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LATVIA & LITHUANIA
ON THE ROAD TO
ACCESSION

Brussels, 18 September 2002

OPINION
of the
Economic and Social Committee
on
Latvia and Lithuania on the road to accession

On 16-17 January 2002 the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an own-initiative opinion on:

Latvia and Lithuania on the road to accession.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 5 September 2002. The rapporteur was **Mr Westerlund**.

At its 393rd plenary session (meeting of 18 September 2002), the Economic and Social Committee adopted unanimously the following opinion.

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A. COMMON BACKGROUND

1. The road towards EU accession

1.1 From self-government to referendum

When Latvia and Lithuania gained their independence in 1991, both countries speedily set their sights on EU membership. Milestones on the way were:

- 1993: the meeting of the European Council in Copenhagen, where it was decided that countries having concluded a Europe Agreement could become members;
- 1995: both countries sign Europe Agreements with the EU;
- 1995: both countries introduce their applications for accession;
- 1998: both countries are recognised as candidate countries;
- in March 2000 the actual negotiations started.

Latvia and Lithuania embarked on negotiations after the first wave of candidate countries. The negotiations have, however, progressed quickly because substantial efforts have been made and nothing now lags behind. The Laeken European Council in December 2001 stated that Latvia and Lithuania were among the ten countries with which negotiations should be concluded at latest by the end of 2002, in order that they shall be able to participate in the 2004 European Parliament elections as members.

1.2 Involvement in the Baltic Sea area and the EU's Northern Dimension

Development since 1991 has been strongly influenced by the steadily increasing contacts at all levels between Latvia and Lithuania and their neighbours in the Baltic Sea area. The three Baltic States have also developed structures for cooperation with each other. They participate actively in the Council of the Baltic Sea States (CBSS) and there has been close cooperation in key areas with Russia, the Nordic countries, Poland and Germany. Through the EU's Northern Dimension initiative, geographically defined as the Baltic Sea area, problems and scope for development of major interest to both countries have been the focus of attention, as well as in the debate within the EU.

This development has made it possible for Latvia and Lithuania to participate in increasingly strong networks in the Baltic Sea area, which includes northwest Russia and Kaliningrad. These networks consist of political institutions, towns and regions, enterprises and business contacts,

civil society organisations and private persons. The ministers for trade and economic affairs are making efforts to facilitate economic cooperation, including achievement of the target of a maximum two hours cross-border passage for transport of goods within the region.¹

When the CBSS met in Kaliningrad on 5 March 2002 under Russian chairmanship, the role of civil society received special attention. The Declaration of the Foreign Ministers stated: "The Council encourages the intensified cooperation among non-governmental organisations and other civil society structures of the Baltic Sea Region. This process of networking helps to identify priority tasks to be solved in common". The need to develop civil society in the region was also emphasised at the Baltic Sea States summit in St Petersburg in June 2002.

1.3 EESC contribution

The EESC contributes to this development in several ways². The EESC considers it very important that political, economic and social relations with Russia should continue to make progress, also after enlargement. The entire EU has a keen interest in positive development in Russia. Lately, the EESC has stated its view in its Opinion on "Strategic Partnership EU-Russia". In preparation for the ministerial meeting on the EU's Northern Dimension in August 2002, the EESC has prepared a statement, in conjunction with representatives of organised civil society in other countries concerned. As part of the work on a new action programme for the EU's Northern Dimension, the EESC will organise, in 2003, a conference with representatives of organised civil society in the Baltic Sea area. A similar conference took place in Umeå in February 2001. The EESC is therefore ready to pursue its efforts to bring about, and take responsibility for, more active cooperation with voluntary organisations and other civil society bodies in the Baltic Sea area.

1.4 Kaliningrad

In this context it is very important to pay attention to the special situation of the Russian enclave of Kaliningrad. On earlier occasions the EESC has emphasised that developments in Kaliningrad are of vital importance for the whole region as well as for EU relations with Russia. The EESC has pointed out that special efforts must be made to facilitate economic cooperation and narrow the economic, social and environmental gaps between the Kaliningrad region and the surrounding areas in Lithuania and Poland. Cooperation between the Commission and the Council of the Baltic Sea States therefore needs to be further stepped up.

Today the population of the Kaliningrad "oblast" can travel through Lithuania and Poland without a visa. The EESC is keen that visa and transit questions should be solved to the

¹ This target was set in 2000 and should have been attained in 2001. As this did not happen, the matter was a priority issue at the Moscow ministerial meeting on 20 March 2002.

² Opinion on "Relations between the European Union and Russia, Ukraine and Belarus" OJ C 102 of 24.4.1995; Opinion on "Relations between the European Union and the countries bordering the Baltic Sea" OJ C 73 of 9.3.1998; Opinion on "Northern Dimension: Action Plan for the Northern Dimension in the external and cross-border policies of the European Union 2000-2003" OJ C 139 of 11.05.2001; *EU/Russia Strategic Partnership: what are the next steps?* OJ...: not yet published

satisfaction of all parties prior to Lithuania and Poland joining the EU. The aim must be to find flexible technical solutions which do not compromise Schengen Agreement rules. In this context the EESC is happy to note that Sweden is the first EU country to decide to open a consulate-general in Kaliningrad and it recommends that the other EU countries follow suit so as to make it easier, for instance, to obtain a Schengen visa.

2. Starting points

2.1 Scope

Civil society is the focus of the following assessment – an assessment based on **progress made in relation to the Copenhagen political criteria, which were a precondition for negotiations getting under way.** It takes a closer look at **certain specific areas which are among the conditions for obtaining membership.** A major source is the Commission's regular progress reports.

