Lithuania lies in Eastern Europe, on the coast of the Baltic Sea; and borders Latvia, Belarus, Poland, and the Russian Federation. On March 11, 1990, Lithuania became the first of the Soviet republics to declare its independence. Lithuania's independence was quickly recognised by major European and other nations, including the United States, but Moscow did not recognise this proclamation until September 1991.

**Economy**

Lithuania is an upper middle-income country. Some 30 percent of the country is covered with forests. Lithuania's major exports are textiles (15 percent of total exports), wood and furniture (5 percent), food products (11 percent) and refined oil products (19 percent).

Agriculture remains an important sector in the country's economy, employing 8 percent of the population. The sector is mostly characterised by small-scale, semi-subsistence farms with a low level of productivity. The share of the agricultural sector has declined from 7 percent of GDP in 2002 to 3.3 percent in 2011, while the share of services has increased from 62 percent to 68.6 percent in the same period.

The GDP growth in recent years has been remarkable, increasing by 6.9 percent after 5 quarters with negative numbers in 2009. Rebound in Lithuania's economy in the third quarter was the fastest in the EU. In the last quarter of 2009 Lithuanian economy rose moderately by 0.1 percent, however the Lithuania's economy kept growing by 1.6 percent in 2010 and jumped 5.8 percent in 2011.\(^1\)

The EU accession process has been instrumental in advancing regulatory reforms, including in the restructuring of the important energy and banking sectors. In the aftermath of the Russian crisis, Lithuanian enterprises have been successfully reorienting their exports from the traditional markets to the east, towards the more competitive EU markets. This has been a critical factor in the country's export-led economic recovery. On the other hand, social sectors, which are outside the competence of the EU such as health, education, pensions and social support, still require concerted efforts on the part of the government to increase their efficiency, quality and access.

**Evolution of Economic Policy Regime**

During the early 1990s, the government launched a comprehensive programme of market-oriented reforms, which included the privatisation of SoEs, the lifting of price controls, land reform, and reform of the banking sector. Also, a new national currency, the litas, was introduced in June 1993.

Privatisation occurred at a rapid rate in the 1992-94 period (especially with respect to farmland, housing, and small enterprises), and about half of the large and medium-sized enterprises scheduled for privatisation were sold through public share offerings. The Law on Initial Privatisation of State Property of the Republic of Lithuania, passed in early 1991 and amended several times in 1993 (primarily with regard to land reform and restitution), served as the principal basis for undertaking privatisation.

Successful implementation of structural and legislative reforms in Lithuania attracted greater foreign direct investments by the mid-1990s. In 2001, Lithuania became a member of WTO. In late 2002, Lithuania was accepted

\(^{1}\) Original paper written (2006-07) & updated (September 2012) internally by CUTS International.

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**PROFILE**

<table>
<thead>
<tr>
<th><strong>Population:</strong></th>
<th>2.98 million***</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (Current US$):</td>
<td>42.164 billion***</td>
</tr>
<tr>
<td>Per Capita Income:</td>
<td>14,018 (Atlas method)***</td>
</tr>
<tr>
<td>(Current US$)</td>
<td>21,615 (at PPP).***</td>
</tr>
<tr>
<td>Surface Area:</td>
<td>65,300 sq. km</td>
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<tr>
<td>Life Expectancy:</td>
<td>72.5 years**</td>
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<tr>
<td>Literacy (%):</td>
<td>99.7 (of ages 15 and above)**</td>
</tr>
<tr>
<td>HDI Rank:</td>
<td>41</td>
</tr>
</tbody>
</table>

**Sources:**
- World Development Indicators Database, World Bank, 2011
- CIA World Factbook, 2012
(*** For the year 2011
(**) For the year 2012

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**Lithuania**

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for membership in the EU and NATO, and it joined both in 2004.

The Government of the Republic of Lithuania implemented economic policy in line with the commitments made on June 28, 2004, when it joined ERM II. In 2011 the economic environment became different from the one that prevailed when joining ERM II, which makes the obligations as regards speedier implementation of the structural reforms a priority. The economic recession, which began in 2008, prevents the achievement of a balanced budget; therefore the Government of the Republic of Lithuania has undertaken to reduce the general government deficit to 3 percent of GDP in 2012. Measures that will impose an obligation to follow an anti-cyclical and anti-inflation budget policy have been planned: in 2011 adequate legislation was drafted. Reforms in the fields of pension, education, and health systems will be further pursued. Other structural reform implementing measures will be specified in 2012 in the annual National Reforms Agenda.

Although modest development of Lithuania’s major export markets is projected for 2012, and prospects for the EU economic growth still remain risky, the economic management policy followed by the European Central Bank and the EU member states allows expectation that the period of 2012-2015 will see continuation of the formation of favourable conditions for the growth of Lithuania's economy. 2

**Competition Law: Evolution and Environment** 1

The very need to protect competition is identified in the Constitution of the Republic of Lithuania. Article 46 of the Constitution asserts that:

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

In general, the Constitution seeks to create a reasonable balance between the interests of an individual and those of society. The same applies to the constitutional principles of the organisation of the national economy. In this particular case, such a balance is expected to be achieved by protecting the freedom of fair competition.

Lithuania introduced its first Law on Competition in September 1992 (the '1992 Law on Competition'). From the very beginning, it has been marked by a gradual harmonisation of national competition rules with the European Competition Law standards. Despite that the 1992 Law on Competition was, to a certain extent, influenced by US anti-trust law, its basic structure and terminology still followed the European style.

