In-depth review of the investment climate and market structure in the energy sector of

LITHUANIA

Energy Charter Secretariat
2013

In-depth review of the Investment Climate and Market Structure in the Energy Sector of LITHUANIA

ENERGY CHARTER SECRETATIAT
2013

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INTRODUCTION

Introduction

Lithuania ratified the Energy Charter Treaty (ECT) and the Protocol on Energy Efficiency and Related Environmental Aspects (PEEREA) in June 1998. In fulfilment of its commitments, Lithuania presents a Report on the Investment Climate and Market Structure (ICMS). The report mainly covers the period 2005–2012 and is generally based on the latest publicly available data for Lithuania.

The report contains updated information on the development of the national economy, an analysis of the legal framework for investments and a review of the investment climate and market structure in the energy sector of Lithuania.

Undertaken on a peer review basis, this report serves the purpose of information sharing and cooperation between member states. The report is prepared by the Lithuanian authorities with the assistance of the Energy Charter Secretariat, and in this respect is the product of a fruitful and close cooperation.

POLICY CONCLUSIONS ADOPTED BY THE ENERGY CHARTER CONFERENCE

THE CHARTER CONFERENCE

Having heard the report from the Investment Group of the Energy Charter with respect to the Report on Investment Climate and Market Structure from Lithuania

NOTED

a) That the review has shown that Lithuania honours its commitments under the ECT and has undertaken broad reforms and investment policy measures towards improving legal frameworks for investors;

b) "In particular, with respect to:

(i) Lithuania

- *Took note with satisfaction that Lithuania has created a favourable business climate that is essential for attracting foreign direct investment (FDI). The reform process could be continued in the following areas:*
  - *urther improve favourable conditions for starting and developing a business;*
  - *reduce the administrative burden and simplify legal regulations;*
  - *increase the efficiency of the partnership between businesses and state entities;*
  - *strengthen the enforcement of equal competition rights for businesses.*
- *Noted that a significant challenge is the financing of various strategic projects to improve interconnections in the electricity and gas sectors, constructing of a liquefied natural gas (LNG) facility and new regional Nuclear Power Plant. As due to its scale, insufficient energy infrastructure cannot be tackled effectively by national measures alone, and as of meeting common EU targets for completing the internal energy market by 2014 and removing energy islands by 2015, the EU level political and financial support together with appliance of innovative financial instruments is requisite and substantial. Such assistance would stimulate rapid infrastructure development, determine timely project implementation, and could encourage investments from the private sector. The Government of Lithuania may consider taking the following priority action directions:*
  - *evenly adhere to the set priority to create functioning power and gas energy markets integral with the EU energy systems by continuing already established consistent and successive implementation of energy infrastructure projects;*
  - *consider where possible more widespread use of a public-private partnership in improving the infrastructure;*
  - *create a functioning gas market balancing the interests of the general public, government and foreign investors;*
  - *further strengthen the regulatory institutional framework to ensure more regulatory stability in the energy sector.*
- *Underlined that the development of renewable energy sources (RES) is an important alternative to traditional energy, which is helpful in not only addressing climate change*

[1] *Adopted at 23rd meeting of the Energy Charter Conference on November 26 in Warsaw, Poland*

issues but also increasing Lithuania's energy independence. To increase the use of RES, Lithuania may consider the following:

- *improve conditions for RES development in the areas of administrative regulation and infrastructure accessibility;*
- *improve conditions for stimulating private investments in heating services;*
- *involve local authorities in implementing the RES development policy;*
- *support research and promote cooperation between science and business in the field of RES;*
- *continue educating society on the issues of RES and energy consumption efficiency.*

• *Draw attention to the fact that the potential to reduce greenhouse gas emissions in Lithuania is highly dependent on the course of energy sector development and the measures implemented to reduce climate change in other sectors".*

SUMMARY OF THE MAIN FINDINGS OF THE SECRETARIAT[2]

Investment climate

Lithuania maintains close economic ties with neighbouring countries. Its strategic geographical location between the European Union (EU) and the Commonwealth of Independent States (CIS) is favourable for business development. Lithuania is viewed as a kind of a bridge between the EU and the CIS. According to local stakeholders and international financial institutions, investor confidence in business security is ensured by EU standards-compliant legislation governing investment in general economic sectors.

In 2011, the Lithuania Government began to implement the consolidation of initiatives in the area of improving the business environment. The regulatory reform is being implemented in six key action directions: reducing the administrative burden for businesses, simplifying business regulation with the help of the World Bank's 'Doing Business' survey, reviewing business licensing, optimising business-inspecting institutions, strengthening the mechanism for consulting with businesses and implementing competition rules.

The principal Act relating to the foreign investment regime in Lithuania is the Law on Investment. The law provides equal investment rules for domestic and foreign investors by listing areas and methods concerning where and how to attract different types of investment. Legislation in Lithuania has no special requirements for foreign investors to collaborate at the local level, but for some activities, such as district heating, permission from the local authorities might be obligatory under national law. Under the Law on Local Self-Government, local authorities are also responsible for the promoting the conditions for foreign investment. The review finds that the Lithuanian Government does not limit or divide foreign investment in the country according to the periods or areas of investment or other criteria. Investors have the right, upon paying the taxes in the manner prescribed by Lithuanian law, to convert into foreign currency and/or transfer the profits abroad without restriction.

Lithuania's energy policy is implemented in accordance with the National Energy Strategy (NES). The strategy is based on three pillars: energy independence, competitiveness and sustainable development.

Electricity and heating sectors

In the electricity sector the government owns the majority of production, transportation and distribution enterprises. The Law on Electricity of Lithuania, adopted on 7 February 2012, provides the legal framework for the development and enhancement of the competitiveness of the Lithuanian electricity market and ensures the activities of the power transmission system operator are separated from those of other power sector enterprises. According to the law, the National Control Commission for Prices and Energy (NCC) will establish obligations to provide services at cost-oriented prices with regard to the reasonable return on investment.

The Lithuanian transmission grid is well integrated with Belarus, Latvia and Kaliningrad region. There is no connection with neighbouring Polish and Swedish power systems. The state authorities consider that the interconnections with Sweden and Poland and synchronised operations with the continental European power systems are required to reduce market concentration. However, these projects are cost intensive. The situation is also complicated by the fact that these strategic projects are being implemented almost simultaneously. Besides, preparation for synchronised operations with continental European

[2] *These findings were submitted by the Energy Charter Secretariat to the regular session of the IG on 4 April 2012.*

power systems would also require considerable financial resources, and is seemingly in need of more EU financial assistance.

Lithuania faces some challenges in the district heating sector and these are related to the possibility of integrating renewable and local energy resources. A wider use of renewable energy can help energy supplies be diversified and the targets for sustainable development to be met. The investment climate seems to be a major issue for private investors' involvement in large-scale district heating projects. The lack of individual metering in old houses complicates the district heat business. In Lithuania, as with power and gas, the government is considering introducing non-discriminatory third-party access (TPA) to district heating grids, which is primarily aimed at cutting costs through competition and reducing district heat prices.

Natural gas

In terms of the natural gas supply, Lithuania has to rely on two main wholesale companies, Lietuvos Dujos AB and Dujotekana UAB, which dominate the natural gas supply market. The natural gas retail market is 100% open in Lithuania but, due to the high concentration on the supply side, customers may not use the advantage of the open market. On the distribution side, it should be noted that approximately one third of the territory of Lithuania has not been gasified.

Lithuania's natural gas transmission system is connected to Belarus', Latvia's and the Russian Federation's gas systems. International connections with these countries are regulated on a contract basis. The technical capacities of the existing interconnection with Belarus are sufficient to meet customer needs. At present, Lithuania's natural gas market is not integrated with those of other EU member states.

In 2010 the Lithuanian Government made the decision to construct an LNG terminal in Klaipeda. The state enterprise Klaipedos Nafta was selected as the main terminal construction instrument. The projected potential capacity of the terminal is at its maximum 3 billion cubic metres (bcm)/a. The plan is that the plant will start its operations in 2014. The LNG terminal project is included in the Baltic Energy Market Interconnection Plan (BEMIP), which was approved by the European Commission and eight Baltic Sea states on 17 June 2009.

RES

Lithuania has significant potential in terms of the development of RES. The National Strategy for the Development of RES was approved on 21 June 2010. The main aim is to ensure that the share of renewable energy in the country's total final energy consumption reaches at least 23% by 2020. The action plan to promote RES for 2011–2020 provides for the following measures:

- establishing a general system of incentives for the use of RES;
- obligating municipalities to promote the use of RES through municipal development plans for 2011–2020;
- financing pilot projects in the RES area;
- improving public awareness for and education on RES matters; and
- implementing the national research programme 'Future energy' and other scientific research programmes in the RES area aimed at guaranteeing energy security.

At present, RES projects benefit from the following incentives: access to a grid discount, priority for RES in cases of limited transmission capacity, tax exemptions for bio fuels, feed-in tariffs for electricity and heat purchases and concessions for balancing electricity.

Lithuania has adopted legislation requiring that utilities purchase power generated from RES at favourable rates. Permits for development RES in wind and small hydro projects require that the construction is completed in two years. The regulations require the application of a tendering procedure for projects above 30 kW of installed capacity.

GENERAL INFORMATION

Country information

Lithuania is one of the Baltic States that combines the Scandinavian traits of progressive attitudes, order, cleanliness and a natural and attractive environment with the Eastern European characteristics of new, rapid development, on the rise and as yet undiscovered. Sometimes called a Northern and sometimes an Eastern European country, Lithuania is an authentic combination of both.

Figure 1: Map of Lithuania

http://education.randmcnally.com/

As a market, Lithuania provides a unique blend of EU advantages and proximity to the markets of Scandinavia and Western Europe, combined with access to the large eastern markets of Russia and the CIS.

Lithuania is located in the geographic heart of Europe and shares borders with Latvia, Belarus, Poland and Russia. Encompassing over 65,000 sq kilometres, Lithuania is larger than Belgium, Denmark, the Netherlands and Switzerland. 70% of its lowland plains and hilly uplands are arable land and the remaining lands are forested. Lithuania's 22,000 rivers and rivulets, 3,000 lakes and 99 kilometres of Baltic Sea coastline provide a recreational wonderland with an emphasis on the preservation of nature.

Major cities include Vilnius with a population of 549,000, Kaunas with a population of 349,000 and Klaipeda with a population of 183,000. Siauliai and Panevezys are also important cities for commerce. The climate is midway between maritime and continental, with an average daytime temperature of -5° C in January and 20° C in July.

People from 115 different ethnic backgrounds live in Lithuania. While the population is mostly Lithuanian, 6.7% are Polish, 6.3% Russian and 3.6% other (Belarusians, Ukrainians, Latvians, etc.).

Most of the population is Roman Catholic, but there are also Russian Orthodox, Evangelical Lutherans, Evangelical Reformers, Old Believers, Jews, Sunni Muslims and Karaites.

The official state language is Lithuanian, which is the most archaic living Indo-European language and is closely related to Sanskrit. It is possible to compare Lithuanian and Sanskrit in such a way that even those who have not studied linguistics may observe the similarities.

The 32-letter Lithuanian alphabet is Latin-based. English and Russian are widely spoken.[3]

Political system in Lithuania

The Republic of Lithuania is an independent democratic parliamentary republic.

The foundations of the political system are enforced by the Constitution of the Republic of Lithuania, which was adopted in 1992. Under the law, sovereign state power is vested in the people of Lithuania and is exercised by the president, the Seimas (parliament), the government and the judiciary.

The president of Lithuania is the head of state, elected directly for a five-year term, and can be in office for a maximum of two terms consecutively. The president, with the approval of the Seimas, is responsible for appointing the prime minister. The president also appoints ministers, under the recommendation of the prime minister, as well as a number of other top civil servants and the judges. In May 2009, the European Commissioner for Financial Programming and the Budget, Ms. Dalia Grybauskaitė, was the first woman elected to be president of the Republic of Lithuania for a term of five years.

The Seimas is a one-chamber parliament that deliberates on and adopts laws, amendments to the constitution and other legal acts. The Seimas also calls presidential elections, approves or rejects the candidacy of the prime minister nominated by the president and considers and approves the government programme submitted by the prime minister. The Seimas is composed of 141 members elected for a four-year term. Out of these, 71 are directly elected by the people, while 70 are elected by proportional vote.

The government is the highest authority of executive power. It comprises the prime minister and ministers. The prime minister is appointed or dismissed by the president of the Republic of Lithuania, with the approval of the Seimas. Ministers are appointed by the president of the Republic of Lithuania on the nomination of the prime minister.

The government administers the affairs of the country, protects the inviolability of the territory of the Republic of Lithuania and implements the laws and resolutions of the Seimas and the decrees of the president. The government is also responsible for the preparation and execution of the budget and discharges other duties prescribed to the government by the constitution and other laws.

The Constitution of the Republic of Lithuania provides that the courts have the exclusive right to administer justice.

[3] *Investment in the Baltic States: a comparative guide to investment in Estonia, Latvia, Lithuania, pp. 27–28. KPMG in the Baltics, May 2011. http://www.kpmg.de/docs/InvestmentBalticSeas.pdf.*

The Lithuanian system of general jurisdiction courts consists of the Supreme Court (one), the Court of Appeals (one), district courts (54), regional courts (five) and courts dealing with civil and criminal cases. Administrative litigation is assigned to the Supreme Administrative Court (one) and regional administrative courts (five).

A district court is, in the first instance, for criminal cases, civil cases and cases of administrative offences (assigned to its jurisdiction by law) and cases assigned to the jurisdiction of mortgage judges, as well as cases relating to the enforcement of decisions and sentences. A judge in a district court also performs the functions of a pre-trial judge or an enforcement judge. Administrative courts hear disputes in the field of public administration and deal with issues relating to the lawfulness of regulatory administrative acts, tax disputes, etc. Before applying to an administrative court, individual legal acts or actions taken by entities of public administration provided by law may be disputed in the pre-trial procedure.

There is also the Constitutional Court, which determines whether the laws and other legal acts are in conformity with the constitution or whether the legal acts of the president and of the government comply with the constitution and laws.

The concept of precedent law is not applicable in Lithuania; however, the Senate of the Supreme Court analyses court practice and adopts recommendations on the uniformity of legal interpretations.

The Lithuanian Law on Commercial Arbitration is applied for both national and international arbitration. National arbitration is defined as arbitration to resolve disputes between economic entities of the Republic of Lithuania except for disputes referred to international arbitration (for example, parties have their places of business in different countries; the place of arbitration is outside the country in which the parties have their places of business; parties have expressly agreed that the subject matter of the arbitration agreement is related to more than one country; one or both parties to the dispute are Lithuanian economic entities in which foreign capital is invested, etc.).

Commercial disputes are defined as controversies between parties arising from contractual or non-contractual legal relations, except for disputes that, subject to the law, cannot be submitted to arbitration. Disputes arising from constitutional, employment, family and administrative legal relations, as well as disputes in connection with competition, patents, trademarks or bankruptcy agreement, cannot be submitted to arbitration.

Arbitrational agreement shall be expressed in writing and it may be in the form of an arbitration clause in an agreement or a separate agreement can be concluded by the parties. The parties are free to determine the number of arbitrators. Failing such determination, the number of arbitrators shall be three.

Both institutional and ad-hoc arbitrations are recognised in Lithuania. An arbitral award is binding to the parties at the moment it is made. The parties no longer have the right to start action concerning the same subject matter based on the same grounds. Arbitral awards are enforced under the same procedures as court rulings. Foreign arbitral awards made in the country that is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, also known as the New York Convention, are recognised and enforced in Lithuania. The recognition and enforcement of foreign arbitral awards are carried out through the Lithuanian Court of Appeals.

Economic situation

Governmental strategy for economic development

Hit by the global recession, Lithuania's economy started rebounding in the third quarter of 2009. Out of the EU member states, Lithuania was leading the recovery in 2010 in line with Poland, Slovakia, Romania and the Czech Republic. In 2010, the national real gross domestic product (GDP) grew by 1.3%, and 5.9% in 2011.

Despite the global recession, 28 foreign companies accomplished 35 new FDI projects and created 5,300 new jobs in Lithuania in 2009.[4] In addition, a total of 31 new investment projects were launched in 2010 in Lithuania, bringing almost 16% more capital into Lithuania than the previous year. It is expected that more than 3,400 new jobs will be created in the market in the next few years.

Lithuania has been praised by international economic analysts for being an attractive destination for foreign business expansion. The Lithuanian economy is ranked forty-fourth globally out of 142 economies worldwide in the Global Competitiveness Report 2011–2012 announced by the World Economic Forum.[5] Lithuania is ranked highly in terms of the categories for the level of higher education in the country (twenty-sixth position globally) and IT literacy (thirty-fourth).

In its latest economic freedom index 2011 the US economic think tank, the Heritage Foundation, rated Lithuania twenty-fourth out of 179 countries in the world.

The Lithuanian economy has been gradually recovering from a sharp economic contraction in 2009. The country's overall transition to greater economic freedom has been facilitated by structural reforms and an increasingly vibrant private sector that accounts for about 80 percent of GDP. As reflected in relatively high scores for fiscal and business freedom, competitive taxation and an efficient regulatory system have contributed to a more vibrant economy.

The national government has set two strategic economic goals for Lithuania: to become the Northern Europe Service Hub by 2015 and Northern Europe Innovation Centre by 2020. Lithuania is involved in the development of high-quality technology services and leads Europe and the world in a number of information and communication technology (ICT) infrastructure categories, such as the fastest Internet uploading speed, 4G mobile WiMAX technology and one of the best-developed fibre broadband services.

The country also hosts such global service businesses as Barclays Bank of the UK, Western Union, IBM and CSC of the US and Ideal Invent Technologies of India. By 2012, it is expected that one-third of the total FDI in Lithuania will come from the service sector and, by 2015, Lithuania expects the share of exports of services will comprise approximately one-third of the country's total exports.

The government is actively working on service cluster (IT engineering, accountancy and financial operations, HR management, education and research and development (R&D) in biotech, biopharma, nanotechnologies, alternative energy technologies, transport and logistics), development programmes and service export promotion strategies, as well as investor support tools.

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[4] *Source: FDImarkets.com investment monitor.*

[5] *Source: Global Competitiveness Report for 2010–2011 by the World Economic Forum.*

Overall investment environment [6]

Although Lithuania is experiencing further economic recovery, the expectations of both households and firms regarding further development are beginning to deteriorate. The GDP of Lithuania has been increasingly growing lately, added value and employment in many economic areas has increased and the unemployment rate has decreased during the year. However, the growth of some economic segments has been slower, in particular those related to foreign demand. The amount of marketed industry in foreign countries has been increasing at a slower pace for some time. The export market of Lithuania is growing more moderately for both goods and services originating from Lithuania and the country's exports in general. Such development of the economic indicators is related to a worsening import demand from the trade partner countries of significant interest to Lithuania, such as Russia, Germany, Poland and Estonia. Lithuanian households as well as companies in the main economic areas, such as industry, trade and other, have assessed that the short-term perspective is worse than several months ago. Therefore, it is estimated that the development of the real GDP of Lithuania will stop growing in the short-term period. It is expected that GDP will grow by 6.2% in 2011 and by 2.5% in 2012.

Presently, GDP growth is mainly increased by private consumption expenditure. It started growing at the end of previous year and is still growing at an accelerating pace. Private consumption has been initially stimulated by better household expectations and has recently been positively affected by the recovery of the labour market, that is increasing rises in wages. The recovery of private consumption is also indicated by rising retail sales as more consumer non-durables and consumer durables have been marketed. However, the deteriorating situation in the world economy has also led to worsening household expectations in relation to the economic situation in Lithuania as well as conditions in the labour market. Therefore, private consumption should not be accelerating by the end of the year and it is estimated that it will become slower in upcoming quarters. It is expected that in 2012 private consumption will rise by 3.5% while in 2011 it rose by 6.3%.

The share of the energy sector (the supply of electricity, gas, steam and air conditioning) in terms of Lithuania's GDP for 2008–2010 is as follows: 2.5% for 2008, 3.1% for 2009 and 3% for 2012.

Investments for general fundamental capital are increasing significantly. They are mostly increasing in the private sector, where investments are taking place in transport and the means of production. Up to now an increase in investments in this sector has been stimulated by the usage level of the production capacity, which has reached the pre-recession level in some industries (such as the chemical, wood and clothing manufacturing industries). Investments in transport are increasing at an exceptionally fast pace as would be expected, since the amount of such investments during the recession was the most noticeable. The growing economy in Lithuania has contributed to the growth in construction sector. However, growth of investment capital is affected by the expected less favourable outlook for the economy. The predicted decreasing growth in investments is indicated by the slowly increasing amount of imports of goods for about half a year.

The situation in the labour market has improved considerably recently. Unemployment is being reduced and the levels of long-term and youth unemployment are falling while they

[6] *Source: Bank of Lithuania, 2011.*

increased during the recession at an accelerating pace. The increase in employment is mainly determined by the service sector; yet other areas, such as industry and construction, are also contributing to it. Employment is mostly stimulated by the bigger, private sector, but has also increased in the public sector for several quarters already. Employment is also increased by labour options, indicating the flexibility of the labour market, such as part-time work and temporary work. Hence increased employment is widely applied; it embraces a large part of the economy and is not only characteristic of a single activity or sector. It is estimated that in 2011 and 2012 employment will increase (by 3.1% and 1.6%, respectively) and the unemployment rate will decrease.

The indicators of both employment and work payment are changing. While activity is increasing and there is a lack of properly qualified workers in some economic activities, the average pay in the country is rising. Any increase in work payment in a year is mainly affected by the service sector, but it is also increasing in other activities. It is estimated that the average work payment will continue to increase during the projection period. In 2011 and 2012 it should increase by 4% and 3%, respectively.

According to the seasonally adjusted data, the re-export trade is still higher than a year ago, but it has fallen in the last few months. It has become less relevant due to a reduction in passenger car sales. This has affected the general trends of both exporting and importing goods. The export of goods of Lithuanian origin is also higher than a year ago. However, (according to the seasonally adjusted data) the export trade has not increased of late — the export volumes of most goods remain stable. As mentioned before, such export development is determined by lower import demand in foreign countries. It is important to point out that, at the same time, the Lithuanian export market share is still increasing. External demand should be increasing more slowly; therefore, it is estimated that the export trade will increase at a slower pace. The real export of goods and services should increase by 13.2% in 2011 and by 5.3% in 2012.

The foreign trade deficit has changed less recently. In the second quarter of 2011 the ratio of the balance to the nominal GDP was similar to that at the beginning of the year with regard to the trade in both goods and trade services. The income balance has also changed to a lesser degree. However, the current account deficit has increased due to the lower surplus of current transfers. The latter has decreased after a fall in payments from EU funds. These payments should increase in upcoming quarters. In addition, the balance of current transfers should be further favourably affected by the equally increasing remittances of private persons.

After reaching its highest level during the last two years, annual inflation has marginally decreased, while food prices have been increasing at a slower pace and the net inflation has decreased. The main factor of inflation in Lithuania is increased food prices during the year, but its effect is reducing as global food commodity prices are increasing slowly. As concern about the outlook for the global economy has increased, oil prices have increased less over the year; therefore, a rise in annual fuel prices has slowed down and the pressure on inflation caused by the rising cost of petrol has decreased. On the contrary, the effect of the administered prices is increasing and this increase is mainly a result of the rising price of thermal energy due to increasingly costly imported fuel. The prices of industry goods and market services, which are dependent on the internal consumption turnover and are included in the estimation of the net inflation indicator, have little influence on inflation. Their influence should not rise in the near future, since there is an increased risk that the Lithuanian economy will increase more slowly along with the worsening situation in the

world economy. Hence, while an assessment of the development of foreign countries and the Lithuanian economy shows they are worsening, lower inflation is estimated for both 2011 and 2012, and this will comprise 4.2% and 3%, accordingly.

In terms of economic growth rates over the past decade, Lithuania has been leading other Baltic States. From 2000 onwards, Lithuania's economy has grown on average by 5.3% per year, while that of Estonia has grown by 4.6% and that of Latvia by 4.3%.[7] In the pre-crisis period of 2000–2007, Latvia had the fastest GDP growth with an average annual rate of 8.8%. Estonia's annual rise in GDP was 8%, while Lithuania's was 7.5%. However, during 2008–2009, Latvia saw the most rapid GDP drop by 21.4%, followed by Estonia by 17.2% and Lithuania by 12.4%. The SEB Bank forecasts that, in 2011 and 2012, Lithuania's economy will increase by 4% and 4.5%, respectively.

Table 1: Key economic indicators

	2005	2006	2007	2008	2009	2010	2011 forecast
GDP, EUR bn	20.9	23.9	28.6	32.2	26.7	22.1	28.6
GDP growth (annual), %	7.8	7.8	9.8	2.8	-14.8	1.3	2.8
Annual inflation, %	2.7	3.8	5.8	11.1	4.2	1.1	1.8
FDI, EUR bn	4.7	6.9	8.4	10.3	9.2	10,3	-
Exports, EUR bn	9.5	11.3	12.5	16.1	11.7	16.8	-
Imports, EUR bn	12.4	15.4	17.8	21.1	13.1	16.2	-
Unemployment, %	8.3	5.6	4.3	5.8	13.7	17.9	15.8

Source: Statistics Lithuania, www.stat.gov.lt; Ministry of Finance, www.finmin.lt

FDI

The FDI flow into Lithuania comprised LTL 2.1 billion (EUR 0.6 billion) in the first half of this year and LTL 4.5 billion (EUR 1.3 billion) or 4.5 of GDP in the last four quarters (from the third quarter of 2010 to the second quarter of 2011). The greatest part of the flow (LTL 2.4 billion) included other capital flows (loans raised from direct investors); the reinvestment flow comprises LTL 1.5 billion and investments into the capital stock amounted to LTL 614.1 million.

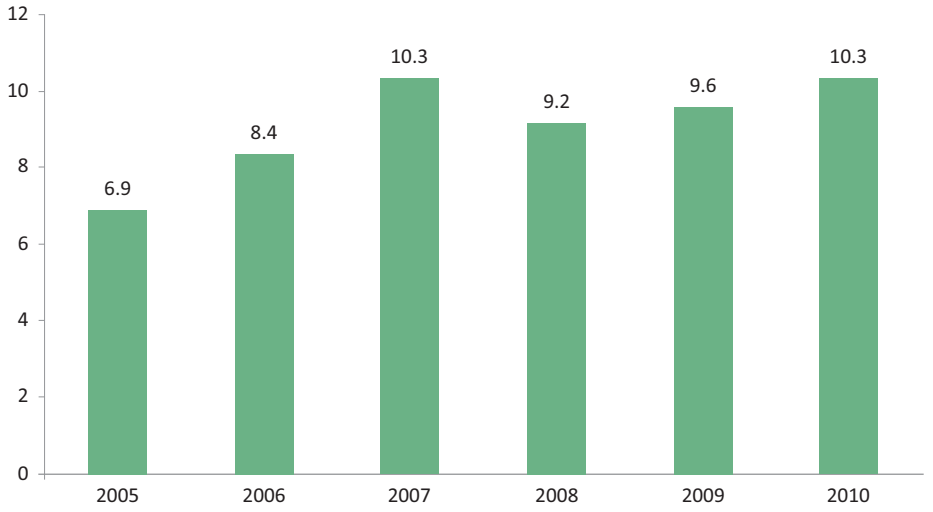
On 30 June 2011 accumulated FDI in Lithuania comprised LTL 36.9 billion (EUR 10.706 billion). The average FDI per capita was LTL 11.513 (EUR 3.334 billion) (LTL 10.958 of FDI on 31 December 2010).

Accumulated FDI into the Lithuanian energy sector (the supply of electricity, gas, steam and air conditioning) comprised LTL 2.3 billion (EUR 0.67 billion) in 2008, LTL 2.6 billion (EUR 0.75 billion) in 2009 and LTL 3.1 billion (EUR 0.9 billion) in 2010.

The tables below contain accumulated FDI in Lithuania from 2005–2010 and FDI allocation in subsectors in 2010.

