government selected a Western consortium as advisor for the privatisation of LE.

A Law on Natural Gas was adopted by Parliament in October 2000. Detailed market opening plans remain to be defined by government decree. In February 2000, the government approved the plan for the restructuring and privatisation of *Lietuvos Dujos* (Lithuanian Gas, LD). This process included the splitting off of its liquid gas and gas equipment business. In 2001 LD was included on the list of companies to be privatised, and in March of that year a consortium was appointed as privatisation advisor.

In the nuclear energy field, Lithuania operates the Ignalina Nuclear Power Plant (INPP). Against a still sensitive domestic political background, the Lithuanian government set out to implement the commitment it made in October 1999 to close the Ignalina NPP, beginning with the closure of Unit 1 by 2005.

ii) *Audio-visual sector*

According to the Council of Europe Convention on Trans-frontier Television, only audio-visual production of European origin that meets certain linguistic and origin criteria receives national treatment in access to broadcasting or similar forms of transmission. This also applies to production and distribution of cinematography works and television programmes. These measures are also based upon government-to-government framework agreements on the co-production of audio-visual works, which confer national treatment to audio-visual works covered by these agreements, in particular in relation to distribution and access to funding.

According to the Law on the Provision of Information to the Public (October 2000), the share of LNRT in the programmes prepared by independent producers is limited by the LNRT Council, and preferential treatment of audio-visual production is also awarded to audio-visual production of European origin.

iii) *Transport*

- Air Transport

Article 5.3 of the Law on Civil Aviation restricts the use of planes registered in foreign countries. These planes may be used in Lithuania *i)* on the basis of reciprocity only or *ii)* when a licence is issued by the Lithuanian government.

In addition, the air carrier must have its principal place of business in Lithuania, be majority-owned and effectively controlled by the state of Lithuania and/or nationals of Lithuania (with Lithuanian citizenship). Exemptions may be granted in some cases, according to bilateral agreements.

Cabotage is reserved to national airlines.

100 per cent of Lithuanian Airlines is managed by the State Property Fund. The privatisation of the company is planned for 2002, and the selection of advisors has already begun.

- Maritime transport

According to the Law on Trade Navigation and the Inland Waterway Code (1996) only ships and vessels flying the Lithuanian state flag (nationally controlled) and registered in Lithuania were allowed to provide maritime waterway services. In August 2000, however, Parliament adopted an Amendment and Supplement to the 1996 Code that allows European vessels to access Lithuanian inland waterways.

DFDS Tor Line A/S (Denmark) has acquired 76.36 per cent of the Lithuanian Shipping Company for a total of LTL 190.4 million. The new owners committed themselves to investing LTL 240 million in the company.

- Road transport

According to the Road Transport Code (1996), the transport of international goods and passengers by vehicles registered in a foreign country, for either hire or reward, to, from, or in transit, is subject to authorisation by Lithuanian authorities, if not otherwise agreed in bilateral or multilateral agreements.

Cabotage is reserved to national hauliers, in the transport of goods and passengers, if not otherwise agreed in bilateral or multilateral agreements.

iv) Fisheries

Access to Lithuanian waters is authorised only for vessels sailing under the Lithuanian state flag and registered in Lithuania or for foreign vessels on the basis of bilateral agreements.

v) Gambling and betting

It is prohibited for foreign investors to organise lotteries in Lithuania.

vi) Tourism services

Tourist guides and agencies from foreign countries are only allowed to operate in Lithuania in accordance with bilateral agreements, or contracts on tourist guide services assistance (on a reciprocal basis).

vii) Health services

Entry into the health-service market is subject to authorisation by the Lithuanian health authorities. According to the Law on Medical Practices of Physicians, foreign private establishments and their consumers are not entitled to receive financial support from public resources, including the use of public medical insurance funds.

2.5. Privatisation

a) Voucher and cash stages of Lithuanian privatisation

Two stages can be distinguished in the privatisation process. The first was the privatisation of a distributive character involving the privatisation of state property for vouchers. The second stage is commercial and ongoing, as some major privatisations still have to take place.

The ***first stage of privatisation*** took place from the beginning of 1991 until mid-1995. Its characteristic feature was the fast privatisation of state property for vouchers. During this stage, privatisation was regulated by the Law on Initial Privatisation of State Property, adopted in February 1991. The process was also based on other relevant laws of the Republic of Lithuania and resolutions of the Lithuanian government regulating certain aspects of privatisation.

During the first stage of privatisation only the citizens of Lithuania and special joint stock companies had the right to purchase industrial state property for vouchers, but both Lithuanian and foreign companies and citizens had the right to purchase property with convertible currency. In practice, this stage of privatisation resulted in insider-dominated ownership and limited foreign participation.

The total number of enterprises participating in the privatisation process varied during the first phase. At the beginning of the process 3 500 enterprises were singled out for privatisation. During the first phase this number increased to 8 050. These companies represented approximately 70 per cent of all enterprise assets in terms of book value. By the end of the first phase, 5 714 enterprises or 88 per cent of the total assets offered for sale were privatised. 2 928 large and medium-sized enterprises were privatised through the public subscription of shares, 2 726 small companies were sold by auction, 48 enterprises for hard currency and 12 companies were sold through tenders on the basis of the best business plan submitted.

During the first stage of privatisation, privatised state-owned capital amounted to LTL 3.9 billion, or approximately US$975 million, and accounted for about 30 per cent of the total value of state assets. State assets worth LTL 368 million (11 per cent) were privatised through tenders on the basis of the best business plan submitted and assets worth LTL 79 million (2.4 per cent) were privatised by auction. The remaining state-owned property was valued at about LTL 9.9 billion or approximately US$2.5 billion. Thirty-one per cent of all state assets in industry, 60 per cent in trade, 6 per cent in transport and 4 per cent in utilities were transferred into private ownership during the first phase. It is estimated that around 45 per cent of assets were sold against the vouchers that were originally distributed to all adult citizens, and 30 per cent were sold for cash. Cumulative state privatisation revenues amounted to about LTL 230 million (US$58 million) by the end of 1995.

The ***second stage of privatisation*** began in July 1995 with the passing of a new Law on Privatisation of State and Municipal Property. This law legalised commercial privatisation, set more diverse and flexible methods of privatisation and equal conditions for both foreign and Lithuanian investors in the privatisation of state property. The amended Law on Privatisation of State and Municipal Property in the Republic of Lithuania of 4 November 1997, came into force on 1 December that year. It legalised the State Property Fund as the main privatisation institution (in place of the Privatisation Agency) and the Municipal Property Funds. The State Property Fund operates as administrator of the privatisation assets and privatises state property held by ownership right. The law specifies more precisely the functions of the privatisation institutions, the procedures for privatisation operations, and the methods used. This second stage is characterised by major infrastructure privatisations and thus a greater inflow of foreign capital into the economy.

In 1996 the government approved a new list of companies to be privatised. It comprised 454 entities with state capital of LTL 835 million. That same year, 47 entities were privatised for LTL 3.2 million, with state capital privatised amounting to LTL 48 million of all state capital scheduled for privatisation. In 1997, 272 entities were privatised for an amount of LTL 80.9 million.

Through its resolution of 11 February 1997, the Lithuanian government proposed the privatisation of large and state-controlled enterprises of national importance in the transport, energy and telecommunications sectors, by international tender. These included the following public limited companies:

– Lithuanian Telecom ("Lietuvos Telekomas")

– Klaipeda Stevedore Company ("Klaipedos Juru Kroviniu Kompanija")

– Lithuanian Shipping Company ("Lietuvos Juru Laivininkyste")

– Lithuanian Airlines ("Lietuvos Avialinijos")

– Lithuanian Aviacompany ("Aviakompanija Lietuva", subsidiary airline of the above)

– Lithuanian Fuel Company ("Lietuvos Kuras")

– Mazeikiai Oil Refinery ("Mazeikiu Nafta")

– Hotel Lietuva ("Lietuva")

– Ship Repair Yard ("Vakaru Laivu Remontas"), etc.

Later on, some enterprises, for example *Hotel Lietuva* ("Lietuva"), "*Laivite*", *Kaunas Aviation Company* ("Kaunos Aviacijos Gamykla"), were excluded from the list to be privatised according to the usual procedure. This list was compiled in order to initiate the privatisation of major infrastructure enterprises. Later the resolution was amended. Non-strategic companies were therefore excluded from the above list and it was decided that they be privatised by applying the usual privatisation procedures. The state-owned shareholding still remains in Lithuanian Airlines and Mazeikiai Oil. The Government of Lithuania intends to schedule the privatisation of companies that were not on the above list.

With commercial privatisation procedures in place, the largest contract in Lithuania so far has been the transfer of 60 per cent of the shares of *Lietuvos Telekomas* (Lithuanian Telecom) to the strategic investor – Consortium *Amber Teleholdings* comprised of the Swedish company *Telia* and the Finnish company *Sonera* – for US$510 million in cash and an investment commitment of US$221 million during the subsequent two years. In 1998, 344 entities were sold for LTL 2.33 billion. As of 31 December 1999, the second stage of privatisation had already witnessed the sale of 1 364 privatisations for LTL 2.98 billion. As of 31 December 1999, 37.4 per cent or LTL 2 565.6 million of the total FDI stock of LTL 6 852 million originated from privatised enterprise purchases, and investment guarantees accounted for additional FDI volume of LTL 1 563.4 million, (according to data on concluded privatisation transactions). In 2000, 947 entities were sold for LTL 906.8 million. During January-April 2001, 249 privatisation objects were sold for LTL 383.1 million.

b) *Status of privatisation*

The voucher phase of Lithuanian privatisation came to an end in 1995 and cash privatisation has been dominant since 1996. In 1998, privatisation revenues accounted for 5.8 per cent of GDP, which was five times higher than the previous year. National Treatment applied to all phases of privatisation, including the first phase, through primary trading.