2.2 Conditions for a civil society

Between 1944 and 1991, Latvia and Lithuania were part of the Soviet Union. The Soviet Union saw civil society as a threat. It therefore tried to stop people from organising themselves independently of state control.

The events that led to independence for the Baltic states are usually referred to as “the singing revolution”. Organised in thousands of choirs, choral societies, local associations etc., people voiced their reactions to a menacing superpower, thereby also demonstrating the potential for building a civil society. Since independence a huge expansion of civil society has taken place in Latvia and Lithuania, with the encouragement of targeted cooperation with sister-organisations in the EU Member States, and especially on the other side of the Baltic Sea, including Norway. The United States has provided substantial financial support.

Development has brought radical changes in its wake on many fronts. The trade unions are one example.

Trade unions certainly existed in the Soviet Union, but their role was entirely confined to the system. Often they acted as the Communist Party's extended arm in controlling individuals.

Wages were set through administrative procedures. Strikes were prohibited. The trade unions' duty was to protect workers' interests by striving to improve working conditions and to provide workers with free time activities. The Communist trade unions therefore took care of a wide range of leisure facilities of different kinds. Almost 100% of the workforce were affiliated.

Trade union participation in Latvia and Lithuania fell dramatically when the transition to democracy and a market economy started, and it continues to fall. The low level of trade union organisation in the "transition economies" is often a sign of progress towards a market economy and

democratically viable organisations. Now the conditions exist to build further on a stable basis. The organisations are now generally less dependent on the revenue they derived from property and other financial assets which they had inherited from the old system.

2.3 **Adaptation to EU membership**

Latvia and Lithuania were fully integrated in the centrally-governed Soviet Union. Since their independence they have had to build up a new administration, their own judicial system and other bodies necessary to an independent state.

The industrial sector's shift from centrally planned production, structured in large state-owned units and tailored to the requirements of the Soviet Union, to the diversification necessary in a modern state with an open economy is a laborious process and has resulted in high unemployment.

The agricultural sector has undergone the same restructuring. Splitting up the large "kolkhozy" and "sovkhozy", restoring land to previous owners and returning to privately-run holdings is a huge legal venture. On the other hand, the large number of new small private holdings producing foodstuffs have provided some measure of social protection for many people in Latvia and Lithuania, especially during the initial stage of the tough transitional period.

2.4 The EU Member States must not only adapt national legislation to the EU rules, i.e. transpose EU rules. The "acquis communautaire" must also be implemented, i.e. observed in practice. A large part of the rules governing the internal market are in fact about products and product safety, production processes, the working environment, labour law etc. and can be implemented in practice only in enterprises and by their personnel.

The membership negotiations are thus not only a question for civil servants and politicians. The social partners and other representatives of civil society, such as organisations representing farmers, consumers, environmentalists etc., must also be involved and informed.

The EESC is convinced that the early involvement of the social partners and other NGOs will ensure a better understanding of the EU rules and proper implementation of them.

B. LATVIA

1. The situation in Latvia

1.1 Population

Latvia has a population of 2.37 million. According to the 1998 population census, 56% were Latvian and 32% Russian. Other language minorities included White Russians (4%), Ukrainians (3%), Poles (2%) and Lithuanians (1%). The majority of the Latvian population lives in

rural areas whereas the Slavonic population mostly lives in urban areas. In the capital, Riga, where half the population lives, 47% are Russians. Communities are mixed. No region in Latvia can be said to be Latvian or Russian. The town of Daugavpils in south-east Latvia, where 80% of the inhabitants are Russian, must be regarded as an exception.

The Latvian language is most closely related to Lithuanian, but the differences are so great that it is impossible for a Latvian and a Lithuanian to communicate with each other in their respective languages. The Protestant, Catholic and Russian Orthodox churches are strongly represented in the country.

Latvia is a typical Baltic Sea state. Because of its geographical situation Latvia is rather more interested in Baltic cooperation than Estonia, which identifies itself with the Nordic countries, and Lithuania which has historical ties with Poland. Because of the large Russian minority, Latvia feels the “pressure” from Russia much more than Lithuania does.

1.2 Political conditions

Since 1999, Latvia has had a woman president, **Vaira Vike-Freiberga**, with an academic and international background (though without a knowledge of Russian) and having worked previously in Canada. The political situation of the country must be seen as unstable. The current government under the former mayor of Riga, **Andris Berzins**, dates from May 2000, when the controversial **Andris Skele** was forced to resign. It is built on a broad conservative tripartite coalition in parliament (the Saeima) and has contacts with different business interests.

Ordinary parliamentary elections will be held in October 2002.

1.3 Economy

Latvia was hit hard by the 1998 Russian economic crisis but has had a high growth period since 2000. Growth is expected to be 5% or more in 2002 and 2003. The service sector accounts for more than two-thirds of the economy and is growing fastest, whereas manufacturing industry's share of GNP continues to fall. The expansion of transport, including transit of Russian oil products, is of great importance. This source of income is very likely to dwindle, however, as Russia, for political reasons, is building a new transport route to the Gulf of Finland. The rise in real earnings is expected to give a substantial boost to consumption. The downside of the expansion is that the balance of payments deficit is increasing, with growing risks to the currency (Lat), which is linked with the International Currency Fund basket of currencies (SDR). Inflation has been under 3% since 1999 and is not expected to increase substantially up to 2004. Unemployment is high – around 13% - and in certain parts of the country it is very high. However, the trend is downwards.