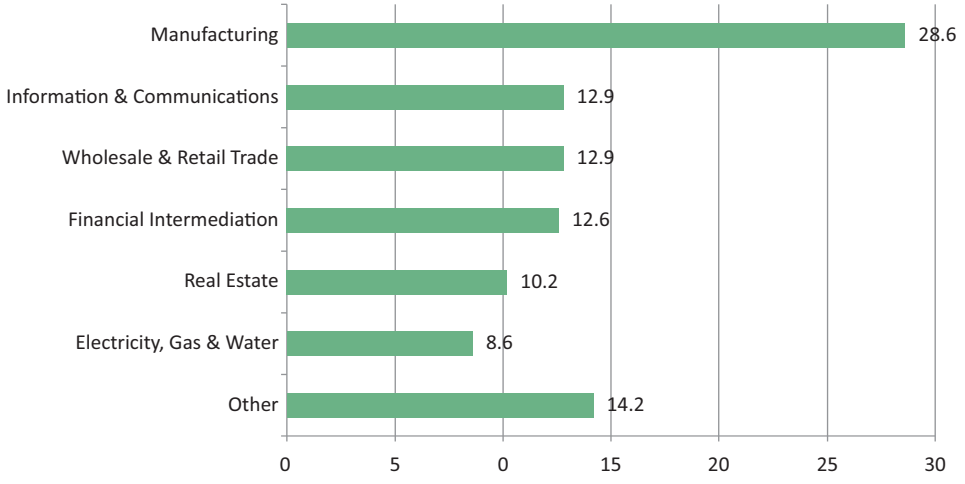
[7] *Source: SEB Bank.*

Figure 2: FDI in Lithuania, EUR billion



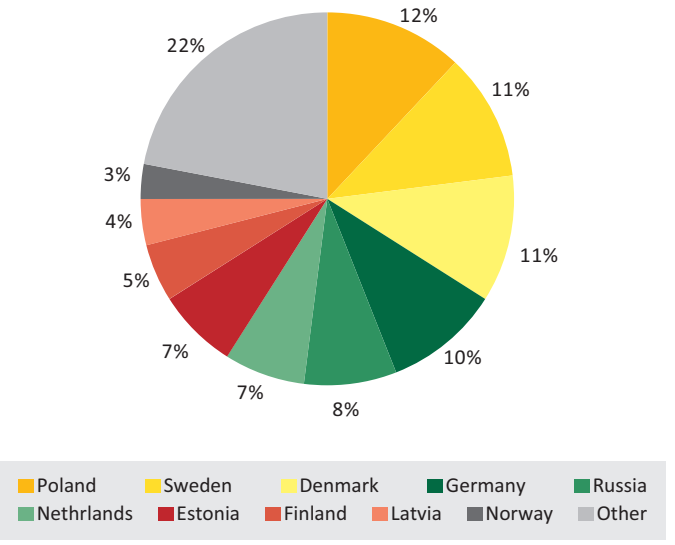
Source: Lithuanian Department of Statistics, www.stat.gov.lt

Figure 3: FDI in Lithuania by economic sector in 2010, %



Source: Lithuanian Department of Statistics, www.stat.gov.lt

Figure 4: Major countries' investors in 2010

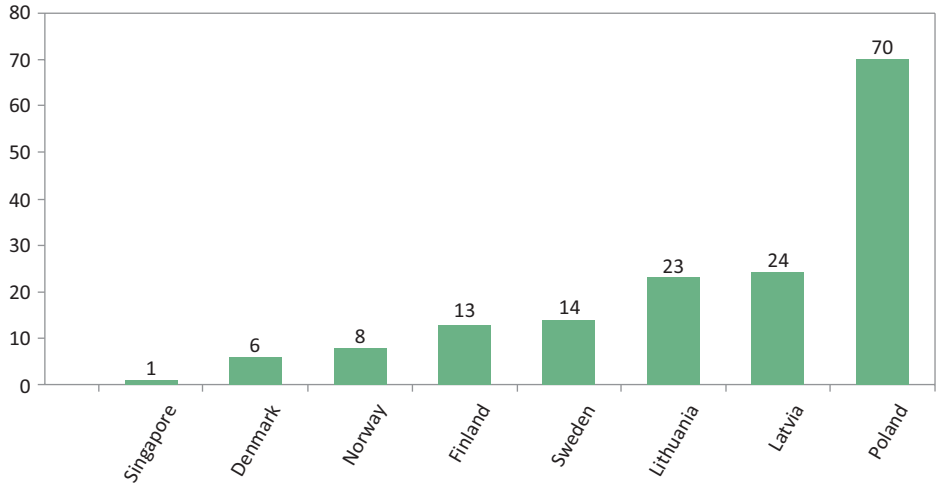


Source: Lithuanian Department of Statistics, www.stat.gov.lt

In the second quarter of 2011 the main investors in Lithuania were from Poland (LTL 1 billion), Sweden (LTL 683.2 million), Estonia (LTL 292.8 million) and Finland (LTL 93.4 million) and investments have been largely focused on the production of refined oil and chemical products in the manufacturing area (LTL 913.7 million) and the production of other vehicles and equipment (LTL 79.1 million), financial and insurance activities (LTL 291.1 million) and construction activities (LTL 93.7 million) as well as professional, scientific and technical activities (LTL 66.2 million).

The next two pages show a summary of the Doing Business 2011 data for Lithuania. The tables list the overall 'Ease of Doing Business' ranking (out of 183 economies) and the rankings by each topic. At the moment Lithuania is in the twenty-third place in the Global Rank of Ease of doing business. The Lithuanian Government's aim is to be among the first 15 countries in the Doing Business Global Rank. In aiming for this position, the Lithuanian Government is considering measures by which to facilitate business conditions in Lithuania (shortening registration procedures, etc.).

Figure 5: Ease of Doing Business – global ranking



Source: http://www.doingbusiness.org

Table 2: Economy overview

Region	Eastern Europe & Central Asia	Doing Business 2011 Rank 23	Doing Business 2010 Rank 26	Change In Rank ↑3
Income Category	Upper Middle Income			
Population	3,339.550			
Gni Per Capita (US$)	11,410.00			

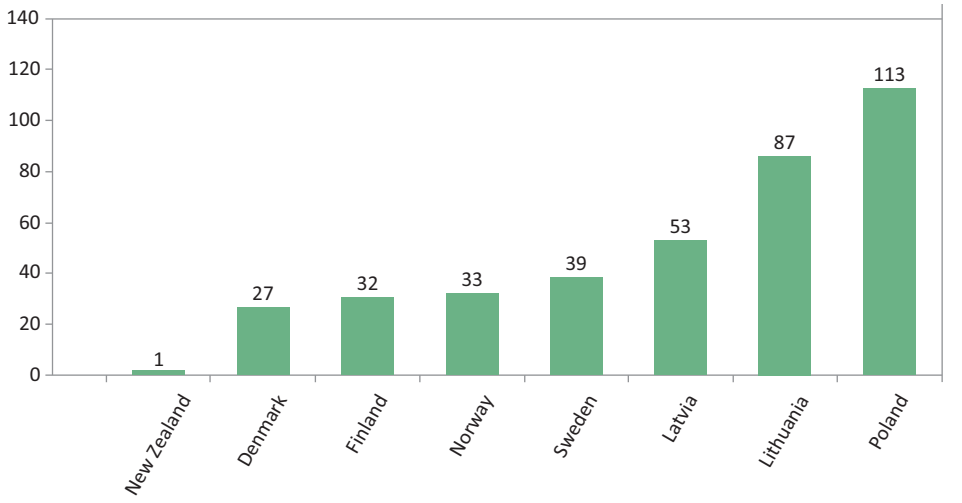
Source: http://www.doingbusiness.org

Table 3: Lithuania is ranked 87 overall for Starting a Business

TOPIC RANKINGS	DB 2011 RANK	DB 2010 RANK	CHANGE IN RANK
Starting a Business	87	98	↑11
Dealing with Construction Permits	59	60	↑1
Registering Property	7	7	No change
Getting Credit	46	44	↓-2
Protecting Investors	93	92	↓-1
Paying Taxes	44	50	↑6
Trading Across Borders	31	29	↓-2
Enforcing Contracts	17	16	↓-1
Closing a Business	39	36	↓-3

Source: http://www.doingbusiness.org

Figure 6: Ranking of Lithuania in Starting a Business – compared to good practice and selected economies



Source: http://www.doingbusiness.org

Investment policy

The Ministry of Economy is engaged in shaping and implementing the investment policy. With respect to this it carries out the following:

- analyses the development of investments and their effect on economic development, puts forward proposals for the government of the Republic of Lithuania with respect to shaping and promoting a favourable and competitive investment environment and is engaged in shaping a favourable investment environment;
- executes and coordinates works in relation to economic justification for the establishment and functioning of free trade zones in the Republic of Lithuania and prepares measures to improve the business environment;
- coordinates project on the development of public industrial areas;
- coordinates cooperation with international organisations and technical assistance for administrated areas.

One of the main institutions facilitating the implementation of the investment policy is the public institution 'Invest in Lithuania'. Its strategic goals are as follows:

- to promote and attract FDI in Lithuania;
- to develop for Lithuania an attractive image abroad of a country favourable to business and investments.

The Law on Energy of the Republic of Lithuania *(Official Gazette, 2002, No. 56-2224; 2011, No. 160-7576)* specifies that energy enterprises engaged in the activities the prices of which are regulated shall coordinate prospective investment with the national regulatory authority. Where such investment by the energy enterprises is not coordinated with the national regulatory authority, it may not be recognised as reasonable for revising the state-regulated prices.

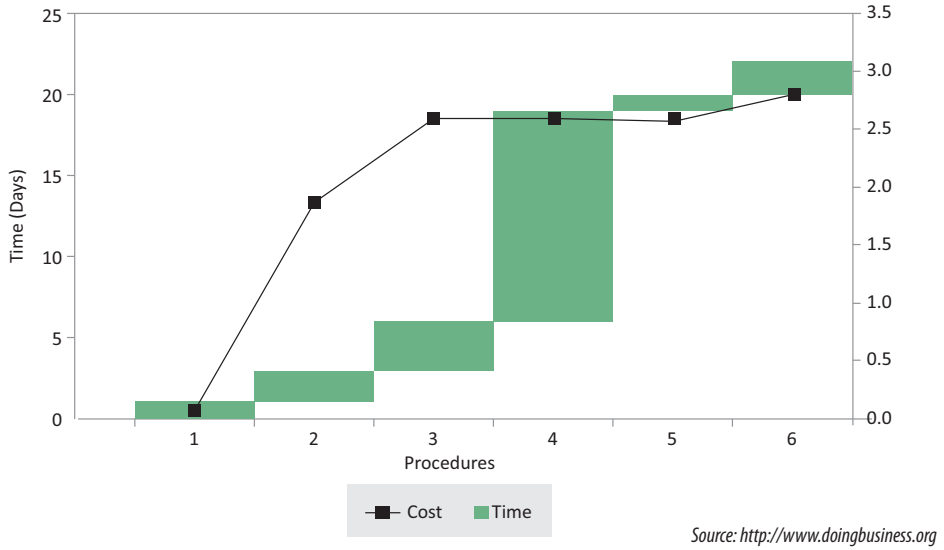
The widely ranging regulatory principles of investment are acknowledged by Lithuanian law. The principle of equal treatment means that Lithuanian and foreign investors shall be ensured under the Law on Investments and other laws and regulations in force in the territory of Lithuania a level playing field for operation. The principle of equal protection means that the rights and lawful interests of both domestic (Lithuanian) and foreign investors shall be protected under the laws and regulations in force in the territory of the Republic of Lithuania. It should also be noted that foreign investments are allowed for all lawful commercial-economic areas of activity, excluding those limited by the laws of the Republic of Lithuania. For investment in certain areas a licence issued by an authorised public authority is required. Furthermore, it should be noted that limitations are set forth by the laws for foreign investors while acquiring property rights to land.

Legislation

- Organic Law No. IX-960 of 20 June 2002 on the implementation of part 2 of Article 47 of the Constitution of the Republic of Lithuania (Official Gazette, 2002, No. 64-1503).
- Law on Investments of the Republic of Lithuania No. VIII-1312 of 7 July 1999 (Official Gazette, 1999, No. 66-2127).
- Law on the Fundamentals of Free Economic Zones of the Republic of Lithuania No. I-976 of 28 June 1995 (Official Gazette, 1995, No. 59-1462).
- Law on Concessions of the Republic of Lithuania No. I-1510 of 10 September 1996 (Official Gazette, 1996, No. 92-2141).
- Resolution No. 1447 of the Government of the Republic of Lithuania of 19 December 2007 'On the Approval of the Investment Promotion Programme for 2008-2013' (Official Gazette, 2008, No. 7-239).

Overview of the steps to starting a business in Lithuania[8]

Figure 7: It requires six procedures, takes 22 days and costs 2.81% of the gross national income (GNI) per capita to start a business in Lithuania



Source: http://www.doingbusiness.org

[8] *Source: http://www.investlithuania.com/en/doing-business/taxes.*

Table 4: Registration of a company

No.	Procedure	Time to complete (days)	Cost to complete
1.	Open a bank account with minimum capital and get a bank certificate proving the availability of the funds; pay the registration fee and obtain the document evidencing the payment	1	LTL 20 (~6 EUR)
2.	Notarize the agreement / memorandum of incorporation and bylaws; notarize the application for the registration of the private limited liability company	2	LTL 500 (~145 EUR)
3.	Register with the Company Register, including registration with State Tax Inspectorate (the Lithuanian Revenue Authority) for corporate tax, VAT, and State Social Insurance Fund Board (SODRA)	3	LTL 198 (~57 EUR)
4.	Complete VAT registration	13	no charge
5.	Open a settlement bank account (to handle normal commercial transactions)	1	no charge
6.	Obtain the official seal of the company	2	LTL 30-90 (~9-26 EUR)

Source: www.investlithuania.com/en/doing-business/taxes

LEGISLATIVE FRAMEWORK FOR FOREIGN INVESTMENT IN THE ENERGY SECTOR

Constitutional provisions and the conclusion of international treaties

The following is stated in Article 46 of the Constitution of the Republic of Lithuania.

> Lithuania's economy shall be based on the right of private ownership, freedom of individual economic activity and initiative. The State shall support economic efforts and initiative that are useful to society. The State shall regulate economic activity so that it serves the general welfare of the Nation. The law shall prohibit monopolisation of production and the market and shall protect freedom of fair competition. The State shall defend the interests of the consumer.

The Law on Treaties of 22 June 1999 (No. VIII-1248 as amended on 7 July 2005 – No. X-332) establishes the procedure for drawing up and implementing the treaties of the Republic of Lithuania, together with the Rules of Drawing up and Concluding Treaties of the Republic of Lithuania, established by Resolution No. 1179 of 1 October 2001 of the government of the Republic of Lithuanian (as amended by Resolution No. 743 of 16 June 2004, Resolution No. 1553 of 3 December 2004, Resolution No. 1410 of 22 December 2005 and Resolution No. 1349 of 19 December 2007). These two documents, together with the applicable provisions of the Constitution of the Republic of Lithuania, regulate the initiative to conclude treaties, decisions on the expediency of the conclusion of the treaties and the procedure for granting powers to conclude treaties. In addition, they provide a list of the treaties of the Republic of Lithuania subject to ratification, the procedure for the ratification and approval of the treaties and the rules on the implementation of the treaties and their amending and supplementing as well as a denunciation of the treaties or suspension of their operation. The rules also contain provisions for the arrangement of information about the treaties and their publication and registration at the United Nations Secretariat.

Pursuant to the Law on International Treaties of the Republic of Lithuania, where there is conflict between Lithuanian national laws and a ratified international treaty, primacy is accorded to the ratified international treaty. Hence, if certain conditions are regulated in an equivalent manner under an international multilateral or bilateral treaty the provisions of the treaty rather than those of domestic (national) law must be applied.

Establishment of enterprises[9]

The most common investment methods are as follows:

- setting up an entity or acquiring the capital of an existing entity or a share therein;
- establishing a branch;
- acquiring securities;
- creating or acquiring fixed assets such as real estate and movable property.

The transfer of shares can be easily registered with the public register by paying a registration fee of approximately LTL 10 (~ EUR 3).

Generally, due diligence is exercised in the case of the acquisition of already existing undertakings and/or real estate units to ensure the safety of the investment.

[9] *Investments in the Baltic States: a comparative guide to investment in Estonia, Latvia and Lithuania, pp. 50–57. KPMG in the Baltics, May 2011. http://www.kpmg.com/LV/en/IssuesAndInsights/ArticlesPublications/Documents/Investment%20in%20the%20Baltic%20States%202011.pdf .*

Corporate legal entities

Currently, foreign investors are available to carry out business in Lithuania through the following major corporate legal entities:

- private limited liability company (corresponding abbreviation in Lithuanian is UAB);
- public limited liability company (corresponding abbreviation in Lithuanian is AB);
- sole proprietorship;
- general partnership;
- limited partnership;
- investment company;
- agricultural company;
- cooperative company.

A European company (societas Europaea), a European cooperative society (societas cooperativa) and a European economic interest grouping are also available as types of business formations in Lithuania.

Foreigners may choose to carry out business through a branch or a representative office that would represent the business interests of the founder; however, the representative office may be engaged in business activities limited to the representation of the foreign founder only.

The most popular types of business entities used by foreigners conducting their business in Lithuania are private limited liability company and public limited liability company.

Both are separate legal entities where the liability of the shareholders is restricted to the value of the company's assets. The private limited liability company is the most common form of business entity and is ideally suited for small-sized businesses. It allows a business to operate as a legal entity with a simple management structure and without the necessity to invest large amounts of capital. However, the shares of a private limited liability company may not be circulated or traded in publicly.

The public limited liability company is the means of foreign investment generally chosen by larger corporations.

The principal advantage of a public limited liability company is that shares may be relatively easily transferred and can be listed on a stock exchange. The shareholders of public limited liability companies and private limited liability companies are liable under the companies' obligations only in terms of the amount that they must pay for the shares.

In addition to the Lithuanian Civil Code, the incorporation and management of private limited liability companies and public limited liability companies are regulated under a special company law.

Incorporation and capital requirements

A private limited company may be founded by one or more persons and these may be individuals or legal entities (local or/and foreign).

The founders must execute an agreement on establishment or an Establishment Act (in the

case of the sole founder). The founders must also approve the articles of association of the company, as well as fill in the standard application forms that need to be provided for the register of legal entities, where all companies are registered. All of the above documents must be duly approved by a Lithuanian notary public and afterwards submitted to the register of legal entities. When a private limited liability company (as well as sole proprietorship) is founded by a single person, all necessary documents may be submitted to the register of legal entities electronically without any notary approvals if certain requirements are met.

A foreign legal entity (founder) must also provide its registration certificate, its articles of association and the decision to establish a company in Lithuania. These documents must be legalised by the competent authorities in the foreign country.

The registration of a company takes three working days after all the necessary documents have been duly executed and submitted to the register of legal entities and stamp duties have been paid.

Private limited liability companies must have at least one and less than 250 shareholders. There are no restrictions with respect to the number of shareholders in a public limited liability company. The shareholders may be resident or non-resident legal entities or individuals.

The minimum authorised (share) capital is LTL 10,000 (approximately EUR 2,900) for private limited liability companies and LTL 150,000 (approximately EUR 43,500) for public limited liability companies. One-fourth of the authorised (share) capital must be monetary contributions; however, such monetary contributions may not be less than the minimum of LTL 2,500 for private limited liability companies and LTL 37,500 for public limited liability companies. The remaining part of the contribution may be either a monetary contribution or a contribution in kind. Contributions in kind must be valued by a certified asset appraiser before the company can be registered.

The share capital may be increased or reduced by a decision made with at least two-thirds of the votes at a general shareholders' meeting. A reduction in the authorised (share) capital with the purpose of paying out funds to the shareholders can only be decided at the annual general shareholders' meeting and the funds must be paid out to the shareholders in cash within a period of one month after the registration of the amended articles of association in the register of legal entities subject to certain conditions being met.

The company's equity must not be less than 50% of its authorised (share) capital.

Management

The Lithuanian Law on Companies calls for the creation of a three-tier management structure, which consists of the shareholders' meeting, the management board and the supervisory board. According to the legislation, both private and public limited liability companies must have two mandatory management bodies: the general meeting of shareholders and the head of the company. The management board and the supervisory board are optional for limited liability companies. The management board is a mandatory body for insurance companies, while banks must have both supervisory and management boards. According to the Corporate Governance Code for the Companies listed on NASDAQ OMX Vilnius, it is advisable for these companies to have supervisory and management boards.

There are no requirements regarding the residency of members of managing bodies.

The shareholders' meeting is the supreme corporate body with exclusive powers to make decisions such as amending the articles of association, increasing or reducing the share capital, approving the annual financial statements, liquidating, reorganising, etc.

Decisions at the shareholders' meeting are made by a simple majority of votes present (that is, 50% plus one vote), except for the most important decisions, for example to increase/reduce the share capital, approve the financial accounts, distribute profits, etc., which must be made following a qualified majority of votes of at least two-thirds, three-quarters or higher.

A company is managed and represented by the head of the company (managing director, president, etc.). Quantitative representation may also be established in the company. An employment contract must be concluded with the head of the company.

Branch of a foreign company

A branch of a foreign company is a structural unit of a company that has its own registered office and performs all or part of the entity's functions. It does not have the status of an entity, but it must be registered in the register of legal entities. A foreign company is fully liable for the obligations of its branch. The branch may carry out business activities, enter into contracts and assume obligations within the scope of the powers granted by the foreign company.

At least one of the persons representing the branch (for example, the branch manager) must reside in Lithuania. This requirement is not applied to branches of the EU and European Economic Area (EEA) entities and other organisations established in Lithuania.

The branch, as a form of the foreign entity's activity, shall be treated as a permanent establishment and, therefore, it must register for corporate income tax purposes in Lithuania.

Banking and insurance services may also be rendered through branches opened in Lithuania.

Foreign banks may open branch or representative offices in Lithuania. Banks incorporated in other EU member states are entitled to carry out financial activities based on the freedom of services if they have been granted the appropriate permission to carry out such activity in the country where they have a registered office.

Domestic insurance companies must have activity licences issued by the Insurance Supervisory Authority for an unlimited period of time. A licence for insurance activity is effective in all other EU member states, providing the insurance activities are carried out through exercising the right of establishment and/or the right to provide services.

In order to carry out insurance activities in Lithuania, foreign insurance companies must have licences issued in their home countries as well as permission from the competent authorities of these foreign countries to carry out their activities in Lithuania.

Representative offices

Foreign companies may establish a representative office for representational and promotional purposes.

A representative office is a subdivision of a legal entity having its legal seat in Lithuania.

A representative office is entitled to perform limited business activity only. The representative office does not have the status of an entity, but it must be registered in the register of legal entities. The foreign company is fully liable for the obligations of its representative office.

If the activities performed by the representative office meet the criteria of a permanent establishment, they will become subject to corporate income tax in Lithuania.

At least one person acting on behalf of the representative office (for example, the manager of the representative office) must reside in Lithuania. This requirement is not applied to representative offices of EU and EEA entities and other organisations established in Lithuania.

Representative offices are to be registered with the register of legal entities.

Mergers

Legal entities may be reorganised by way of merger and division, which are regulated under the Lithuanian Civil Code. The Companies Law also establishes mandatory requirements for reorganisation of public limited liability companies and private limited liability companies.

A merger can be performed in two different ways.

- One (or more) existing company is merged (joined) with another existing company so that all the rights and obligations of one company are transferred to the other and the company ceasing to exist is de-registered from the register of legal entities without liquidation procedures.
- Two (or more) existing companies are merged (consolidated) into a new legal entity so that all the rights and obligations of the companies participating in the merger are transferred to the newly established legal entity and these existing companies are de-registered from the register of legal entities without liquidation procedures. This type of merger includes the formation of a new company.

Companies can be divided in the following ways.

- One (or more) existing company is parcelled out so that all the rights and obligations of the company are transferred to two or more existing companies and the company ceasing to exist is de-registered from the register of legal entities.
- One existing company is divided into two or more new companies so that all the rights and obligations of the company are transferred to the newly established legal entities and the existing company is de-registered from the register of legal entities without liquidation procedures. This type of merger includes the formation of new companies.

A company may participate in a reorganisation procedure only after its statutory capital has been fully paid up. The decision about a merger must be adopted at the general meetings at least 30 days after the public announcement on the prepared merger terms.

Companies in a merger must publicly announce the merger conditions three times with intervals of at least 30 days or provide an announcement once and notify all the companies' creditors in writing.

The assets, rights and obligations of the companies in a merger are assigned in accordance with the merger terms approved at the general shareholders' meetings of all the companies participating in the merger.

Cross-border mergers

Cross-border mergers may also be implemented in Lithuania. Lithuania has fully implemented the Directive of the European Parliament and of the Council of 26 October 2005 (2005/56/

EC) on cross-border mergers of limited liability companies. A cross-border merger may be an option when considering the minimisation of administration costs and the scope of reporting requirements mandated in each country where group business activity is carried out.

In order to facilitate cross-border merger operations, each company participating in a cross-border merger remains subject to the provisions and formalities of the national law that are applicable in the case of a national merger.

Only limited liability companies of the same legal type can participate in a cross-border merger.

Common draft terms must be drawn up for all companies participating in a cross-border merger. These terms must be publicised for each merging company through an entry in the appropriate public register.

The employees of the merging companies are vested with certain participation rights, which are subject to regulations set in the national laws.

Going public

Only public limited liability companies enjoy the opportunities to go public in Lithuania.

NASDAQ OMX Vilnius (formerly Vilnius Stock Exchange) is the sole operator of the regulated market in Lithuania. It organises trading in financial instruments on the following lists: the main list, secondary list, debt securities list and fund list. The financial instruments to be admitted to the trading lists must have no restrictions on their transfer, be freely negotiable, entitle equal rights and be fully paid up.

A prospectus of the financial instruments must be approved and published.

There are special requirements set for the issuers and shares regarding admission into a particular list. For example, an issuer intending to enter the main list must have been operating actively for the preceding three years. The projected capitalisation of shares or the capital and reserves of the company must not be less than EUR 4 million during the preceding financial year. Prior to admission to the main list a sufficient proportion of the free float must be public after distribution in Lithuania and/or one of the other EU member states.

An issuer seeking admission of its financial instruments to a list must file an application with NASDAQ OMX Vilnius. The management board of the stock exchange must pass a decision concerning the admission to the main list within six months from the date of receipt of the application. The term for other lists is three months.

Decisions on the admission to the list are passed provided the financial instrument and their issuers satisfy the requirements set by the applicable laws. The stock exchange regulations are based on the provisions of the EU legislation.

Insolvency proceedings

A company is considered to be insolvent if it fails to settle with creditors (for example, it does not pay its debts, fails to perform that which has been paid for in advance, etc.) and the overdue obligations/debts exceed half of the value of the company's assets recorded in the balance sheet. Bankruptcy proceedings for the companies may be initiated by the creditors, owners or the management of the company. The bankruptcy proceedings may be carried out as a judicial proceeding (commonly) as well as a non-judicial (extrajudicial) proceeding if certain requirements are met.

A petition for bankruptcy may be filed with the court if at least one of the following conditions occurs:

- a company fails to pay remuneration and other employment-related amounts when due;
- a company fails to pay for goods received, work performed and services rendered or defaults in the repayment of loans or does not fulfil other contractual obligations;
- a company fails to pay due taxes or other compulsory contributions prescribed by the law;
- a company has made a public announcement or notified its creditors in any other manner of its inability or lack of intent to discharge its obligations;
- a company has no assets or income to settle its debts and, therefore, a court bailiff has returned the writs of execution to a creditor.

The court is entitled to call the current and previous management and accountants of the company to give their explanations and the documents related to the bankruptcy case.

Ex-management and bookkeeping personnel can be called if their employment with the company terminated less than 12 months prior to the initiation of the bankruptcy proceeding.

The court is entitled to restrict a person's right to become the manager of a public and/or private entity for three to five years if the person has breached mandated obligations according to the regulations set in the bankruptcy laws.

A simplified judicial proceeding can be arranged when a company has no assets or the value of the assets is insufficient to settle the costs for the court proceedings and bankruptcy administration.

Creditors intending to file a bankruptcy petition to the court must give a prior written notification to the concerned company about their intention. Among other things the creditors must grant the company a period that cannot be shorter than 30 days in which the company may settle with creditors. Upon the expiry of this period, the creditors can go to the court if the company fails to settle.

Non-judicial bankruptcy proceedings can be initiated if there are no proprietary claims filed with the courts, including those related to labour relationships, and if no compulsory collection of debts is applied to the company. A creditors' meeting shall be convened in order to obtain consent to start non-judicial bankruptcy proceedings. The decision to start non-judicial bankruptcy proceedings may be adopted if the creditors having claims equal to at least four-fifths of the company's total liabilities vote for it.

The court or the creditors appoint an administrator, who is in charge of performing the bankruptcy procedures: organising the sale of the assets of the company, convening creditors' meetings, satisfying the allowed creditors' claims, etc.

Specific features of the bankruptcy process of banks, credit unions, insurance companies, agricultural enterprises, intermediaries of public trading in securities and other enterprises may be established by other laws regulating the activities of the said enterprises and public agencies.

The Lithuanian Criminal Code establishes criminal liability for a person whose wilful wrong management of the company has caused bankruptcy and this has resulted in major material damage to the creditors. Imprisonment of up to three years may be imposed on the person found guilty.

Foreign investment legislation

The rights and lawful interests of investors are protected by the laws and regulations in force in the territory of the Republic of Lithuania and international agreements. According to the laws of the Republic of Lithuania the investor shall have the right to manage, use and dispose of the object of investment and, upon paying the taxes, to convert into foreign currency and transfer abroad without any restrictions the profits held by him. State and local authorities and officers shall have no right to interfere with the management and use as well as disposal of the object of investment according to the procedure established by law. Damage inflicted upon the investor by the unlawful actions of state or local authorities and their officers shall be compensated for according to the procedure established by the laws and regulations in force in the territory of the Republic of Lithuania.

The Republic of Lithuania has concluded more than 50 international bilateral agreements on the reciprocal promotion and protection of investments. Under these agreements, in a context of reciprocity, most-favoured-nation treatment is given to foreign investments.

Foreign investors are provided with the right to a legal remedy against interference with their rights and lawful interests. Investment disputes between foreign investors and the Republic of Lithuania, upon agreement between the parties, shall be considered by the courts of the Republic of Lithuania, international arbitration bodies or other institutions.

The Law on Investments[10] of the Republic of Lithuania defines investments as funds and tangible, intangible and financial assets assessed in the manner prescribed by laws and other legal acts and invested in order to obtain from the object of investment profit (income) or social results (in education, culture, science, health and social security as well as in other similar spheres) or to ensure the implementation of state functions.

The state shall provide favourable conditions for private investments and ensure the efficient use of state funds earmarked for investments, seeking the economic and social development of the state.

The Law on Investments sets out the basic principles of the investment dispute resolutions system. According to Article 6 of the law, the following applies.

- State and municipal institutions and officials shall have no right to interfere with the management and use as well as disposal of by investors of the object of investment according to the procedure established by law. Damage inflicted upon an investor by the unlawful actions of state or municipal institutions and officials thereof shall be compensated for according to the procedure established by the laws of the Republic of Lithuania.
- Disputes over the infringement of the rights and lawful interests of the investor/investors shall be settled according to the procedure established by the laws of the Republic of Lithuania. Disputes between the foreign investor/investors and the Republic of Lithuania over the infringement of their rights and lawful interests (investment disputes) shall be considered, upon agreement between the parties, by the courts of the Republic of Lithuania, international arbitration bodies or other institutions.
- Article 15 of the said law[11] establishes the priority of international commitments over national law.