During 1999, privatisation revenues accounted for about 1.3 per cent of GDP. In March 1999, a 90 per cent stake in the *Klaipeda Stevedore Company* (KLASCO) was sold to a Lithuanian-German consortium for LTL 200 million (US$50 million). In May, 70 per cent of the state insurance company *Lietuvos Draudimas* was sold to a Danish company for LTL 100 million (US$25 million) through an international tender.

Currently, there are more than 3 000 entities on the privatisation list owned by the state, whose book value amounts to LTL 2.06 billion.[24] Also on the list are share-holdings in more than 150 enterprises controlled by the state, with the nominal value of the shares owned by the state amounting to LTL 1.52 billion. In addition, there are more than 1800 real estate entities on the list. While it remains unclear how many firms on the list will be eventually bought by foreign investors, it is certain that several large state-owned enterprises that are to be privatised in the next one or two years should attract a large amount of FDI (Lithuanian Gas, Lithuanian Power, Agricultural Bank, Lithuanian Airlines and Lithuanian Railways).

At the moment, the state holds a golden share in three privatised companies – Lithuanian Telecom (until January 1, 2003), oil exploitation and exploration company Geonafta (until 18 September, 2005) and Aviation company Sportine Aviacijia (until 5 February, 2004).

Following privatisation contracts, investors are obliged to fulfil their investment proposals and retain a certain number of jobs in the privatised company. The State Property Fund monitors privatisation transactions. Restrictions on the ability of investors to sell their stakes are usually included in privatisation contracts. The new owners have to revive and continue the privatised company's activities, to find new markets and to bring know-how into the company. This applies to both domestic and foreign investors.

The four tables below present recent details on privatisation in Lithuania. The information is provided by the State Property Fund.

Table 2.1. **Capital of privatised entities (in thousand LTL) by economic sector as of 30 April 2001**

	1996	1997	1998	1999	2000	2001
Total	4 802	54 665	846 657	389 917	590 028	612 765
Telecommunications	66	5	488 948	40 615	203 734	8
Industry	355	24 450	255 148	51 781	172 190	38 690
Transport	0	2 648	37 181	118 106	10 715	403 084
Construction	246	887	2 870	17 320	69 188	1 121
Trade	704	4 696	7 123	117 973	36 155	11 345
Public utilities	0	2 852	18 864	4 010	5 993	0
Services	862	469	683	482	101	1 527
Real Estate	2 569	18 402	31 189	18 171	37 308	2 763
Other	0	256	4 651	21 459	54 644	154 227

Table 2.2. **Number of privatised entities by method as of 31 May 2001**

	Direct negotiations	Leasing with an option to purchase	Public tender	Public subscription of shares	Public auction	Total
2001	0	0	7	13	309	329
2000	0	13	22	26	878	939
1999	3	4	17	30	640	697
1998	1	2	16	6	319	344
1997	0	7	1	0	267	275
1996	0	1	0	0	46	47
Up to 1996	4	14	28	29	1 182	1 257

Figure 2.1. **Privatised entities by privatisation methods as of 31 May 2001**

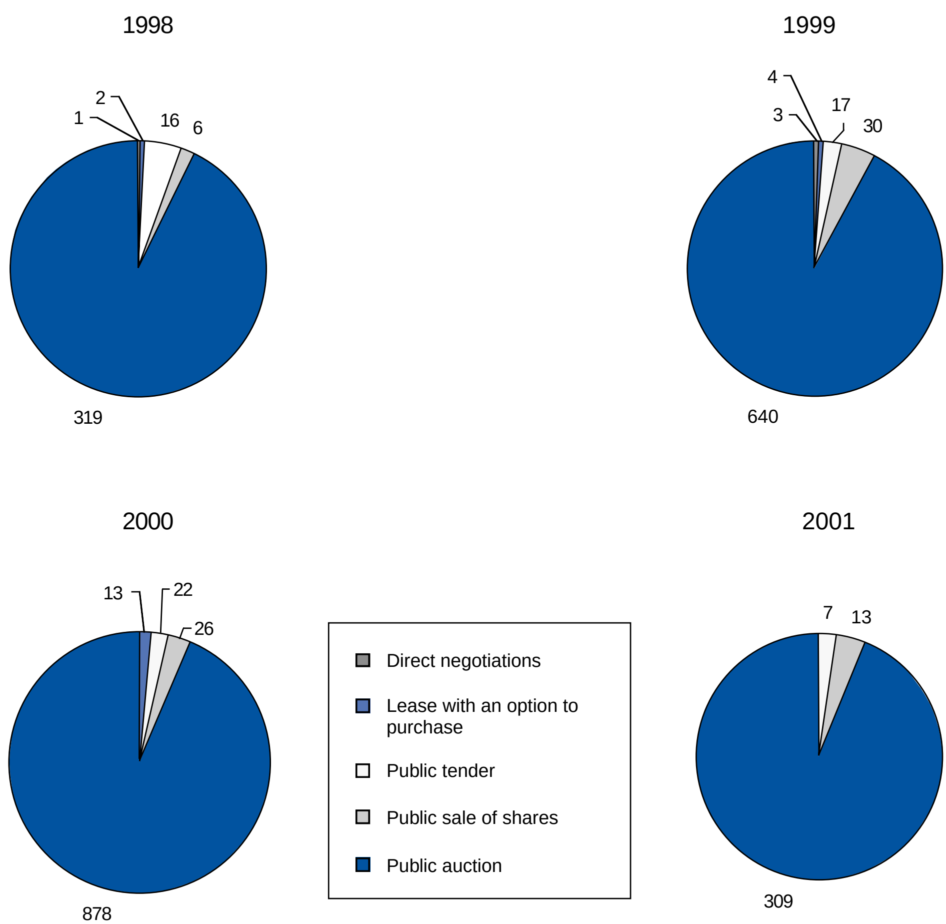


Table 2.3. **Concluded transactions by privatisation method, thousand LTL as of 30 April 2001**

	Leasing with an option to purchase	Public subscription of shares	Public auction	Public tender	Direct negotiation	Total
2001	0	12 827	28 237	342 030	0	383 094
2000	4 551	648 397	104 856	148 998	–	906 802
1999	233	53 132	92 518	27 608	316 433	489 924
1998	107	1 733	72 130	214 875	2 040 000	2 328 845
1997	705	0	80 809	852	0	82 366
1996	29	0	3 204	0	0	3 233

Table 2.4. **Number of privatised entities by economic sectors as of 30 April 2001**

	1996	1997	1998	1999	2000	2001
Industry	5	31	39	67	98	39
Transport	1	6	8	9	12	7
Telecommunications	1	1	1	2	2	1
Construction	7	22	14	27	45	15
Trade	12	81	91	167	170	59
Public utilities	0	1	3	13	5	1
Services	3	7	11	17	12	9
Real Estate	18	116	158	367	574	108
Other	0	7	19	33	32	10

Table 2.5. **Most recent sales of Lithuanian companies as of June 2001**

Company	Investor	Share of capital acquired %	Activities	Sold for	Additional investment obligations
1. Lithuanian Development Bank	Sampo, Finnish Insurance company	59.26	Banking	23.9 mln LTL (5.97 mln USD)	
2. Geonafta	Consortium "Naftos Gavyba" Lithuania/Poland/ Switzerland	80.94	Oil exploration and exploitation	52 mln. LtL (13 mln USD)	56 mln LtL (14 mln USD)
3. Lithuanian Savings Bank	Hansapank Estonia	90.73	Banking	150 mln LtL (37.5 mln USD)	150 mln LtL (37.5 mln USD)
4. Lithuanian Shipping Company (LISCO)	DFDS Tor Line A/S Denmark	76.36	Shipping	190.4 mln LtL (47.6 mln USD)	240 mln LtL (60 mln USD)

Table 2.6. **Lithuanian strategic companies scheduled for sale 2001-2002**

	Company	Activities	Current Government's Share of Capital %
1.	Lithuanian Agricultural Bank	Banking	86.04
2.	Lithuanian Gas	Gas Exploitation	92.36
3.	Lithuanian Airlines	Air Transport	100
4.	Lithuanian Energy	Electric energy generation, transmission and distribution	86.25
5.	Klaipeda Transport Fleet	Shipping	80.89

2.6. Monopolies and concessions

a) *Monopolies*

In accordance with special laws, only state-owned enterprises and special purpose companies (public and private) have the right to engage in the following activities, provided that they have licences issued in the manner established by the Lithuanian government:

– Production of alcohol products in which the volume of ethyl alcohol exceeds 22°; by an Amendment to the Law on Alcohol control, this monopoly status will be abolished in 2003.

– Issuance of currency, stamps and minting coins.

The *State Post Office* has exclusive rights related to the collection and delivery of letters, postcards and printed matter, installation of letter collection boxes and issuance of postage stamps. It does not, however, have exclusive rights on courier services.