The trend in foreign direct investment during the five-year period 1996-2000 was as follows: □ **million 301, 460, 318, 324, 443. This corresponds to 5-6% of GNP, which is relatively high; the annual average per capita GNP is □156. A major share has gone to the banking sector.**

One major problem is the black economy. Undeclared earnings deprive the state of substantial sums in revenue. There is a clear interconnection with the fact that the nation-building process is still in progress and many non-citizens therefore feel disaffected vis-à-vis the Latvian state.

1.4 **Foreign Policy**

Latvia's foreign policy is completely dominated by its aspirations to join the EU and NATO. At the same time Latvia has tried to expand cross-border cooperation with Russia. Relations with its neighbour to the East have from time to time been tense. Russia has not yet ratified the border agreement with Latvia. To date, no senior Russian government representative has visited the newly resuscitated state.

2. **The Copenhagen political criteria**

2.1 **Democracy and the rule of law**

In the partnership decision for 2002 it is stipulated that Latvia must take different kinds of measures to secure a stable public administration capable of applying the EU *acquis*. To satisfy the criteria relating to the rule of law, a certain number of measures also need to be taken in the judicial system. In both cases the need to increase investment in education and officials' salaries is stressed.

Corruption is highlighted as being a major problem. This negative picture is reflected, for instance, in a 2001 report by the UN body, UNDP, which points out that influential people have exploited privatisation for their own personal interests³. The Council insists that Latvia must finalise its legal framework for combating all forms of corruption and ensure that both legislation and anticorruption strategies are effectively implemented.

2.2 **Human rights and protection of minorities**

The requirements for obtaining Latvian nationality were eased considerably after a referendum in 1998. These concessions also paved the way for the negotiations on EU membership. Now almost everyone living in Latvia may apply for citizenship. However, around 22% of Latvia's population has no citizenship; the vast majority are Russians, White Russians or Ukrainians.

Support measures have been taken in the form of reduced fees for obtaining citizenship, more information and better access to language studies. Yet there is no significant increase in the number of naturalised persons.

Most non-citizens now have separate passports to replace the Soviet passports, which expired in March 2000. With this passport it has become easier and cheaper to get a visa to Russia

³ Latvia. Human Development Report 2000/2001. The public policy process in Latvia, Riga 2001.

than with a Latvian passport. In other words Russia favours the Russian speaking population at the expense of the Latvian speakers.

About 42% of the population speak a language other than Latvian as their first language. The EU has pushed for minorities to be integrated into Latvian society and, in particular, has demanded, and funded, language education programmes. In 2001 the Latvian state itself started to finance parts of the integration programme. The lack of teachers is a big problem. However, low teacher salaries have improved somewhat, which seems to make it easier to recruit teachers. The 2000 language act formally does not discriminate but there are many examples of discrimination on the part of the authorities.

The Council calls, in the partnership agreement, for further measures to integrate non-citizens and lays stress on language courses. The Council also points the finger at discriminatory application of the language act and demands changes.

2.3 EESC comments

The EESC notes that Latvia has admitted that it is necessary to improve the efficiency, responsibility and openness of the public administration. From the angle of the individual citizen and civil society, the EESC encourages Latvia to step up its efforts in this direction. The EESC, like the European Parliament⁴, would stress that a key feature of countries with minimal corruption is a large degree of openness, a clearcut demarcation between the exercise of power in politics and business respectively, a politically neutral administration and high professional standards within the judiciary.

The EESC welcomes the measures that have been taken to facilitate the naturalisation of non-nationals. A decision in May 2002 to waive the requirement of fluency in Latvian in order to stand for parliament is a positive step. However, in the long term it is unsustainable – politically, economically and socially - for a large section of the population to have no citizenship.

Discrimination by the Latvian authorities against Russian speakers as well as discrimination on the Russian side against Latvian passport-holders is unacceptable. Generally, Latvia should make further efforts to step up anti-discrimination laws and measures so as to comply with the *acquis* based on Treaty Article 13.

⁴ A5-0252/2001 (16.7.2001)

3. Organised civil society

3.1 Trade unions

Latvia has a single central trade union organisation (the *LBAS*). The new state transferred to the LBAS and some of its affiliated unions property that was considered to belong to them. The LBAS immediately declared its independence of political parties. The initially strong factionalism within the organisation between the social-democrats and other tendencies now seems to have been overcome.

LBAS membership has fallen to around 200,000. Unions for employees in the public sector predominate.

Hardly 20% of the workforce are union members. Large-scale recruitment drives have been made, very often with Swedish trade union support, but the results have so far not been encouraging. Hopes are now centred on a coordinated campaign to attract young workers.

3.2 Employers' and sectoral organisations

The *Latvian Employers' Confederation* is the largest employers' organisation in Latvia. It was formed in 1993 with the merger of two organisations and has developed very positively. Its members are either sectoral associations or individual companies. Roughly a third of the workforce in Latvia works in companies affiliated to the Confederation. One of its priority areas of work is to assimilate the grey economy into the regular economy. Currently eleven of Latvia's twenty largest taxpayers are Confederation members.

The absence of organisations for small businesses is a problem.

The *Latvian Chamber of Commerce and Industry* has just over 900 members all over the country and it is growing apace. In early 2001, according to a joint survey conducted among the candidate countries, companies were poorly informed about conditions under EU membership.⁵

Agriculture and the food industry play a major role in Latvian economic and social life. Farmers in Latvia are active in several organisations but cooperation among these organisations is not yet fully developed. The *Latvian Farmers' Federation*, which was set up in 1990, has the largest membership (1,460 paid up members) and largely represents family farm holdings. The *Latvian Farmers' Parliament* was established in 1999. The average size of its members' farms is 240 hectares. There is also an organisation for the previous "kolkhozy" (over 1,000 hectares large).⁶

⁵ CAPE 2001. Summary report, Eurochambres and SBRA, Brussels 2001

⁶ There is a special organisation for forest owners.