[10] *Source: Law on Investments (Official Gazette, 1999, No. 66-2127) as last amended on 27 November 2010 (Official Gazette, 2010, No. 139-7100).*

[11] *Source: Law on Investments (Official Gazette, 1999, No. 66-2127) as last amended on 27 November 2010 (Official Gazette, 2010, No.139-7100).*

- Foreign investments in the Republic of Lithuania shall also be regulated by bilateral and multilateral treaties of the Republic of Lithuania on investment promotion and protection as well as other treaties.
- If a treaty ratified by the Seimas of the Republic of Lithuania establishes terms and conditions for foreign investment in the Republic of Lithuania other than those prescribed by this law, the provisions of the treaty shall apply. According to Article 138 part 1 of the Constitution of the Republic of Lithuania,[12] bilateral investment protection agreements as well as multilateral conventions are subject to ratification.

Legislation on real estate[13]

Article 47 of the Constitution of the Republic of Lithuania states the following.

> The underground, internal waters, forests, parks, roads, historical, archaeological and cultural objects of State importance shall belong by the right of exclusive ownership to the Republic of Lithuania. The Republic of Lithuania shall have exclusive rights to the airspace over its territory, its continental shelf and the economic zone in the Baltic Sea. In the Republic of Lithuania foreign entities may acquire ownership of land, internal waters and forests according to a constitutional law. Plots of land may belong to a foreign state by right of ownership for the establishment of its diplomatic missions and consular posts according to the procedure and conditions established by law.[14]

Registration

Real estate (including land plots, buildings, apartments and other premises) and the rights pertaining to it (such as ownership, long-term lease, right of use, servitude, etc.) as well as legal encumbrances on property rights to real estate, including transactions and decisions affecting the legal status of the real estate, testamentary dispositions and arrests must be registered with the real estate cadastre and register. There is no separate register for land in Lithuania.

The conclusion of real estate sale–purchase, rent, etc. contracts and ownership rights shall be enforced against third parties only if they have been registered with the public register. Moreover, according to the Lithuanian Civil Code, if the party to the agreement avoids registering the transfer of ownership rights, the court may act to compensate the losses of the other party.

Movable and immovable property

The Lithuanian Civil Code distinguishes between immovable property and movable property.

Immovable property is land and other things related to land that cannot be moved from one place to another without changing the purpose thereof or essentially decreasing the value. Immovable property also includes ships and aircraft, which must be registered with the public register. The laws may also recognise other things as immovable property.

Movable property can be transferred from one place to another without any damage, unless otherwise provided by the law.

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[12] *Source: Constitution of the Republic of Lithuania (Official Gazette, 1992,No. 33-1014).*

[13] *Investments in the Baltic States: a comparative guide to investment in Estonia, Latvia and Lithuania, pp. 124-126. KPMG in the Baltics, May 2011. http://www.kpmg.com/LV/en/IssuesAndInsights/ArticlesPublications/Documents/Investment%20in%20the%20Baltic%20States%202011.pdf .*

[14] *Source: Constitution of the Republic of Lithuania (Official Gazette, 1992, No. 33-1014).*

Acquisition

In Lithuania, land may be owned by the following persons:

- citizens of the Republic of Lithuania;
- the state and municipalities;
- domestic and foreign legal entities engaged in economic activity in Lithuania, as well as foreign individuals.

Foreign legal entities intending to acquire land must comply with the criteria established by the laws; that is, the foreign entity must be incorporated in an EU, the Organisation for Economic Co-operation and Development (OECD), North Atlantic Treaty Organization (NATO), a European Economic Area Agreement member country or a country that has concluded an association agreement with the EU.

Foreign legal entities that do not meet the aforementioned criteria may lease the land for up to 99 years. The land may be acquired for the construction of buildings that are necessary for business activity. State-owned land may be leased with or without an auction. An auction should be held in most cases, except for land that bears constructions or facilities owned or leased by individuals or legal entities and in some other specific situations.

Foreign individuals and legal entities meeting the aforementioned criteria may acquire ownership of non-agricultural and non-forest land.

In joining the EU, Lithuania negotiated a transitional period of seven years for prohibiting the sales of agricultural and forest land to foreigners and foreign legal entities that are not incorporated in Lithuania and do not have branches or representative offices in Lithuania. In April of 2011 the European Commission granted a permit to Lithuania to extend the prohibition on the sales of agricultural and forest land for three years. The period was extended as there had been fears that land market would have been disrupted upon removal of the limits. Lithuania will apply prohibition on sales of agricultural and forest land till 30 June 2014.

There are no specific requirements for foreigners to acquire the ownership of real estate other than land.

The Law on Energy of the Republic of Lithuania (Official Gazette, 2011, No. 160-7576), in particular Article 18, states that land for building energy facilities can be leased in accordance with the law. State-owned land for energy production transmission and distribution facilities can also be sold or leased in accordance with the law by auction, and the cases prescribed by law, without an auction.

Private land for building energy facilities can be used for utilities and land-owner agreement. If no agreement is reached, the private rights on the land can be seized to meet the needs of society in accordance with the law.

Energy facilities must ensure the protection and maintenance of fixed buffer zones. Construction, plantation and agricultural works in this area are restricted. The protection zones of the land and other immovable property easements are determined according to the laws and conditions.

Real estate contracts

Contracts on the selling and purchasing of real estate shall be executed in writing and approved by the notary public. Failure to notarise such agreements makes them null and void.

The mandatory part of a land transaction is a plan of the land plot approved by the competent state authority. The legal title to the real estate is deemed to be passed at the moment the property transfer has been accepted.

The agreement on the sale–purchase of real estate must specify the rights of the buyer with respect to the land whereon the real estate is located. If the seller of the real estate is the owner of the land plot attached to the real estate that is to be sold, the ownership right must be transferred to the buyer according to the sale–purchase agreement. If the owner of the real estate does not hold the ownership right to the land plot concerned, the real estate may be sold without the consent of the land owner only if it does not contradict the conditions of usage of the land as established by the laws and/or an agreement on the use of the land. Land issues are to be defined in the sale–purchase agreement.

Contracts on leasing real estate must be concluded in writing if the lease term exceeds one year.

Contracts on selling, purchasing or leasing real estate may be enforced against third parties only if such contracts are registered with the real estate cadastre and register.

The fee for the notarisation of a sale–purchase contract is 0.45% of the value of the real estate (that is, the selling price). The stamp duty for the registration of the ownership rights depends on the value of the real estate and it may range from LTL 10 (approx. EUR 3) to LTL 5,000 (EUR 1,448).

Mortgage

Mortgages can be seconded on real estate registered with the public register and not excluded from civil use. Only insured property may be mortgaged. Real estate mortgages must be executed on the standard mortgage deed form and approved by the notary public. Real estate mortgages are only effective after the registration in the register of mortgages when the respective inscriptions are entered into the public register.

Upon the transfer of the mortgaged property, the mortgage follows the property.

Competition-related legislation

The Law on Competition binds Lithuanian commercial activities as well as commercial undertakings registered outside Lithuania, if the activities of the foreign undertaking limit competition on the Lithuanian market.

Acts of undertakings that are contrary to fair business practices and that have detrimental effects upon the competitive position of other undertakings on the given market are considered to be unfair competition and are prohibited by law. These acts include unauthorised use of trade names and trademarks, intentional misrepresentation with respect to products of other undertakings, unauthorised sharing of confidential information about other undertakings, solicitation of employees of other undertakings to leave their job, misleading advertising, etc.

Agreements aimed at restricting competition, such as those fixing, directly or indirectly, prices or other sales terms, dividing the market, establishing quantities of production or sales, etc., are prohibited and are deemed legally invalid as of their date of conclusion.

Exceptions apply to agreements of insignificant influence, which are those between business undertakings whose total market share does not exceed the following limits:

- 10% in the case of horizontal agreements;
- 15% in the case of vertical agreements;
- 10% in the case of mixed agreements.

'Dominant position' means the position when one or more undertakings can effectively restrict competition through their decisive influence on the market. It is presumed that a person (except for an undertaking engaged in retail trade) has a dominant position in the market if his market share equals or exceeds 40% (a 30% share for retail trade), unless otherwise proven. In addition, each undertaking belonging to a group of three or fewer members with the largest shares in the relevant market, jointly holding over 70% (a 55% share for retail trade) of the relevant market, shall be presumed to have a dominant position, unless otherwise proven.

The list of prohibited acts abusing the dominant position include unfair pricing, limitations in trade, production or technical development, discriminatory treatment of different groups of undertakings, etc. Competition regulations also control concentration. The concept of 'concentration' includes mergers of undertakings, as well as the acquisition of control over undertakings.

Concentration is deemed to be controlled if the following:

- the combined aggregate income of the concerned undertakings for the previous year exceeds LTL 30 million (approximately EUR 8.7 million);
- the aggregate income of each of at least two concerned undertakings for the previous year exceeds LTL 5 million (approximately EUR 1.5 million).

The Competition Council must be notified about the controlled concentration in advance and permission is required to perform the concentration.

Any acts implementing the controlled concentration that are performed without having due permission shall be legally void and invalid. The Competition Council may impose fines on undertakings performing the controlled concentration without due permission. In serious circumstances, fines up to 10% of the annual aggregate income of the concerned undertakings may be imposed.

Legislation

- Law on Competition of the Republic of Lithuania No. VIII-1099 (Official Gazette, 1999, No. 30-856).
- Resolution No. 1591 of the Republic of Lithuania of 6 December 2004 'On the Approval of the Rules Concerning the Setting of the Amount of a Fine Imposed for the Infringement of The Law on Competition of the Republic of Lithuania' (Official Gazette, 2004, No. 177-6567; 2009-10-03 No.118-5083).
- Resolution No. 1S-27 of the Competition Council of the Republic of Lithuania of 28 February 2008 'On the Approval of the Rules on Immunity from Fines and Reduction of Fines for the Parties to Prohibited Agreements' (Official Gazette, 2008, No. 29-1053).
- Resolution No. 1S-172 of the Competition Council of the Republic of Lithuania of 9 December 2004 Concerning the Amendment of Resolution No. 1 of 13 January 2000 of the Competition Council of the Republic of Lithuania 'On Requirements and Conditions in Respect of Agreements of Minor Importance that are not Considered Infringing Article 5 (1) and (2) of the Law on Competition' (Official Gazette, 2004, No. 181-6732).

- Resolution No. 1S-140 of the Competition Council of the Republic of Lithuania of 15 July 2010 'On the Agreements Meeting the Conditions of Part 1 of Article 6 of the Law on Competition of the Republic of Lithuania' (Official Gazette, 2010, No. 87-4635).
- Resolution No. 17 of the Competition Council of the Republic of Lithuania of 24 February 2000 'On the Explanations of the Competition Council Concerning the Establishment of a Dominant Position' (Official Gazette, 2000, No. 19-487).
- Resolution No. 52 of the Competition Council of the Republic of Lithuania of 17 May 2000 'On the Explanations of the Competition Council Concerning the Establishment of a Dominant Position' (Official Gazette, 2000, No. 24-363).

Taxation[15]

Corporate taxation

A legal person is considered to be a Lithuanian tax resident if this is established pursuant to the Lithuanian law.

Lithuanian and foreign taxable entities are considered corporate taxpayers.

Lithuanian taxable entities are defined as all types of entities registered in Lithuania and having the status of a legal person.

Foreign taxable entities are all types of entities domiciled in a foreign country and incorporated under foreign laws. In respect of foreign taxpayers, the entity is not required to bear the legal person status.

A group of companies is a group consisting of the parent company and associated entity (entities), where the parent company owns a minimum of 25% of the shares. Group consolidation for corporate income tax purposes is not possible, but tax losses may be transferred between the companies.

The general corporate income tax rate is 15%.

The 5% corporate income tax rate applies to the following:

- the taxable profit if an entity's average number of employees does not exceed 10 and the income does not exceed LTL 500,000 (approximately EUR 144,800) (certain exemptions apply) and the taxable profit of entities of more than 50% whose income during the tax period consists of income from agricultural activities.

The 0% corporate income tax rate may be applied for the following:

- social companies with a minimum of 40% of their employees being disabled or long-term unemployed, and other supported social groups (additional requirements apply) that do not carry out activities included in the list of non-supported activities of social companies or the income received from such activities during the tax period accounts for not more than 20% of the total income received by the company;
- companies established in the free economic zone if their investments exceed EUR 1 million (for six years, a 0% rate is applied, for the 10 following years, 50% of the standard rate is applied);

[15] *Source: Tax facts and figures, 2011 Lithuania by PricewaterhouseCoopers UAB.*

- production companies with more than 50% of their employees with limited working ability. If the fraction of employees with limited working ability is lower, then a partial deduction in corporate income tax is given (75%, 50% or 25%).

Further requirements have to be fulfilled by the above-mentioned companies in order for them to be eligible for the incentives.

If a non-profit entity's turnover does not exceed LTL 1 million (approximately EUR 289,600), the amount of LTL 25,000 (EUR 7,240) shall be taxed at 0%, the remainder by 15% (certain exemptions apply).

Tax incentives and concessions

Despite the fact that corporate income is taxed more heavily, there are plenty of tax incentives for companies. Tax exemption is available for agricultural companies, free economic zone companies, manufacturing companies employing people with disabilities, social companies and cooperatives.

Corporate income tax exemption may also be available for those companies initiating investment projects. Under this incentive it is possible to reduce the taxable profit by up to 50% of the amount of expenses actually incurred for the acquisition of certain fixed assets, including machinery and equipment, computer hardware and software, communication equipment and acquired rights, and for the assets that have not been used and were produced not earlier than two years ago. Such an incentive is applicable only until 2013.

Expenses incurred for scientific research and experimental development purposes may be deducted three times in the tax period during which they were incurred, provided that the R&D works are related to ordinary business activities.

In addition, the income of investment companies with variable capital and insurance companies' income from investments (except for dividends) are exempted from corporate income tax. The government is implementing strategies to reduce the burden of bureaucracy for companies even after the World Bank's research has shown that Lithuania provides one of the easiest environments for starting and developing a business in the EU.

Value added tax

The Lithuanian VAT system is made compliant with the VAT directive (2006/112/EC). The EC law provisions regarding VAT on intra-Community trade, triangulation and distance selling are implemented into national legislation.

VAT is applied to goods, supplies and rendering of services for consideration by taxable persons if such goods are supplied or the services are rendered in Lithuania, as well as to goods imported into Lithuania or acquired from another EU member state. The concept of taxable persons also includes foreign persons engaged in business activities in Lithuania.

When services are rendered to taxable persons who are VAT payers, the place of supply is deemed to be the place where the buyer is established (B2B rule). The supply of services is subject to Lithuanian VAT if the services are rendered by a Lithuanian taxable person to individuals who are non-VAT payers (B2C rule).

Special rules apply to services related to immovable property, catering, transportation and other services.

The standard VAT rate is 21%.

There is a compensation rate of 6% for supplies of goods and services made by farmers.

A reduced 9% VAT rate is applied to the following:

- books and certain non-periodicals;
- supply of heating for dwellings and the supply of hot water (until 31 December 2011);
- accommodation at hotels and other special accommodation services supplied (until 31 December 2011).

A reduced 5% VAT rate is applicable to certain drugs and medicines (applicable until 31 December 2011).

The 0% rate applies to exports outside the EU, supplies of goods to another member state, supplies of gold to the system of central banks of European countries and the Central European Bank, goods and services intended for diplomatic missions, supplies to charities and the supply, modification, modernisation and hiring of sea-going ships and aircraft on international routes.

Tax incentives and financial support for foreign businesses

Lithuania's tax burden has been one of the lowest in the EU according to the research 'Taxation Trends in the European Union' concluded by Eurostat in 2010. Lithuania exhibits the fifth-lowest total tax burden (including social contributions) in the EU (30.3% of GDP against an EU-27 average of 37%). The tax on corporate income is 15%, which is the fourth lowest in the EU-27 and far below the EU average of 23.2%.

Table 5: Main business taxes

Tax	%
Corporate profit tax	15
VAT	21
Dividends	0* to 15
Personal income tax	15 (+6% health insurance contribution)
Social security tax for employer	31 (+employee's contribution of 3%)

* 0% tax on dividends applies when an investor controls at least 10% of the voting shares in the enterprise for a period of at least 12 months.

Source: Tax facts and figures, 2011 Lithuania by PricewaterhouseCoopers UAB

As of 2010, group taxation of the Lithuanian corporate profit has been introduced. This allows groups to balance profits and losses within their companies, whereby losses can be transferred among different entities of a group if the controlling entity holds at least two-thirds of the shares of the controlled entity.

Tax incentives applied to businesses established in Lithuania include the following:

- tax incentives for investments in new technologies and R&D;
- tax 'holidays' in two free economic zones;
- 0% taxation on dividends when an investor controls at least 10% of voting shares in the enterprise for a period of at least 12 months;
- land and real estate tax exemption offered by individual municipalities.

The corporate profit tax incentives for investments in new technologies are as follows:

- companies carrying out investments in new technologies can reduce their taxable profit by up to 50%. Investment expenses exceeding this sum can be postponed to later consecutive tax periods (up to five years).

The corporate profit tax incentives for R&D are as follows:

- expenses incurred by companies carrying out R&D projects can be deducted from taxable income three times;
- long-term assets used in R&D activities can be depreciated within two years.

The tax incentives in two Lithuanian free economic zones are as follows:

- 0% corporate tax during the first six years and only a 50% corporate tax rate over the next 10 years;
- 0% tax on dividends;
- 0% real estate tax.

INVEST LT+ financial grants for foreign investors establishing themselves in Lithuania:

Foreign investors interested in locating a business in Lithuania as well as foreign companies already operating in the Lithuanian market but eager to expand further may apply for INVEST LT+ financial investment support of up to EUR 3.5 million per investment project.

INVEST LT+ provides financial support to cover personnel training costs (up to EUR 2 million), as well as eligible construction, infrastructure and salary costs (up to EUR 1.5 million), incurred by foreign investors establishing a manufacturing, services or R&D business unit in Lithuania. This financial support tool is designed to support foreign businesses investing in the development of new technologies and the production of export-oriented high-quality products and services, as well as the establishment of qualified jobs on the market.

Multinationals such as Barclays, Western Union, MOOG, SystemAir, SCT Lubricants, Ideal Invent and SEB have expanded into Lithuania and have already benefited from INVEST LT+ support.

Legislation regulating the conditions of admission to the country[16]

Expatriates

Expatriates may work in Lithuania if they have employment contracts provided they have obtained work permits. However, work permits are not required for citizens of the EU member states.

[16] *Investments in the Baltic States: a comparative guide to investment in Estonia, Latvia and Lithuania, p. 117-119. KPMG in the Baltics, May 2011. http://www.kpmg.com/LV/en/IssuesAndInsights/ArticlesPublications/Documents/Investment%20in%20the%20Baltic%20States%202011.pdf.*

There is also a group of citizens of non-EU states who are exempt from the obligation to obtain work permits. This exemption applies to:

- a managing director of a Lithuanian company registered with the legal entities, if the share capital is a minimum of LTL 50,000 or if the managing director is also the owner of the company;
- owners of Lithuanian companies registered with the legal entities, if the share capital is a minimum of LTL 50,000;
- co-owners of Lithuanian companies registered with the legal entities, if the nominal value of held share capital is a minimum of LTL 50,000;
- persons coming to Lithuania to take care of negotiations regarding the conclusion and implementation of agreements, staff training, commercial establishment for a period not longer than three months per year;
- persons who are citizens of non-EU countries but are working in the EU and have the social insurance for temporary work in Lithuania (form E 101), etc.

Work permits are issued by the State Labour Exchange. The whole procedure of issuing a work permit for an employee who will be employed by a Lithuanian company takes 20 days after the relevant documents have been submitted to the State Labour Exchange.

A work permit for a person working in Lithuania on a business trip must be issued within 10 days after the relevant documents are submitted to the State Labour Exchange.

Citizens of non-EU states must also have a temporary residence permit to stay in Lithuania for work purposes. Residence permits are issued by the Immigration Department at the Ministry of Internal Affairs. The procedure for issuing a temporary residence permit takes four to six months. A temporary residence permit may be issued for a maximum of five years.

Citizens of EU-member states are not required to obtain residence permits in Lithuania. However, EU-member state citizens intending to stay in Lithuania for a period exceeding three months within half a year from their first day of entry into Lithuania must declare their places of residence in Lithuania. Non-EU citizens who are family members of the EU citizens intending to stay in Lithuania for a period exceeding three months in any calendar half-year must obtain EU residence permits. This permit is issued by the Immigration Department at the Ministry of Internal Affairs. The procedure for issuing an EU residence permit takes one month.

EU-member state citizens legally residing in Lithuania for the previous five years may acquire the right to permanent residency in Lithuania.

An employment contract with a foreigner who is not exempt from obtaining a work permit must be concluded in accordance with the standard form of the employment contract. It is forbidden for the employee to engage in work other than that specified in the work permit. An employment contract with a foreigner who is not exempt from obtaining a work permit must be registered with the National Labour Exchange within three days from its signing.

Immigration law

Any non-EU citizen arriving and staying in Lithuania is subject to the regulations set by Council (EC) Regulation No. 539/2001, which lists those countries whose nationals must be in possession of visas when crossing external borders and those whose nationals are exempted from this requirement.

Any foreigner who is subject to a visa-free regime is eligible to stay in Lithuania without a visa for a three-month period within half a year from their first day of entry into Lithuania or any other Schengen state.

Any foreigner having a valid Schengen visa is entitled to enter Lithuania and stay for the period permitted by the visa; however, this must be no longer than three months within a six-month period.

A family member of an EU citizen who is not an EU citizen, but holds a residence permit prescribed by Directive 2004/38/EC of the European Parliament and of the Council of 29 April 2004 on the right of citizens of the EU and their family members to move and reside freely within the territory of the member states, is allowed to stay in Lithuania for three months within a six-month period.

There are two types of visas: a Schengen visa and a national visa.

Schengen visa types include the following:

- airport transit visa (A);
- short-stay visa (C).

Visas can be single-entry, dual-entry or multiple-entry visas.

A national visa for a single entry (D) may be issued to a foreigner who has been granted a temporary permit or a permanent permit to live in Lithuania.

A national visa for multiple entries (D) may be issued if a foreigner submits documents proving that they intend to enter Lithuania periodically, while their main place of residence is in a foreign state, and there is no requirement for the foreigner to obtain a temporary residence permit in Lithuania.

Visas are issued at diplomatic missions or consular offices in the Republic of Lithuania abroad.

Legislation related to currency exchange and banks

Lithuania's currency is the Litas (LTL), which is equal to 100 Lithuanian cents. In a currency board system, the Litas is presently pegged to the Euro at a rate of 3.4528:1. The amount of currency in circulation is tied to the reserves of the Bank of Lithuania. Lithuania expects to introduce the Euro as its currency by joining the Euro zone in 2014.

Commercial banks in Lithuania are conducting foreign exchange operations in cash and non-cash. Currency exchange can be carried out in all customer service divisions and subdivisions of commercial banks as well as by using the online banking services of the commercial banks.

Currently, in Lithuania there are nine commercial banks acting with licences issued by the Bank of Lithuania, 12 branches of foreign banks, two agency offices of foreign banks and 248 EU banks acting in the Republic of Lithuania without branches.

According to the Republic of the Lithuania's Law on the Bank of Lithuania, the Bank of Lithuania is the central bank of the Republic of Lithuania and it the primary objective is to maintain price stability. In pursuit of this objective, the Bank of Lithuania is independent of the government of the Republic of Lithuania and other public authorities. The Bank of Lithuania, on a fixed exchange rate of the Litas, ensures the free exchange of Litai into Euros and vice versa. It does not directly regulate the interest rate market for the Litas and the amount of Litai in circulation,

since the latter is determined by the fluctuating demand for Litai. For these reasons, the bank is not able to directly affect the aggregate demand and price level. However, the fixed exchange rate for the Litas indirectly assists in the pursuit of the main objective by maintaining more stable prices for exports and imports and promoting international trade as well as by maintaining trust in the economic policy of Lithuania. Therefore, the fixed exchange rate of the national currency allows long-term relative price stability to be maintained. Since 1994 such a strategy has been successfully applied in general due to the attributes of the Lithuanian economy: the economy's openness and the relative price flexibility of work payments.

Since 28 June 2004 Lithuania maintains fixed exchange rates as well as a stable exchange rate for the Litas against the Euro, that is, LTL 3.4528 for 1 Euro. In Lithuanian convergence programmes the government of the Republic of Lithuania has confirmed several times that our state is going to further participate in ERM II and to maintain a fixed exchange rate for the Litas against the Euro with the current ratio. The Bank of Lithuania is constantly maintaining the level of institutional set-up, which would ensure a smooth and rapid changeover of the currency once the EU Council decides upon the adoption of the Euro in our country.

Legislation

- Civil Code of the Republic of Lithuania No. VIII-1864 (Official Gazette, 2000, No. 74-2262);
- Republic of Lithuania's Law on the Bank of Lithuania No. I-678 (Official Gazette, 1994, No. 99-1957; 2001, No. 28-890);
- Law on Banks of the Republic of Lithuania No. IX-2085 (Official Gazette, 2004, No. 54-1832; 2011, No. 52-2512);
- Law on Financial Institutions of the Republic of Lithuania No. IX-1068 (Official Gazette, 2002, No. 91-3891; 2003, No. 74-3435; 2004, No. 54-1828, No. 167-6107; 2007, No. 12-498, No. 117-4775; 2009, No. 38-1442, No. 153-6892; 2011, No. 62-2935);
- Law on Companies of the Republic of Lithuania No. VIII-1835 (Official Gazette, 2000, No. 64-1914; 2003, No. 123-5574; 2005, No. 84-3109; 2006, No. 82-3252; 2008, No. 63-2378, No. 135-5241; 2009, No. 91-3914, No. 154-6945; 2010, No. 1-22);
- Law on State Supervision of Precious Metals and Gemstones No. I-996 (Official Gazette, 1995, No. 61-1528; 1998, No. 44-1197; 2005, No. 31-972);
- Resolution No. 1407 of the Government of the Republic of Lithuania 'On the Establishment of the Register of Legal Entities and Approval of the Provisions of the Register of Legal Entities' (Official Gazette, 2003, No. 107-4810; 2005, No. 25-803; 2007, No. 15-537; 2009, No. 11-405, No. 76-3101, No. 135-5882; 2010, No. 90-4771; 2011, No. 75-3612);
- Resolution No. 1458 of the Government of the Republic of Lithuania of 15 December 2000 'On the List of the Subject Matter of a State Duty, Amounts and Procedure for Payment and Refunding Thereof' (Official Gazette, 2000, No. 108-3463);
- Law on Markets in Financial Instruments of the Republic of Lithuania No. X-1024 (Official Gazette, 2007, No. 17-627).

Legislative basis regulating expropriation

Article 7 of the Law on Investments states that expropriation of the object of investment shall be allowed only in specified cases and according to the procedure set forth in the laws of the

Republic of Lithuania and only for public needs, and the investor/investors should just be paid compensation in the manner prescribed by the government.

The amount of compensation for the object of investment taken shall be determined in accordance with the procedure established by the Law of the Republic of Lithuania on the Principles of Property and Business Assessment and other legal acts and must correspond to the market value of the said object prior to the expropriation or prior to public declaration thereof, whichever happens earlier. Compensation shall be paid in the national currency of Lithuania within three months of the day of expropriation of the object of investment. Included in the amount of compensation shall be the sum of interest amounting to the arithmetical weighted average of the annual interest rate of the last calendar quarter auctions of government securities with maturities of up to one year, within the period from the moment of expropriation of the object of investment to the day of payment of the compensation.

Upon the request of a foreign investor, compensation shall be paid in any currency for which the London interbank offered rate (LIBOR) is quoted. The amount of compensation shall be converted according to the official exchange rate of the Litas against the foreign currency announced by the Bank of Lithuania on the day of assessment. The amount of compensation shall include the amount of interest amounting to the LIBOR quoted for the appropriate currency on the day of the receipt of the compensation, calculated for the period the duration whereof is the closest to the period of delay. Compensation may be transferred abroad without any restrictions.

Legal framework of privatisation

The State Property Fund, as a public legal entity, while serving the public interest, implements state functions by holding, using, privatising or disposing of in any other way state-owned shares transferred to it in trust as well any other state-owned property.

The main functions of the State Property Fund shall be as follows:

- to privatise state-owned property in accordance with the Law on the Privatisation of State-Owned and Municipal Property and Law on Securities Market;
- to represent the interests of the state by holding and using the state-owned shares and tangible fixed assets transferred to it in trust and by disposing of them;
- to draft and participate in drafting legislation regulating property management and privatisation and represent the government of the Republic of Lithuania in various legal institutions while resolving issues related to privatisation transactions.

The mission of the State Property Fund is to hold, use, dispose of and privatise state property in the best possible way, by ensuring proper implementation of the pecuniary and non-pecuniary interests of society as of an economic owner of state property.

Objects of privatisation

In the first half of 2011 the list of privatisation objects approved by Resolution No. 228 of the government of the Republic of Lithuania of 23 February 1998 'On the Approval of the List of Privatisation Objects' has been amended twice: by Resolution No. 294 of 16 March 2011 and Resolution No. 528 of 4 May 2011. During this period the list was supplemented with 179 new state-owned and municipality-owned objects, 120 of which are state owned and 59 municipality owned. 182 objects have been withdrawn from the list. Currently, there are

2,085 non-privatised objects included in the list of privatisation objects, 807 of which are state owned and 1,278 are municipality owned.