In the area of telecommunication markets, the operator *Lietuvos Telecomas* enjoys a *de jure* monopoly regime until 31 December 2002 for providing fixed-line telephone services. In June 2000, the State Privatisation Fund sold another 25 per cent of the shares of the company, thereby reducing the state-owned shares to 10 per cent. All the other telephone services have been liberalised.

b) *Concessions*

The concept of concession, objects of concessions and spheres of business activity for which concessions may be granted are defined in the Law on Concessions (17 February 1998). The law describes the procedure for granting concessions, the rights and duties of government institutions and those of enterprises, both Lithuanian and foreign, which operate on the basis of concession contracts.

Under this law, the following objects may be subject to concessions:

– Objects to which, according to the Constitution of the Republic of Lithuania, the State of Lithuania has exclusive rights, e.g. the continental shelf and the economic zone in the Baltic Sea.
– Objects which are in the exclusive ownership of the State of Lithuania, *i.e.* the earth's entrails, internal waters, roads, historical, archaeological and cultural objects of national significance.
– State-owned enterprises of the Republic of Lithuania which are not to be privatised within the terms of the concession.
– Buildings, structures, installations, transport and other facilities which are not to be privatised within the terms of the concession.
– Facilities and enterprises owned by municipalities which are not to be privatised within the terms of the concession.
– State-owned land shall not be the object of concessions. Where the concession is related to the use of state-owned or private land, the competition for the concession contract may only be announced when the grantor of the concession is in the position to guarantee the drawing up of a land lease on the terms set in the state offer.

The Lithuanian authorities report that no concessions have been granted as yet. In co-operation with the EBRD, they will examine the current Law on Concessions and propose amendments to the law in order to make it more operational. The study will be finalised in October 2001.

2.7. Investment incentives

a) Tax incentives

Tax concessions are available to both foreign and local investors. The provisions on tax incentives are laid down in the Corporate Income Tax law. This law covers some of the tax incentives that were included in the old Capital Investment Law.

Prior to January 1997, foreign investors were granted certain special tax concessions but since then it has not generally been the case. However, the government has the right to agree contracts directly with strategic investors and grant them tax concessions. Free economic zones can also allow tax concessions to foreign investors.

In October 1998 an incentive was introduced to favour foreign investments amounting to LTL 200 million (US$50 million) made in enterprises registered in Lithuania. If such an investment was made within the three years following the above mentioned date, the government was obliged to enter into an investment agreement with the investor(s), whereby the investors would be assured that rates of direct taxation (taxes except VAT and excises) established and applicable at the time of investing would not be increased for that particular investor for a period of five years.[25] Until now, the government has concluded two agreements of this kind with *Mazeikiu Nafta* and *Vilnius Bank*.

Laws on taxation of profits of legal or physical persons provided for tax exemptions on all investments made in fixed tangible assets of enterprises until 1 April 1997. These tax exemptions apply equally to foreign and domestic investors under the law. From the same date, most special tax exemptions for foreign investors were abolished. The following are, however, still in force:[26]

- Enterprises in free economic zones shall pay profit tax at 80 per cent of the official rate for five years from the date of registration of the enterprise, while for the subsequent five-year period the rate shall amount to 50 per cent of the regular profit tax rate. If a foreign investor acquires at least 30 per cent of the authorised capital of the enterprise and invests foreign capital of at least US$1 million, the enterprise shall be exempt from taxes on profits for a five-year period from its date of registration, and for the subsequent 10 years the rate of tax levied on the enterprise's profits shall be reduced by 50 per cent.
- If an enterprise was set up (registered) or foreign capital of US$2 million was invested prior to 1997, the enterprise shall be exempt from profit tax for a three-year period starting from the beginning of the accounting quarter in which the enterprise became profit making. During the subsequent three years, the rate of profit tax applicable to the enterprise shall be reduced by 50 per cent. The tax concessions described here shall not apply to enterprises engaged in wholesale and retail trade in oil products if their income from trade in these products accounts for over 30 per cent of their sales revenue.
- Lastly, companies with not more than 50 employees and a total gross annual turnover not exceeding LTL 1 million (US$250 000) are eligible for a reduced profit tax rate. As of 1 January 1999 the profit tax rate is 15 per cent. The incentive is not applied to legal entities that are engaged in activities related to sales of alcoholic beverages, including beer, or tobacco products.

The government's programme for 2001 includes the possibility of abolishing corporate income tax. This issue is still under discussion.

Another issue that is currently under discussion is the introduction of a new tax concept by which more competence would be given to municipalities in the field of taxation.

b) Free Economic Zones

"Lithuania is continuing to enhance its appeal to foreign investors through the development of a network of Free Economic Zones (FEZ) set up at key transport and industrial centres. Šiauliai, Klaipeda and Kaunas, three of Lithuania's largest cities, were chosen for their blend of modern infrastructure, well-developed industrial bases and experienced labour force." – Lithuanian Development Agency.

In June 1995, Lithuania's Parliament adopted the Law on the Fundamentals of Free Economic Zones. Lithuanian and foreign companies, corporations and associations are eligible to participate in the free economic zones. FEZ incentives include:

- For investments over US$1 million:
  - a corporate tax holiday for the first 5 years and
  - 50 per cent tax reduction for the following 10 years (an actual rate of 12 per cent)
- For investments under US$1 million:
  - Corporate tax reduction of 80 per cent for the first 5 years (an actual rate of 4.8 per cent) and
  - 50 per cent tax reduction for the following 5 years (an actual rate of 12 per cent)
  - No customs duties
  - No VAT and excise taxes
  - No road taxes
  - No real estate taxes
  - No foreign exchange restrictions
  - Streamlined and simplified customs and administrative procedures
  - The same legal guarantees apply to companies located inside a FEZ as to those outside
  - Special write-offs for investments and other expenses on long-term assets and new technologies.

Thus far, Parliament had adopted separate laws for the establishment of free economic zones in the three cities – Šiauliai, Klaipeda and Kaunas. In this connection, the government had organised tenders to select the company or group of companies to govern the zone, and a subsequent tender to determine the companies operating in the zone. Both foreign and domestic companies could participate in these tenders, provided they prepared an entrepreneurship project, including estimates of proposed investment in the infrastructure of the zone. International tenders had already taken place for the preparation of business plans, statute of the zones and choice of establishing groups for the Kaunas, Šiauliai and Klaipeda free economic zones.

The Šiauliai FEZ was recently liquidated and the Klaipeda FEZ will probably cease functioning very soon. According to the Lithuanian authorities, if the Kaunas FEZ does not start operating in the second quarter of 2001, the government may abandon the idea of foreign economic zones altogether. The Lithuanian authorities report the following main obstacles in the operation of Free Economic Zones: *i*) failure in the infrastructure preparation, *ii*) the zone limits take a large amount of private land; *iii*) lack of interest from foreign investors who are interested in investing in the cities themselves (Klaipeda, Kaunas for example) but not necessarily in the zones; *iv*) problems related to customs relations and *v*) frequent amendments to the laws on FEZ which have slowed down the process.

2.8. Government procurement

A new Law on Public (Government) Procurement, was adopted on 3 June 1999. The law entered into force on 1 October 1999, and replaced the previous Law of 13 August 1996. The new law aims at ensuring open and transparent public procurement procedures, equality of participation for suppliers (domestic or foreign), effective competition, and more effective use of state funds. Article 1.6 of the law allows the government to give preference to goods, services and works (in connection with construction and renovation) produced, effected or provided by enterprises, including foreign-owned, registered in Lithuania, when this supply is important to the State for economic or social reasons. However, such a decision would be passed in compliance with Lithuania's obligations under international agreements. The Government Procurement Agency had been established in June 1997. The Agency prepares regulations related to the implementation of the Law on Public Procurement; announces tenders; co-ordinates Ministries' activities related to procurement; investigates complaints by suppliers; etc.

2.9. National security and public order considerations

Article 8 of the Law on Investment prohibits foreign investment in the area of state security and defence, with the exception of investment made by foreign companies from EU and NATO countries, subject to approval by the State Defence Council. These provisions were formulated in order to guarantee that only investment that does not jeopardise Lithuania's strategic aims – EU and NATO membership – is allowed.

2.10. Investment protection and double taxation

Lithuania has concluded agreements on investment promotion and protection with 26 countries (see Table 2.7 below). It has also concluded investment promotion and protection agreements with Australia, Belarus, Hungary, Moldova, Portugal, Russia, Slovenia, Vietnam and the United States which have not yet entered into force. Lithuania has also concluded an agreement with the Multilateral Investment Guarantee Agency (entered into force on 22 September 1993).

Table 2.7. **Bilateral Investment Agreements concluded by Lithuania**

State	Entry into force
Argentina	1998.09.01
Austria	1997.07.01
China	1994.06.01
Czech Republic	1995.07.12
Denmark	1992.12.09
Estonia	1996.06.20
Finland	1993.01.08
France	1995.01.11
Germany	1997.06.27
Greece	1997.02.25
Israel	1996.07.11
Italy	1997.04.15
Kazakhstan	1995.05.25
Latvia	1996.07.11
Netherlands	1995.04.01
Norway	1992.12.20
Poland	1993.08.06
Republic of Korea	1993.09.24
Romania	1994.12.15
Spain	1995.12.22
Sweden	1992.09.02
Switzerland	1993.05.14
Turkey	1997.07.07
Ukraine	1995.03.06
United Kingdom	1993.09.21
Venezuela	1996.08.01

Lithuania has also concluded treaties for the avoidance of double taxation with twenty-nine countries (see Table 2.8 below).

