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Communication from Lithuania

The following communication has been received from the Permanent Mission of Lithuania with the request that it be circulated for information to Members of the Working Party.

**Statement of Head of Delegation by Mr. Algimantas Rimkunas,
Deputy Minister for Foreign Affairs,
on the services régime and Lithuania's evolving economic and trade policy
given at the meeting of the Working Party,
held on 25-26 March 1996**

Statement

This is the second Working Party meeting that the delegation of Lithuania is attending in the process of accession to the WTO. During the first meeting, on the basis of the earlier presented Memorandum on Foreign Trade Regime (L/7551) and in additional written replies (WT/ACC/LTU/2; WT/ACC/LTU/4) the delegation responded to questions from WTO members concerning import and export regulations, other policies affecting foreign trade, etc. (WT/ACC/LTU/7).

During the first Working Party meeting Lithuania also submitted a Memorandum on the Services Regime (WT/ACC/LTU/5). Namely, this subject is on today's meeting agenda, and following my general presentation on Lithuania's services regime, members of the Lithuanian delegation representing various governmental agencies will provide descriptions of the regulatory framework and activities that are taking place in principal service sectors.

However, providing you with a general outlook on the current situation in Lithuania's services sector, I would like to direct your attention to recent developments in Lithuania's economic and trade regime that have taken place since the first Working Party meeting in November 1995, and could be of interest to you.

Chronologically speaking, I should start by explaining that Lithuania is weathering a banking crisis which began at the very end of 1995. It affected a group of 3 private commercial banks with a rather substantial share of the country's financial market. It resulted in the replacement of Lithuania's Prime Minister, the governor of the Central Bank and 5 ministers (out of 19) of the former Government. Currently a new Government is in place and its activities programme has been approved by the Parliament. What I would like to stress is that the new Governmental programme envisages continuation of Lithuania's integration into the world economy on the basis of free market principles. It maintains the course of reform process currently under way and respects the principles of the WTO in the areas of trade in goods, services and intellectual property rights protection.

As far as the situation in the banking sector is concerned, it is currently under control. Introduction of additional measures directed at the improvement of discipline and responsibility in the banking sector has already allowed the banks mentioned above to renew some of the functions. These additional measures will not affect the treatment accorded to foreign financial service providers as establishment of foreign banks is considered by the Government as an effective factor which, through competition, would lead to a profound strengthening of Lithuania's banking sector.

Another important issue I would like to inform you about is a first vote in the Parliament of Lithuania last week in favour of amending the Constitution's provisions to allow the acquisition of land by foreigners. We consider this as an extremely important event in the further development of economic, financial and trade relations with foreign partners. To enforce the Constitutional amendment a second favourable vote is required within 3 months.

I would also like to mention that the draft of a new Customs Code has been presented by the Government to the Parliament for approval. It provides the basis for a more uniform customs regime in one legal act and replaces several existing pieces of legislation dealing with customs issues. A chapter on Customs Valuation of the Code will replace current legislation and has been drafted to include WTO requirements in this area. After the Code has been approved, we will submit a copy of its relevant chapters to the WTO Secretariat for review by the members of the organization.

And now I would like to return to the issue of services and give a brief overview of the services sector of Lithuania. In the overall process of restructuring of the Lithuanian economy, the services sector experienced the biggest changes. In 1994 - the most recent year for which complete statistics on services are available - the portion of the sector in the country's GDP made up more than 68 per cent; in value terms - 2.89 billion USD. Services exports totalled 320 million USD; over half of services exports were in the transport area; tourism and construction and related engineering services also were significant exports. In 1994, services imports totalled 374 million USD; transport services constituted over half of total services imports; government procurement of various services and tourism services were the next largest areas of imports.

Also I should emphasize that, as an economy in transition, Lithuania is still in the process of formulating its legal structure to govern services trade, so the description in the Memorandum should be regarded as a snapshot in time rather than a final result. Government Resolution No.511 "On Approving Regulations for Rendering Services" (12 April 1995), provides the basis for Governmental institutions involved with certain services issues to improve existing legislation or to formulate new legislation to govern the provision of services. A number of other sector-specific legal instruments are already in place.

However in general, despite difficulties of the transitional period, I can affirm that treatment of foreign service providers in Lithuania is in line with the access offered by the WTO Members. Currently, a few restrictions are maintained on commercial presence. Foreign investments are permitted in all spheres with the exception of sectors relating to the security and defence of the State; manufacture and sale of narcotics and related substances; the growing, processing and sale of crops containing narcotics and poisonous substances; and organization of lotteries.

Lithuania does maintain licensing requirements for a few services areas under the Law on Enterprises but foreign service providers may apply for such licences on the same basis as domestic suppliers.

Otherwise, Lithuania does not maintain any restrictions on the total value of services transactions or assets, the total number of services operations, the total quantity of services output or the total number of persons who may be employed in a particular services sector. Restrictions in relation to presence

of natural persons are maintained in connection with the foreign employment quotas decided by the Lithuanian Labour Exchange.

Concerning TRIMS, as Lithuania states in Annex II to WT/ACC/LTU/7, the Government of Lithuania has carefully reviewed the provisions of the WTO Agreement on Trade-Related Investment Measures (TRIMS), including its Annex containing an illustrative list of TRIMS, and, after comparison of these provisions with Lithuanian legislation and practice, has concluded that Lithuania does not maintain any measures that could be construed as TRIMS.

I would also like to take the opportunity informing participants of the Working Party meeting that Lithuania will present its initial offer on market access for goods within a few weeks after the WTO Working Party meeting. It will be based on the new custom tariffs system which is under consideration by the Government of Lithuania.