In 2010 the State Property Fund drew up and published six editions of a publication entitled 'Information Bulletin of Privatisation'. During this period privatisation programmes for 365 objects were published, 68 of which are state owned and 297 municipality owned.

Privatisation transactions

During the first half of 2011, the government sold 46 objects in the State Property Fund, 44 of which were state owned and two were municipality owned. Privatisation objects were acquired by 37 natural persons and eight legal entities.

State property privatisation results for the first half of 2011 compared to the same period in 2010 are provided in the table below (information is presented in accordance with auctions that have taken place during this period).

Table 6: Privatisation results

Privatisation type	Number of objects		Sale price (in thousands LTL)	
			Initial sale price (in thousands LTL)	
	2010 I half	2011 I half	2010 I half	2011 I half
Public auction	81	46	12818.4	8296.2
			10949.9	7062.6
Direct negotiations	1	-	44.8	-

Source: State Property Fund, www.vtf.lt

Legislation

- Law on Privatisation of State-owned and Municipal property of the Republic of Lithuania (Official Gazette, 1997, No. 107-2688);
- Law on State Property Fund of the Republic of Lithuania (Official Gazette, 1997, No. 104-2616);
- Law on Enterprises and Facilities of Strategic Importance to National Security and Other Enterprises of Importance to Ensuring National Security of the Republic of Lithuania (Official Gazette, 2002, No. 103-4604);
- Law on Companies of the Republic of Lithuania (Official Gazette, 2000, No. 64-1914).

Privatisation in the energy sector

In 1998 the joint stock companies Mažeikių nafta, Būtingės nafta and Naftotiekis were reorganised by merging the companies Būtingės nafta and Naftotiekis into the joint stock company Mažeikių nafta, which continued operating. On 29 October 1999 the USA company Williams International acquired 33% of the shares of Mažeikių nafta. The control of Mažeikių nafta was transferred to this company. On 18 June 2002 the Russian oil company Yukos, Williams International and the Lithuanian Government concluded a shareholder and investment agreement on a transaction worth USD 150 million. On the basis of these agreements, both

Williams International and Yukos acquired 26.85% of the shares while the government of the Republic of Lithuania acquired 40.66% of the shares. In addition, Mažeikių nafta and Yukos concluded a 10-year agreement on oil supply. On 19 September 2002 Yukos acquired an additional shareholding of 26.85% and the related rights of Mažeikių nafta and took over all the rights and obligations of Williams International related to the shareholding. In 2006, the Polish concern PKN ORLEN became a major shareholder of Mažeikių nafta. On 1 September 2009 the joint stock company Mažeikių nafta became the joint stock company ORLEN Lietuva. The only shareholder of ORLEN Lietuva is the leader in the oil refining sector in Eastern and Central Europe, Polski Koncern Naftowy ORLEN SA.

Natural gas first reached Lithuania in 1961. The state-owned enterprise Lietuvos Dujos was reorganised into the joint stock company Lietuvos Dujos in 1995 and has been running a natural gas business since then. Lietuvos Dujos AB was privatised in two stages. Global energy companies have become its shareholders through a public call for tenders: in 2002 a shareholding of 34% was acquired by the consortium Ruhrgas AG and E.ON Energie AG (Germany) (at the moment, the shares are held by E.ON Ruhrgas International GmbH) and in 2004 a shareholding of 34% was acquired by the natural gas supplier OAO Gazprom (Russia). Currently, E.ON Ruhrgas International GmbH holds 38.9% of the shares of Lietuvos Dujos AB, OAO Gazprom holds 37,1%, the Ministry of Energy of the Republic of Lithuania holds 17.7% and small shareholders hold 6.3%.

At the beginning of 2002, after the monopoly company Lietuvos energija was broken up, there was one transmission network company established reserving the title Lietuvos Energija and two distribution network companies: Rytų skirstomieji tinklai (RST) and Vakarų skirstomieji tinklai (VST). During the restructuring process the privatisation of newly established companies was planned. The government of the Republic of Lithuania decided not to sell RST and this company remained non-privatised as a UAB. VST was privatised on 23 December 2003. The major shareholder of the privatised company was the Lithuanian capital company UAB NDX Energija (related to shareholders of the concern VP Group). On 1 January 2011 RST and VST stopped acting as legal entities and property, rights and functions as well as all long-term and short-term property, long-term and short-term financial and other obligations, receivables and payables under the agreements drawn by RST and VST or any other obligation set out therein of both companies were overtaken by LESTO. LESTO was established after distribution networks companies were reorganised into a kind of merger, that is, the joint stock company RST and the joint stock company VST were merged. The main shareholders are the UAB Visaginas Nuclear Power Plant (Visaginas NPP) (82.63% of the shares) and E.ON Ruhrgas International GmbH (11.76% of the shares).

Legislation regulating the publishing of laws

Article 7 of the constitution stipulates that only laws that have been published are valid. Laws and other legal acts are officially promulgated in the publication *Valstybės žinios*.

The laws of the Republic of Lithuania enter into force once they have been signed and promulgated by the president in Valstybės žinios, unless a later date for entry into force is specified in the law in question.

A law amending the constitution adopted by referendum enters into force no earlier than one month following the date of the referendum adopting the law.

Legal acts adopted by the Seimas, except laws, presidential decrees, government resolutions, ministerial or governmental orders and other regulatory legal acts issued by the heads of state authorities and collegial bodies, enter into force on the day after their publication in Valstybės žinios, except where the legal act in question specifies other procedures for its entry into force.

Regulatory legal acts adopted by representative and executive bodies of local authorities enter into force on the day after their publication in the local press or on the day after official notification of their adoption in the local press and the publication of the entire text on the corresponding local authority's website, except where the legal act in question specifies a later date for its entry into force.

Legislation related to intellectual property rights

The legal regulation on protecting intellectual property in Lithuania is based on the rules and recommendations of the World Trade Organization and the World Intellectual Property Organization. Legal acts are in compliance with EU regulations.

According to the Lithuanian law, the object of copyright is defined as original literary, scientific or artistic works that are considered to be the result of creative activity expressed in an objective form. Copyright is not applied to ideas, principals, action methods, intentions, processes, legal acts, official documents, information reports, folk art works, etc.

The law also protects related rights. The object of related rights is defined as the performance of works, live or recorded in audio, video tape or phonogrammic form, or the first record of audio-visual work, as well as programmes or radio/television broadcasts.

Copyright protection granted by Lithuanian legislation applies to the citizens and permanent residents of the Republic of Lithuania, legal entities having their place of business in the Republic of Lithuania and authors, irrespective of their citizenship and place of residence, who have published works for the first time in the Republic of Lithuania as well as authors of architectural works constructed in the Republic of Lithuania.

The property rights of an author last throughout the life of the author and for 70 years thereafter. Non-property (personal) rights are protected indefinitely.

In order to be legally protected by Lithuanian law, a trademark must be registered with the State Patent Bureau of the Republic of Lithuania. Registration is not necessary if the trademark is deemed to be 'well known' within the meaning of the law.

The registration term of a trademark is 10 years, which may be extended for an additional 10-year period an unlimited number of times.

Patent rights belong to inventors and their successors in title as well as to employees for inventions made at work.

Discoveries, scientific theories, mathematical methods, product designs, computer programmes, schemes and intellectual and economic activities are not regarded as inventions for patent registration.

Know-how and trade secrets are not subject to patent registration, unless they relate to technical inventions (solutions).

For patent protection, an invention must be registered by filing an application with the State Patent Bureau of the Republic of Lithuania or an international application following the

international treaty on patent cooperation. Patent protection may also be sought by extending the European patent into the territory of Lithuania. A registered patent is valid for 20 years from the date the relevant application is filed.

Lithuania, being a party to the cooperation agreement with the European Patent Organization, recognises the priority right with respect to the patent protection granted by foreign countries.

LEGISLATIVE FRAMEWORK IN THE ENERGY SECTOR

Current legislation

The New Draft Law Amending the Law on Energy of the Republic of Lithuania was approved by the government on 25 October 2010 and submitted to the parliament for adoption. The Draft Law Amending the Law on Energy of the Republic of Lithuania was approved by the parliament on 22 of December 2011. The New Law Amending the Law on Energy of the Republic of Lithuania sets forth the general legal bases of energy activities in the Republic of Lithuania as well as the state management, regulation, supervision and control of the energy sector, regulates the general criteria, conditions and requirements for social relationships while carrying out energy activities and sets forth essential state energy policies. The New Law Amending the Law on Energy of the Republic of Lithuania regulates types of licensed activities or those regulated by permits or certificates as well as their authorisation, validity suspension, withdrawal of validity suspension and withdrawal of validity.

The Law on Energy of the Republic of Lithuania sets forth that the transit of energy or energy resources shall be carried out under contracts concluded between the energy companies controlling and producing energy resources, recipients of energy resources and companies operating the transmission system in accordance with the provisions of the ECT and taking into account the capacities of the transmission facilities and priorities in terms of national needs. The Acting Law on Energy of the Republic of Lithuania sets forth that energy transit is the transmission of energy and (or) energy resources when energy and (or) energy resources present in one state are transmitted to the recipient of energy or energy resources acting in another state by using the transmission networks or transmission systems (by trunk pipelines) of an intermediate third party (or third parties).

Energy companies managing transmission objects shall provide National Control Commission (NCC) with the information about each request for transit and any concluded transit agreements and refusals to conclude them. Refusal to conclude a transit agreement has to be properly motivated.

In 2010 the government passed a resolution approving the Natural Gas Law concept prescribing the implementation of provisions of the third legislative package on the energy market by opting to unbundle gas undertaking ownership. The provisions of ownership unbundling were incorporated in the draft Law on Natural gas, which was approved by the government in 2010. The draft Law on Natural gas was adopted by parliament and entered into force from 1 August, 2011. The plan for unbundling the activities was approved by the government on 28 October 2011 and it foresees that the gas transmission and supply activities should be unbundled by 28 October 2014. Currently, the owner and the operator of the Lithuanian transmission network is Lietuvos Dujos AB, which is a vertically integrated company engaged in the import, transmission, distribution and supply of natural gas.

Article 2 of the Law on Natural Gas of the Republic of Lithuania defines natural gas transit as transportation of gas through the territory of the Republic of Lithuania that is originated in the territory of a third state and intended for the territory of this and/or other third states. Article 18 of this law set forth that natural gas is transported by transit with the mutual agreement of the persons in the contracts and taking into account the capacity of the available transmission systems and the priority for meeting the demand of the country's system users. The government or its authorised institution can stipulate the necessary measures related to the transit of natural gas transportation through the Republic of Lithuania to ensure the safety and credibility of the natural gas sector of the Republic of Lithuania. In the case of a disruption

of the gas supply, the amounts of gas transported by transit are proportionally limited to the amounts of gas limited to the country's users. In the case of the termination of the gas supply, gas transportation by transit is ceased immediately. Article 26 of the Law on Natural Gas of the Republic of Lithuania sets forth that the operator of the transmission system stores, systemises and regularly provides information about the transit of natural gas in the territory of the Republic of Lithuania in accordance with the procedure approved by the NCC. Article 40 of this law sets forth that system operators provide the right to use the system according to the agreement for users, natural gas companies and persons transporting natural gas by transit.

In 2010 the new Law on Electricity concept and the draft Law on Electricity were approved, transposing the third legislative package on the EU electricity market. This will ensure the efficient unbundling of the electricity supply and generation from the grid operation, as well as the unbundling of ownership, which is interpreted as appointing a grid owner to be the grid operator free from any supply and generation interests. The draft Law on Electricity was adopted by the Lithuanian Parliament and entered into force from 7 February 2012.

In 2010 the structural adjustments in the electricity sector in accordance with the requirements of the third legislative package began de facto to be implemented; that is, four blocks — transmission, distribution, generation and maintenance — were created, which are owned by the government. In July 2012, the government adopted a resolution thereby approving the actions necessary to conclude the separation of activities for the transmission of electricity from its generation and supply. Pursuant to the government's resolution, the provisions of the Law on Energy of the Republic of Lithuania are being implemented in order to transpose the requirements of the EU's third legislative package. As soon as the actions envisaged by the government have been performed, the implementation of the EU's third legislative package for the electricity sector will have been completed already this year. In accordance with the resolution, shares of the vertically integrated undertaking Visagino Atominė Elektrinė UAB will be held in trust by the Ministry of Economy, while shares of the transmission system operator LITGRID, presently owned by the Visagino Atominė Elektrinė UAB, will be transferred to a newly established state-owned joint stock company, which will act under the responsibility of the Ministry of Energy.

In 2010 the government approved the Concept of Public Infrastructure Regulation Improvement, which provides for the merging of the following three infrastructure regulators: the NCC, the State Energy Inspectorate and the Communications Regulatory Authority. A strong and independent multi-sector infrastructure regulator is thus to be established to regulate and carry out surveillance on electronic communications, postal and courier, electricity, gas and heat industries and water supply and waste water management activities. To ensure that the national regulator is independent and its financial and human resources are sufficient, the Concept of Public Infrastructure Regulation Improvement provides for its financing by payments from regulated economic entities made for regulatory and surveillance activities, and by other legally available funds. It is expected that the Law on Infrastructure Regulation Improvement will be adopted in the near future.

The Law Amending the Law on the Heat Sector No. X-1329 of 20 November 2007 shall regulate the state management of the heat sector, the activities of the heat sector entities, their relations with heat consumers and their interrelationship and responsibility. The objectives of the law are as follows:

1) to ensure a reliable and high-quality supply of heat to heat consumers at minimum costs;

2) to ensure by law effective competition in the heat sector;

3) to defend the rights and legitimate interests of heat consumers;

4) to increase the efficiency of heat production, transmission and consumption;

5) when producing heat, to increase the use of indigenous fuel, bio fuel and RES;

6) to reduce the negative impact of the heat sector on the environment.

On 2 November 2011 the draft Law Amending the Law on State Stocks of Petroleum Products and Crude Oil of the Republic of Lithuania was approved by the government and presented for approval to the Seimas of the Republic of Lithuania, the purpose of which is to ensure the control of the formation, accumulation, management and use of state stocks of petroleum products and crude oil and create the conditions necessary to fulfil obligations to EU law regarding the maintenance of the minimum amount of stocks of petroleum products and crude oil. The purpose of this draft law is to transfer the requirements of Council Directive 2009/119/EC of 14 September 2009, which imposes an obligation on member states to maintain minimum stocks of crude oil and/or petroleum products (OL 2009 L 265, p. 9), to the National Law of the Republic of Lithuania and to ensure the effective implementation of the directive's provisions. The draft Law Amending the Law on State Stocks of Petroleum Products and Crude Oil of the Republic of Lithuania was adopted by the Lithuanian Parliament and entered into force from 1 July 2012.

In May 2012, the Seimas adopted the Law on Energy Resources Market, which laid down the legal framework for the establishment of energy resources exchange, that is, a centralised energy trade system, in which the trade of biofuels, petroleum product stocks, natural gas and instruments of auxiliary protection from energy price volatility will be organised. It is planned that the energy resources market will begin limited operations on 1 October 2012, while achieving its full functionality on 1 January 2013. It should also be pointed out that in March 2012, the natural gas exchange, operated by BALTPOOL UAB, was established in Lithuania in accordance with the provisions of the Law on Natural Gas of the Republic of Lithuania, providing an alternative to bilateral gas purchase agreements.

In March 2012, a concession agreement providing the contractual framework for the design, construction and operation of the Visaginas NPP was initialled by the Ministry of Energy and Hitachi, concluding the negotiation process. In June 2012, the Seimas passed a package of laws approving the concession to be granted to the Visaginas NPP project development company and creating conditions for commercial investors — the regional partners and strategic investor Hitachi — to conclude discussions on the establishment of the project development company and sign the necessary agreements.

Pursuant to the Law on Concessions of the Republic of Lithuania, the object of concession may be an economic activity carried out by the concessionaire related to the design, construction, development, reconstruction, modification, repair, management, use and/or maintenance of the objects of the infrastructure, provision of public services, management of the state or municipal assets and/or use (including exploitation of natural resources). Pursuant to Article 2 of the same law a concessionaire may be a subject of the Republic of Lithuania or foreign subject to whom a concession is granted. A subject is considered to be an enterprise of any type, consortium, association, institution, organisation or a subject of a different legal form or type established or acting under the applicable laws of the Republic of Lithuania or

foreign state. However, a natural person is not considered to be a subject for the purposes of concessions. The concession agreement may be concluded in relation to the following areas of activity: energy, including heat and power energy, and the extraction, transfer, distribution and supply of oil and natural gas.

In June 2012, the Seimas adopted the *Law on the Liquefied Natural Gas Terminal*, which ensures the required legal framework for the construction of the LNG terminal in Lithuania, as well as establishes the financial and organisational conditions for the technologically and economically sound operation of the LNG terminal and its infrastructure.

In June the Seimas adopted the Law on Lithuanian Republic electricity system integration to European electricity systems, which foresees the main steps for the integration into the European electricity system and Lithuanian electricity transmission system preparation for synchronous operation with the Continental European network by 2020.

In June, 2012, the renewed National Energy Independence Strategy encompassing measures to achieve energy independence as well as to implement structural energy reforms was adopted by the Seimas. The major objective of the strategy is to ensure energy independence for Lithuania by 2020. This will be ensured by breaking Lithuania's energy isolation (alternative ways to import energy resources will be established) and by securing sufficient and competitive internal capacities for electricity production.

According to the Law on Civil Protection of the Republic of Lithuania the government is in charge of the adoption of a national level emergency management plan and the ministries, other state institutions and offices are responsible in their fields of responsibility for the preparedness and implementation of the response measures in the case of an emergency.

Main legislation on renewable energy and energy efficiency promotion

Energy security and energy independence are the strategic priorities of the government and the energy sector is particularly important to the Lithuanian economy. Strategic energy reforms in the electricity and gas sectors are being successfully implemented, together with a gradual shift towards more efficient energy production and greater use of renewable energy.

The European Parliament and Council Directive 2009/28/EC on the promotion of the use of energy from renewable sources (thereinafter Directive 2009/28/EC) sets a mandatory national overall target for the share of energy from renewable sources in the gross final consumption of energy in 2020. The target for Lithuania is 23% of RES in the gross final consumption of energy in 2020 (including 10% of renewable energy in transport).

The main legal act governing the essential provisions of Directive 2009/28/EC is the Law on Renewable Energy Sources (Official Gazette, 2011, No. 62-2936) (thereinafter Law on RES). This law determines the basic principles of renewable energy sector development, support measures, state regulation and control. The main goal of this law is to ensure that in the year 2020 the mandatory national targets are achieved.

Other relevant legislation on RES promotion are as follows:

- National Renewable Energy Development Strategy approved by Resolution No. 789 of 21 June 2010 of the government of the Republic of Lithuania (Official Gazette, 2010, No. 73-3725) and the Plan of Measures for the Implementation of the National Strategy for the Development of Renewable Energy approved by Decision No. 1-180 on 23 June 2010 of

the Minister of Energy (Official Gazette, 2010, No. 78-4030);

- Law on Electricity (Official Gazette, 2012, No. 17-752);
- Law on Heat Sector (Official Gazette, 2003, No. 51-2254; 2010, No. 65-3196);
- Description of the Procedure for the Promotion of the Production and Purchase of Electricity the Production of which Involves the Use of Renewable Energy Sources approved by Resolution No. 1474 of the Government of the Republic of Lithuania of 5 December 2001 (Official Gazette, 2001, No. 104-3713; 2009, No. 49-1958).

The European Parliament and Council Directive 2006/32/EC on energy end-use efficiency and energy services and repealing Council Directive 93/76/EEC (thereinafter Directive 2006/32/EC) sets the national indicative target of 9% of final energy saving in 2016. The National Energy Strategy, approved by Resolution No. X-1046 of 18 January 2007 of the Seimas of the Republic of Lithuania approving the National Energy Strategy (Official Gazette, 2007, No. 11-430), sets the objective, in effect as of 1 January 2008, to save 9% of the final energy consumption until 2016, compared with the final energy consumption in 2005. In addition, pursuant to the requirements of Directive 2006/32/EC, the intermediate energy savings target for a three-year (2008–2010) period was set at 1.5% of the average final energy consumption in 2001–2005.

Other relevant legislation on energy efficiency promotion is as follows:

- National Programme for Energy Efficiency Improvement for 2006–2010 approved by Resolution No. 443 of the Government of the Republic of Lithuania of 11 May 2006 (Official Gazette, 2006, No. 54-1956). The objectives of the programme cover the implementation of an energy policy in line with the sustainable development goals, development and application of appropriate regulation and the implementation of research studies as well as information and educational activities on the issues of energy efficiency.
- Lithuanian Housing Strategy, approved by Resolution No. 60 of the Government of the Republic of Lithuania of 21 January 2004 (Official Gazette 2004, No. 13-387), aims at reducing the relative consumption of heat and fuel per useful area unit of housing by at least 30%. For the purposes of implementing the Housing Strategy, the government of the Republic of Lithuania adopted Resolution No. 1213 of 23 September 2004 approving the Multi-apartment Building Renovation (Upgrading) Programme (Official Gazette 2004, No. 143-5232; 2009, No. 112-4776; 2010, No. 72-3651).

ENERGY MARKET IN LITHUANIA

Energy policy

In May, 2011, the National Energy Independence Strategy project was endorsed by the government and submitted to the parliament for final approval. In June 2012, the National Energy Independence Strategy, which encompassed measures to achieve energy independence as well as to implement structural energy reforms, was adopted by the Seimas. It determines energy sector priorities until 2020 and energy sector development guidelines until 2030 and 2050 and foresees the most crucial assignments that Lithuania needs to undertake to achieve its energy independence until 2020. This will be ensured by breaking Lithuania's energy isolation (alternative ways to import energy resources will be established) and by securing sufficient and competitive internal capacities in electricity production.

To achieve this, it is necessary to do the following:

- integrate with European electricity systems (connections with Poland and Sweden);
- ensure competitive local capacities in electricity generation (Visaginas NPP being the main one);
- assure an alternative gas supply and interconnect with European gas pipelines (LNG, interconnection with Poland and Underground Gas Storage);
- implement the third energy package of the EU in the electricity and gas sectors by unbundling transmission from supply and other activities and thus creating competition in the energy transmission chain;
- ensure competition in the district heating sector and increase heat consumption efficiency;
- make intensive use of renewable energy resources.

The main strategic priority of the 2020–2030 period is to implement measures in order to ensure a competitive and sustainable energy sector. In pursuit of this objective Lithuania will continue increasing part of the environmentally friendly energy resources in the general fuel structure and improving the infrastructure of the energy sector, which is necessary in order to exploit the potential of RES. Till 2030 Lithuania will have a competitive and environment friendly energy sector, where almost all energy will be generated from renewable energy resources and nuclear energy.

The main strategic priority for the period of 2030–2050 will be further sustainable development of the energy sector. For this purpose new technologies will be selectively adapted in Lithuania, including, in particular, technologies that will contribute to the generation of environment friendly energy and development of environmentally friendly consumption. In 2050, Lithuania will be completely independent of imports of fossil fuels as all usable energy will be generated from nuclear energy and renewable energy resources.

Institutional structure

Article 4 of the new Law Amending the Law on Energy of the Republic of Lithuania adopted by the parliament on 22 December 2011 sets forth the following energy sector management institutions, which, according to their respective competence, are carrying out the energy sector management, regulation, supervision and control in the Republic of Lithuania.

1) Government or its authorised institution;
2) Ministry of Energy;

3) Ministry of Environment;
4) Ministry of Transport and Communications;
5) NCC;
6) State Energy Inspectorate;
7) State Nuclear Power Safety Inspectorate;
8) Competition Council of the Republic of Lithuania;
9) State Consumer Rights Protection Authority;
10) Municipalities.

Ministry of Energy

In January 2009, the Ministry of Energy of the Republic of Lithuania was established for the purposes of instituting structural and systemic reforms in the Lithuanian energy sector. In accordance with new Law on Energy, the ministry has the following key responsibilities: formulating public policy in the energy sector and organising, coordinating and monitoring its implementation; preparing the national strategy for the energy independence project and submitting it to the government; approving the authorisation to engage in the trading of petroleum products in the issue of rules; determining the energy and the energy performance requirements; and other responsibilities.

NCC of Lithuania

The actors in the field of energy are regulated and supervised by the state Energy Commission. The commission is designated to perform the following functions: approving the regulated activity accounting requirements; approving the state-regulated price setting methodologies; establishing the state-regulated prices and price caps; if necessary, preparing and submitting to the government the state-regulated pricing principles; controlling the application of state-regulated prices and tariffs; other responsibilities.

State Energy Inspectorate

The inspectorate is the public institution acting under the Ministry of Energy. The main task of the inspectorate is the exercise of state control over the energy facilities and energy (electricity, heat, fuel gas, biofuel, oil and oil products) equipment of Lithuania, with the purpose of ensuring the reliable, efficient and secure production, supply and use of energy resources and energy, and also to control state and reserve stocks of energy resources.

It is notable that in 2010 the Energy Security Centre under the Ministry of Foreign Affairs of the Republic of Lithuania was established and is mandated to carry out the following activities:

- assisting the Lithuanian Government in the implementation of the national policy on energy security;
- collecting and analysing data on energy security;
- developing methodology to assess the risks and threats to energy security;
- analysing individual cases and the lessons learned;
- assessing threats to the critical energy infrastructure and giving advice on the capacities

needed to protect it;

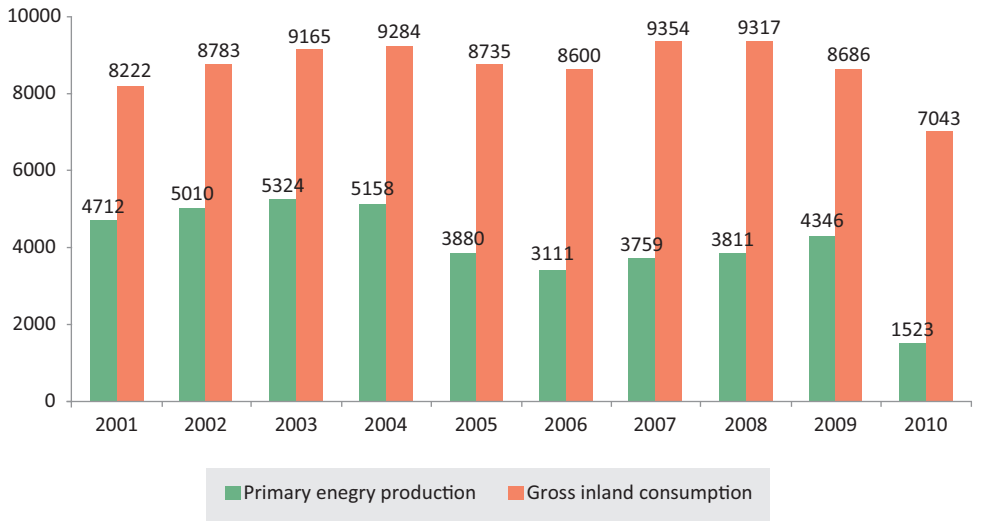
- working on the methodologies and mechanisms of early warning systems;
- addressing maritime security issues;
- developing response/contingency plans and methods (procedures, rules, mechanisms and capabilities) to be activated in the event of a threat or breach of energy security;
- promoting civilian-military cooperation on energy security;
- raising public awareness of energy security and maintaining relevant databases;
- building a network of energy experts and institutions;
- actively pursuing international cooperation on energy security;
- seeking accreditation with NATO as the Centre of Excellence for Energy Security.

In October 2012 NATO approved accreditation of Energy Security Centre becoming a NATO accredited center of excellence.

Primary energy production and consumption

Lithuania imports oil and natural gas from Russia and internally produces electricity from RES and in the recent past from nuclear energy. Its import dependency is close to the EU average. In the recent past nuclear energy has accounted for the largest share in primary energy supply and a large percentage of the electricity generated (nearly 80% in 2004). However, this situation has changed as from 2010. There are plans to build a new nuclear reactor to replace the one that has been closed.

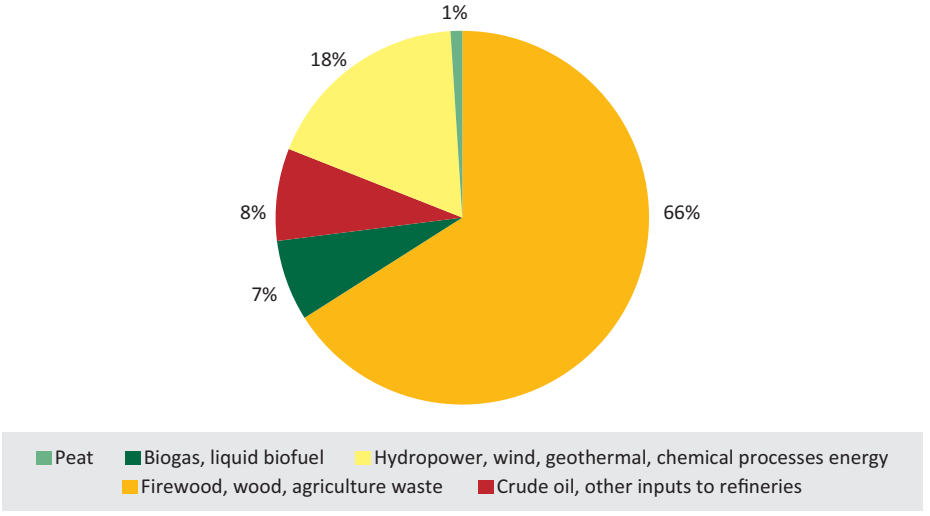
Figure 8: Primary energy production and gross inland consumption, thousand tonnes of oil equivalent



Source: Lithuanian Department of Statistics, www.stat.gov.lt

After closing the Ignalina Nuclear Power Plant (Ignalina NPP) in 2009, the structure of the country's fuel and energy consumption has changed. In 2010 the largest part of the general consumption was taken up by crude oil products (36.3%) and natural gas (35.4%).