Table 2.8. **Conventions for the avoidance of double taxation**

	Signed	Ratified in Lithuania	Applied from
Armenia	13 03 2000	21 11 2000	
Austria	Not yet		
Belgium	26 11 1998	08 07 1998	
Byelorussia	18 07 1995	28 11 1995	01 01 1997
Canada	29 08 1996	21 01 1997	01 01 1998
China	03 06 1996	24 09 1996	01 01 1997
Croatia	04 05 2000	21 11 2000	03 01 2001
Cyprus	Not yet		
Czech Republic	27 10 1994	26 01 1995	01 01 1996
Denmark	13 10 1993	30 11 1993	01 01 1994
Estonia	13 09 1993	30 11 1993	01 01 1994
Finland	30 04 1993	30 11 1993	01 01 1994
France	07 07 1997	04 11 1997	05 01 2001
Georgia	Not yet		
Germany	22 07 1997	04 11 1997	01 01 1995
Greece	Not yet		
Hungary	Not yet		
Iceland	13 06 1998	20 10 1998	01 01 2000
Ireland	18 11 1997	12 05 1998	01 01 1999
Italy	04 04 1996	21 08 1996	01 01 2000
Kazakhstan	07 03 1997	11 11 1997	01 01 1998
Korea	Not yet		
Latvia	17 12 1993	04 07 1994	01 01 1995
Malta	17 05 2001		01 01 2002
Moldavia	18 02 1998	23 06 1998	01 01 1999
Netherlands	16 06 1999	29 06 2000	01 01 2001
Norway	27 04 1993	30 11 1993	01 01 1994
Poland	20 01 1994	04 07 1994	01 01 1995
Portugal	Not yet		
Romania	Not yet		
RSA	Not yet		
Russia	29 06 1999	29 06 2000	
Singapore	Not yet		
Slovakia	Not yet		
Slovenia	23 05 2000	21 11 2000	
Spain	Not yet		
Sweden	27 09 1993	30 11 1993	01 01 1994
Switzerland	Not yet		
Turkey	24 11 1998	08 07 1999	01 01 2001
Ukraine	23 09 1996	21 01 1997	01 01 1998
United Kingdom	19 03 2001		01 01 2002
United States	15 01 1998	23 12 1999	01 01 2000
Uzbekistan	Not yet		

Notes

1. Lithuania Investment Profile, EBRD April 2001.
2. See section 1.8 for more details on the process of compiling FDI statistics.
3. The financial structure of FDI is discussed in Section 1.9, which concentrates on the economic impact of FDI.
4. Source: Website, Department of Statistics.
5. A comment made by Mr. Kristoffersen, PHARE resident advisor at the Bank of Lithuania and the Ministry of Finance.
6. Division by economic activities according to the categorisation by Statistics Lithuania.
7. 1 October 2000 data only available on Denmark, Sweden and the United States. For Finland and Germany data date back to January 1, 2000.
8. Figures in the field "Other activities" are relatively large because some important activities, such as real estate, renting and business activities, mining and quarrying, recreational, cultural and sporting activities, are not listed separately.
9. Source: OECD Economic Surveys 1999-2000 – The Baltic States, A Regional Economic Assessment (2/2000).
10. Source: Interview with Deputy Director J. Markelevicius and Head of Construction and Innovation Statistics Unit D. Arëskienë of Statistics Lithuania.
11. The information on the role of the Central Bank is based on an interview with Chief Economist R. Tamosiunas of the Bank of Lithuania.
12. There is some ambiguity over how the inflow of capital from the 1998 Lietuvos Telekomas privatisation was treated in the FDI statistics. According to some of the interviewees, the sum paid for the company is not shown in its entirety in the FDI figures. The Lithuanian Development Agency reports larger FDI figures for 1998 and 1999 than the official statistics. According to the agency, the accumulated stock of FDI reached US$1 975 million in 1998 and US$2 217 million after the first half of 1999.
13. The Fraser Institute of Vancouver Canada rates world economies yearly according to criteria based on Milton Friedman's free market principles.
14. The criteria were: economic strength, balance of payments, business ethics, integration into world economy, liquidity/ease of buying stocks, rule of law, price stability, productivity, currency stability/investment climate and political stability.
15. Equal operating conditions are guaranteed to Lithuanian and foreign investors under this and other laws. The laws of the Republic of Lithuania protect the rights and other legitimate interests of investors.

An investor shall be entitled to administer, use and dispose of the investment object in the Republic of Lithuania, in accordance with the laws of the Republic of Lithuania and other legal acts.

An investor shall be entitled, on payment of taxes in the procedure established by the laws of the Republic of Lithuania, to convert the profit (income) belonging to him under the right of ownership into foreign currency and/or make transfers abroad without restrictions.

A foreign investor can make his pecuniary contribution to the capital of the economic entity in both foreign and Lithuanian national currency.

16. The Law on Lobbying Activities (June 2000) aiming to regulate the influence extended by interest groups on the legislative and administrative process; with a view to implementing the Law on the Compatibility of Public and Private interests in the Public Service, in March and April 2000 the High Commission of Ethics in Office adopted rules concerning the public declaration of private interests of civil servants.

17. On 10 December 1998 the government adopted by resolution the procedure on the submission, examination and issuance of permits for the established national and foreign entities with respect to applications for permission to acquire ownership of land plots for non-agricultural purposes. This resolution came into force on 17 December 1998, and it enables practical implementation of the provisions of the Constitutional Law.

18. "Additional Information to the Position paper of the Republic of Lithuania: chapter 4 Free Movement of Capital", Conference on Accession to the European Union – Document provided by Lithuania. CONF-LT 7/01, 28 February 2001.

19. These executives should have been in the prior employment of their firm outside Lithuania for a period of not less than one year preceding the date of their application for admission.

20. The combined LTB-VB-Hansabank would control approximately 80 per cent of the market.

21. On 24 April 1999, the NSEL signed a Memorandum of co-operation with the Riga and Tallinn Stock Exchanges to promote jointly the common Baltic securities market, the most attractive enterprises of the region and to exchange information on real time trading statistics. In 1999, listing requirements of the three exchanges have been harmonised. Besides, since January 2000, the Baltic list, comprising the 15 largest and most liquid companies of the region, is being compiled and announced. Currently, five issues of shares of Lithuanian public companies are included in the Baltic List.

22. Source: "Republic of Lithuania: Second Review under the Stand-By Arrangement-Staff report; Staff Supplement; and News Brief on the Executive Board's Decision". IMF Country Report No 01/63, April 2001.

23. Lithuania Investment Profile 2001, EBRD Business Forum.

24. Idem, Box 2, *Foreign Direct Investment in Lithuania*, p.38.

25. In order to profit from this tax incentive, the investor has to fulfil at least one of the following requirements:

    – To create within three years at least three hundred job positions; this requirement could be diminished to fifty per cent in regions where the amount of the production to be sold or the average of gross wages is less than the average of gross wages in the whole country, or the occupation in agriculture exceeds the average of the country.

– Investments create the possibility to use projecting, manufacturing and construction services of Lithuanian enterprises, local materials and resources.
– To repair the damage previously made to the environment in the territory of the enterprise where the investments are made.
– To make investments to restore the solvency of the enterprise.
– To make investments to significant governmental projects, the significance of which is acknowledged by the Lithuanian Parliament or the Government.

26. Source: Institute of Economics and Privatisation.

Annex 1

Summary of the Main Provisions of the OECD Declaration on International Investment and Multinational Enterprises

Adherence to the OECD Declaration on International Investment and Multinational Enterprises implies acceptance of all its components as well as the related Decisions and Recommendations. The OECD Declaration on International Investment and Multinational Enterprises is a political agreement among Adherent countries for co-operation on a wide range of investment issues. The Declaration contains four related elements: the National Treatment Instrument, the Guidelines for Multinational Enterprises, an instrument on incentives and disincentives to international investment, and an instrument on conflicting requirements. It is supplemented by legally binding Council Decisions on implementation procedures, and by Recommendations to Adherents to encourage pursuit of its objectives, notably with regard to National Treatment.

1. National Treatment

The National Treatment Instrument provides that Adherents should, consistent with their needs to maintain public order, to protect their essential security interests and to fulfil commitments relating to international peace and security, accord to enterprises operating in their territories and owned or controlled by nationals of another Member country treatment under their laws, regulations and administrative practices consistent with international law and no less favourable than that accorded in like situations to domestic enterprises.

Under the Third Revised Decision of the Council on National Treatment, Adherents to the Declaration must notify the Organisation of all measures constituting exceptions to the National Treatment principle within 60 days of their adoption and of any other measures which have a bearing on this principle (the so-called "transparency measures"). These measures are periodically reviewed by the CIME, the goal being the gradual removal of measures that do not conform to this principle.

Exceptions to National Treatment fall into five categories: investments by established foreign-controlled companies, official aids and subsidies, tax obligations, access to local bank credit and the capital market, and government procurement.

Transparency measures include measures based on public order and national security interests, restrictions on activities in areas covered by monopolies, public aids and subsidies granted to government-owned enterprises by the state as a share.

The National Treatment Instrument is solely concerned with discriminatory measures that apply to established foreign-controlled enterprises. This includes established branches, except for the category of "investment by established foreign-controlled enterprises".