3.3 Other organisations

Since 1996 there has been a *Centre for Non Governmental Organisations (NGO Centre)* in Riga. The Centre receives external financial support from UNDP, the *Soros Foundation Latvia* and US and EU authorities and organisations, including the European Commission. To date national support for NGOs has been very limited and no organisation has the administrative resources necessary to apply for EU aid. There are an estimated 1,000 or so NGOs in Latvia, most of them local.

Since independence there have been major changes, notably in political party structures. However, party membership is low – the largest party has around 5,000 members. In recent years there has been a clear trend towards people forming organisations and voicing their demands, as opposed to standing on the sidelines and criticising.

The consumer movement in Latvia needs reinforcing. An authority attached to the Ministry for Economic Affairs – the *Consumer Rights Protection Centre* – is responsible, among other tasks, for servicing voluntary consumer associations.

3.4 EESC views and recommendations

Organised civil society in Latvia has made impressive progress. Ongoing closer cooperation with sister-organisations, particularly in the Baltic Sea area, including Russia, plays a key part, as does cooperation within the European framework. One major objective should be to increase the membership of organisations and member activity, thereby reinforcing democratic structures and counteracting the risk of organisations becoming financially dependent on external aid on a long term basis. Better coordination on a national scale would also in certain cases facilitate greater political impact.

The government must take various steps to stimulate the further development of organised civil society and hence anchor democracy firmly in Latvia.

It is vital for the social partners to step up their efforts to comply satisfactorily with the demands of the European social model.

Joint consultative committees bringing together representatives of organised civil society in the candidate countries and the EESC are the EESC's main means of carrying the enlargement process further. The EESC regrets that the Latvian organisations feel that they lack the resources to take part in such a committee. It looks forward to future joint activities within its framework.

4. **Specific areas**

4.1 **Market economy**

The market economy operates in Latvia. The privatisation of public enterprises has almost been completed: some larger companies in the energy, telecommunications and shipping sectors remain. The privatisation of land and forests is under way and the market for agricultural holdings has started to function. The legal framework for business operations is largely in place. Restructuring of the banking sector has made great progress and the capital market is operational.

Small and medium-sized businesses play a major role in the Latvian economy. They generate more than 50% of GNP and provide employment for more than 70% of the workforce. Public programmes and new financial facilities have contributed to a positive development.

Trade is increasingly integrated with the EU. Imports from the EU and exports to the EU are both on the increase. In 2000 commodity exports to the EU accounted for 64.6% of total commodity exports.

4.1.1 **EESC comments**

There is a risk that confidence in the market economy could be undermined when social gaps are aggravated in tandem with widespread corruption and tax evasion. It is incumbent on the governing bodies in Latvia to ensure that the benefits of the market economy are reaped by the entire population.

4.2 **Social dialogue**

The tripartite dialogue is well established in Latvia. Back in 1993, a tripartite consultative committee was created, with a maximum of 12 representatives from the public sector, employers and trade union organisations respectively. The committee was consolidated in 1999 through a tripartite agreement which stated that the goal is to reach agreements in the interests of society as a whole. The labour-market partners take co-responsibility for decision-making and the implementation of decisions. Under this committee there is a tripartite committee for training and employment. There are also tripartite consultative committees for worker protection and insurance questions.

The tripartite dialogue has proved constructive and is appreciated by all partners. However, this dialogue must achieve more effective consultation and results.

The Commission observes, on the other hand, that bilateral dialogue between the labour market partners is still weak, both at national and regional level. However, there are signs of improvement. In this context it is worth mentioning that the LBAS since 2001 has been organising training for its sectoral organisations and regions. Collective bargaining agreements on pay and employment have also been concluded within certain sectors, with the result that more than half of

companies with union representation are covered. In 2000 there were 39 sectoral agreements and 2,018 agreements at company level. This means that approx. 25% of the workforce in Latvia is covered by collective bargaining agreements, which means an increase of about 2% compared with 1999. However, dialogue must be stepped up further, especially at sectoral level.

4.2.1 EESC comments

The EESC welcomes the positive development of bilateral and tripartite dialogue but notes that much remains to be done before the workforce in Latvia is reasonably protected by collective bargaining agreements. The government should monitor the application of such agreements more closely. Like the Commission, the EESC would stress the government's responsibility for helping the parties to prepare for the active role they will be required to play in the EU context and to promote collective bargaining and social dialogue structures in general. EU companies should also feel a responsibility.⁷

4.3 Labour market and social policy

Unemployment differs widely from region to region. It is worst in the eastern part of the country, where it is several times higher than in Riga. There is a large amount of concealed unemployment, especially in the agricultural sector. The Russian population has often been badly hit, since Russian companies have been affected most by the restructuring process. There is a serious generation and educational gap on the labour market. Young people with up-to-date training have very good job prospects, whereas workers with an old-style highly specialised training land up in long term unemployment. More resources for training purposes are also a priority in the Latvian budget.

In early 2001 Latvia adopted its second employment plan in accordance with the guidelines of the EU's common employment policy. The employment office network has been greatly expanded, with noticeable success, especially as regards finding jobs for unemployed young people. The focus is on an active labour market policy but, in the Commission's view, adequate resources have not been earmarked.

The unemployment insurance scheme was reformed in 1999. To obtain such cover, contributions must have been paid for nine months of the previous 12-month period. The level of benefit now depends on the period of insurance and most recent earnings. For instance, in the case of someone who has been insured for 20-29 years, the insurance provides 60% of the previous six months' level of earnings. This benefit is payable for no more than nine months and gradually drops to half the original amount. The reform resulted in a cut of around 20% in the number of people eligible for benefit. At the start of 2002 more than 50% of jobseekers were receiving unemployment benefit. This figure is set to rise, further to the law of 1 July 2001 which entitles jobseekers to unemployment insurance cover even if the employer has not paid contributions.