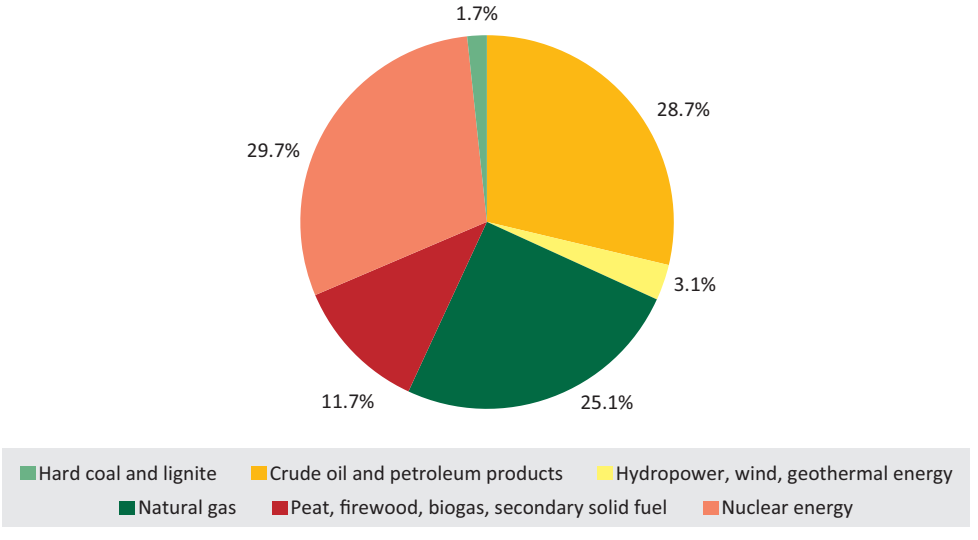
Figure 9: Production of primary energy in 2010



Source: Lithuanian Department of Statistics, www.stat.gov.lt

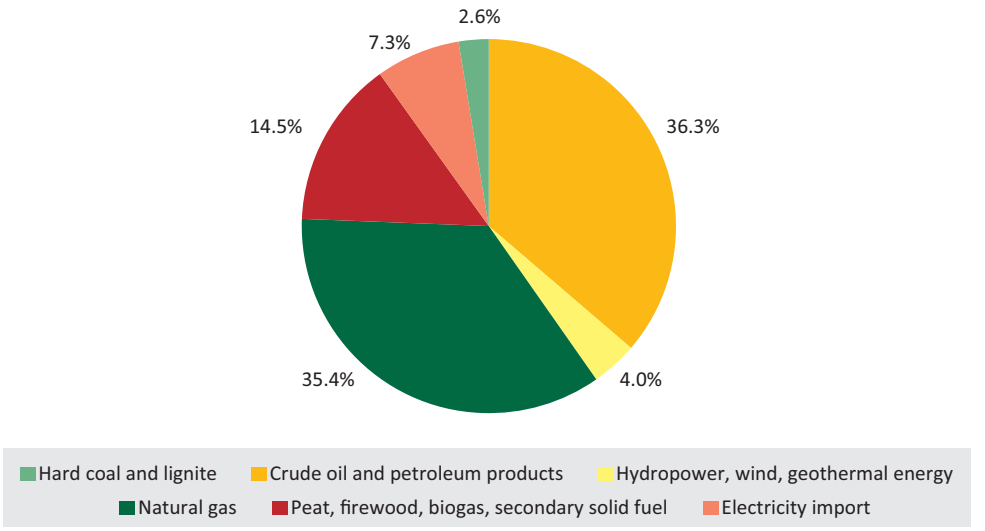
The structure of the gross inland consumption is provided below, with a comparison of what it was in 2009 with what it was in 2010.

Figure 10: Gross inland consumption, thousand tonnes of oil equivalent in 2009



Source: Lithuanian Department of Statistics, www.stat.gov.lt

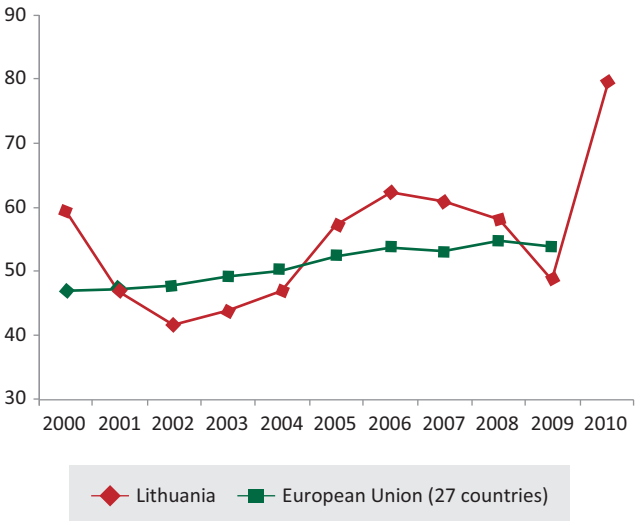
Figure 11: Gross inland consumption, thousand tonnes of oil equivalent in 2010



Source: Lithuanian Department of Statistics, www.stat.gov.lt

In order to meet the needs of the country's consumers, both internal and imported resources of fuel and energy are used. Lithuania imports the main resources of fuel and energy: oil, natural gas and coals. Oil is also produced in Lithuania; yet its amount is insignificant and comprises only around 1% of the whole amount of imported oil. In the last decade Lithuania's energy dependence on imports, compared to the average for the EU, has fluctuated, either exceeding it insignificantly or being less than it. However, in 2010 Lithuania's dependence on imported organic fuel increased significantly, that is, from 48.8% in 2009 to 79.4% in 2010, and it noticeably exceeded the average for the EU.

Figure 12: Curve for energy imports in Lithuania and EU, %



Source: Lithuanian Department of Statistics, www.stat.gov.lt

In 2010, as compared to in 2009, imports of fuel and energy were higher by 15.3%: imports of natural gas were higher by 13.5% and imports of coals were even higher by 48.8% than in 2009. After the closure of the Ignalina NPP, the demand for electricity increased significantly. In 2010, imported electricity comprised 7031 GWh (700 GWh in 2009) and produced electricity amounted to 5749 GWh (15358 GWh in 2009).

In order to reduce the dependence on imported fuel and the environmental impact of organic fuel, it is very important to make extensive use of renewable energy resources. Extensive use of renewable energy resources for the production of electricity and heat energy as well as transport makes it possible to reduce the use of imported fossil fuels, in particular natural gas and crude oil products, which are becoming increasingly expensive.

In 2010, as compared to in 2009, the consumption of renewable energy in Lithuania was higher by 1.4%. In 2010, the consumption of renewable energy resources comprised 18.4% of the general energy consumption. Biomass, in particular firewood and wood residue, has the biggest energy potential in Lithuania at the moment.

An analysis of the structure of wood fuel and agricultural waste consumption shows that the largest proportion of this (61.1%) in 2010 was consumed in households. The boiler rooms of district heating companies and power plants consumed 26.8% of wood fuel and agricultural waste.

Wind farms are one of the fastest spreading and environment friendly technologies for renewable energy in Lithuania.

In 2010, when compared to 2009, the amount of electricity produced by wind farms was higher by 43% and comprised 3.9% of the total energy produced in the country.

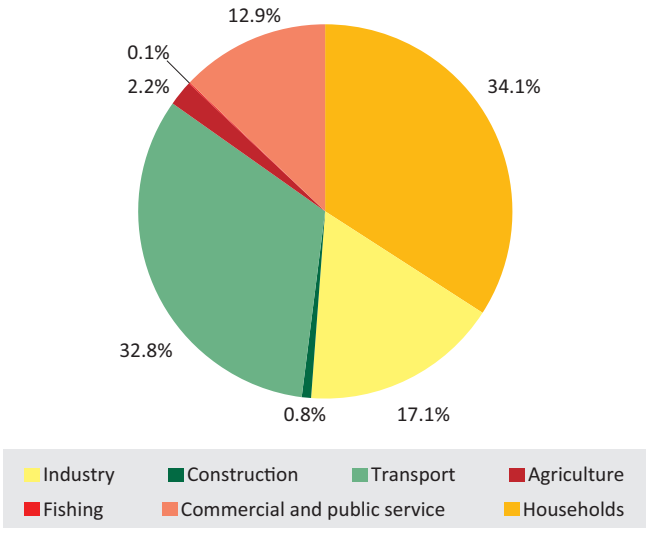
Another important renewable energy source is solar energy. In 2010, the amount of solar

energy produced and supplied to the grid in Lithuania comprised 2.4 MWh or 0.0024 GWh, which comprised an insignificant part of the total amount of electricity produced ––—5749 GWh. It should be noted that in 2010 electricity produced by using solar energy was supplied to the grid. The production and use of biofuel in Lithuania is promoted by international liabilities related to a reduction in greenhouse gas emissions and an increase in biofuel consumption in transport. It is also affected by the continuously increasing demand of diesel (compared to petrol) and increasing prices of oil and mineral fuel.

The two main types of biofuel used in Lithuania are biodiesel and bioethanol. In 2010, 39,300 tonnes of bioethanol were used (more by 59.8% compared to in 2009) and 89,200 tonnes of biodiesel (less than 14.8% of the amount in 2009).

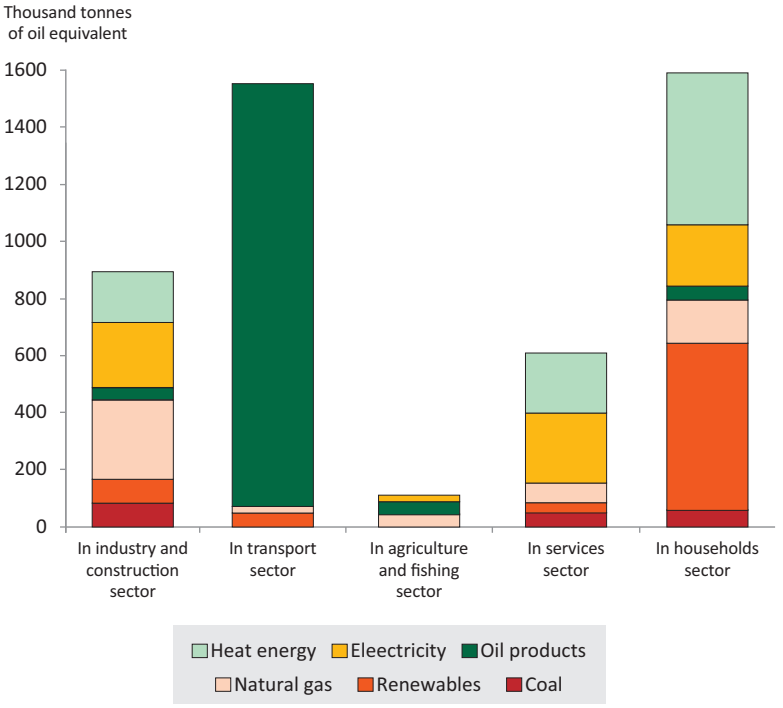
In 2010, when compared to 2009, final energy consumption increased by 3.7%. With regards to the structure of final consumers households and transport sectors were dominant and in 2010 they consumed 34.1 and 32.8%, respectively, of the energy supplied to the country's economic sectors. Part of the industry sector comprises 18% of the final energy consumption structure. In 2010 all types of road transport consumed 2.6% more fuel than in 2009; yet the consumption of diesel increased (by 13.7%) while the consumption of petrol and liquid gas decreased (19.5 and 1.6%, respectively).

Figure 13: Fuel and energy final consumption by sector in 2010



Source: Lithuanian Department of Statistics, www.stat.gov.lt

Figure 14: Final energy consumption by economic sectors and fuel type in 2010



Source: Lithuanian Department of Statistics, www.stat.gov.lt

Crude oil products were mainly used in the transport sector while renewable energy resources and district heating energy were used in the household sector.

DEVELOPMENT OF THE ENERGY SECTOR AND THE STRUCTURE OF THE ENERGY MARKET

Oil sector

Lithuania has oil reserves onshore and offshore in the Baltic Sea, but their total size, based on existing exploration results, is limited. Consequently, Lithuania is dependent on its external supply, mainly from Russia.

Lithuania's historical dependence on supplies of crude oil from the Russian Federation via the Druzhba pipeline was alleviated by the construction of the Butinge oil terminal, which became fully operational in 1999. This terminal allows the import of crude oil from Russia and other suppliers and provides an export outlet via the Baltic Sea. The Butinge terminal has the capacity to export more than 14 million tons of crude oil per year. It can also import a sufficient amount of crude oil to allow the Mazeikiai oil refinery (the Mazeikiai Refinery) to operate at full capacity. Currently, all crude oil imported into Lithuania arrives via oil tankers through the Butinge oil terminal, because oil deliveries to Lithuania via the Druzhba pipeline (which has historically been the primary channel for oil imports to Lithuania from Russia) were stopped by Russia in July 2006.

Lithuania exports a significant volume of refined oil products, which are produced in the Mazeikiai Refinery. In the first half of 2011, Lithuania's oil sector comprised approximately 300 companies engaged in oil product sales, one oil refining and transportation company (ORLEN Lietuva (formerly Mazeikiu Nafta)), one oil product terminal (Klaipedos Nafta), one oil terminal in Butinge, four oil extraction companies and approximately 900 petrol stations. ORLEN Lietuva owns the Mazeikiai Refinery, the pipeline system and the Butinge oil terminal. ORLEN Lietuva is functioning with stability and refines 9–10 million tonnes of crude oil annually. In 2010, ORLEN Lietuva produced 8.6 million tonnes of marketable oil products (9.5 million tons of crude oil refined). During the first half of 2011, it produced 4.2 million tons of marketable oil products (4.6 million tons of refined crude oil). ORLEN Lietuva is wholly owned by the Polish company PKN ORLEN S.A.

Across time and at the moment, the import, export, transit and sale of oil products are not subject to any restrictions or quotas. The government stipulates the sales procedures and quality requirements for the oil products used in Lithuania. The government also sets the level of applicable taxes. Trade in oil products is subject to licensing procedures that are determined and controlled by the government. Crude oil is transported by oil tankers through the Butinge oil terminal to the Mazeikiai Refinery, and a small amount of oil products are transported to the refinery by rail.

The consumption of oil products in Lithuania has, in recent years, amounted to approximately 2.6-2.7 million tons per annum. ORLEN Lietuva supplies approximately 80% of the refined oil products consumed in Lithuania, whilst imports cover the remaining 20%.

As a result of the economic downturn and increased prices of oil products, the demand for certain oil products as well as their consumption decreased in Lithuania in 2009. The situation started to change in 2010 with a 1–2% annual growth in the demand for oil products. A more notable increase in demand can be witnessed in the consumption of diesel. The consumption of diesel increased by 11% from 2009 to 2010, with 1,011,000 tonnes in 2010 (compared to 898,000 tonnes in 2009). The trend for a growing demand for diesel continued in 2011 as well. On the other hand, the consumption of gasoline has had a tendency to decrease. The consumption of gasoline decreased by 20% from 2009 to 2010, with 296,000 tonnes being consumed in 2010 (compared to 368,000 tonnes in 2009). The tendency for the demand for petroleum to decrease continued in 2011.

The only oil refinery in the Baltic States, ORLEN Lietuva, owns and operates a system of pipelines with a total length of about 500 kilometres. The refinery not only satisfies the demands of the local market, but also exports to neighbouring Latvia, Estonia, Poland and Belarus, as well as Ukraine and Western Europe. One of Central Europe's largest refiners of crude oil, the Polish PKN Orlen, invested more than 678 million EUR into the ORLEN Lietuva refinery, which is the highest amount of FDI in Lithuania.

In 2012, the foreign company Tethys Oil AB (Tethys) agreed with Odin Energi A/S (Odin) to acquire interests in the Lithuanian oil companies UAB Minijos Nafta (MN) and UAB LL Investicos (LLI). MN holds the Gargzdai licence and has proven and probable reserves in excess of 6 million barrels and a daily oil production of more than 700 barrels. LLI holds the Rietavas and Raseiniai licences and has known oil deposits as well as significant exploration upside. All licences are for onshore and cover some 4,000 square kilometres of the Baltic Sedimentary Basin (see map). The interests will be held through Odin group companies giving Tethys a net indirect interest of 25% in MN and 20% in LLI in consideration of approximately MSEK 140.

Tethys will receive newly issued shares in Odin group companies in exchange for the consideration of approximately MSEK 140, which will be met primarily by converting MEUR 13 (about MSEK 116) from a loan provided to Odin by Tethys, under a strategic investment agreement entered into previously. In addition, Tethys will pay MUSD 3.5 (about MSEK 24) in cash. Together Tethys and Odin will have 50% of the shares in both MN and LLI. The remaining 50% of MN is owned by the Lithuanian company Geonafta, which is part of the Polish Lotos group. The remaining 50% of LLI is owned by private interests. Under the investment agreement a balance of MEUR 2 will remain, which can be used for other investments or will be repaid to Tethys through share dividends.

The Gargzdai licence covers an area of 900 square kilometres in western Lithuania. The daily production amounts to more than 700 barrels of around 42 degree API oil. In total, 15 million barrels of oil have been produced from Cambrian sandstone reservoirs. MN's proven and probable oil reserves are in excess of 6 million barrels according to the estimates of independent petroleum consultant Miller Lents from May 2011. Proven, probable and possible reserves amount to more than 12 million barrels. A reservoir study made on the licence area suggests that the reserves could be significantly increased with the use of modern alternative oil recovery techniques. The licence also holds significant unconventional hydrocarbon potential, including exposure to Silurian/Ordovician shale sections.

The Rietavas licence covering some 1,600 square kilometres is located close to the Gargzdai licence, which has oil is known to have been discovered in the Cambrian sandstones, which is the reservoir layer that is in production in Gargzdai. The Rietavas licence is, however, quite unexplored. The Raiseiniai licence, with an area extending just over 1,500 square kilometres, covers a so-far unexplored trend of Silurian reefs similar to, but expected to be of larger size than, the Ordovician reefs found on Gotland. The Silurian/Ordovician shale section is also present in the Rietavas and Raseiniai licences.[17]

[17] *Press release, http://www.tethysoil.com/docs/releaser/2012_01_09.*

Natural gas

Natural gas import, transmission, distribution, supply and transit

Lithuania's gas transmission and distribution network consists of approximately 1,800 kilometres of main gas pipelines and 8,000 kilometres of distribution grids. In 2009, natural gas consumption by Lithuanian consumers decreased by 16% (in comparison with the consumption in 2008), and amounted to 2.7 bcm, 0.18 bcm being in the household sector. In 2010, natural gas consumption by Lithuanian consumers increased by 14% and amounted to 3.1 bcm; 0.2 bcm of the latter figure were consumed by the household sector.

The Lithuanian gas system is connected to the gas systems of Latvia, the Kaliningrad region of the Russian Federation and Belarus. All of the natural gas supplied to Lithuania is sourced from the Russian company OAO Gazprom (Gazprom). Pursuant to a long-term supply contract with Lietuvos Dujos AB, which entered into force in 1999 and expires in 2015, natural gas is not only supplied to Lithuania but is also transited through Lithuania to the Kaliningrad region of the Russian Federation.

Pursuant to the Law on Natural Gas of the Republic of Lithuania, natural gas transmission, distribution, storage, liquefaction and supply are considered to be licensed activities. Licences are issued and licensed activities are controlled by the NCC.

In 2010, Lithuania had one main natural gas transmission system operator (Lietuvos Dujos AB) and six distribution system operators. Pursuant to the Law on Natural Gas, gas transmission or distribution licences are issued to undertakings that are in the defined territory and own or hold on other than a lawful basis a natural gas transmission or distribution system installed under the requirements of the law, which must be connected to the operating transmission or distribution system.

The transit of natural gas to the Kaliningrad area is carried out in accordance with a long-term agreement between the Russian company Gazprom and Lietuvos Dujos AB signed in 1999 and valid till 1 January 2016. Transmission capacities reserved in 2010 for transit equal 4.1 million m^3/day. There have been 1387.2 million m^3 of natural gas transported by transit to the Kaliningrad area of the Russian Federation. Compared to in 2009 transit volumes have increased by 15.9%.

Lithuanian wholesale natural gas market

The natural gas market's concentration is at its maximum; that is, Lithuania is fully dependent on the sole gas supplier, Gazprom OAO, though gas is partly bought through LT Gas Stream AG.[18]

In 2010, 13 gas companies were licensed as gas suppliers, but in real terms gas quotas were shared between Lietuvos Dujos AB and Dujotekana UAB.

In 2010, the sole company, Lietuvos Dujos AB, was licensed to be the transmission system operator for the entire territory of the Republic of Lithuania.

The distribution market is in a pretty similar situation. Lietuvos Dujos AB has 99% of the distribution market share. Five other companies are entitled to engage in distribution activities, but they provided distribution services only in individual regions and their total distribution market share was 1%. However, in terms of distribution activities, which are different from transmission activities, approximately one third of the territory of Lithuania has not been

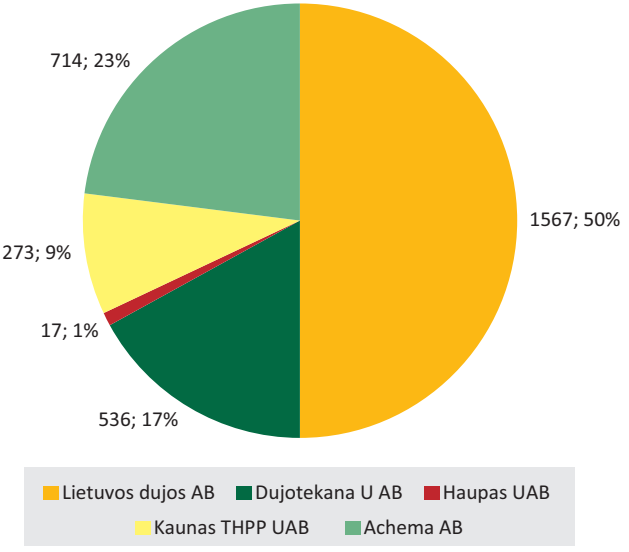
[18] *Annual report on electricity and natural gas markets, National Control Commission for Prices and Energy, 2011.*

gasified. To encourage competition and reduce the influence of dominating operators in this market, a competition procedure has been prescribed by law so that these unlicensed territories are gasified through the development of an infrastructure.

Two main suppliers, Lietuvos Dujos AB and Dujotekana UAB, dominate the natural gas supply market and they have supplied 99% of the total gas sold to Lithuanian gas consumers. Haupas UAB has supplied gas to the Druskininkai region and sold 1% of the total gas supplied to consumers.

The natural gas market in 2010 did not face any main changes — the same five companies were engaged in the import of natural gas, that is, Lietuvos Dujos AB, Dujotekana UAB, Haupas UAB, Achema AB and Kaunas Thermo Power Plant UAB. Natural gas import volumes in 2010, in comparison with those in 2009, increased by 15% and totalled 3,105.98 million m^3. Lietuvos Dujos AB saw the highest increase (31.5%) of natural gas imports and covered about 50% of the market. Achema AB and Kauno termofikacine elektrine UAB only use imported natural gas for their own use; the other three sell to customers. All the natural gas is purchased from Russia: 83% of all imported natural gas was purchased from Gazprom and the rest from Gas Stream AG LT. The quantities of imported natural gas by the companies and their shares in the market are presented in following figure (Natural gas import market in 2010 (million m^3)).

Figure 15: Natural gas import market in 2010, million m^3



Source: Annual report on electricity and natural gas markets of the Republic of Lithuania to the European Commission, 2011 prepared by NCC, www.regula.lt

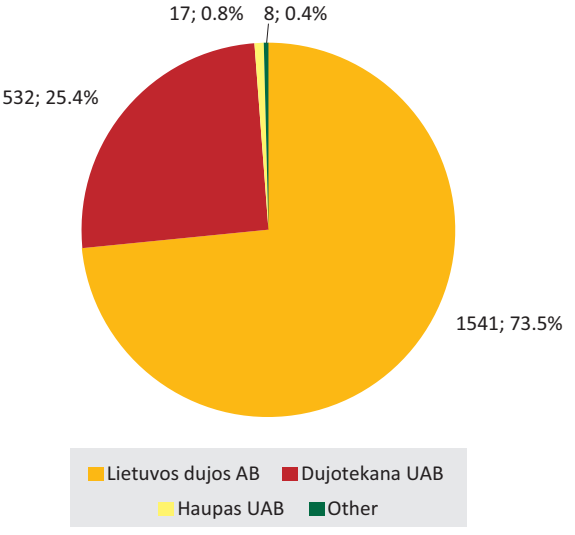
The Lithuanian natural gas wholesale market hardly exists at all. In 2010, trade in natural gas between the gas companies amounted to just 0.3% of the total volume of imported gas. Local gas distribution companies buy and sell small gas quantities to customers: in 2010, Intergas UAB and Agrofirma Josvainiai AB purchased gas from Dujotekana UAB, Fortum Joniškio Energija UAB purchased from Lietuvos Dujos AB and Druskininkų Dujos UAB from Haupas UAB. Natural gas suppliers traded in gas only under long-term contracts. No other types of contracts have been concluded by supply undertakings. Pursuant to the Law on Natural Gas, the NCC has the

right of access to contracts concluded between gas undertakings and customers. Every year gas undertakings submit the main conditions of their gas purchase and sales contracts and annual activity reports to the NCC. Two gas supply undertakings, namely Lietuvos Dujos AB and Dujotekana UAB, supply gas to Lithuanian customers. Haupas UAB supplies natural gas only to the Druskininkai region, where the gas grid is not connected to the rest of the network. The annual natural gas consumption in Lithuania in 2010 totalled 28.74 TWh (3.085 billion m^3). The average calorific value of imported natural gas was 9.317 kWh/m^3. In 2010 the maximum daily consumption of natural gas was 0.187 TWh. Natural gas is not produced in Lithuania; the entire volume of gas is imported from Russia. In 2010, imports of natural gas totalled to 41.86 TWh (4,493 million m^3). Out of this 12.92 TWh (1,387 million m^3) was transmitted to the Kaliningrad region by transit.

Lithuanian retail natural gas market

At the end of 2010 there were 555,000 natural gas consumers (users), out of which 549,000 were household users and 5,800 were industrial users. The number of retail market participants did not change in 2010. There were seven natural gas suppliers, which is the same as in the wholesale market, and two of them were dominant, that is, Lietuvos dujos AB and (73.5%) and Dujotekana UAB (25.4%). All the other companies covered only 1.2% of the total natural gas volume sold to customers. The total volume of natural gas sold in 2010 amounted to 19.55 TWh (2,098 million m^3), that is, 27% more than in 2009. Non-household customers consumed 29% more natural gas than in 2009. The closure of Ignalina NPP had a great impact on such a significant natural gas consumption increase as the Lithuanian Power Plant became the biggest electricity producer in the country. Household consumers in 2010 consumed 198 million m^3, that is, 9% more than in 2009. A peak in natural gas consumption occurred in the first quarter of 2010 when, due to the cold winter, the consumption of natural gas increased by 41.5% more than that in 2009 in the same quarter. Lietuvos Dujos AB met 99.9% of the total demand of Lithuanian household customers for natural gas.

Figure 16: Retail market share of Lithuanian gas companies in 2010, million m^3



Source: Annual report on electricity and natural gas markets of the Republic of Lithuania to the European Commission, 2011 prepared by NCC, www.regula.lt

The largest gas company, Lietuvos Dujos AB, supplied 14.4 TWh (1.546 billion m^3 in 2010), of which 1.84 TWh (197.827 million m^3) was sold to household customers and 12.56 TWh (1348.192 million m^3) to non-household customers.

Dujotekana UAB supplied 4.99 TWh (535.681 million m^3) of natural gas. All the gas was sold to just non-household consumers, of which 33.0 GWh (3.548 million. m^3) was sold to other gas undertakings (Agrofirma Josvainiai AB and Intergas UAB). Dujotekana UAB has 15 consumers in total, the largest share of which are gas power plants.

Haupas UAB sold 155.6 GWh (16.7 million m^3) of natural gas. The company only supplied natural gas to two non-household consumers. One of them was the gas supply company Druskininkų Dujos UAB.

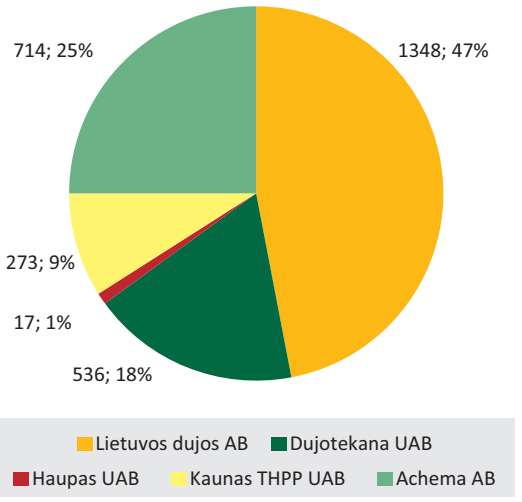
Fortum Heat Lietuva UAB purchased 47.14 GWh (5.06 million m^3) of natural gas from Lietuvos Dujos AB, which was supplied to household and non-household consumers.

Druskininkų Dujos UAB purchased from Haupas UAB 2.43 GWh (0.261 million m^3) of natural gas. In 2010, it supplied 2,713 household consumers and 15 non-household consumers. In 2010 1.37 GWh (147 million m^3) of natural gas was sold to household consumers and 1.06 GWh (114 million m^3) to non-household consumers.

Agrofirma Josvainiai AB purchased from Dujotekana UAB 25.25 GWh (2.71 million m^3) of natural gas and supplied it to household and non-household consumers.