Areas of existing public, private or mixed monopolies are to be recorded for the purpose of transparency since foreign-controlled and domestic private enterprises are subject to the same restrictions. The undertaking to apply National Treatment comes into force as and when areas previously under monopoly are opened up. In such cases, access to these areas should be provided on a non-discriminatory basis. If restrictions prohibit or impede in any way the participation of foreign-controlled enterprises *vis-à-vis* their domestic counterparts, then these restrictions are to be reported as exceptions to National Treatment. The objective is to ensure access to formerly closed sectors on an equal basis.

The 1991 Review confirmed the understanding reached in 1988 by the Committee on International Investment and Multinational Enterprises on a standstill on National Treatment measures. This understanding provides that Adherents should avoid the introduction of new measures and practices, which constitute exceptions to the present National Treatment Instrument. Particular attention is to be given to this question in the Committee's work.

A number of Recommendations of the Council have also been addressed to Adherents in the context of earlier horizontal examinations. Most of these recommendations were made to individual countries, but a number of them were of a general character. Concerning investment by established foreign-controlled enterprises, Adherents should give priority to removing exceptions where most Adherents do not find it necessary to maintain restrictions. In introducing new regulations in the services sectors, Adherents should ensure that these measures do not result in the introduction of new exceptions to National Treatment. Adherents should also give particular attention to ensuring that moves towards privatisation result in increasing the investment opportunities of both domestic and foreign-controlled enterprises so as to extend the application of the National Treatment Instrument.

In the area of official aids and subsidies, Adherents should give priority attention to limiting the scope and application of measures which may have important distorting effects or which may significantly jeopardise the ability of foreign-controlled enterprises to compete on an equal footing with their domestic counterparts.

Finally, with regard to measures motivated by public order and essential security interests, Adherents are encouraged to practice restraint and to circumscribe them to the areas where public order and essential considerations are predominant. Where motivations are mixed (e.g. partly commercial, partly national security), the measures concerned should be covered by exceptions rather than merely recorded for transparency purposes.

2. Guidelines for Multinational Enterprises

The Guidelines for Multinational Enterprises are recommendations jointly addressed by Adherent governments to multinational enterprises operating in their territories. While their observance is voluntary and not legally enforceable, they represent the collective expectations of these governments concerning the behaviour and activities of multinational enterprises.

They also provide standards by which multinational enterprises can ensure that their operations are in harmony with the national policies of their host countries. The areas covered include disclosure, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition, and taxation.

Adherent governments must set up national contact points (NCPs) to deal with the implementation of the Guidelines. The purpose of NCPs is to undertake promotional activities, handle inquiries and for discussions with the parties concerned on all matters covered by the Guidelines so that they can contribute to the solution of problems which may arise in this connection, taking due account of the Procedural Guidance.

NCPs in different countries shall co-operate if such need arises, on any matter covered by the Guidelines relevant to their activities. NCPs shall also meet annually to share experiences and report to the CIME

The Committee on Investment and Multinational Enterprises is responsible for periodically or at the request of an adhering country holding exchange of views on matters covered by the Guidelines and periodically inviting the Business and Industry Advisory Committee to the OECD (BIAC), the Trade Union Advisory Committee to the OECD (TUAC) ("the advisory bodies"), and other non-governmental organisations to express their views as well as representatives of non-adhering countries on matters covered by the Guidelines.

The Committee shall also be responsible for clarifications of the Guidelines and for exchanging views on the activities of National Contact Points and shall periodically report to the Council on matters related to the Guidelines.

3. Incentives and Disincentives

The instrument on Investment Incentives and Disincentives recognises that Adherents may be affected by this type of measure and stresses the need to strengthen international co-operation in this area. It first encourages them to make such measures as transparent as possible so that their scale and purpose can be easily determined. The instrument also provides for consultations and review procedures to make co-operation between Adherents more effective. A considerable part of the work undertaken in this area is analytical, two studies being undertaken in the 1980s. Adherents may therefore be called upon to participate in studies on trends in and effects of incentives and disincentives on FDI and to provide information on their policies.

4. Conflicting Requirements

The instrument on Conflicting Requirements provides that Adherents should co-operate with a view to avoiding or minimising the imposition of conflicting requirements on multinational enterprises. In doing so, they shall take into account the general considerations and practical approaches recently annexed to the Declaration. This co-operative approach includes consultations on potential problems and giving due consideration to other country's interests in regulating their own economic affairs.

Annex 2

Lithuania's Position under the OECD Declaration on International Investment and Multinational Enterprises

A. Exceptions under the National Treatment Instrument

Adherents to the Declaration have the legally-binding obligation to notify their exceptions to National Treatment. The exceptions notified by Lithuania are as follows:

I. *Investment by established foreign-controlled enterprises*

Real estate

Foreign entities registered and performing business activities in Lithuania, owned under effective control rights by foreign enterprises or persons, and foreign legal entities having established, for business purposes, affiliates or subdivisions without the status of a legal person in Lithuania, and Lithuanian entities (municipalities, Lithuanian enterprises having the rights of legal persons, etc.) are entitled to acquire the land plots necessary for the operation of premises and structures intended for their direct business activities, as well as land plots for the construction and operation of such premises and structures, provided the following conditions are met:

- The foreign enterprise is registered in a member state of the European Union (EU), or in a state which is a party to the European Agreement with the EU and the member states thereof, or in a state which, at the time of the adoption of the Constitutional Law, was a member of the Organisation for Economic Co-operation and Development (OECD) or a member of the North Atlantic Treaty Organisation (NATO).
- The foreign state of registration provides equal rights to Lithuanian entities, i.e. the rights are applied on a reciprocal basis.
- The foreign enterprise has its main place of business in the state of registration for at least 5 years.
- Permission of the Government of the Republic of Lithuania is granted.

Authority: Constitution of the Republic of Lithuania, Constitutional Law entered into force on 2 February 1998.

The last two restrictions which justify the exception to National Treatment will be abolished by 1 January 2004.

Agricultural land

The sale of agricultural land to foreigners is prohibited.

Authority: Article 47 of the Constitution of Lithuania.

Air transport

The operation of an airline by enterprises with foreign equity participation requires licence of the Lithuanian government and is based on reciprocity.

The air carrier must have its principal place of business in Lithuania and be majority owned and effectively controlled by the state of Lithuania and/or nationals of Lithuania. Exceptions may be granted in certain cases, according to bilateral agreements.

Cabotage is reserved to national airlines.

Authority: Law on Civil Aviation No. I-1323 (1996)

Maritime and inland waterway transport

Only ships and vessels with the Lithuanian state flag and registered in Lithuania are allowed to provide maritime waterway *cabotage* services. Inland *cabotage* services are allowed only to Lithuanian and EU vessels.

Authority: Law on Trade Navigation No. I-1513 (1996)

Inland Waterway Code No. I-1534 (1996 as amended in 2000)

Road Transport

Cabotage and other transport services, including transit, are reserved to national hauliers, unless otherwise agreed in bilateral and multilateral agreements.

Authority: Road Transport Code No. I-1628 (1996)

Fisheries

Access to Lithuania's waters is only possible for vessels with the Lithuanian state flag and registered in Lithuania, or for foreign country vessels on the basis of bilateral agreements.

Authority: Law on Fisheries No. VIII-1756 (27.06.2000)

Lotteries

It is prohibited for foreign investors to organise lotteries in Lithuania.

Authority: Law on Investments No. I-938 (1995)

Tourism services

Tourist guides and agencies from foreign countries may provide guide services in Lithuania only in accordance with bilateral agreements or contracts on tourist guide services assistance (on a reciprocity basis).

Authority: Law on Tourism No. VIII-667, (19.03.1998).

II. *Official aids and subsidies*

Audio-visual production

Preferential access to funding is awarded to audio-visual production of countries selected. Only audio-visual production of European origin that meets certain linguistic and origin criteria receives national treatment.

Authority: Law on Lithuanian National Radio and Television No. I-1571 (1996)

Health Services

Entry into the market is subject to authorisation by Lithuanian health authorities. Foreign private establishments and their consumers may not be entitled to receive financial support from public resources, including usage of public medical insurance funds.

Authority: Law on Health System No. I-552 (1994)

Law on Health Care Institutions No. I-1367 (1996)

State subsidies

Foreign legal and natural persons in any sector of the economy may be limited to receive state subsidies from the government of Lithuania. Certain legal acts favour producers and exporters of goods and services of Lithuanian origin.

Authority: Various legislative acts on appropriate sectors of the economy. Government Resolution No. 1490 on Approval of Regulations of the Export Promotion Fund (30 December 1997).

III. *Tax obligations*

None.

IV. *Government purchasing*

None.

V. *Access to local finance*

None.

B. Measures reported for transparency under the National Treatment Instrument

I. *Measures based on public order and essential security considerations*

Article 8 of the Law on Investment prohibits foreign investment in the area of state security and defence, with the exception of investment made by foreign companies originated from EU and NATO countries, subject to approval by the State Defence Council.

II. *Monopolies and concessions*

Public Monopolies

In accordance with special laws, only state-owned enterprises and special purpose companies (public and private) shall have the right to engage in the following activities, provided that they have licences issued in the manner established by the Lithuanian government:

– Production of alcohol products in which the volume of ethyl alcohol exceeds 22°; by an Amendment to the Law on Alcohol control, this monopoly status will be abolished in 2003.