⁷

The European Parliament has observed that individual EU companies are hostile to trade unions and collective bargaining agreements and it has asked the Commission to carry out an in-depth inquiry into this situation.

There has been a rise in real earnings. Between 1996 and 2000 the per capita GNP increased from 4,700 to 6,600 Purchasing Power Standards in current prices. That means that the gap vis-à-vis the EU has narrowed. At the same time there are significant differences from region to region. In 1998 average earnings in Riga were 32% of the EU average, but were under 20% of the EU average in three of the other four regions of Latvia. However, a third of the working population does not earn more than the guaranteed minimum wage of Lat 60 per month, and the local authorities often lack the resources to pay that.

There are major shortcomings in social welfare policy, as reflected among other things in the very low birthrate: 1.09 per woman, against the EU's already low average of 1.45. A large proportion of the population, both employed and unemployed, lives below the minimum subsistence level. The grey economy and small holdings producing food for domestic consumption – 172,000 according to 1997 statistics – are obviously still of major importance for the survival of many people.

4.3.1 EESC comments

Action to combat unemployment must be top priority. That presupposes that high growth rates continue and that economic policy and social policy measures are more effectively coordinated. The EESC would draw attention to the key role played by the social partners in the employment strategy.

The EU now prioritises measures to fight social exclusion and an anti-poverty programme has been adopted. Latvia must make great efforts to halt social exclusion, especially in certain regions.

4.4 Rural and regional policy

In 2000 the agricultural sector accounted for 4.5% of Latvia's GNP and 13.5% of employment, though that is 2% down on 1999. Consolidation of land into larger parcels is progressing slowly. The Sapard programme for aid to development projects in agriculture, the food industry and rural areas has got off the ground slowly but has been operational since the end of 2001. Most resources are channelled into processing and marketing, modernisation of agriculture and diversification of the rural economy, and infrastructure improvements. The EU provides just under 40% of the total projected expenditure for the years 2000-2006.

The absence so far of effective central coordination and regional structures is holding back structural policy. Minor progress has been made in the spheres of regional policy and coordination of different structural instruments. The key partnership principle for management of EU structural aid has made no impact. However, the central authorities have given an undertaking to administer structural aid on the basis of this principle, and a major conference with the parties concerned was held in March 2002. The Commission has insisted that a single programming document must be submitted by the end of 2002.

4.4.1 EESC comments

In the agricultural sector, the EESC particularly stresses the need for a rural development policy. The authorities must support the agricultural organisations and cooperate with them, especially as regards disseminating information effectively to the more disadvantaged sections of the population, who are often opposed to EU membership.

As regards regional policy, the EESC underlines the importance of ensuring the breakthrough of the partnership principle. This principle holds the key to success when framing and implementing regional aid programmes⁸.

In the EESC's view both rural and regional policy in Latvia must focus as far as possible on investment in human resources, i.e. education/training and lifelong learning, as well as promoting vocational and geographical mobility on a national and cross-border scale. A deliberate political choice to invest in the knowledge society should also make it easier to achieve long-term positive results in the negotiations on EU agricultural and regional aid. Concurrently investment is needed to restructure the industrial sector and to develop infrastructure.

5. Conclusions and recommendations

The EESC congratulates Latvia on its rapid progress on the road to EU accession and is convinced that the remaining negotiations can be wound up by the end of 2002 at latest and will pave the way for a referendum. The democratic process requires this referendum to be preceded by extensive information and public debate, thus making major demands on contributions from the authorities, the media and civil society organisations.

In the EESC's view, the results of the forthcoming referendum will be greatly influenced by the extent to which Latvia manages, with the support of the EU and the Member States, to solve the political, economic and social problems connected with nation-building and the transition from a centrally planned economy to a market economy. The EESC calls on all parties concerned to concentrate their efforts on solving these problems.

C. LITHUANIA

1. The situation in Lithuania

1.1 Population

With its 3.7 million inhabitants, Lithuania is the largest of the three Baltic republics. The country is also ethnically the most homogenous, with 80% Lithuanians, 11% Poles (most of them living in the capital, Vilnius) and 8% Russians, with small White Russian and Ukrainian minorities.

⁸ ESC opinion CES 1480/2001 makes particular mention of the social partners.

Lithuania differs from both the other Baltic States in that it can claim a proud history, much of which it shares with Poland. All Lithuanians know that the nation once stretched from sea to sea, i.e. from the Baltic to the Black Sea. Before the Second World War Lithuania had a large Jewish population and Vilnius was an important Jewish centre. Roman Catholicism is now the dominant faith.

1.2 Political conditions

Since July 2001 Lithuania has had a centre-left coalition government which succeeded a conservative-oriented government. It is headed by **Algirdas Brazauskas**, who has mobilised the support of several social-democratic groups and also established a coalition with a small liberal socialist party. The conditions for this government to last the full term (i.e. until 2004) seem good.

The current President, 74-year-old **Valdas Adamkus**, has lived most of his life in the United States. It is still not clear whether he will be a candidate in the presidential elections at the end of 2002, when the popular Brazauskas is expected to stand as candidate.