Intergas UAB only engaged in supply activities in Mažeikiai region municipality. In 2010, the company sold 7.79 GWh (836 million m^3) of natural gas to both household and non-household consumers.

Figure 17: Non-household customer market in 2010, million m^3



Source: Annual report on electricity and natural gas markets of the Republic of Lithuania to the European Commission, 2011 prepared by NCC, www.regula.lt

Baltic market

Currently, the Baltic States gas market is dysfunctional. There are two reasons for this: the isolated gas transportation system of the Baltic States (including Finland) and the fact that all the countries are dependent on a single gas supplier, Gazprom. The diversification of the gas supply source is one of the key preconditions for the functioning of the gas market. This purpose may be achieved by implementing strategically important infrastructure investment projects: interconnecting the Lithuanian and Polish natural gas systems, finding a solution to the issue of the Latvian gas system's capacities, using the Inčukalnis underground natural gas storage facility in Latvia and constructing a liquefied gas terminal. Diversification and liberalisation of the gas market would ensure gas supply security and reliability and make it possible for every gas user to freely choose a gas supplier and buy cheaper gas on the market. However, it should be noted that, though Lithuania has opened its natural gas market, this has been a mere formality, and this, currently, generates no benefits whatsoever for natural gas users due to the above-mentioned circumstances.

Natural gas capacities at cross-border points

The Lithuanian natural gas system is interconnected with the gas systems of Belarus, Latvia and the Russian Federation. Capacities located at the Lithuania–Belarus border ensure the full amount of capacities required by Lithuanian customers, for transit to the Russian Federation (Kaliningrad region) and to Latvia. Natural gas is supplied to Lithuania from Russian gas fields through Belarus using the Minsk–Vilnius gas pipeline. The second interconnection with Belarus, Ivacevičiai–Vilnius, is currently not in use (due to an unsatisfactory gas line status, as it has no gas metering station installed). In the north, the Lithuanian gas transmission system is connected to the Latvian gas system. The graph below shows the existing and planned infrastructure in the natural gas sector.

Figure 18: Map of the existing and planned natural gas infrastructure

Source: Ministry of Energy of Lithuania

Table 7: Natural gas capacities at cross-border points

Connection	Capacities, thous. m^3/day
Lithuania–Latvia	5200
Latvia–Lithuania	5200
Belarus–Lithuania	27200
Lithuania–Russian Federation (Kaliningrad region)	11520

Source: Annual report on electricity and natural gas markets of the Republic of Lithuania to the European Commission, 2011 prepared by NCC, www.regula.lt

Tariffication

Lithuania participates in the process of setting up uniform rules for tariffication at the EU level. Article 13 of Regulation (EC) No. 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No. 1775/2005 sets the main principles on tariffication, which are also applied in Lithuania. NCC participates in ERGEG/ACER in the process of developing framework guidelines, including a framework guideline on tariffs.

Table 8: Lietuvos Dujos AB average transportation tariffs for different customer groups in 2011

Customer group	Transportation price, EUR/MWh		
	Transmission	Distribution	Total
D3 (83,7 GJ)	1.65	7.21	8.86
I1 (418,6 GJ)	1.55	7.21	8.76
I4-1 (418,6 TJ)	1.55	3.86	5.41

Source: NCC.

Table 9: Natural gas price structure for customers, EUR/MWh

	Price from 1st January 2011			Price from 1st July 2011		
	D3	I1	I4-1	D3	I1	I4-1
Natural gas import	28.66	27.96	27.96	36.14	35.72	35.72
Natural gas transmission	1.65	1.55	1.55	1.65	1.55	1.55
Natural gas distribution	7.22	7.22	3.86	7.19	7.19	3.85
Supply	1.06	0.30	0.30	1.06	0.30	0.30
Equity	1.06	1.06	1.06	1.06	1.06	1.06
Total:	39.65	38.09	34.73	47.09	45.81	42.47
Taxes (VAT – 21%)	8.33	8.00	7.29	9.89	9.62	8.92
Total:	47.98	46.09	42.02	56.98	55.43	51.39

Source: NCC.

Investment priorities in strategic sector projects

Lithuania is considering constructing a LNG import terminal in Klaipeda, which is expected to substantially strengthen Lithuania's energy security and diversify the gas supply. An Inter-institutional Working Group on the Construction of a LNG terminal in Lithuania in November 2010 announced the most suitable location and technological solution for the LNG terminal in Lithuania: accordingly, the southern part of Klaipeda Seaport and an offshore terminal with the possibility of storing LNG. The memorandum of understanding with the US company Cheniere was signed in May 2011; in addition, a dialogue with major LNG suppliers has been already started.

In June 2011, Klaipedos Nafta AB signed an agreement with the lead advisor for the preparation and implementation of the LNG terminal project — the international company FLUOR. The agreement provides for the lead advisor to work together for four years and perform such tasks as preparing the technical development plan for the project, assisting in in the selection of technologies, performing actions in order to obtain obligatory permits, solving matters related to the safety of the project and navigation, as well as other issues associated with the technical implementation of the project. Simultaneously, the adviser will perform works related to the economic part: producing the business model and financial model for the terminal and developing a strategy for the terminal's performance. The adviser will also supervise the technical realisation of the project and participate during the entire execution period of the project until the very start of the terminal's activities — up to the year 2014. In July 2011, the government recognised that the LNG terminal was a project of state importance. In January 2012, the winner of the international tender for Klaipedos Nafta AB, 'Procurement of liquefied natural gas floating storage and regasification unit (FSRU)', was selected: an international Norwegian company, Hoegh LNG. In March 2012, Klaipedos Nafta AB entered into a lease agreement for a FSRU with Hoegh LNG. The lease of the vessel includes all the expenses for the FSRU operation, covering the maintenance, repairs and necessary materials for repairs, vessel crew and insurance. When it has the lease for 10 years Klaipedos Nafta AB will have the right to purchase the FSRU and operate it itself. After the initial 10-year lease period, the FSRU should be able to operate for 30 or more years. Hoegh LNG will, in addition to providing the FSRU, also provide the operation and maintenance, repairs and all necessary materials for the repairs, as well as a qualified vessel crew. The contract also includes training experts. The FSRU will sail to Klaipeda Port and be ready to start operation before the end of 2014. In June 2012, the Seimas adopted the Law on the Liquefied Natural Gas Terminal, which ensures the required legal framework for the construction of the LNG terminal in Lithuania, as well as establishing the financial and organisational conditions for the technologically and economically sound operation of the LNG terminal and its infrastructure.

With the growing demand for the security of the gas supply, the construction of an underground storage facility has also become a priority for Lithuania. In light of this, Lithuania is carrying out preparatory works to carry this out. In July 2010, a consortium of Lithuanian and international companies, MN, Odin and Acoustic Geofizikai Szolgalto Kft, began an evaluation of the feasibility of a potential site for the underground gas storage facility in Syderiai. The study, utilising 2D/3D seismic exploration to evaluate the suitability of the geological structure of the potential site, has been successfully completed. As a result of the investigation, the Syderiai structure was found to be affected by crestal faulting in the south and east (associated with the regional Telšiai Shear Zone). However, the capacity of the Syderiai structure has not been finally defined. The overall volume of the UGS will depend on the faults crossing the

structure in the south and east. In July 2012, a tender was completed and a consortium of Lithuanian and international companies, MN, UAB LLinvesticijos and Poszukiwania Naftowe Diament, was selected to perform the second phase of the study. During further explorations of the geological structure of the potential site the plan is to drill two to three exploration boreholes and perform investigations that would obtain better spatial reservoir definition. It is expected that the second phase of the study will be completed by the end of 2012. It is also expected that other preparatory works are to be completed by 2014. The plan in Lithuania is to have an underground storage facility with a minimum useful volume of 500 million m^3. It is expected that the underground storage facility will be constructed before the end of 2016.

The Lithuanian–Polish gas interconnection is one more project to diversify the gas supply in the region. In line with the EU's Trans-European Energy Networks (TEN-E) Programme, almost EUR 0.5 million of support was received in 2010 for the feasibility study concerning this project. The first phase of the feasibility study will perform an economic analysis and the second phase will include the preparation of the feasibility study within which an analysis of at least three performance scenarios will be fulfilled. In April 2011 a consortium of Gaz-System and Lietuvos Dujos companies started to perform feasibility study of the Lithuanian–Polish gas interconnection project. It is expected that the Lithuanian–Polish gas interconnection will be built between 2018 and 2020. Among the priorities in the investment of EU funds in the EU financial framework for 2014–2020 it is foreseen the projects included in the BEMIP will be financed; thus it is expected that EU funds will be contributed during the implementation of the Lithuanian–Polish gas interconnection.

To increase the capacity of Lithuanian–Latvian gas interconnection, Lietuvos Dujos AB together with Latvija Gaze AS are implementing the project 'Improvement of Latvian–Lithuanian gas interconnection throughput capacity'. In August 2010, the companies received individually a decision by the European Commission that, regarding the financial support allocation to the project, 50% of the project's value would be granted. In 2010, the works were completed as planned under the schedule of works. The project will be implemented during 2011–2013.

In June 2012, an open international tender for shale gas exploration and production in Lithuania was launched. After the evaluation of the tender bids, the company (or companies) with the most financial and technological capabilities will be selected to invest in shale gas exploration. Licences for exploration will be issued in two fields: Silutes-Taurages, with 1,800 square kilometres, and Kudirkos-Kybartu, with 281 square kilometres. Exploration contracts are expected to be signed in the first quarter of 2013. The State Geological Service estimates that Lithuania's geological formations hold up to 585 bcm of gas, though technically it is possible to extract 10–15% of these reserves (60–90 bcm).

Electricity sector

Capacities of electricity generation, transmission and distribution

On 31 December 2010, the total installed capacity of power plants in Lithuania reached 3,872 MW. Thermo power stations comprise 68.2%, hydroelectric power plants comprise 26.5% (also including an evaluation of the capacity of the Kruonis Pumped Storage Plant) and renewable sources (wind power plants and power plants using biofuel) comprised 5.3%.

Table 10: Installed/disposed capacities of Lithuanian power plants on 1 January 2011, MW

Power plants	Installed/Disposed capacity
Lithuanian Power Plant	1800/1732
Mažeikiai Power Plant	160/148
3rd Power Plant of Vilnius	360/342
Kaunas Power Plant	170/161
'Kauno energija'	8/7
'Klaipėdos energija'	11/9
Panevėžys Power Plant	35/33
Power plants of companies	96/93
Total in thermal power plants	2640/2525
Kaunas Hydroelectric Power Plant	101/90
Kruonis Pumpe Storage Plant	900/760
Small hydroelectric power plants	25/25
Total in hydroelectric power plants	1026/875
Biofuel power plants	45/44
Wind power plant	161/161
Total in RES power plants	206/205
Total	3872/3605

Source: Annual report on electricity and natural gas markets of the Republic of Lithuania to the European Commission, 2011 prepared by NCC, www.regula.lt

Lithuania has a highly developed 330-110 kV electricity transmission grid; however, it is necessary to improve and extend the transmission grids in order to ensure the credibility of the network work and electricity supply quality for the consumers and to prepare for the implementation of strategic projects (of intersystem connections and integration with the European energy system).

Table 11: Substations of transformers in distribution networks and their capacity MVA in January of 2011

Grids	110 kV TP	35 kV TP	6-10 kV TR and SP	Total	Capacity MVA			
					110 kV	35 kV	6-10 kV	Total
AB 'Rytų skirstomieji tinklai' (RST)								
Vilnius reg.	35	24	5871	5930	1319	176	1767	3262
Panevėžys reg.	22	32	4549	4603	688	167	970	1825
Alytus reg.	24	19	4012	4055	568	112	778	1458
Utena reg.	23	21	4437	4481	512	103	733	1348
Total in RST	104	96	18869	19069	3087	558	4248	7893
AB 'VST' (VST)								
Kaunas reg.	41	25	5611	5677	1177	194	1860	3231
Klaipėda reg.	35	39	5903	5977	1027	172	1594	2793
Šiauliai reg.	28	26	5317	5371	552	135	1132	1819
Total in VST	104	90	16831	17025	2756	501	4586	7843
Total	208	186	35700	36094	5843	1059	8834	15736

Source: LITGRID AB, Electricity transmission system operator

Electricity production, consumption, exporting and importing

In 2010, electricity trade activities with other countries were carried out by AB Lietuvos energija, UAB Inter RAO Lietuva, UAB Baltic Energy Partners, UAB Enefit, UAB Energijos kodas, UAB EFT Lithuania and UAB Latvenergo prekyba. Electricity importing and exporting were carried out with Russia, Belarus, Latvia, Estonia and Finland. The majority of electricity imports came from Russia (72%). The majority of electricity exports went to Latvia (79%).

Table 12: Electricity import–export in 2010 by months, million of kWh

Month	Import						Export			
	Russia	Estonia	Finland	Latvia	Belarus	Total	Estonia	Finland	Latvia	Total
1	360.3	33.3	0	30.2	30.9	454.7	22.2	56.5	39.5	118.2
2	329.8	43.7	0	7.1	39.3	420	8.2	61.2	79.5	148.8
3	329.1	88.9	0	60.8	2	480.8	2.1	54.8	19.6	76.4
4	200.8	78.9	0	227.9	1.2	508.9	1	0	1.6	2.6
5	358.8	85.3	0.6	74.7	11.6	531.1	0.8	2.1	4.4	7.3
6	383.1	83.3	6.5	61.1	13.4	547.3	0.3	0	23.3	23.6
7	555.4	104.7	0	39.6	23.9	723.5	1.2	1.9	178.6	181.7
8	405.9	131.2	0	15.3	63.9	616.2	0.3	0	72	72.3
9	510.3	111.9	0	23.5	27.6	673.3	1.1	0	98.6	99.7
10	528.5	108.8	0	21.6	29.4	688.3	0.2	0	109.6	109.8
11	480.9	85.8	0	45.8	2.1	614.6	1.2	0	69.5	70.7
12	658.7	62.3	0	26.8	24.7	772.5	2.7	0	127.3	130
Total	5101.6	1018.2	7.1	634.4	269.8	7031.1	41.2	176.6	823.5	1041.3

Source: LITGRID AB, Electricity transmission system operator

Table 13: Full balance of Lithuanian electricity production–consumption in 2010, TWh

Balance	2010
Electricity production (gross)	5.7
Lithuanian Power Plant	2.02
Vilnius Power Plant (TEC2+TEC3)	0.77
Kaunas Power Plant	0.5
Mažeikiai Power Plant	0.14
Klaipėda Power Plant	0.02
Panevėžys Cogeneration Power Plant	0.18
Kaunas Hydroelectric Power Plant	0.45
Kruonis Pumped Storage Plant	0.76
Small hydroelectric power plants	0.09
Other power plants	0.4
Wind power plants	0.22
Biomass power plants	0.15
Solar power plants	0
Own needs of power plants	0.37
Supplied to the grid	5.33
Load of Kruonis Pumped Storage Plant	1.04
Export	1.04
Import	7.03
Electricity needs	10.28
Losses in the grids	0.99
Own needs of the grids	0.07
Final consumption	9.22
Industry	3.07
Transport	0.08
Agriculture	0.18
Households	2.59
Trade consumers and other consumers	3.3

Source: LITGRID AB, Electricity transmission system operator

Table 14: Electricity consumption of consumers connected to the distribution network in 2010 by months, million of kWh

Month	Industry	Households	Agriculture	Other consumers	All consumers
January	113.436	295.198	14.235	350.164	773.033
February	110.131	182.192	14.281	326.533	633.137
March	124.902	210.235	14.915	300.422	650.474
I quarter	348.469	687.625	43.431	977.119	2056.644
April	126.358	202.633	13.827	252.112	594.930
May	130.835	196.633	13.270	242.241	582.979
June	128.498	189.475	13.123	241.071	572.167
II quarter	385.691	588.741	40.220	735.424	1750.076
July	135.623	192.599	13.016	246.575	587.813
August	142.928	193.749	17.916	256.817	611.410
September	138.893	204.834	14.784	248.870	607.381
III quarter	417.444	591.182	45.716	752.262	1806.604
October	145.663	215.373	13.801	266.954	641.791
November	150.965	232.380	14.338	294.803	692.486
December	157.019	255.182	16.115	340.726	769.042
IV quarter	453.647	702.935	44.254	902.483	2103.319
Total	1605.251	2570.483	173.621	3367.288	7716.643

Source: LITGRID AB, Electricity transmission system operator

Intersystem connections with neighbouring energy systems

The Lithuanian transmission network has strong interconnections with neighbouring energy systems.

- Interconnection with the Latvian energy system by four 330 kV and three 110 kV lines;
- Interconnection with the Belarus energy system by five 330 kV and seven 110 kV lines;
- Interconnection with the Kaliningrad energy system by three 330 kV and three 110 kV lines.

There is still no interconnection with the neighbouring Polish energy system. The graph below shows the planned electricity interconnections (it is planned to build two – LitPol Link 1 and LitPol Link 2 – power links with Poland).

Figure 19: Map of planned electricity interconnection with Poland

Source: Ministry of Energy of Lithuania

Electricity market in 2010

In 2010, the electricity sector faced various challenges as Lithuania became the electricity energy importer rather than exporter; thus the electricity trade system changed in essence. It was determined by the following material events of the year 2010.

- Operation of SE Ignalina NPP was cancelled on 1 January 2010 and Lithuania became an importer of more than 50% of consumed electricity.
- Trading platform acting according to the principles of the electricity exchange Nord Pool Spot AS and managed by the market operator BALTPOOL UAB started operating in 1 January 2010. The trade is carried out on a day-ahead basis: all electricity delivery agreements are arranged a day ahead for each hour of the following day.
- In 2010 the functions of the transmission system operator were fully carried out by LITGRID AB, which took them over from UAB Lietuvos energija in 2009 and which was granted a licence on 28 December 2009 allowing it to carry out electricity transmission activities in the entire territory of the Republic of Lithuania.
- At the end of 2010 AB RST and AB VST were reorganised into one company, AB LESTO, which was granted the distribution licence and public supply licence on 30 December 2010.
- During 2010 the number of subjects actively conducting activities in the electricity market rose by 33%. Yet the concentration of members was increasing as well; thus the market remained highly concentrated.
- During 2010 a number of independent electricity suppliers actively operating in the retail market increased to 15 subjects (in 2010 there were 55 licensed suppliers in total).
- 45% of electricity consumption in the retail market was supplied to the consumers by independent suppliers.

Retail market consumers have gradually been introduced to the free market; consumers have lost regulated tariff supply rights and had to choose an independent electricity supply company in the following gradual steps:

- From 1 January 2010 for objects with an available connection power over 400 kW;
- from 1 January 2011for objects with an available connection power over 100 kW;
- from 1 January 2012 for objects with an available connection power over 30kW;
- from 1 January 2013 a regulated tariff supply will only be applicable for household consumers; and
- starting from 1 January 2015 all electricity consumers will have to choose an independent electricity supplier (no regulated tariff electricity supply will be applicable).

A gradual introduction of consumers to the free market means that the state does not guarantee the electricity supply with a regulated (fixed) tariff for non-eligible consumers. Such consumers have to choose an independent supplier and conclude an agreement regarding electricity prices and other supply conditions. Non-eligible consumers who have not chosen an independent supplier are supplied with electricity by the public supplier (a local DSO company); however, the price of electricity is determined at the end of the calendar month based on the actual electricity purchase costs by the public supplier.

Suppliers (public or independent) may purchase electricity in the wholesale electricity market in two ways: at the power exchange or under direct bilateral contracts with producers in Lithuania. It should be noted that the purchase of electricity, as described above, takes place before the actual electricity delivery; that is, the electricity that will be consumed tomorrow has to be purchased today at the latest. Trade planning is carried out and responsibility balancing is applied for each hour.

An imbalance between actually purchased and consumed electricity volumes emerges once electricity is consumed, as it is practically impossible to plan the exact amounts of electricity that will be consumed. Suppliers trade this imbalance in electricity with the transmission system operator. As the imbalance cost is unfavourable for suppliers, they are motivated to predict their customers' needs as precisely as possible to cover consumption by electricity purchases under bilateral contracts or at the power exchange. The power exchange has been operating in Lithuania since the beginning of 2010.

Legislation

While implementing Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC, the government of the Republic of Lithuania approved the conception of the Law Amending the Law on Electricity by Resolution No. 517 of 4 May 2010, under which the main implementation method of the third energy package of the EU was selected, meaning that the transmission system operator is separated from the vertically integrated energy company according to the legal, organisational and property aspects. On the basis of the conception a Draft Law of the Law on Electricity of the Republic of Lithuania was drafted and presented for adoption by the Seimas of the Republic of Lithuania in November 2010.

After withdrawing Ignalina NPP from operation from 1 January 2010 an hourly electricity market BALTPOOL UAB started operating in the country, acting in accordance with the principles of

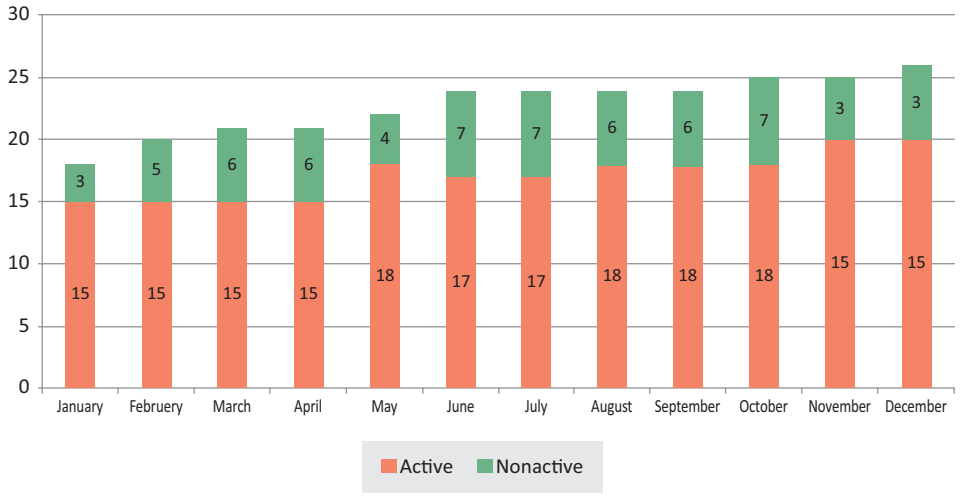
Nord Pool Spot AS. In June 2012, Europe's leading Nordic power exchange, Nord Pool Spot, launched its bidding area in Lithuania. The launch of the Nord Pool Spot bidding area in Lithuania is part of the BEMIP initiated by the European Commission. A common electricity market will secure a transparent wholesale energy price and fair trade as well as the possibility of purchasing cheaper energy from other countries, and equal trade conditions for all market participants. Nord Pool Spot is a substitute for the local Lithuanian electricity exchange, which was managed by Lithuania's electricity market operator, BALTPOOL UAB, and followed the principles of Nord Pool Spot. The agreement on the start of Nord Pool Spot's power exchange trade zone was signed by the country's electricity transmission system operator, LITGRID AB, and the Nordic electricity trading exchange, Nord Pool Spot, in March 2012.While reorganising the country's electricity sector following the requirements of the third energy package of the EU, four blocks of energy companies were formed in 2010. An energy production block was created on the basis of AB Lietuvos energija interconnecting the Kaunas Hydroelectric Power Plant, Kruonis Pumped Storage Plant and AB Lithuanian Power Plant. The transmission block was successfully separated and comprises the property of LITGRID AB and LITGRID turtas AB and an electricity market operated by BALTPOOL UAB was formed. Since the beginning of 2011 the distribution network company AB LESTO started operating, incorporating AB RST and AB VST.

The provisions for restructuring the Lithuanian energy sector have been evaluated and provided with the guidelines for further development of the energy sector by the newly approved National Energy Independence Strategy.

Market members

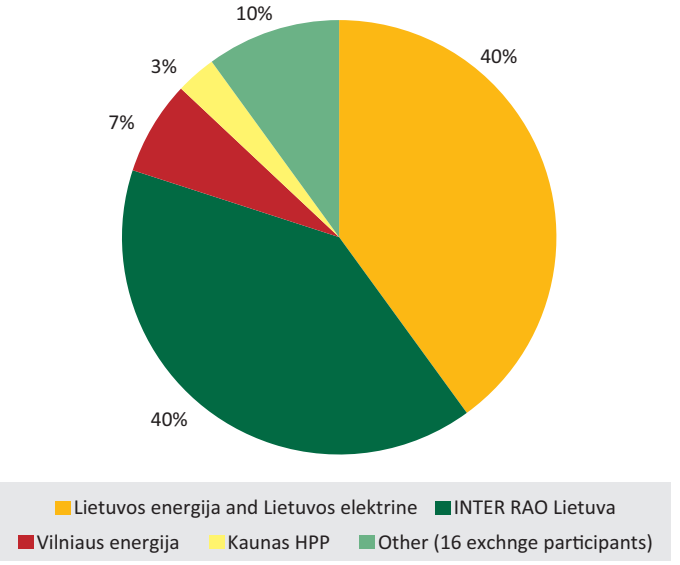
Lithuania's electricity market started its first year of operation with 18 registered members (15 of them being active traders); by the end of the year there were 26 members registered in the market, 20 of which have been actively exercising trading activities.

Figure 20: Number of Lithuanian electricity market members actively trading in 2010



Source: LITGRID AB, Electricity transmission system operator

Figure 21: Structure of wholesale electricity market in 2010



Source: NCC

The biggest structural parts of the trade market in 2010 were taken by AB Lietuvos energija along with AB Lietuvos elektrine (Lithuanian Power Plant) with around 40% and UAB Inter RAO Lietuva with 40%.

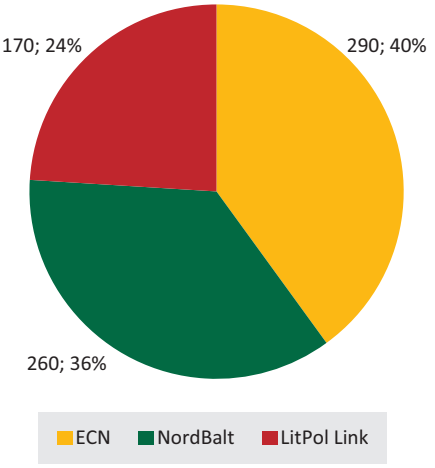
Investment opportunities for foreign investors

In 2010, investments in the transmission network comprised 19.1 million EUR and there were 77.3 million EUR in the distribution networks.

The three planned strategic projects are related to the following:

- intersystem line LitPol Link with Poland (500 MW till 2016, and an additional 500 MW or 1,000 MW till 2020);
- intersystem line NordBalt with Sweden (700 MW till 2016);
- synchronous operation with the European Continental Network (till 2020).

Figure 22: Proportion of investments in strategic projects during 2011–2020, million of EUR



Source: NCC

It is estimated that, during the implementation of these projects (the interconnection with Sweden NordBalt, interconnection with Poland LitPol Link and interconnection with European Continental Networks (ECN)), investments in the transmission system should triple the regulated property base of the transmission operator: currently, the property base is around 250 million EUR, while investments in the strategic projects in Lithuania from 2011–2020 comprise around 720 million EUR. There is attempt to mitigate the planned 40% increase in the trade service price, since all the projects are carried out at about the same time. The aforementioned LitPol Link project is in particular need of financial aid for its successful implementation.

NordBalt is a planned 700 MW submarine power cable between Lithuania and Sweden. In an effort to further exploit RES, NordBalt will be constructed with the capability to access energy produced by offshore wind farms that may be constructed in the future. NordBalt is expected to cost EUR 552 million, of which EUR 175 million is provided by the European Economy Recovery Plan. NordBalt is targeted for completion by the end of 2015. A number of preparation works for the construction of the interconnection have already been completed, including a seabed survey for the NordBalt interconnection in the Baltic Sea and the preparation of the technical specifications for the NordBalt cable and converters. The tender process has taken place, and in December 2010 Swedish (Svenska Kraftnät) and Lithuanian (Litgrid) transmission system operators signed contracts with the Swedish energy and automated technologies company ABB over the production and installation of a 300-kV HVDC cable and converter stations for the NordBalt interconnection. The planning documents for Lithuania's territory planning are being finalised. The construction of the undersea cable has also commenced. Furthermore, the production of the undersea cable is already under way in Sweden.

LitPol Link 1 is a planned 1,000-MW electricity link between Lithuania and Poland. It is listed among the EU's priority energy infrastructure projects. According to the pre-feasibility study the cost of establishing LitPol Link 1 is expected to be EUR 237 million and phase I (500-MW link) of the project is expected to be completed by the end of 2015. In phase II, a capacity of 1,000 MW will be reached by 2020. In addition, Poland will invest EUR 650 million

and Lithuania EUR 262 million to upgrade the existing energy infrastructure to ensure the full functioning of the LitPol Link 1 interconnection. Preparation for the construction works for this interconnection have already commenced. The form of the financial action plan for the interconnection has been established, the environmental impact assessments for the 400-kV overhead power transmission line and Lithuanian substation have been completed and Lithuania's territory planning process has been completed. In January 2012, Litgrid AB announced an international public procurement for the installation of the high voltage direct current back-to-back converter station with a 400-kV switchyard in Alytus. The procurement will include technical designing, the obtaining of construction permits and the manufacturing of the equipment as well as construction and installation works. Following an international public tender process, in the first half of the year 2012, two contracts were signed. The first involved a consortium comprised of URS Polska, Energetikos projektai UAB and URS Scott Wilson Ltd. for the preparation of the technical project for the reconstruction of the 330-kV transformer substation in Alytus, Lithuania. The second contract, for the preparation of the technical project for the 400-kV double-circuit electricity line on the Alytus–Lithuanian border, was signed with A. Žilinskio ir Ko UAB.