– Issuance of currency, stamps and minting coins.

The *State Post Office* has exclusive rights related to the collection and delivery of letters, postcards and printed matter; installation of letter collection boxes and issuance of postage stamps. It does not, however, have exclusive rights on courier services.

In the area of telecommunication markets, the operator *Lietuvos Telecomas* enjoys a *de jure* monopoly regime until 31 December 2002 for providing fixed-line telephone services.

C. Implementation of the OECD Guidelines for Multinational Enterprises

According to the Decision of the OECD Council of June 2000 (and the attached Procedural Guidance), Lithuania is under the obligation to set up National Contact Points for undertaking promotional activities and handling inquiries on all matters covered by the Guidelines. Lithuania also needs to inform the business community, employee organisations and other interested parties of the availability of such facilities.

The Lithuanian authorities have informed the Organisation that they are undertaking the necessary steps to establish a National Contact Point for the implementation of the Guidelines. The Lithuanian Ministry of the Economy will be designated as the contact point.

They also intend to publish the Guidelines in Lithuania's official language as a means of promoting them, in particular to the business community, employee organisations and other interested parties.

Annex 3

Foreign Direct Investment Statistics in Adherent Countries to the OECD Declaration on International Investment and Multinational Enterprises

Table 1. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**

Million US dollars

	Cumulative flows 1971-1980	Cumulative flows 1981-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Australia [1]	11 295	39 822	4 042	5 036	3 007	3 951	12 737	5 171	7 510	6 502	4 441
Austria	1 455	3 274	359	940	982	1 314	1 904	4 429	2 656	4 902	2 952
Belgium-Luxembourg	9 215	27 986	9 292	11 326	10 751	8 313	10 812	14 061	12 093	22 724	15 868
Canada	5 534	33 409	2 870	4 717	4 748	8 204	9 255	9 407	11 470	16 499	24 268
Czech Republic	..	..	..	1 004	654	869	2 562	1 428	1 300	2 540	4 877
Denmark	1 561	3 467	1 453	1 015	1 681	4 890	4 176	776	2 801	6 722	7 450
Finland	376	2 838	–247	406	864	1 578	1 063	1 109	2 116	12 141	3 024
France [2]	16 908	54 588	15 157	17 855	16 439	15 580	23 677	21 942	23 174	28 955	37 416
Germany [3]	13 816	19 691	4 729	–2 089	368	7 134	12 019	6 577	11 092	21 271	52 403
Greece [4, 8]	..	6 145	1 135	1 144	2 583	3 081	4 272	5 888	3 586	3 709	539
Hungary	..	512	1 462	1 479	2 339	1 146	4 453	2 275	2 173	2 036	1 944
Iceland	..	74	18	–11	..	..	14	82	149	112	90
Ireland [5]	1 659	1 371	1 168	1 244	850	420	621	1 888	1 676	3 904	5 422
Italy	5 698	24 888	2 481	3 210	3 746	2 236	4 817	3 535	3 698	2 611	5 019
Japan [6]	1 424	3 324	1 286	2 755	210	888	41	228	3 224	3 193	12 378
Korea	..	4 025	1 180	728	588	809	1 176	2 325	2 844	5 416	8 798
Mexico	..	24 421	4 762	4 393	4 389	10 973	9 526	9 185	12 830	11 311	11 568
Netherlands	10 822	37 857	6 552	7 824	8 561	7 333	12 216	15 055	14 499	41 977	33 341
New Zealand [7]	2 598	3 940	1 695	1 089	2 212	2 690	2 697	3 697	1 832	2 172	989
Norway	3 074	5 634	655	–426	2 244	2 713	2 230	3 201	3 786	3 882	6 579
Poland	..	88	359	678	1 715	1 875	3 659	4 498	4 908	6 365	6 471
Portugal	535	6 920	2 451	1 914	1 550	1 265	695	1 368	2 278	2 802	570
Spain	7 060	46 158	12 445	13 352	8 073	9 425	6 285	6 820	6 387	11 797	9 357
Sweden	897	8 619	6 351	–41	3 843	6 346	14 448	5 076	10 968	19 569	59 102
Switzerland	..	14 068	2 644	411	–83	3 368	2 224	3 078	6 642	7 499	3 412
Turkey	228	2 434	910	911	746	636	885	722	805	940	783
United Kingdom	40 503	130 469	16 027	16 214	15 468	10 497	22 738	26 084	33 245	64 388	82 176
United States	56 276	363 421	23 695	20 975	52 552	47 438	59 644	88 977	109 264	193 375	282 507
TOTAL OECD	**190 934**	**869 442**	**124 931**	**118 052**	**151 079**	**164 971**	**230 846**	**248 882**	**299 004**	**509 313**	**683 744**

Table 1. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows** (*cont.*)

Million US dollars

	Cumulative flows 1971-1980	1981-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Argentina	1 278	869 442	2 439	4 384	2 763	3 490	5 315	6 522	8 755	6 526	23 152
Brazil	11 026	16 512	1 103	2 061	1 292	3 072	4 859	11 200	19 650	31 913	..
Chile	708	5 261	822	935	1 034	2 583	2 957	4 634	5 219	4 638	9 221
Estonia	..	..	..	82	162	214	201	150	266	580	305
Latvia	..	..	..	29	45	214	180	382	521	357	366
Lithuania	..	..	..	..	30	31	73	152	354	925	486
TOTAL	**203 946**	**1 760 658**	**129 295**	**125 543**	**156 405**	**174 575**	**244 431**	**271 922**	**333 769**	**554 252**	**717 274**

Note: Data are converted using the yearly average exchange rates.
p. Provisional data.
1. Break in series. As from 1995, data are based on a new methodology.
2. Break in series. As from 1988, data are based on a new methodology.
3. Break in series. As from 1971, data are based on a new methodology.
4. Up to 1992, data are on an approval basis. As from 1993, change in the coverage: the amounts include entrepreneurial capital net and real estate investment inflows.
5. Break in series. As from 1990, the results shown are for net (inward and outward) direct investment capital flows.
6. Break in series.
7. Data from 1993 to 1999 are based on fiscal years ending 31 March.
8. Break in series. As from 1999, data are based on a new methodology.

Source: OECD/Financial Statistics Unit – Based on national sources. For Argentina, Brazil and Chile, *International financial Statistics Yearbook*, IMF 2000 edition.

Table 2. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**

Million US dollars

	Cumulative flows 1971-1980	Cumulative flows 1981-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Australia[1]	2 510	22 266	3 001	951	1 779	5 291	3 846	5 927	6 262	2 466	–3 192
Austria	578	4 132	1 288	1 871	1 467	1 201	1 131	1 935	1 948	2 948	2 703
Belgium-Luxembourg	3 213	20 984	6 493	10 389	4 693	1 205	11 712	8 065	7 273	28 453	24 937
Canada	11 335	42 337	5 813	3 586	5 868	9 293	11 461	12 879	22 054	26 575	17 362
Czech Republic	..	..	..	21	101	120	37	153	25	175	197
Denmark	1 063	6 292	1 844	2 225	1 373	4 041	3 069	2 518	4 210	3 962	8 207
Finland	605	11 577	–124	–753	1 409	4 297	1 498	3 596	5 292	18 643	4 194
France [2]	13 940	101 365	25 115	30 416	19 732	24 381	15 757	30 395	35 586	41 913	88 324
Germany [3]	27 830	94 239	22 947	18 596	17 197	18 858	39 030	50 841	40 716	91 183	98 853
Greece [4]	..	..	..	..	..	..	..	..	..	..	573
Hungary	..	..	..	..	11	49	43	–3	431	481	249
Iceland	..	26	27	3	11	23	24	62	51	99	70
Ireland	..	..	..	..	..	..	..	..	..	8 569	18 326
Italy	3 597	28 707	7 326	5 948	7 221	5 109	5 732	6 465	10 619	12 078	3 038
Japan [5]	18 052	192 410	31 688	17 301	13 916	18 117	22 629	23 424	25 991	24 159	20 730
Korea	..	2 406	1 489	1 162	1 340	2 461	3 552	4 670	4 449	4 799	4 044
Mexico	..	..	..	..	..	..	..	..	..	..	..
Netherlands	27 829	65 771	13 577	14 366	12 343	17 745	20 159	31 230	29 247	51 365	45 540
New Zealand [6]	375	4 556	1 472	391	–1 386	2 015	1 751	–1 260	–1 602	376	1 020
Norway	1 079	8 995	1 840	–80	791	2 098	3 139	5 918	5 047	2 418	5 483
Poland	..	..	..	13	18	29	42	53	45	316	123
Portugal	21	374	474	687	141	283	689	776	1 668	2 901	2 679
Spain	1 274	8 793	4 424	2 171	2 648	3 900	4 158	5 590	12 547	18 935	35 421
Sweden	4 597	48 074	7 053	409	1 357	6 698	11 215	4 664	12 648	24 376	18 951
Switzerland	..	33 553	6 212	6 050	8 765	10 798	12 214	16 150	17 747	16 631	17 910
Turkey	..	97	127	133	175	78	113	110	251	367	645
United Kingdom	55 112	185 581	15 972	19 156	25 573	28 251	44 329	34 125	61 620	119 463	199 275
Unites States	134 354	225 911	38 233	48 733	84 412	80 697	99 481	92 694	109 955	132 829	152 152
TOTAL OECD	**307 364**	**1 108 446**	**196 291**	**183 745**	**210 955**	**247 038**	**316 810**	**340 977**	**414 079**	**636 480**	**767 814**