1.3 Economy

The Russian crisis hit Lithuania rather late and the result in 1999 was a downturn of about 3%. Agriculture was very badly affected by the decline in demand from Ukraine and Russia and the abolition of protective duties. Drastic financial measures were necessary to restore confidence and create the base for recovery. Though the upward economic trend has been sluggish, the Lithuanian GNP is expected to rise by 4.5% in 2002 and by 5% in 2003. This upturn is essentially due to increased exports of refined oil products in particular – a trend which can, however, be quickly reversed. The energy sector as a whole enjoys a special status in Lithuanian society, which is heavily dependent on crude oil and gas from Russia.

Though private consumption is only increasing slowly, real earnings are rising. The balance of payments is now more healthy than for a long time. Inflation, which for several years was around 1%, is now expected to increase to 2.5% in 2002 and to 3% in 2003. It is not expected to be influenced by the linking of the currency (Lit) since February 2002 to the **instead of the dollar**. The unemployment rate is high – 16% - but is expected to drop slightly in 2003.

Foreign direct investment has not been encouraging and is largely connected with privatisation. In 1999 it accounted for 5.5% of GNP and in 2000 for 2.5%. However, this trend is set to change. The annual average per capita for the period 1996-2000 was **115**.

1.4 Foreign policy

Lithuania's foreign policy is completely dominated by its aspirations to join the EU and NATO. In relations with Russia the Kaliningrad issue is of key importance. Here Lithuania plays a role as mediator between the EU and Russia. A clear sign of Moscow's appreciation of this role was

the visit paid by the Russian foreign minister to Vilnius in March 2002 - the first Russian visit at such a high level to any Baltic State.

1.5 **The Ignalina nuclear power plant**

1.5.1 **The current situation**

One EU requirement is the shutting down and dismantling of the Russian-built nuclear power plant of the Chernobyl type, Ignalina, in the town of Visaginas in north-east Lithuania. Lithuania agreed early on to close down one of the reactors in 2005, and an agreement in principle was reached on the other one in June 2002 which entails closure in 2009. The EU is willing to compensate Lithuania financially. The Ignalina plant's two reactors produce more than three-quarters of Lithuania's electricity consumption besides generating export revenue.

The population takes a very negative view of EU demands regarding Ignalina. Quite apart from the practical and social aspects, there is a psychological factor. These demands symbolise external control of the kind that, it was hoped, would cease on independence. The trade unions are heavily critical of the fact that almost nothing has been done to prepare the retraining of the 7,000 or so persons who currently work at Ignalina or who are indirectly dependent on the power plant. One special problem is that most of the workforce is Russian-speaking and has major difficulties in finding jobs in other parts of Lithuania. The town of Visaginas with its 33,000 inhabitants is threatened with bleeding to death and the whole Utena region with 200,000 inhabitants could be seriously affected.

1.5.2 **EESC comments**

Ignalina is not only a vital national issue for Lithuania but also of key importance to the whole EU and its neighbour states. The EESC believes firmly that Ignalina must be closed in line with the established plan. This plan must, however, be executed in a way that allows the population of Lithuania, and especially in the areas around Ignalina, to be provided as speedily as possible with constructive, realistic economic and employment alternatives. This presupposes joint efforts by, in the first instance, Lithuania, and by the individual Member States and the EU. The EESC would emphasise that the whole process must be conducted with total transparency and in constant dialogue with all parties concerned, especially the social partners.

2. **The Copenhagen political criteria**

2.1 **Democracy and the rule of law**

The latest Council partnership decision stipulates that Lithuania must adopt a variety of measures to secure a stable public administration capable of applying the EU *acquis*. To satisfy the criteria relating to the rule of law, a certain number of measures in the judicial system also need to be taken. In both cases there is clearly a need for investment in education and for an increase in civil servants' salaries.

Corruption is highlighted as being a major problem. The Council insists that Lithuania must finalise its legal framework for combating all forms of corruption and ensure that both legislation and the anti-corruption strategy are effectively implemented.

The Council makes no special demands on Lithuania as regards human rights and protection of minorities.

2.2 EESC comments

Central administration is impeded by the confused dividing line between politics and administration, which causes a lack of clarity and continuity. Another problem is constant staffing changes stemming largely from civil servants' conditions of employment. There is little cooperation between central government and the regional and local level. It is vital for the bodies concerned to tackle these problems seriously, paying careful attention to the Commission's proposed measures. A plan to redraw regional boundaries should wait.

The European Parliament has noted that corruption in the political sphere does not seem particularly prevalent, but that, on the other hand, administrative corruption is a big problem⁹. The EESC encourages those responsible in Lithuania to pursue their efforts to remove the causes for citizens' distrust of the authorities and legal system, including the police.

3. Organised civil society

3.1 Three central trade union organisations

The trade union movement in Lithuania is at present coordinated in three central organisations. The largest and most representative, the *Lithuanian Trade Union Confederation*, was established as recently as 1 May 2002, through the merger of the *Lithuanian Trade Union Centre* and the *Lithuanian Trade Union Unification*. The new organisation has around 100,000 members. The European trade union movement – especially in the Nordic countries – has supported this trend away from fragmentation in different ways; membership of ETUC is a natural consequence. The *Workers' Union*, which changed its name in 2002 to the *Lithuanian Trade Union Solidarumas*, was set up with support from the United States (AFL-CIO). The union is based on direct subscription and its membership is estimated at 52,000. The *Lithuanian Labour Federation* dates back to the time between the two World Wars and was revived by the christian-democrat party. It has 2,000-3,000 members.

The Commission's report for 2001 estimates that 13% of the workforce are union members, which means a slight increase. Some restrictions apply as regards permission for civil servants to join trade unions. Rights over property inherited from the communist trade union have blighted trade union relations in Lithuania for many years. Different political factions have tried to favour their trade union friends. However, the matter now rests with the trade unions, which will have to work out a solution for themselves.