Lithuania's principal goal for its electricity sector is a connection to and synchronisation with the ENTSO-E, and the upcoming electricity interconnections with Poland are the most important projects for enabling such a connection. Estonia and Latvia have expressed the view that they share this goal. Financial support amounting to EUR 9,000 million was received in 2010 from the EU's Trans-European Energy Networks (TEN-E) Programme for a feasibility study concerning the Baltic states' integration into the ENTSO-E. Following the international public tender process for the preparation of this study, in the spring of 2012 an agreement was signed between the Baltic electricity transmission system operators Litgrid AB (Lithuania), Augstsprieguma Tikls (Latvia) and Elering (Estonia) and the Swedish consulting company Gothia Power AB.

A smart grid implementation project has also been started. For this purpose, under the initiative of the Ministry of Energy, a smart grid development working group has been established along with a separate company intended for the implementation of the solutions — UAB Technologijų ir inovacijų centras (TIC). In this project it is expected that measures will be implemented to meet the EU objectives '20/20/20'. In 2010 a plan for the implementation of a smart grid was approved; this stipulates the preparation of development directions and the formation of tasks for energy companies, analyses the possibilities of utilising EU funds and runs a pilot project.

Up until 2012 the plan is to perform an analysis of the costs of/profit obtained from the implementation of smart metering Lithuania. There will be a further pilot project on the smart grid.

Renewable sector

European Parliament and Council Directive 2009/28/EC on the promotion of the use of energy from renewable sources sets a mandatory national overall target for the share of energy from renewable sources in the gross final consumption of energy in 2020. The target for Lithuania is 23% of RES in the gross final consumption of energy in 2020 (including 10% of renewable energy in transport). The National Strategy for Renewable Energy Sources Development adopted in 2010 sets the overall and sector targets of RES in the gross final consumption of energy in 2020. The economic potential and national targets for RES are presented in the table below.

Table 15: Projections for the total share of RES in 2020

Overall RES projections for 2020	Economic potential in ktoe	Economic potential in %	National targets in ktoe	National targets in %
Total RES-Electricity consumption	370	30.9	254	21.3
Total RES-H consumption	1405	52.3	1051	39.2
Total RES-T consumption	156	9	173	10
Total RES share	1931	31.7	1474	24.23

Source: National Strategy for Renewable Energy Sources Development (Official Gazette, 2010, No. 73-3725)

Renewable electricity (RES-E)

Current RES-E production is dominated by hydropower, which generated 540 GWh in 2010. The growth in RES-E production from wind is remarkable: from 2 GWh in 2005, its contribution rose to 224 GWh in 2010. Electricity consumption from solid biomass increased to 113 GWh and biogas to 28 GWh in 2010 compared to the consumption of 47.8 GWh of solid biomass and 5.3 GWh of biogas in 2007. The contribution of RES to the overall electricity consumption in Lithuania was 4% in 2005 and 7.7% in 2010. The economic RES-E potential and national RES-E targets for 2020 are presented below.

Table 16: Projections for RES-E in 2020

RES-E 2020 projections	Economic potential			National targets		
	MW installed	RES electricity generation (GWh)	% in electricity consumption	MW installed	RES electricity generation (GWh)	% in electricity consumption
Large hydro	108	400	2.9	100.8	353	2.5
Hydro (below or equal to 10 MW)	66[1]	117[1]	0.8	40	117	0.9
Geothermal	15[2]	117[2]	0.8	0	0	0
Photovoltaic	53	42	0.3	10	15	0.1
Wind onshore	1000[3]	2400[3]	17.3	500	1250	9
Biomass (so-lid, biowaste, bioliquid)	162[4]	810[4]	5.8	162	810	5.8
Biogas	62[4]	413[4]	3	62	413	3
Total RES-E	1466	4299	30.9	874.8	2958	21.3

[1] Source: ESHA (European Small Hydropower Association)
[2] Source: EGEC (European Geothermal Energy Council)
[3] Source: EWEA (European Wind Energy Association)
[4] Source: AEBIOM (European Biomass Association)

The key support instruments for RES-E production are feed-in tariffs,[19] feed-in premium tariffs[20] and connection to the grid discount.

Electricity produced from wind, solar and biomass power plants with installed capacities not exceeding 30 kW is purchased at a fixed price (feed-in tariff), which is determined by the national regulatory authority (NCC).

Table 17: Approved RES-E feed-in tariffs for 2012

RES technology	Support level (€/MWh)
Hydro	81
Wind	107.2
Biomass	144.8
Biogas	185
PV (non-integrated into building)	417
PV (integrated into building)	521

Source: NCC

Electricity produced from wind, solar and biomass power plants with installed capacities exceeding 30 kW is supported by feed-in premium tariffs and quotas that are estimated by auctions. Quotas and geographical areas of auctions are established and approved by the government and organised by the NCC. Auctions are open to all producers who have signed letters of intent and guarantee obligations. The winner of the auction is determined by the minimum feed-in tariff proposed. The maximum amount of the feed-in premium tariff is determined by the NCC. The auctions are organised by the NCC and are forecasted in early 2012. Electricity from renewable sources is exempt from excise tax (Chapter IV Article 48 part 1 item 2 Tax Act).

The costs for connections and technical adaptation are attributed to producers and transmission/distribution system operators in the following proportions:

- RES-E power plants not exceeding 30 kW are connected free of charge;
- for the RES-E power plants not exceeding 350 kW producers bear 20% of the connection costs and 80% of the costs are paid by the operators;
- for the RES-E power plants exceeding 350 kW producers bear 40% of the connection costs and 60% of the costs are paid by the operators.

Renewable heating (RES-H)

In Lithuania biomass (firewood and wood waste) has traditionally been used for heat production in private households; 574 ktoe were consumed in 2010. The amount of biomass used grew to 180 ktoe during the same year compared to the 116 ktoe consumed in 2005 in district heating, as the technology had reached 75% of all Lithuanian residential buildings. A geothermal heat plant supplies the district heating grid of the city of Klaipeda. It produced 3 ktoe worth of heat in 2010. The total geothermal heat consumption in 2010 was 4.5 ktoe.

[19] *Fixed electricity from RES purchase price.*

[20] *Fixed electricity from RES purchase price above the market price of electricity.*

Table 18: Projections for RES-H in 2020

RES-H 2020 projections (ktoe)	Economic potential		National targets	
	RES heat consumption	% in heat consumption	RES heat consumption	% in heat consumption
Biomass (solid, biowaste, bioliquid)	1322	49.3	973	36.3
Biogas	6	0.2	50	1.9
RE from heat pumps:	38[1]	1.4	14	0.5
geothermal heat pumps	21	0.8	NA	NA
aerothermal & hydrothermal heat pumps	17	0.6	NA	NA
Solar thermal	20	0.7	9	0.3
Geothermal	19[2]	0.7	5	0.2
Total RES-H	1405	52.3	1051	39.2

(1) Source: EGEC (European Geothermal Energy Council)
(2) Source: EGEC (European Geothermal Energy Council)

There is no direct RES-H support. The generation of RES-H is supported by investment subsidies and is exempt from pollution taxes.

Subsidies and soft loans are provided from the Lithuanian Climate Change Programme and EU structural funds. Investment support from EU structural funds related to RES deployment is dedicated to just heat production projects using biomass from 2007–2013. The following activities are supported:

- modernisation of boiler-houses that supply heat to district heating systems by changing the used fossil fuel type to biomass;
- modernisation of Combined Heat Plants (CHP) that supply heat to district heating systems by changing the used fossil fuel type to biomass;
- building of new boiler houses using RES;
- building of new CHP plants using RES.

Renewable transport (RES-T)

In 2010, biodiesel consumption was 79 ktoe and bioethanol consumption 25 ktoe compared to 1.8 ktoe and 6.3 ktoe, respectively, in 2005. In 2010, Lithuania exported 60 ktoe of biodiesel and 15.3 ktoe of bioethanol.

Table 19: Projections for renewable energy used in transport (RES-T)

RES-T 2020 projections (ktoe)	Economic potential	National targets
	RES in transport consumption	RES in transport consumption
Bioethanol	37.35(1)	36
Biodiesel	218(2)	131
Renewable electricity	0	3
Second generation biofuels	46.5	0
Net biofuels imports	-42.3(3)	0
Total RES-T in ktoe	156.3	170

(1) Source: LEI (Lithuanian Energy Institute)
(2) Source: LEI (Lithuanian Energy Institute)
(3) A negative figure means an export to other (EU) countries

The main RES-T support measures are supply obligations, excise tax exemptions, exemption from pollution taxes and aid for growing energy crops.

- Petroleum products supplied to the country's domestic market must comply with the following requirements:
  - *from 1 January 2007, 95 RON motor spirit must be produced using the additive bio-ethyl tertiary butyl ether (bio-ETBE), the proportion of which is blended with petrol must be at least 7% by volume, but not more than 15% by volume, and, from 1 October 2008, the proportion of bio-ETBE blended with 95 RON motor spirit must be at least 10% by volume, but not more than 15% by volume;*
  - *95 RON motor spirit produced without bio-ETBE must have a bioethanol content of 5% by volume (with a permitted tolerance of minus 0.5% by volume); the permitted tolerance for bioethanol by volume in bioethanol E85 is plus/minus 0.5% by volume;*
  - *diesel (with the exception of class-2 Arctic diesel) must contain 5% by volume of fatty acid methyl ester (FAME) (with a permitted tolerance of minus 0.5% by volume) produced from vegetable oils or fats of animal origin; the quantity of FAME in diesel may be greater than 5% by volume if the diesel/FAME blend meets the mandatory quality indicators for diesel;*
  - *petroleum products supplied to the country's domestic market from public stocks must contain biomaterials.*
- For energy products that exceed the mandatory percentage of additives of biological origin, the rate of excise duty is reduced by a proportion corresponding to the percentage of additives of biological origin in excess of the mandatory percentage. For energy products in which the proportion of additives of biological origin is 30% or higher, the excise duty rate is reduced by a proportion corresponding to the percentage of additives of biological origin in the product. Where products are manufactured from just biomaterials, they are fully exempted from excise duties.
- The Law on Pollution Tax provides a pollution tax exemption for vehicles that use biofuel. This is based on a set of defined standards and on evidence documentation of biofuel consumption.

- A refund is given for part of the price of rapeseed oil intended for the production of rapeseed methyl (ethyl) ester (RME) and of rapeseed and cereals purchased for the production of dehydrated ethanol. The aid amount is as follows: rapeseed is 46 EUR/t and cereal grain is 33 EUR/t.

Planned measures for RES development

The Law on RES and the Plan of Measures for the Implementation of the National Renewable Energy Strategy require the preparation of support schemes to ensure favourable conditions for renewable energy utilisation. One of the most important planned measures is special national and municipal programmes for the promotion of the use of RES. The following sources of financing the programmes are envisaged:

- 40% of excise duty proceeds received for the sale of liquid fuel (heavy fuel oil), orimulsion, natural gas, coal, coke and lignite and gas oil intended for heating (domestic heating fuel) used for the production of heating and electricity as well as for the sale of electricity;
- 45% of corporate income tax received from biofuel producers and suppliers as well as from producers of RES;
- income received from RES statistical transfers;
- tax and penalties for environmental pollution with methane from swine farming enterprises where the designated number of swine held amounts to 12,000 units or more;
- voluntary funds from natural and legal persons and foreign countries intended for the development of the use of RES.

The use of funds from the special national and municipal programmes for the development of RES in the electricity sector is envisaged:

- for the implementation of projects on the use of solid biofuel for the production of heating and/or cooling energy supplied to heating/cooling supply systems as well as consumed at industrial enterprises and agricultural and commercial facilities;
- for the implementation of projects on the use of biogas for the production of heating and/or cooling energy supplied to heating/cooling supply systems as well as consumed at industrial enterprises and agricultural and commercial facilities;
- for the implementation of projects on biogas production, extraction, refining, treating and preparation for further use when supplying biogas to natural gas networks and/or for transportation to the final consumption point;
- for the implementation of projects on the use of geothermal energy for energy production;
- for the creation and production of technologies using RES;
- for the promotion of biofuel production;
- for scientific research work related to scientific research in the field of RES and the implementation of pilot projects on the use of such sources.
- support of the acquisition of equipment increasing the use of RES for personal needs in the residential and public sectors by compensating a fixed amount of funds attributable to one equipped capacity unit in accordance with the procedure approved by the municipality.

Other relevant measures planned for the period 2012–2015 are listed below.

1. Prepare and approve municipal action plans for the use of RES for 2011–2020, where the goals for the use of RES and measures for achieving these goals would be established;
2. Prepare measures of financial support, which would promote the modernisation of heat production installations supplying heat to rural public buildings;
3. Create conditions for the construction of cogeneration power plants using municipal and other waste unsuitable for processing;
4. Amend the obligatory requirements for oil products, biofuels and liquid fuel while providing for greater use of fuels of biological origin in transport;
5. Prepare measures encouraging the use of electric cars and cars using pure biofuels;
6. Prepare a quality standard for methane produced from biogas and used for motor fuels;
7. Prepare standards for biofuels and fuel mixes containing a percentage portion of biofuel blended into mineral fuel exceeding 10%;
8. Prepare and implement measures creating conditions for and encouraging the use of excess electricity produced at night-time in transport; create and develop a city infrastructure of cars using electricity;
9. Evaluate the demand for the development of the infrastructure of the gas network and prepare legal acts, which would form favourable conditions for the supply of biogas of appropriate quality to natural gas networks;
10. Prepare and publish technical rules regulating the connection of biogas supply systems to the natural gas network;
11. Prepare draft rules for equipping installations producing and using biogas;
12. Prepare financial measures promoting the use of lumbering waste for the production of energy;
13. Prepare forecasts for the use of biomass resources in the country until 2020, taking into account the import and export of biomass and the assessment of the impact of the use of biomass for the production of energy on other sectors (industry, agriculture, etc.) and provide proposals regarding the creation of a system for the monitoring this impact;
14. Conduct research intended for the improvement of forest fuel resources: to specify methods of accounting for underwood and non-prospective underbrush biomass and the structure of lumbering waste (wood from branches, stumps, roots, etc.); create a system of accounting for stump wood resources; analyse the possibilities for the accounting and the use of the living soil cover and litter fall for fuel in Lithuania;
15. Prepare proposals regarding the improvement of forest management methods in order to maximise the quantity of biomass produced from forests using the sustainable method;
16. Prepare legal and economic measures encouraging the cultivation of more energy plants on unused derelict and agricultural lands;
17. Promote electricity production from various types of biofuel including that from municipal waste; create conditions for the use of municipal, industrial and other waste that forms in

the country to the maximum extent possible thus reducing the amounts of waste to be shipped to landfills and the demand for traditional energy sources for energy production;

18. Form conditions for supplying biogas to natural gas networks; regulate quality requirements for biogas and the conditions for connecting biogas production installations to natural gas networks.

Investments in the area of RES

The development of RES is accelerating at an increasing rate in the country. Lithuania is constantly promoting the development of renewable energy resources (hydro energy, wind energy, biomass and solar energy), by seeking to ensure that RES would comprise 23% of the market till 2020. Clean energy technologies are also becoming increasingly important in the Lithuania's export area. Several Lithuania companies are launching the production of photovoltaic cells with a planned 120-MW supply capacity. A factory for assembling modules has been constructed in the Visoriai Information Technology Park.

In pursuit of fast growth for the environmental industry, in 2010 the government of the Republic of Lithuania granted companies incentives while implementing an experimental (c-Si) project on the production of photovoltaic cells and seeking to have a solar energy cluster in the country. Precizika-MET SC, which is owned by the Hexagon Global Measurement Technologies Group, was the first to start developing the solar energy industry in Lithuania by opening the Industrial Photo Electricity Laboratory in Vilnius at the beginning of 2010. BOD Group, Baltic Solar Energy and Baltic Solar Solutions are also planning to build an installation covering area of 25,000 square metres for the production of solar energy cells and solar energy modules. The plan is to create around 500 new jobs by 2016–2018 by investing up to EUR 58 million, while the industry's market share in the Lithuania's export sector would comprise EUR 434 million.

The huge potential for developing a clean technology industry is also proven by the five rapidly developing research, development and business valleys, with a force of 18,000 local scientists and researchers, internationally known as Lithuania achievements in electronics, and evident interest of institutions and business companies in this industry.

Heat supply

Heat production

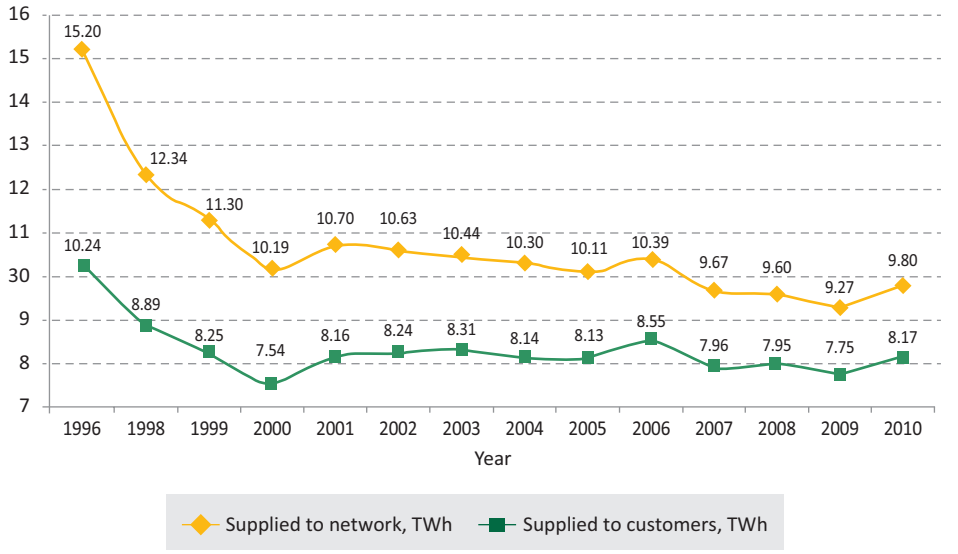
Municipalities are managing the heat sector in accordance with special heat sector plans approved by the municipal councils.

The main objective of the special heat sector plans is meeting the needs of consumers in a cost-effective manner and without exceeding the allowed negative impact on the environment.

While preparing and approving the special heat sector plans, the consumer cannot be hindered without reason while choosing a desirable alternative energy fuel type.

All district heating supply companies supply around 8–9 TWh of heat to heat consumers per year. It should be noted that around 40% of the total heat amount is produced in cogeneration plants.

Figure 23: Heat energy balance, TWh, during 1996–2010

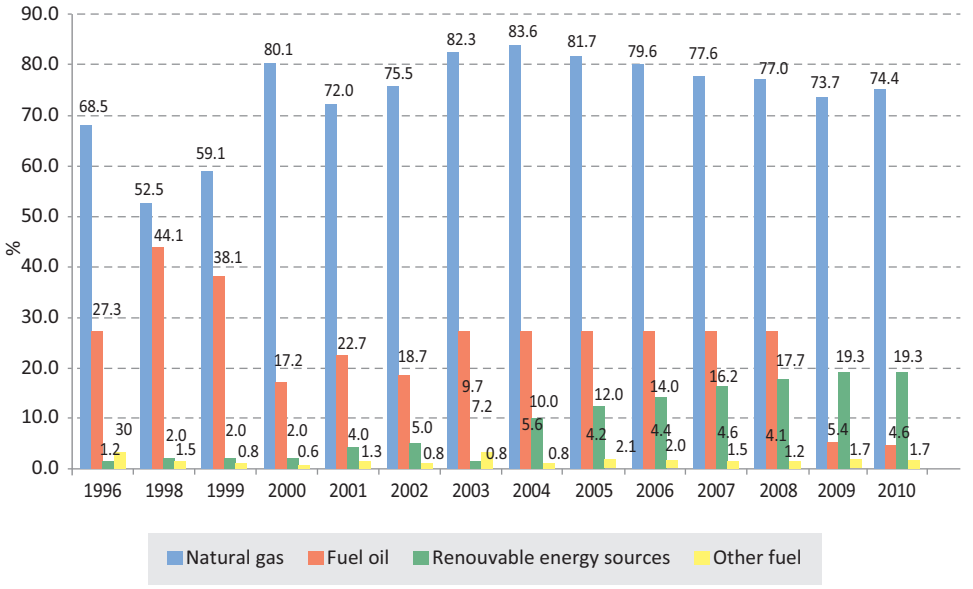


Source: Lithuanian District Heating Association, http://www.lsta.lt

Natural gas was the main fuel according to the balance of fuel for the Lithuanian district heating supply during the period 1996–2010. Fuel oil consumption for heat production fell from 38% in 1996 to less than 5% in 2010 and is constantly falling. Fuel oil usually remains a reserve fuel or is used for a short time during the coldest period only. It is related to its price and environmental restrictions.

Heat production from biofuel has significantly increased since 2002. It has been determined by the lower prices of the fuel, favourable pricing, investment subsidies and the possibility of selling saved air pollution permits (APPs) and other factors. An EU requirement concerning the limitations of burning high amounts of sulphur-containing fuels, in particular in the areas where natural gas networks are absent, has also contributed to increased heat production from biofuel.

Figure 24: Dynamics of the consumption of fuels in 2010



Source: Lithuanian District Heating Association, http://www.lsta.lt

National fossil fuel resources suitable for heat production are extremely limited; thus extensive use of renewable energy resources in Lithuania allows the available resources to be used and means it is less dependent on the imported fuel. According to scientific research the annual economic potential of renewable energy in Lithuania is as follows: firewood and wood residue – 1,033 ktne; agricultural 2,020 – 120 ktne; energy plants – 70 ktne; biogas – 40 ktne; and municipal waste – 120 ktne. The government of the Republic of Lithuania has approved the National Strategy on Renewable Energy Resources, which sets forth that till 2020 heat production will require 539 ktne of renewable energy per year. Currently, district heating supply systems consume 822 ktne of fuel, 160 ktne (~20%) of which is renewable energy. According to the practice, biofuel is more effective for use in large boiler rooms.

Lithuania producers produce more than 26,000 tons of wood briquettes and around 39,000 tons of wood granules. Since such fuel is much more expensive than firewood, for now it is used in small amounts in Lithuania and most of it is exported.

In Western Lithuania, at a depth of 1–2 kilometres, there is a geothermal anomaly with large amounts of hot geothermal water. The thermal heat from which is already used for heating Klaipėda City. The utilisation of this technology is complicated in terms of the technology and economy but, by improving the production process and while fossil fuels are becoming increasingly expensive, the utilisation of geothermal energy (deep and shallow) for heat production may become attractive.

The safety index for the supply of energy resources to Lithuania is one of the lowest in the EU. It is estimated that prices of fossil fuel will be increasing significantly due to its growing global demand; therefore, wider application of local resources would provide long-term economic, ecological and social benefits.

According to the data from the Lithuania District Heating Association, in order to produce 1 kWh of district heating supply one needs to burn 100 grams of fuel (calculated after the oil equivalent). From 1996–2010 this index decreased from 101.70 to 97.60 grams of fuel equivalent.

District heating supply

A municipality, following the heat sector special plan, organises the supply of heat to heat consumers according to their needs for heating and ventilating the premises and for hot water preparation.

A heat supplier must hold a licence for the supply of heat.

The procedure and rules for issuing licences are approved by the government. Licences for the supplier of heat supplying at least 10 GWh of heat per year, taking into account the recommendations of the municipal institution, are issued; their validity is suspended and the licensed activities are controlled by the NCC. Licences for the supplier of less than 10 GWh of heat per year are issued, suspended and cancelled and the licensed activities are controlled by the municipality.

Licences for the activities involved in heat supply are granted for an unlimited amount of time for one person only in certain specified territories.

In Lithuania heat supply networks provide energy for heating and hot water preparation for 50.9% of all households and public sector buildings.

District heating supplies 20,100 buildings, out of which:

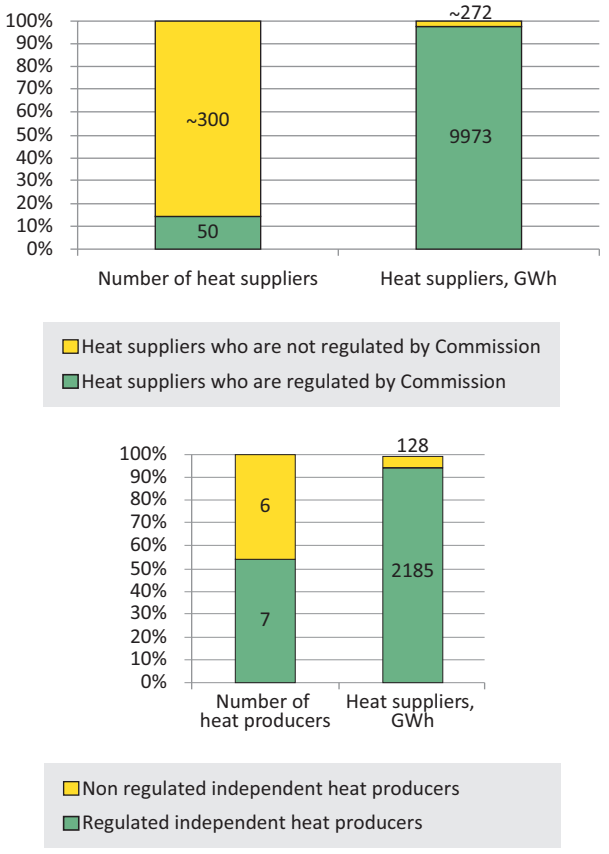
- 17,500 are apartment blocks;
- 2,600 are individual houses;
- 1,100 are business companies buildings;
- 3,100 public buildings.

Almost all of the small heat supply companies (~300) belong to municipalities. In 2010 there were around 50 bigger heat supply companies supplying at least 10 GWh of heat per year and their activities were regulated by the NCC. The major part of them, 33, were managed by municipalities, 17 companies were leased from municipalities by some private companies and others were independent heat producers. Heat suppliers regulated by the NCC have served 638,000 consumers in total, 96% of which represented households.

The biggest heat supplier in Lithuania is group of companies, Dalkia, which manages UAB Vilniaus energija and eight UAB Litesko branches: in Telšiai, Vilkaviškis, Palanga, Marijampolė, Kelmė, Druskininkai, Biržai and Alytus. In 2010 companies owned by the group of companies Dalkia have supplied 4% of all the heat required by consumers in Lithuania.

During 2010 all the heat supply companies supplied 10,245 GWh of heat; 97% of the total heat supplied to the country's networks was supplied by companies regulated by the NCC.

Figure 25: Regulation of heat supply volume in 2010

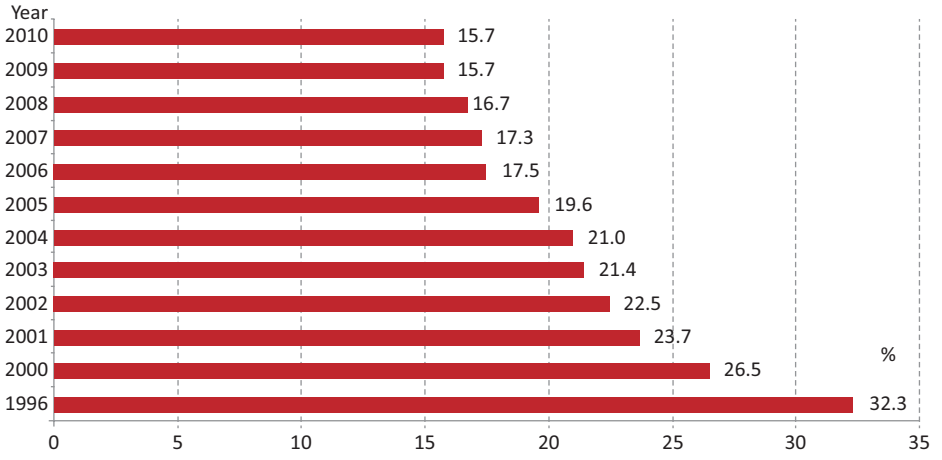


Source: NCC

Measures for improving the infrastructure of heat production and supply

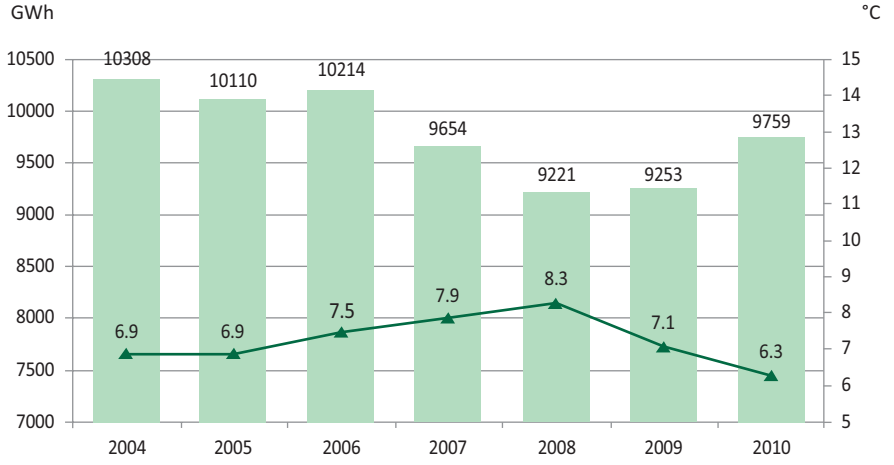
In total there are 2,500 kilometres of district heating supply networks. The amount of heat supplied to the networks per year comprises 9,000–10,000 GWh, losses in the networks comprises around 1.5 TWh (~16%). The technical losses of heat transmission in modern and optimally sized pipelines and those having thermal insulation comprise around 10–12% of the heat amount supplied to the network. The optimal level of losses has still not been reached in Lithuania. There is increased level of investments in heat networks since 2004. An inconsiderable decrease in the heat supplied to the networks was observed, due to higher annual temperatures, decreased losses after renovation of the heat transmission networks, decentralising grouped heat points, after taking hot water networks out of service, after implementing more automated heat points, etc.,. Given that the winter of 2010 would have been warmer, heat consumption would have been decreasing further.