Short presentations by Lithuanian experts on principal areas of services

I. Financial services

1. Insurance and related services

Any foreign service provider that wishes to operate in Lithuania may operate under the same conditions as national companies, as long as it complies with the requirements of the Law on Insurance (adopted in 20 September 1990).

At present a new Law on Insurance is under discussion by the Parliament. A foreign insurance company must have permission of its Government to conduct insurance activity in foreign countries; other than this exception, treatment of domestic and foreign insurance providers will be the same. Foreigners are able to establish as wholly-foreign owned companies, joint-ventures or subsidiaries. Foreigners must meet the same licensing requirements as domestic providers.

In addition, the new Law will codify the current situation under which all exceptional rights for the State Insurance Company are eliminated.

2. Securities market

The securities market is regulated by the Law of Securities Public Turnover, which was adopted on 16 January 1996.

According to this Law, the Lithuanian Stock-Exchange is established as a non-profit enterprise. The statutes of the Stock-Exchange and trade rules shall be confirmed by the Lithuanian Securities Commission. Trade rules of the Stock-Exchange have to regulate the membership, co-titration, clearing, settlement, procedures of arbitration and the insertion of the securities on the trade list.

Foreign providers may enter the Lithuanian securities market through enterprises established in Lithuania as joint-ventures or wholly foreign owned companies or subsidiaries.

In the field of securities market, foreign providers of securities services must meet the same requirements as domestic providers.

Only enterprises of financial brokers or divisions of finance brokering of banks, holding a licence from the Lithuanian Securities Commission, can act in public circulation of securities. Brokers, representing those enterprises or divisions, must be certified by the Lithuanian Securities Commission.

In all such fields, there is no discrimination against foreign service providers, although services related to public securities turnover can be provided from foreign countries only through enterprises established in Lithuania or relevant bank divisions.

Enterprises established in Lithuania and owned by foreigners may become members of the National Stock-Exchange or the Central Securities Depositorium under the same conditions as domestic entities.

3. Banking services

A two tier banking system is established in Lithuania: the Bank of Lithuania (which operates as the central Bank of Lithuania) and commercial banks. The system is regulated by the Law on the Bank of Lithuania (1 December 1994). This Law provides the powers and functions of the Central Bank and gives directives on planning and implementation of its activities in conformity with the Law on Credibility of Litas (17 March 1994) and the procedures for licensing and supervising banks and other financial institutions. The other principal law regulating the banking system is the Law on Commercial Banks (21 December 1994) which regulates banking activities, includes provisions on the establishment, reorganization and liquidation of banks.

Any legal person can freely exchange foreign currency into Litas and vice versa to make international payments and orders; crediting transactions are made without any restrictions. It is also possible to freely repatriate profit or income received from investments. An investor wishing to acquire 10 per cent or more of an existing banks stock capital must first obtain the permission of the Bank of Lithuania. Capital transactions are also free.

The procedure for founding a foreign commercial bank with foreign capital and the procedure for its operation is established by the Law on Commercial Banks. A foreign bank in the Republic of Lithuania may:

- establish a subsidiary;
- acquire shares in a functioning bank and, with the consent of the Bank of Lithuania, acquire controlling interest in a functioning bank; and
- upon receiving permission of the Bank of Lithuania establish bank agencies.

The Bank of Lithuania reviews all applications for licences to open commercial banks, whether submitted by Lithuanians or foreigners.

The Board of the Bank of Lithuania shall consider the application and issue a banking licence.

II. Communication Services

As an update to the information provided in the Memorandum on the Services Regime, it should be noted that Lithuania has made several recent improvements to the legal framework governing communication services.

A new Law on Communications (3 November 1995) provides the potential for greater foreign participation in Lithuanian telecommunications markets by authorizing the Government monopoly "Lietuvos Telekomas" to take on foreign partners for the introduction of new technologies and networks. That Law provides new monopoly rights for the Government to provide mail services.

A new Law On Radio Communications (7 November 1995) establishes rules to govern use of radio communications as well as use, production, import and trade of related equipment.

Government Resolution No.1400 "On Licensing of Post and Telecommunications Services" (31 October 1995) establishes a public tender/licensing system for suppliers wishing to engage in the following activities: provision of international, interurban and local telephone and telegraph services; establishment of wire radio and cable television; establishment of mobile radio communication services; establishment of radio and television transmissions; and, establishment of satellite transmissions.

It also should be noted that in addition to the above requirements, the Government of Lithuania must approve each foreign capital investment (whether wholly foreign-owned or as part of a joint-venture) in the sphere of communications services.

III. Transport Services

As an update to the information provided in the Memorandum on the Services Regime, it should be noted that several improvements are planned to the legal framework for transport services. In 1996, the Ministry of Transport will be working on a draft of a new Transport Infrastructure Law and a new addition to the Law on Fundamentals of Transport Activities. These will have the aim of specification and reflection of other laws.

The Parliament is now considering the drafts of an Air Transport Code, the Railway Code, the Trade Shipping Law, the Inland Water Transport Code and the Klaipeda (region of Lithuania) State Seaport Law. Once adopted, these will bring the listed sub-sectors under a legal framework for the first time.

In regard to road transport, the former State-owned road transport companies have been broken up into freight and passenger transport companies. The passenger transport companies operate under municipal management. Privatization of the freight transport companies is nearly completed and this has encouraged the formation of a free market for transportation services. In regard to air transport, the former Government monopoly has been broken into independent enterprises: infrastructure objects (airports and air traffic services) and aviation companies (Lithuanian Airlines and Air Lithuania).

In regard to water transport, in 1992, Klaipeda Port was established as the Lithuania State Seaport. Both State and private companies are operating stevedoring, ship repair, and shipbuilding services in this Port. Rail transport services are provided by the Government monopoly "Lithuanian Railway".