⁹ A5-0253/2001 (16.7.2001)

3.2 Employers' and sectoral organisations

The largest employers' organisation, the *Confederation of Lithuanian Industrialists (LPK)*, was set up in 1993. It comprises sectoral associations and individual companies and embraces a total of 2,800 companies, most of them small and medium-sized businesses. There is no direct recruitment drive. The Confederation has a well structured secretariat, including an international section. It has observer status in Unice and will shortly become a full member. One of the Confederation's main aims is to achieve more effective dialogue between the social partners and the government.

The *Lithuanian Chambers of Commerce, Industry and Crafts* are organised in five regional chambers and have a total of around 1,600 members. At the start of 2001 companies were relatively poorly informed about conditions under EU membership¹⁰. The Chambers have taken the initiative of drawing up a company register which is updated regularly.

In recent years the farmers' organisations have cooperated to some extent, especially on EU issues. The *Lithuanian Farmers Union (LFU)* with 15,000 paid-up members was set up back in 1989 and represents private holdings. The LFU is well set to become a modern, democratic and representative organisation for private farmers. The *Landowners Union* has limited membership and influence. The *Association of Agricultural Companies (Bendroves)* represents the large agricultural companies. The *Lithuanian Chamber of Agriculture*, with its compulsory membership and state funding, enjoys a special status. It was set up in 1925 and re-introduced under a 1997 law.

3.3 Other organisations

Since 1995 a *Non-Governmental Organisation Information and Support Centre (NISC)* has been active in Vilnius. It receives financial support from UNDP, the *Soros Foundation* and US and EU authorities and organisations, including the European Commission. The government gives some support to NGOs, and donors can claim tax deductions. There are an estimated 5,000 active NGOs in Lithuania, about half of which (mostly local) have contacts with the NISC. During the initial post-independence period there was an NGO bloc in parliament; in 1991-92 these NGOs formed political parties. A process of stable development is now under way, enhancing this sector's potential influence on policymaking. The NISC specifically mentions public health care.

Under its 1996 charter, the *Lithuanian Consumer Association* is an official organisation with individual membership. It is divided into 13 regions and has received financial support from the European Commission and the Nordic Council, among others, and now, most recently, from the Lithuanian government.

¹⁰ CAPE 2001, Summary report, Eurochambres and SBRA, Brussels 2001

3.4 **EESC views and recommendations**

Organised civil society in Lithuania has made impressive progress. Ongoing closer cooperation with sister-organisations, particularly in the Baltic Sea area, including Russia, plays a key part, as does cooperation within the European framework. One major objective should be to increase the membership of organisations and member activity, thereby reinforcing democratic structures and counteracting the risk of organisations becoming financially dependent on external aid on a long-term basis. Better coordination on a national scale would also in certain cases facilitate greater political impact. The EESC welcomes the increased cooperation among trade unions and the agricultural organisations.

The government must take various steps to stimulate the further development of organised civil society and hence anchor democracy firmly in Lithuania.

It is vital for the social partners to step up their efforts to comply satisfactorily with the demands of the European social model.

The EESC welcomes the Lithuanian organisations' readiness to set up a joint consultative committee with the EESC and looks forward to future joint activities within the EESC.

4. **Specific areas**

4.1 **Market economy**

The market economy operates in Lithuania. The privatisation of public enterprises has made good headway, as have preparations to privatise what remains. The right of ownership is well established. The handing back of land and forests is under way and the market is starting to function in this area, which is conducive to sustainable agriculture. Restructuring of the banking sector is far advanced and the capital market is operational.

Trade is increasingly integrated with the EU, even if more slowly than in other countries. The second most important trade partner is the other candidate countries. Exports to the EU are rising. Trade with the Newly Independent States has dropped sharply after the Russian crisis in 1998. Lithuania joined the World Trade Organisation in 2001 (Latvia has been a member since 1999).

96% of Lithuanian companies are regarded as small or medium-sized. The state budget now includes a separate heading for promotion of SME development, but very little has been done to implement the planned programme.

4.1.1 **EESC comments**

Major sacrifices have had to be made in order to create a stable economy, resulting in growing social gaps. Confidence in the market economy could well be undermined if these social gaps become wider. It is incumbent on the governing bodies in Lithuania to ensure that the benefits of the

market economy are reaped by the entire population. The energy sector's dominance of Lithuanian society must be kept under control.

4.2 Social dialogue

Tripartite cooperation at national level operates within the national tripartite council set up in 1995. It has 15 members with equal rights, five from each party. The chairmanship is rotated on a four-monthly basis. The government is represented by delegates from the ministries concerned.

Existing cooperation is based on an agreement from February 1999 which aimed to improve quality and efficiency. It was signed by the prime minister at the time, the four central trade union organisations and three employers' organisations. The government promised among other things to take up relevant legislative questions in the council and to inform the Seimas about the council's conclusions. The social partners, on their side, promised not to take action against the government in matters on which the council had reached agreement. Cooperation and exchange of information in the preparations for EU membership are a special point.

One of the tripartite council's major tasks is to propose the legal minimum wage. This indirectly affects wages within the public sector in particular, since these are frequently expressed in multiples of the minimum wage.

The Commission notes that the tripartite dialogue needs to be stepped up and to operate in such a way that the partners are consulted in key economic and social areas.

Bilateral dialogue has made very little headway - only 10% of the labour market is covered by collective bargaining agreements, and these are mainly in the public sector. There are hardly any agreements at sectoral or company level. The Commission stresses that efforts must be made to strengthen bilateral dialogue, especially at sectoral level. It calls on the government to support the parties in preparing for the active role that they will be required to play in the EU context and in order to participate in social dialogue and negotiations at all levels.