Figure 26: Technological losses of heat in heat networks, %



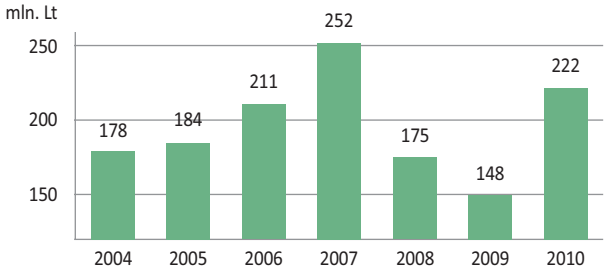
Source: Lithuanian District Heating Association, http://www.lsta.lt

Figure 27: Average annual air temperature in Lithuania and heat supplied to the network, GWh



Source: Lithuanian Hidrometeorological Service, http://www.meteo.lt

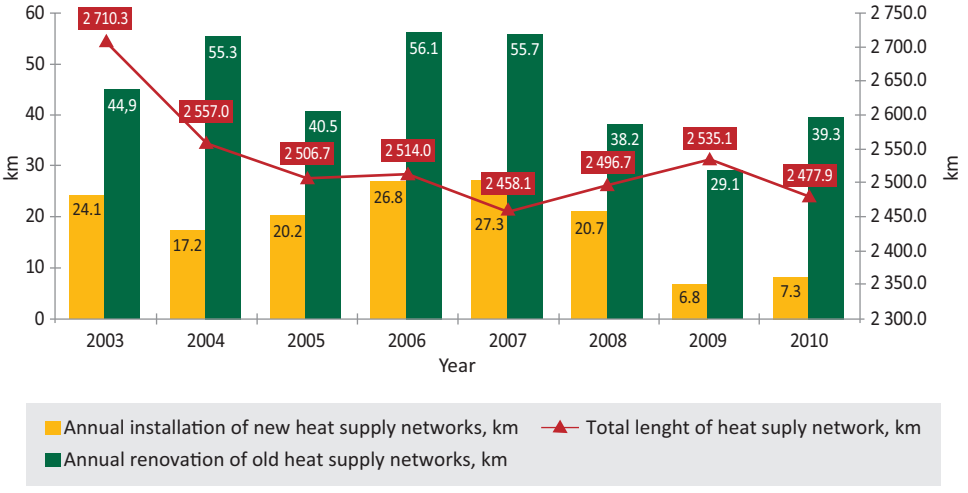
Figure 28: Investment in the heat supply infrastructure during 2004–2010



Source: Lithuanian District Heating Association, http://www.lsta.lt

Approximately 48% of investments were allocated for heat production; that is, new equipment has been installed in boiler rooms while reconstructing the older one and increasing the efficiency and credibility of the heat production. 52% of all of the actually performed investments have been allocated to the renovation of the heat networks.

Figure 29: Renovation of the heat supply network

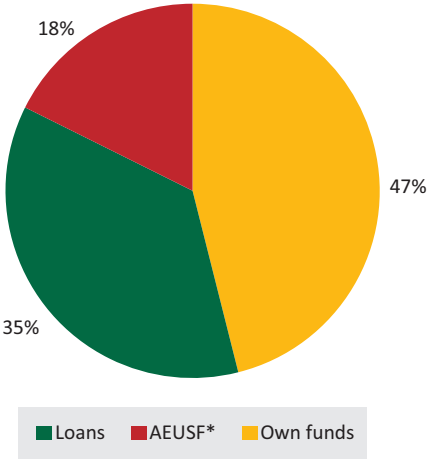


Source: Lithuanian District Heating Association, http://www.lsta.lt

In 2010, the renovation of 39.3 kilometres or 1.6% of operated networks was carried out.

The aid from the European Union Structural Funds has significantly contributed to the modernisation of the heat sector. In 2010, LTL 41.5 million (~12 mil. EUR) were allocated to the heat sector from the EU funds, which comprised around 18% of all investments carried out in heat suppliers in 2010.

Figure 30: Investment financing structure of heat supply companies in 2010



**AEUSF – Aid of European Union Structural Funds*

Source: NCC

Approximately 65% of the aforementioned aid from the European Union Structural Funds was used for the reconstruction of heat supply routes. Around 35% of the investments were allocated to the reconstruction of the heat production installations, mostly concentrating on increasing the use of biofuel.

Heat sector pricing

In view of the sustained losses the costs of heat may be differentiated according to heat supply systems, consumer groups, the place where the purchase–sale of heat took place, the ownership of the heat point, the supply–consumption limit, the scope of heat consumption, heating mediums and their quality, the reliability of the supply, the seasonal character, the periodicity of consumption and types of accounting. When differentiating the prices, cross-subsidisation between groups of consumers is prohibited.

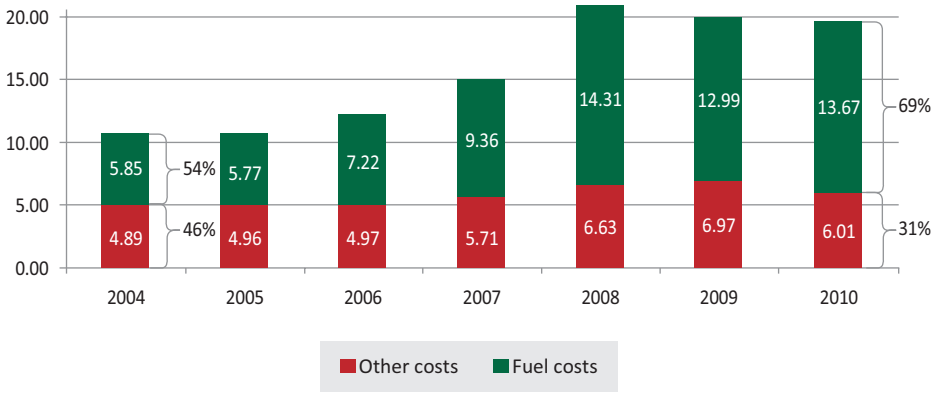
A supplier of heat who annually sells at least 10 GWh of heat shall, according to the methodologies of pricing and taking into account the notes of the municipal institution and the NCC, prepare and present to the NCC and the municipal institution a draft of the heat basic price. The municipal institution presents to the NCC documents for the harmonisation of the reference price. The NCC, having considered the information submitted by the municipal institution, sets the basic price of heat. The organisations protecting consumer rights are invited to participate in setting the basic price of heat. The heat suppliers managing the heat provision systems located in separate municipalities may propose to the NCC that it should set different basic prices of heat for these systems. The cost price structure of heat energy is as follows.

- Variable costs (around 70%). They are comprised of costs for fuel, acquired heat, electricity and water technology, which change depending on the amount of heat that needs to be produced and supplied to the heat transmission networks. In 2010 such costs comprised

LTL 1,146 million (~332 mil. EUR) within the sector or 71% of all costs, while costs for fuel and acquired heat were LTL 1,117 million (~324 mil. EUR).

- Fuel component in the price comprises from 50% up to 70% of the total price, depending on the type of burned fuel.

Figure 31: Ratio of fuel and other costs in the price of heat



Source: NCC

- Fuel component for companies burning biofuel is lower than that that when producing heat using gas. Companies that have a fuel structure comprised of more than 50% of biofuel, in most cases, can offer lower prices to the consumers. However, by burning biofuel, the constant heat component is higher, since the operation of biofuel equipment is more expensive. Taking all the circumstances into consideration, biofuel market prices are more stable; thus in the long run companies burning biofuel ensure lower heat prices for the consumers.

- Natural gas is the main fuel for heat production in Lithuania. In 2010, natural gas comprised 74% of the heat production balance; thus the price of gas had a crucial influence upon the costs of the heat suppliers.

- Technological losses in the heat supply, which comprised 15.7% in 2010, are also very important for the amount of variable costs. Technical losses of heat transmission in modern and optimally sized pipeline and those having thermal insulation used in Western countries comprise around 10–12% of the heat amount supplied to the network. It is evident that the optimal level in Lithuania has not been reached yet, but companies are further yearly decreasing losses (after increasingly accelerating investments in the transmission networks since 2004, losses has decreased by 4%).

- Constant costs (around 25%). They include depreciation (amortisation), work payments and social insurance fees, repair and other services, taxes, interests and other constant costs. The NCC controls these costs in particular and checks that unreasonable costs or excessive costs accumulating due to omission would not be included into the price of heat.

- Activity costs (around 5%).

While calculating the price of heat two main matters are taken into consideration: the amount of funds needed for the company to increase the credibility of the supply or to renovate

equipment by investments and reasonable and necessary costs to produce and supply heat to the consumer. By approving the price of heat the NCC establishes how much profit the company can make (the profit rate is strictly regulated).

When reorganising or privatising heat supply companies controlled by municipalities, it should be ensured that the heat supply companies controlled by them should own heat transmission networks whereby at least 10 GWh of heat is sold annually and not less than 30% of the heat production capacity required for meeting consumers' needs are owned in every network, including the necessary heat capacity reserve.

Nuclear power

Decommissioning of the Ignalina NPP

As part of the international commitments made during Lithuania's accession into the EU, the government adopted a decision to close down Unit 1 and Unit 2 of the Ignalina NPP in December 2004 and December 2009, respectively. The Ignalina NPP had fully ceased operations by 31 December 2009. Pledges of financial support have been made by the EU and other international contributors to cover the costs related to the decommissioning of the Ignalina NPP. The government currently estimates that the total cost of decommissioning both of the Ignalina NPP's reactors, the resulting radioactive waste management and consequential social and environmental costs will be approximately EUR 2,900 billion through 2029. Recognising the magnitude of the long-term costs related to the decommissioning of the Ignalina NPP, the EU has undertaken a commitment to provide financial assistance to Lithuania with respect to the decommissioning costs. During the period from 1999–2011, the EU contributed EUR 1.116 million for the cost of the Ignalina NPP decommissioning and related activities. The EU is committed to contributing an additional EUR 252 million during the period from 2012-2013.

Lithuania has started negotiations over support for the decommissioning of the Ignalina NPP during the next multiannual financial framework period of 2014–2020. The estimated need for EU funding till 2020 amounts to EUR 870 million, while the national contribution amounts to EUR 100 million.

Decommissioning works for the Ignalina Nuclear Power Plant are also financed by the State Enterprise Ignalina Nuclear Power Plant's decommissioning fund (DF) and by the funds of measures implemented according to the 'Plan of Measures for Implementation of the 2010–2014 Decommissioning Program for State Enterprise Ignalina Nuclear Power Plant' approved by the government of the Republic of Lithuania.

New regional nuclear power plant project – Visaginas NPP

In the vicinity of the now decommissioned Ignalina NPP, Lithuania is developing a new nuclear power plant project, Visaginas NPP, which, the plan is, will supply electricity to the entire region of the Baltic States and Poland. Estonia, Latvia and Poland are taking part in the project as regional partners. Although, in December 2011, Poland froze its participation in the construction of the Visaginas NPP in Lithuania, Poland has not yet made a final decision regarding participation/non-participation in the construction of the Visaginas NPP. In addition, Lithuania has sought to attract to the project an experienced investor with strong credentials in the development and operation of new generation nuclear power plants. Consequently, in May 2011, competitive proposals were received from the potential strategic investors: Hitachi-GE Nuclear Energy Limited and Westinghouse Electric Company. In July 2011, Hitachi Ltd. and Hitachi-GE Nuclear

Energy Ltd. (Hitachi) were selected as the strategic investors in the Visaginas NPP project, after delivering the most economically attractive proposal. As part of its proposal, Hitachi offered to provide an advanced boiling water reactor (ABWR), the only generation III nuclear reactor in the world with a proven operational track record and enhanced level of safety. On 23 December 2011, an agreement on the main conditions of the concession agreement on the Visaginas NPP was signed by the government and Hitachi. The agreement defines the key principles that will be followed with the regional partners during the process of concluding the concession agreement. The concession agreement was presented for the verification of parliament during its 2012 spring session. In June 2012, the Seimas passed a package of laws approving the concession to be granted to the Visaginas NPP project's development company and creating conditions for commercial investors — the regional partners and strategic investor Hitachi — to conclude discussions on the establishment of the project development company and sign necessary agreements.

Currently, the Visaginas NPP project is one of the most advanced new nuclear developments in Europe and many of the preparatory works have already been completed: environmental impact assessment (in 2009), full-scale site evaluation in accordance with International Atomic Energy Agency (IAEA) requirements and geological, seismic, logistic and other pre-development works completed in 2010. With the targeted commissioning date being 2020–2022, the beginning of the construction of the Visaginas NPP is planned for 2015. Once operational, the Visaginas NPP will significantly add to its low-carbon power capacity and will visibly contribute to the security of the energy supply in Estonia, Latvia and Lithuania. In June 2012, the European Commission, in accordance with the EURATOM Treaty, issued its opinion on the Visaginas NPP project. After careful assessing the Visaginas NPP project, the European Commission has taken the view that the Visaginas NPP fulfils the objectives of the EURATOM Treaty. The European Commission states that the Visaginas NPP contributes to the security of the energy supply in the Baltic region and to the full integration of the Baltic States into the internal European energy market.

With the legal environment and established nuclear regulator in place, Lithuania has been a nuclear country for decades; however, taking into account the ongoing nuclear projects (the Visaginas NPP project and decommissioning of the Ignalina NPP) a thorough review of the existing infrastructure has been performed, as well as a legal and regulatory reform, in line with the international requirements, being initiated. In addition, the legal environment of nuclear safety is being enhanced in order to strengthen the regulatory body and to create an efficient, transparent and streamlined regulatory process. The package of nuclear field related laws and their amendments (such as the Law on Nuclear Energy, the Law on Nuclear Safety, the Law on Radiation Protection, the Law on Radioactive Waste Management, the Law on Environmental Protection and complementary ones) were adopted by the parliament in June 2011.

The project is being developed by Visaginas Atominė Elektrinė, a special project company. The Visaginas NPP is the first regional nuclear energy development project in the Baltic region involving three national energy companies of the Baltic States and the strategic investor Hitachi as well as the technology provider via Hitachi-GE. The preliminary envisaged project development company's shareholding composition is as follows: Hitachi (Japan) – 20%, EestiEnergia (Estonia) – 22%, Latvenergo (Latvia) – 20% and VAE (Lithuania) taking the remainder at 38%. The Lithuanian share of at least 34% is stated in the national Law on Nuclear Power Plant. The Visaginas NPP project also remains open to Poland's participation. Visaginas NPP technology is based on the ABWR having the net capacity of 1,340 MW. The total

investment during the period of constructions, which is expected to start in the year 2015, is envisaged to amount to EUR 5 billion (in 2010 real terms). Commercial operations are expected to start between 2020 and 2022.

In July 2012, the Seimas also adopted a decision to organise a consultative referendum on a construction of new nuclear power plant in Lithuania, which will be organised in the autumn of 2012. Being a consultative type its results will not be legally binding to the Seimas.

Regulatory nuclear safety framework

Nuclear safety regulations and monitoring are the responsibility of the State Nuclear Power Safety Inspectorate (VATESI). The basic guidelines for VATESI's activities were formulated pursuant to the recommendations of the IAEA. According to the new legislation, VATESI will also be responsible for radiation safety within the limits of nuclear facilities. VATESI will supervise the Visaginas NPP when it becomes operational.

Lithuania has four bilateral agreements (with Denmark, Norway, Latvia and Poland), which, in the case of any nuclear or radiation incidents, provide mechanisms for information exchange in the nuclear field. Lithuania is also a signatory and party to various international conventions, treaties and protocols relating to nuclear safety.

ANNEX 1:
EXCEPTIONS TO THE BLUE BOOK

RECIPROCITY

COUNTRY: **LITHUANIA**

MEASURES

Constitutional Law on the Subjects, Procedure, Terms and Conditions, and Restrictions of the Acquisition into Ownership of Land Plots provided for in Article 47, paragraph 2 of the Constitution of the Republic of Lithuania of 20 June 1996, articles 3 to 5.

SECTOR

National Economy

LEVEL OF GOVERNMENT

National

DESCRIPTION

(Article 3) Acquisition into ownership of the plots of land required for the construction and operation of buildings and facilities shall be permitted under this law for:

1. national entities;
2. foreign entities whose origin corresponds to that set forth in Article 4 of this law, with the exception of foreign nationals;
3. foreign nationals — not later than after the expiry of the transitional period provided for by the Europe Agreement establishing the Association between European Communities and their members and the Republic of Lithuania.

(Article 4) The criteria of European and transatlantic integration embarked on by Lithuania shall be met by the foreign entities that, by the patterns of their origin, are from:

1. EU member states or states party to the Europe Agreement establishing the Association with the European Communities and their member states;
2. states that at the moment of enactment of this law are members of the Organisation for Economic Cooperation and Development or the North Atlantic Treaty Organisation.

(Article 5) Foreign entities that do not meet the criteria set forth in Article 4 of this law and that conduct economic activities in Lithuania may only lease the plots of land required for the construction and operation of buildings and facilities designated for such activities.

PHASE-OUT

The government of the Republic of Lithuania asked the European Commission to extend the transitional period of seven years, and the European Commission, in the exercise of its powers laid down by the Act of Accession, by Decision No. 2011/240/EU of 14 April 2011, modified the initial provision on the duration of the transitional period for Lithuania established by the Act of Accession and extended it until 30 June 2014. The parliament of Lithuania adopted a resolution on 30 June 2011 declaring that the prohibition for foreign entities to acquire the title to agricultural and forestry land established in the Constitutional Law Implementing Article 47, paragraph 3 of the Constitution applies until 30 April 2014. Accordingly, transactions with foreign entities regarding the acquisition of agricultural land and forestry land are not allowed prior to the expiry of such a period.

OTHER EXCEPTIONS

This is an exception to the MFN treatment.

ANNEX 2:
KEY LEGISLATION RELATED TO THE ENERGY SECTOR

Law on Energy of the Republic of Lithuania No. XI-1888 (Official Gazette, 2002, No. 56-2224; 2011, No. 160-7576)

Law Amending the Law on Electricity of the Republic of Lithuania No. XI-1919 (Official Gazette, 2012, No. 17-752)

Law on Renewable Resources of the Republic of Lithuania No. XI-1375 (Official Gazette, 2011, No. 62-2936)

Law Amending the Law on Heat Sector of the Republic of Lithuania No. X-1329 (Official Gazette, 2007, No. 130-5259)

Law Amending the Law on Natural Gas of the Republic of Lithuania No. XI-1564 (Official Gazette, 2011, No. 87-4186)

Law on the Implementation Law Amending the Law on Natural Gas No. XI-1565 (Official Gazette, 2011, No. 87-4187)

Law on State Stocks of Petroleum Products and Crude Oil of the Republic of Lithuania No. IX-2055 (Official Gazette, 2002, No. 72-3008; 2012, No. 68-3468)

Law on Nuclear Safety of the Republic of Lithuania No XI-1539 (Official Gazette, 2011, No. 91-4316)

Law Amending the Law on Management of Radioactive Waste of the Republic of Lithuania No. XI-1541 (Official Gazette, 2011, No. 91-4318)

Law on Radiation Protection of the Republic of Lithuania No. VIII-1019 (Official Gazette, 1999, No. 11-239; 2011, No. 91-4317)

Law on Energy Resources Market No. XI-2023 (Official Gazette, 2012, No. 63-3164)

Law on the Liquefied Natural Gas Terminal No. XI-2053 (Official Gazette, 2012, No. 68-3466)

Law on the Nuclear Power Plant No. XI-2084 (Official Gazette, 2012, No. 73-3779)

Law on Lithuanian Republic electricity system integration to European electricity systems No. XI-2052 (Official Gazette, 2012, No. 38-3465)

Resolution No. XI-2133 of the Seimas of the Republic of Lithuania of 26 June 2012 'On the Approval of the National Energy Independence Strategy' (Official Gazette, 2012, No. 80-4149)

Resolution No. 1442 of the Government of the Republic of Lithuania of 27 December 2007 'On the Approval of National Energy Strategy Implementation Plan for 2008–2012'

Resolution No. 789 of the Government of the Republic of Lithuania of 21 June 2010 'On the Approval of National Strategy for the Development of Renewable Energy Sources' (Official Gazette, 2010, No. 73-3725)

Resolution No. 1246 of the Government of the Republic of Lithuania of 27 October 2011 'On the Approval of the Licence Rules on Transmission, Distribution, Storage, Liquefaction, Supply and Market Operator of Natural Gas' (Official Gazette, 2011, No. 131-6227)

Resolution No. 1901 of the Government of the Republic of Lithuania of 5 December 2002 'On the Approval of Order for Preparation, Management, Accumulation and Control of Petroleum Products and State Stocks of Oil and Minimum Amount of Petroleum Products' (Official Gazette, 2002, No. 117-5255 with further amendments)

Resolution No. 300 of the Government of the Republic of Lithuania of 22 April 2009 'On the Strategic Directions of the Implementation of the New Nuclear Power Plant Project in Lithuania' (Official Gazette, 2009, No. 46-1814)

Resolution No. 1143 of the Government of the Republic of Lithuania of 9 September 2009 'On Composition of Supervision Committee for Implementation of New Nuclear Power Plant Project' (Official Gazette, 2009, No. 114-4858)

ANNEX 3:
BILATERAL TREATIES ON THE PROTECTION AND PROMOTION OF FOREIGN INVESTMENTS

Lithuania has concluded bilateral agreements and these are demonstrated in the list provided below.

Table 20: Bilateral treaties on the protection and promotion of foreign investments

No.	Country	Signed	Entered into force
1.	Albania	28-03-2007	07-12-2007
2.	Argentina	14-03-1996	01-09-1998
3.	Armenia	25-04-2006	16-03-2007
4.	Australia	24-11-1998	10-05-2002
5.	Austria	28-06-1996	01-07-1997
6.	Azerbaijan	08-06-2006	
7.	Belarus	05-03-1999	16-05-2002
8.	Belgium-Luxembourg	15-10-1997	06-09-1999
9.	Bosnia and Herzegovina	07-06-2007	16-03-2009
10.	Bulgaria	21-11-2005	25-04-2006
11.	China	08-11-1993	01-06-1994
12.	Croatia	15-04-2008	30-01-2009
13.	Czech Republic	27-10-1994	12-07-1995
14.	Denmark	30-03-1992	09-12-1992
15.	Estonia	07-09-1995	20-06-1996
16.	Finland	12-06-1992	08-01-1993
17.	France	23-04-1992	11-01-1995
18.	Greece	19-07-1996	10-07-1997
19.	Germany	28-02-1992	27-06-1997
20.	Georgia	09-11-2005	01-11-2006
21.	Hungary	25-05-1999	20-05-2003
22.	India	31-03-2011	
23.	Iceland	20-08-2002	18-04-2003
24.	Italy	01-12-1994	15-04-1997
25.	Israel	02-10-1994	11-07-1996
26.	Jordan	13-10-2002	05-05-2003
27.	Kazakhstan	15-09-1994	25-05-1995
28.	Kyrgyzstan	15-05-2008	20-02-2009

29.	Korea Republic of	24-09-1993	09-11-1993
30.	Kuwait	05-06-2001	15-01-2003
31.	Latvia	07-02-1996	23-07-1996
32.	Montenegro	29-03-2005	02-12-2005
33.	Macedonia	07-03-2011	
34.	Moldova	20-09-1999	29-05-2003
35.	Mongolia	27-06-2003	03-05-2004
36.	Netherlands	26-01-1994	01-04-1995
37.	Norway	16-06-1992	20-12-1992
38.	Poland	28-09-1992	06-08-1993
39.	Portugal	27-05-1998	14-08-2003
40.	Romania	08-03-1994	15-12-1994
41.	Russia	29-06-1999	24-05-2004
42.	Serbia	29-03-2005	02-12-2005
43.	Slovenia	13-10-1998	15-05-2002
44.	Spain	06-07-1994	22-12-1995
45.	Sweden	17-03-1992	02-09-1992
46.	Switzerland	23-12-1992	14-05-1993
47.	Tajikistan	12-02-2009	15-12-2010
48.	Turkey	11-07-1994	07-07-1997
49.	Ukraine	08-02-1994	06-03-1995
50.	US: investment promotion agreement ('OPIC') BIT Additional protocol	28-10-1991 14-01-1998 22-09-2003	07-02-1992 22-11-2001 13-07-2004
51.	United Kingdom	17-05-1993	21-09-1993
52.	Uzbekistan	18-02-2002	11-11-2002
53.	Venezuela	24-04-1995	01-08-1996
54.	Vietnam	27-09-1995	24-04-2003

ANNEX 4:
BILATERAL TREATIES ON THE AVOIDANCE OF DOUBLE TAXATION

Lithuania has concluded 47 bilateral agreements on the avoidance of double taxation and prevention of delinquency in the payment of taxes on profits and revenues; the list is provided below.

Table 21: Bilateral treaties on the protection and promotion of foreign investments

No.	Country	Entered into force
1.	Armenia	01-01-2002
2.	Austria	01-01-2006
3.	Azerbaijan	01-01-2005
4.	Belarus	01-01-1997
5.	Belgium	01-01-2004
6.	Bulgaria	27-12-2006
7.	Canada	01-01-1998
8.	China	01-01-1997
9.	Croatia	01-01-2002
10.	Czech Republic	01-01-1996
11.	Denmark	01-01-1994
12.	Estonia	01-01-2006
13.	Finland	01-01-1994
14.	France	01-01-1997
15.	Germany	01-01-1995
16.	Greece	01-01-2006
17.	Georgia	01-01-2005
18.	Hungary	01-01-2005
19.	Iceland	01-01-2000
20.	Ireland	01-01-1999
21.	Italy	01-01-2000
22.	Israel	01-01-2007
23.	Korea	01-01-2008
24.	Kazakhstan	01-01-1998
25.	Latvia	01-01-1995
26.	Luxemburg	01-01-2007
27.	Macedonia	01-01-2009
28.	Malta	01-01-2005
29.	Moldova	01-01-1999
30.	Norway	01-01-1994
31.	Netherlands	01-01-2001
32.	Poland	01-01-1995
33.	Portugal	01-01-2004

34.	Romania	01-01-2003
35.	Russia	01-01-2006
36.	Serbia	01-01-2010
37.	Singapore	01-01-2005
38.	Slovakia	01-01-2003
39.	Slovenia	01-01-2003
40.	Spain	01-01-2004
41.	Sweden	01-01-1994
42.	Switzerland	01-01-2003
43.	Turkey	01-01-2001
44.	Ukraine	01-01-1998
45.	United Kingdom	01-01-2002
46.	United States	01-01-2000
47.	Uzbekistan	01-01-2003

ANNEX 5: MEMBERSHIP IN INTERNATIONAL ORGANISATIONS

The Republic of Lithuania is a member of the following organisations:

- EU;
- ECT;
- World Trade Organisation;
- International Monetary Fund;
- International Bank for Reconstruction and Development;
- International Financial Corporation (IFC);
- International Development Association;
- Multilateral Investment Guarantee Agency;
- International Labour Organisation;
- European Bank for Reconstruction and Development;
- Nordic Investment Bank;
- IAEA;
- North Atlantic Treaty Organisation.

Table 22: Lithuania's membership in international organisations

No.	Organisation	Membership
1.	United Nations Economic Commission for Europe (ECE)	17-09-1991
2.	International Civil Aviation Organization (ICAO)	27-09-1991
3.	International Labour Organization (ILO)	04-10-1991
4.	International Telecommunications Union (ITU)	12-10-1991
5.	International Seed Testing Association (ISTA)	01-01-1993
6.	UN Industrial Development Organization (UNIDO)	17-10-1991
7.	European Civil Aviation Conference (ECAC)	02-07-1992
8.	Food and Agricultural Organization (FAO)	09-11-1991
9.	Intergovernmental Organisation for International Carriage by Rail (OTIF)	01-11-1995
10.	Trans European Railway (TER)	01-01-2000
11.	International Standardization Organization (ISO)	01-01-1992
12.	Universal Postal Union (UPU)	10-01-1992
13.	European Bank for Reconstruction and Development (EBRD)	30-01-1992
14.	United Nations Development Programme (UNDP)	15-02-1992
15.	Council of the Baltic Sea States (CBSS)	05-03-1992
16.	International Financial Corporation (IFC)	21-04-1992
17.	International Monetary Fund (IMF)	29-04-1992
18.	World Intellectual Property Organization (WIPO)	30-04-1992
19.	World Meteorological Organization (WMO)	03-07-1992
20.	International Bank for Reconstruction and Development (World Bank)	06-07-1992
21.	Multilateral Investment Guarantee Agency (MIGA)	22-09-1992
22.	Energy Charter	13-12-1998
23.	European Conference of Postal and Telecommunications Administration (CEPT)	04-09-1994
24.	International Atomic Energy Agency (IAEA)	18-11-1993
25.	Baltic Council of Ministers	13-06-1994
26.	International Migration Organization (IMO)	28-11-1995
27.	International Maritime Organization (IMO)	07-12-1995
28.	Organisation for the Combined Operations of Railways (OSShD)	01-06-1992
29.	Eurofish International Organisation (Eurofish)	21-07-1995
30.	World Tourism Organisation (WTO)	12-05-2001
31.	World Trade Organization (WTO)	31-05-2001
32.	European Union (EU)	01-05-2004

ANNEX 6:
PERTINENT MULTILATERAL CONVENTIONS

Important conventions to which Lithuania is a party (concerning the energy sector and/or investment disputes or intellectual property rights):

- UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention) of 10 June 1958;
- Washington Convention on the Settlement of Investment Disputes between States and Nationals of Other States, 1965;
- Convention on the Establishment of the Multilateral Investment Guarantee Agency;
- Bern Convention on the Protection of Literary Works and Works of Art.

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