Table 2. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows** (*cont.*)

Million US dollars

	Cumulative flows										
	1971-1980	1981-1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Argentina	193	135	-	1 166	704	1 013	1 497	1 600	3 656	2 166	1 195
Brazil	1 128	2 537	1 014	137	491	1 037	1 384	467	1 042	2 721	..
Chile	20	53	125	398	434	911	752	1 188	1 865	2 798	4 855
Estonia	..	..	..	2	6	2	2	40	137	6	83
Latvia	..	..	..	2	5	65	65	3	6	54	-
Lithuania	..	..	..	..	..	..	1	-	27	4	9
TOTAL	**308 705**	**1 111 171**	**197 430**	**185 450**	**212 595**	**250 066**	**320 511**	**344 275**	**420 812**	**644 229**	**773 956**

Note: Data are converted using the yearly average exchange rates.
p. Provisional data.
1. Break in series. As from 1995, data are based on a new methodology.
2. Break in series. As from 1988, data are based on a new methodology.
3. Break in series. As from 1971, data are based on a new methodology.
4. Break in series. As from 1999, data are based on a new methodology.
5. Break in series.
6. Data from 1993 to 1999 are based on fiscal years ending 31 March.
Source: OECD/Financial Statistics Unit – Based on national sources. For Argentina, Brazil and Chile, *International financial Statistics Yearbook*, IMF 2000 edition.

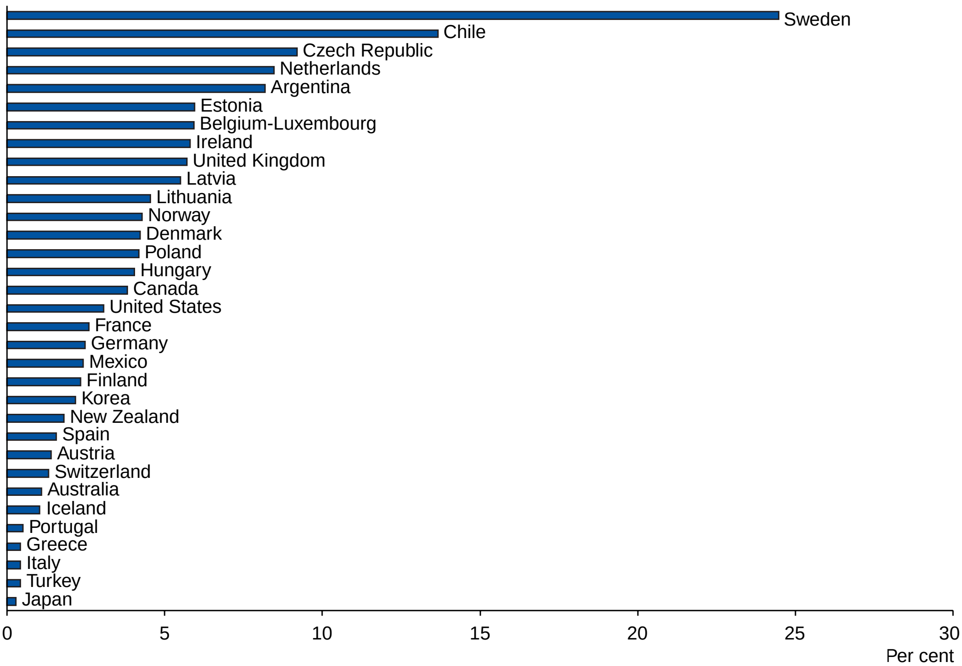
Table 3. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**

As a percentage of GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Argentina	1.29	1.91	1.17	1.35	2.06	2.40	2.99	2.19	8.18
Australia	1.28	1.61	0.98	1.14	3.39	1.24	1.79	1.74	1.09
Austria	0.21	0.49	0.53	0.66	0.81	1.91	1.29	2.32	1.41
Belgium-Luxembourg	4.34	4.72	4.71	3.35	3.68	4.90	4.63	8.46	5.92
Brazil	0.27	0.53	0.29	0.56	0.69	1.45	2.45	4.12	..
Canada	0.49	0.83	0.86	1.48	1.60	1.56	1.84	2.76	3.82
Chile	2.37	2.23	2.32	5.07	4.53	6.76	6.93	6.37	13.67
Czech Republic	..	3.38	1.87	2.11	4.92	2.47	2.45	4.48	9.20
Denmark	1.08	0.69	1.21	3.22	2.32	0.42	1.66	3.85	4.23
Estonia	..	..	9.91	9.39	5.66	3.44	5.73	11.13	5.94
Finland	–0.20	0.37	1.00	1.58	0.82	0.87	1.73	9.41	2.34
France	1.24	1.33	1.29	1.15	1.52	1.41	1.65	1.99	2.60
Germany	0.27	–0.10	0.02	0.34	0.49	0.28	0.52	0.99	2.48
Greece	1.26	1.15	2.76	3.08	3.63	4.73	2.96	3.06	0.43
Hungary	4.33	3.93	6.00	2.74	9.97	5.04	4.75	4.33	4.05
Iceland	0.27	–0.16	..	..	0.20	1.13	2.01	1.38	1.04
Ireland	2.45	2.32	1.69	0.77	0.94	2.59	2.10	4.53	5.80
Italy	0.21	0.26	0.38	0.22	0.44	0.29	0.32	0.22	0.43
Japan	0.04	0.07	0.00	0.02	0.00	0.00	0.07	0.08	0.28
Korea	0.40	0.23	0.17	0.20	0.24	0.45	0.60	1.71	2.17
Latvia	..	1.97	2.07	5.87	4.05	7.44	9.24	5.87	5.49
Lithuania	..	..	1.12	0.73	1.21	1.93	3.69	8.61	4.56
Mexico	1.51	1.21	1.09	2.61	3.33	2.76	3.20	2.69	2.41
Netherlands	2.17	2.33	2.63	2.09	2.95	3.66	3.85	10.73	8.47
New Zealand	4.07	2.72	5.06	5.24	4.49	5.67	2.83	4.10	1.81
Norway	0.56	–0.34	1.93	2.21	1.52	2.03	2.44	2.63	4.28
Poland	0.47	0.80	1.99	1.89	2.88	3.13	3.41	4.00	4.17
Portugal	3.05	1.98	1.81	1.40	0.65	1.22	2.14	2.51	0.50
Spain	2.26	2.22	1.61	1.87	1.08	1.12	1.14	2.01	1.56
Sweden	2.57	–0.02	2.00	3.07	6.02	1.94	4.59	8.16	24.48
Switzerland	1.14	0.17	–0.04	1.29	0.72	1.04	2.60	2.85	1.32
Turkey	0.60	0.57	0.41	0.49	0.52	0.40	0.42	0.47	0.42
United Kingdom	1.55	1.52	1.61	1.01	2.02	2.21	2.52	4.57	5.70
United States	0.40	0.33	0.80	0.68	0.81	1.15	1.32	2.22	3.06

p. Provisional data.
Source: Foreign Direct Investment database, 2000, OECD. For Argentina, Brazil and Chile, *International Financial Statistics Yearbook*, IMF 2000 edition. The source of the GDP is the OECD Statistics Department, except for Argentina, Brazil and Chile, the source of the GDP is the *International Financial Statistics Yearbook*, IMF 2000 edition.

Graph 1. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**
As a percentage of GDP: 1999



Source: OECD.

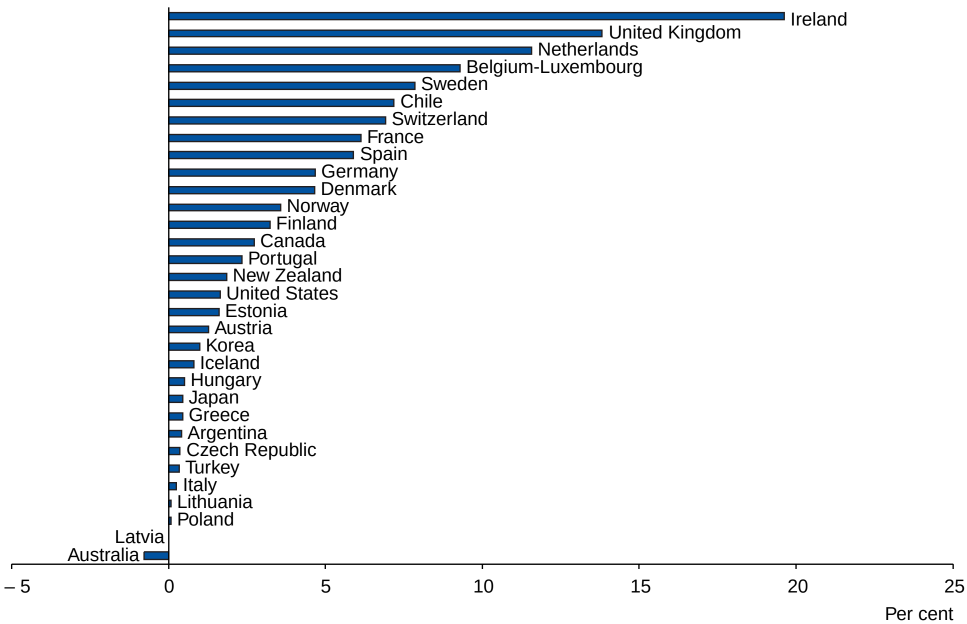
Table 4. **Direct Investment abroad from Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**