The government, for its part, is worried that the lack of collective bargaining between the social partners at different levels could give the minimum wage undue influence. The labour code adopted in summer 2002 includes a more positive collective bargaining framework, covering training in negotiation techniques for social partners. The code also aims at better representation, information and consultation for the workforce.

4.2.1 EESC comments

The EESC regrets that bilateral and tripartite dialogue in Lithuania leaves much to be desired. Only a very small proportion of the workforce is protected by collective agreements, and the tripartite dialogue on political issues, including matters relating to EU accession, would seem more theoretical than real. Like the Commission, the EESC would stress the government's responsibility for helping the parties to prepare for the active role they will be required to play in the EU context and to

promote collective bargaining and social dialogue structures in general. The EESC expects new labour legislation to improve matters.

4.3 Labour market and social policy

Average unemployment, estimated at 16% in 2000 according to ILO criteria, varied significantly from region to region. Widespread long-term unemployment is a major problem. In May 2001 the government adopted an active labour market programme which aims to substantially reduce registered unemployment. This includes dynamic action to find jobs for workers through a well developed network of employment offices. One target for 2004 is that anyone who is still unemployed after three months should be offered an active support measure. Over 5% of the plan's funding comes from the EU.¹¹

Unemployment insurance in its present form is limited. In order to receive benefit, contributions must have been paid for 24 months during the previous 36-month period. The level of benefit depends solely on the length of the insurance period and varies between 19% and 34% of the average monthly wage. Latest statistics indicated that 15.2% of registered unemployed persons received benefits under the insurance scheme. The social welfare policy includes means-tested forms of assistance which are managed by the local authorities. These consist of social help, contributions to home heating costs and free access to health care and child care (nursery school and school), etc. A large proportion of the population lives under the minimum subsistence level.

The government is planning a reform of both components of the social welfare system.

Real earnings have risen. Between 1996 and 2000 they increased by 36%, but growth was more sluggish the last two years. The gap vis-à-vis the EU has therefore narrowed. The minimum wage (Litas 430 for 1999) corresponded in 2001 to 40% of the average wage. It will not be increased in 2002. Instead tax will be reduced for low income earners under a tripartite council agreement.

A large section of the population, both employed and unemployed, lives under the minimum subsistence level. Both small holdings producing for domestic consumption (average 2.2 hectares) and family holdings (average 7.6 hectares) are of major importance for the survival of many people. (However, the figure of a total of 539,000 such holdings in 1997 is exaggerated since a large proportion of smaller holdings lease land to larger holdings.)

4.3.1 EESC comments

Lithuania has the highest unemployment rate of all the candidate countries. Action to combat unemployment must have top priority. That presupposes that high growth rates continue and that economic policy and social policy measures are more effectively coordinated. The EESC would draw attention to the key role played by the social partners in the employment strategy. They need to

¹¹ Programme of the Republic of Lithuania for increasing employment for 2001-2004 (approved by Resolution No. 529 of 8.5.2001 of the Government of the Republic of Lithuania)

coordinate their efforts in order to be in a position to participate effectively. The EU now prioritises measures to fight social exclusion, and an anti-poverty programme has been adopted. It is important to involve candidate country players in this programme. Lithuania must make great efforts to halt social exclusion in the country.

4.4 Rural and regional policy

In 2000 the agricultural sector accounted for 8% of Lithuania's GNP and 18% of employment – down 2% on 1999. The consolidation of land into larger parcels is progressing slowly, partly because of a delay in the handing back of land: however, a July 2002 deadline has been set for the submission of claims. The average size of holdings has increased to 12.76 hectares. Prospects in Lithuania are good for agricultural production and some rationalisation of holdings.

The Sapard programme prioritises investment in agriculture, followed by processing and marketing, along with diversification of the rural economy and infrastructure improvements. The EU funds just under 40% of total investment.

Central management of structural policy has recently improved considerably. However, it has to contend with the fact that regional structures still do not operate satisfactorily and the two levels distrust each other. The key partnership principle applicable to management of EU structural aid has failed to make an impact. The Commission has insisted that a draft single programming document must be submitted by the end of 2002.

4.4.1 EESC comments

On the agricultural sector, the EESC particularly stresses the need for a rural development policy. The authorities must support the agricultural organisations and cooperate with them, e.g. on the effective distribution of information to the more disadvantaged sections of the population, who are often opposed to EU membership.

As regards regional policy, the EESC underlines the importance of ensuring the breakthrough of the partnership principle.

In the EESC's view, both rural and regional policy in Lithuania must focus heavily on investment in human resources, i.e. education/training and lifelong learning, as well as promoting vocational and geographical mobility. A deliberate political choice to invest in the knowledge society should also make it easier to achieve long-term positive results in the negotiations on EU agricultural and regional aid. Concurrently investment is needed to restructure the industrial sector, especially the food industry, and to develop infrastructure.

5. Conclusions and recommendations

The EESC congratulates Lithuania on its rapid progress on the road to EU accession and is convinced that the remaining negotiations can be wound up by the end of 2002 at latest and will

pave the way for a referendum. The democratic process requires that this referendum to be preceded by extensive information and public debate, thus making major demands on contributions from the authorities, the media and civil society organisations.

In the EESC's view, the results of the forthcoming referendum will be greatly influenced by the extent to which Lithuania manages, with the support of the EU and the Member States, to solve the political, economic and social problems connected with the transition from a centrally planned economy to a market economy. The EESC calls on all parties concerned to concentrate their efforts on solving these problems.

Brussels, 18 September 2002.

The President
of the
Economic and Social Committee

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Göke Frerichs

Patrick Venturini