As a percentage of GDP

	1991	1992	1993	1994	1995	1996	1997	1998	1999p
Argentina	0.00	0.51	0.30	0.39	0.58	0.59	1.25	0.73	0.42
Australia	0.95	0.30	0.58	1.53	1.02	1.42	1.49	0.66	–0.78
Austria	0.76	0.98	0.79	0.60	0.48	0.84	0.95	1.40	1.29
Belgium-Luxembourg	3.03	4.33	2.05	0.49	3.98	2.81	2.78	10.60	9.30
Brazil	0.25	0.04	0.11	0.19	0.20	0.06	0.13	0.35	..
Canada	0.99	0.63	1.06	1.68	1.98	2.14	3.53	4.44	2.73
Chile	0.36	0.95	0.98	1.79	1.15	1.73	2.48	3.84	7.20
Czech Republic	..	0.07	0.29	0.29	0.07	0.27	0.05	0.31	0.37
Denmark	1.38	1.51	0.99	2.66	1.70	1.38	2.49	2.27	4.66
Estonia	..	..	0.37	0.09	0.06	0.92	2.95	0.12	1.62
Finland	–0.10	–0.69	1.63	4.30	1.16	2.82	4.32	14.45	3.24
France	2.06	2.26	1.55	1.80	1.01	1.96	2.53	2.89	6.14
Germany	1.30	0.92	0.88	0.90	1.59	2.13	1.93	4.24	4.68
Greece	..	..	..	..	..	..	..	..	0.46
Hungary	..	..	0.03	0.12	0.10	–0.01	0.94	1.02	0.52
Iceland	0.40	0.04	0.18	0.37	0.34	0.85	0.69	1.22	0.81
Ireland	..	..	..	..	..	..	..	9.93	19.62
Italy	0.63	0.48	0.73	0.50	0.52	0.52	0.91	1.01	0.26
Japan	0.91	0.45	0.32	0.38	0.43	0.50	0.60	0.61	0.46
Korea	0.50	0.37	0.39	0.61	0.73	0.90	0.93	1.51	1.00
Latvia	..	0.14	0.23	1.78	1.46	0.06	0.11	0.89	0.00
Lithuania	..	..	..	..	0.02	0.00	0.28	0.04	0.08
Mexico	..	..	..	..	..	..	..	..	..
Netherlands	4.49	4.29	3.79	5.05	4.86	7.58	7.77	13.13	11.57
New Zealand	3.53	0.98	–3.17	3.93	2.92	–1.93	–2.47	0.71	1.86
Norway	1.56	–0.06	0.68	1.71	2.14	3.75	3.26	1.64	3.57
Poland	..	0.02	0.02	0.03	0.03	0.04	0.03	0.20	0.08
Portugal	0.59	0.71	0.16	0.31	0.64	0.69	1.57	2.60	2.35
Spain	0.80	0.36	0.53	0.77	0.71	0.92	2.24	3.23	5.90
Sweden	2.85	0.16	0.71	3.24	4.67	1.78	5.29	10.17	7.85
Switzerland	2.67	2.48	3.70	4.13	3.98	5.46	6.94	6.33	6.92
Turkey	0.08	0.08	0.10	0.06	0.07	0.06	0.13	0.18	0.35
United Kingdom	1.55	1.79	2.67	2.72	3.93	2.89	4.67	8.47	13.82
United States	0.64	0.78	1.28	1.15	1.36	1.20	1.33	1.52	1.65

p. Provisional data.
Source: Foreign Direct Investment database, 2000, OECD. For Argentina, Brazil and Chile, *International Financial Statistics Yearbook*, IMF 2000 edition. The source of the GDP is the OECD Statistics Department, except for Argentina, Brazil and Chile, the source of the GDP is the *International Financial Statistics Yearbook*, IMF 2000 edition.

Graph 2. **Direct Investment abroad from Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**
As a percentage of GDP: 1999



Source: OECD.

Table 5. **Direct Investment abroad from and in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inward and Outward positions at year-end**

Million US dollars

	Inward							Outward						
	1993	1994	1995	1996	1997	1998	1999p	1993	1994	1995	1996	1997	1998	1999p
Australia [1]	76 808	86 974	100 369	116 201	99 388	102 763	116 715	35 412	39 857	47 176	59 190	56 695	62 025	54 924
Austria [2]	11 373	13 092	17 532	18 258	17 510	22 800	24 800	8 111	9 282	11 702	12 781	13 310	16 500	18 500
Belgium-Luxembourg	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Canada	106 868	110 204	123 290	131 634	138 332	142 973	166 266	92 468	104 302	118 209	131 779	146 577	160 642	178 347
Czech Republic	2 053	3 077	7 530	8 572	9 234	14 375	16 246	..	..	346	498	548	804	908
Denmark	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Finland	4 217	6 714	8 464	8 797	9 530	16 455	16 539	9 178	12 534	14 993	17 666	20 297	29 407	31 803
France	103 197	123 887	143 673	143 937	141 136	..	..	141 430	163 075	184 388	192 973	189 681	..	..
Germany [3]	129 781	160 128	192 898	188 502	185 980	..	..	178 648	213 654	258 142	271 241	280 779	..	..
Greece	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Hungary	5 576	7 087	12 829	14 958	16 086	18 517	19 276	226	291	491	474	900	1 286	1 586
Iceland	117	128	129	197	332	457	499 (e)	112	146	179	241	249	361	413 (e)
Ireland	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Italy	52 512	58 846	63 453	72 482	81 082	103 107	106 788	76 422	81 383	97 038	107 441	124 977	159 171	188 487
Japan [4]	16 884	19 211	33 532	32 675	27 086	26 647	..	259 795	275 574	238 452	282 257	271 967	267 584	..
Korea	..	..	..	..	..	..	..	5 588	7 623	10 500	13 796	16 546	20 433	..
Mexico	13 072	6 234	5 382	5 975	6 860	..	..	..	..	..	..	..	..	..
Netherlands	82 792	103 359	124 506	131 936	128 482	..	..	124 820	149 023	179 557	201 475	210 247	..	..
New Zealand [5]	15 552	19 849	26 009	33 584	37 644	33 323	32 537	4 400	5 167	7 624	8 925	6 746	5 513	7 039
Norway	14 463	16 305	19 513	21 591	22 978	26 083	..	13 482	16 909	22 519	25 440	..	..	..
Poland [6]	2 307	3 789	7 843	11 463	14 587	22 479	..	198	461	539	735	678	1 165	..
Portugal	..	..	18 170	18 947	18 312	22 446	20 513	..	..	4 408	4 488	5 571	9 221	9 605
Spain	71 071	86 161	111 481	109 326	100 359	118 877	112 889	22 403	28 331	36 661	40 094	47 873	69 153	97 821
Sweden	13 007	22 247	31 090	34 784	41 513	50 985	70 198	44 559	59 237	73 143	72 187	78 202	93 534	108 322
Switzerland	38 714	48 667	57 063	53 919	59 519	69 687	..	91 571	112 586	142 479	141 591	165 365	181 541	..
Turkey	..	..	..	..	..	..	..	..	..	..	..	..	..	..
United Kingdom	196 811	218 211	203 825	228 642	252 959	305 325	394 534	253 213	286 394	314 340	330 432	360 796	491 924	664 059
United States [7]	467 412	480 667	535 553	598 021	693 207	811 756	..	564 283	612 893	699 015	795 195	865 531	980 565	..
TOTAL OECD	**1 424 587**	**1 594 838**	**1 844 134**	**1 984 400**	**2 102 114**	**1 909 055**	**1 097 799**	**1 926 319**	**2 178 722**	**2 461 902**	**2 710 899**	**2 863 536**	**2 550 828**	**1 361 812**

Table 5. **Direct Investment abroad from and in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inward and Outward positions at year-end** (*cont.*)

Million US dollars

	Inward							Outward						
	1993	1994	1995	1996	1997	1998	1999p	1993	1994	1995	1996	1997	1998	1999p
Argentina	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Brazil	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Chile	..	..	..	..	..	..	..	..	..	..	..	..	..	..
Estonia	..	..	..	852	1 187	1 736	2 616	..	..	..	111	226	189	298
Latvia	..	..	616	936	1 272	1 558	1 885	..	..	231	209	222	281	215
Lithuania	149	310	352	700	1 041	1 625	2 063	..	-	1	3	26	16	26
TOTAL	**1 424 736**	**1 595 148**	**1 845 102**	**1 986 888**	**2 105 614**	**1 913 974**	**1 104 363**	**1 926 319**	**2 178 722**	**2 462 134**	**2 711 222**	**2 864 010**	**2 551 314**	**1 362 351**

Note: Data are converted using the end-of-year exchange rates.
p. Provisional data.
e. Country estimates for 1999.
1. Break in series. As from 1994, data are based on a new methodology.
2. 1996 and 1997 data are provisional estimates.
3. Break in series.
4. Break in series as from 1995.
5. As from 1993, data are based on fiscal years ending 31 March.
6. As from 1994, outward include investment from the Polish banking system.
7. Inward: break in series as from 94 due to the reclassification from "direct investment" to "other investment" of intercompany debt flows and associated income payments between parent companies and affiliates that are non-depository financial intermediaries.

Source: OECD/Financial Statistics Unit – Based on national sources.

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