The Europe Agreement, between European Communities and their Member States and Lithuania, was signed on June 12, 1995 and came into effect on February 01, 1998. According to this agreement, the competition system for trade relations between the Community and Lithuania had to be based on the requirements set out in Articles 85, 86 and 92 of the EC Treaty, bringing the Lithuanian rules on competition in line with those of the EC. Therefore, a new Law on Competition was enacted in 1999 (the '1999 Law on Competition').

The main objectives of the competition policy in Lithuania are identified in an objects clause. Article 1 of the Competition Law establishes that:

1. The purpose of this law is to protect freedom of fair competition in the Republic of Lithuania.
2. The law shall regulate the actions of the public and local authorities and undertakings, which restrict or may restrict competition as well as actions of unfair competition; shall establish the rights, duties and liabilities of the said institutions and undertakings, and the legal basis for the control of competition restriction and unfair competition in the Republic of Lithuania.
3. This law seeks harmonisation of the Lithuanian and the EU law regulating competition relations.
4. The provisions of this Law shall implement the EU legal act specified in the Annex to this Law.

Accession of Lithuania into the EU and the modernisation of the EU competition rules, in particular, the adoption of Council Regulation (EC) No. 1/2003 on the implementation of the rules on competition laid down in Articles 81 and 82 of the Treaty and Council Regulation (EC) No. 139/2004 on the control of concentrations between undertakings triggered new developments in the Lithuanian competition law.

In 1999 a new Law on Competition was passed. The major changes introduced by this new Law concerned the regulation of anticompetitive agreements, concentration control and unfair competition. The powers of the Competition Council to investigate breaches of the competition rules were significantly increased.

Important amendments were made in April 2011. The amendments have made it possible to hold heads of undertakings personally liable for their involvement in a cartel or an abuse of dominance infringement. The head of an undertaking will be considered as being involved in the infringement when: 1) he directly contributed to the breach of competition law, 2) his conduct did not contribute to the breach of competition law but he had reasonable grounds to suspect that the undertaking’s conduct...
constituted the breach and took no steps to prevent it, or 3) the head did not know but ought to have known that the undertaking's conduct constituted the breach.

Persons found to be involved in the infringement may lose their right to hold office as company heads or members of collegial supervisory and/or management bodies for a period from three to five years. In addition, a fine of up to LTL 50,000 (EUR 14,481) may be imposed. Upon a discretionary request of the CC, such sanctions may be imposed by the Vilnius Regional Administrative Court (the Court). When deciding on sanctions, the Court is guided by the principles of justice, reasonableness and fairness. Among other things, the Court takes into consideration the gravity and the duration of the infringement committed by the undertaking as well as the manager's role in the infringement.

Another important statutory amendment has extended the limitation period for imposing fines for competition law infringements from three to five years. Besides, the amended law lists circumstances under which the limitation period shall be suspended.


The new version of Competition law brought numerous technical amendments but the main substantial amendments and supplements are the following:

- the introduction of the possibility for the Competition Council to prioritise its antitrust enforcement, thus focusing on the most important investigations in terms of real outcome for consumers;
- an increase in the combined turnover threshold from LTL 30,000,000 (approximately € 8,700,000) to LTL 50,000,000 (approximately € 14,500,000) above which a proposed merger has to be notified. The presumption of control, which is important for the assessment of a concentration, has also been increased from a holding of 1/4 to 1/3 of the capital or voting rights in the undertaking concerned;
- the introduction of the possibility to grant immunity from fines to undertakings involved in price fixing agreements concluded between non-competitors, if the undertakings were the first ones to have informed the Competition Council of the anti-competitive agreement and to have submitted all available information.

**Competition Law: Institutions and Competencies**

The Law on Competition' of 1992 establishes the Price and Competition Office (hereinafter the Office) - an institution responsible for the enforcement of the first Law on Competition. For the decision making, there was created a collegial body under the aegis of the Office the Competition Council. In 1995, with the amendments of the Law the Price and Competition Office was reorganised to the State Competition and Consumer Protection Office under the aegis of the Government. The Competition Council remained as a decision-making body.

The Price and Competition Office from 1992 and the Competition and Consumer Protection Office since 1995 had the status of a permanent executive institutions conducting investigations in cases of alleged violations of the 1992 Law on Competition, whilst the Competition Council acted as a collegial decision-making body, applying sanctions for violations of competition, whilst all the preparatory and investigative work was carried out by the Competition Office.

In 1999, after the adoption of a new '1999 Law on Competition' a new independent competition institution the Competition Council was established. The Competition Council consists of the Chairperson and four members. The administration of the Competition Council is formed to perform the functions of the Competition Council. The Competition Council is the only administrative institution responsible for enforcing competition rules in Lithuania.

This kind of reform brought many positive changes such as: a better focus on the traditional areas of anti-trust, merger control and State aid; a better allocation of both financial and human resources, allowing increased operational efficiency; more investigations on anti-competitive agreements and abusive practices and more 'serious' cases under investigation.

The Competition Council is an institution responsible for implementation of competition law and policy, and its mission is to safeguard effective competition for the benefit of consumers.

In implementing this mission, the Competition Council endeavours to ensure that enterprises and state institutions do not restrict competition in the relevant markets and that the markets function usefully both for consumers and the Lithuanian economy. The Competition Council is not a regulator of the market it acts as a guardian of the market and carries out this function by using various tools. These tools may range from the dissemination of knowledge about the benefits of competition and explanations on how one should follow competition rules to warnings with a view to eliminating the threats to competition or even sanctions for restriction of competition. When choosing one or another tool, the Competition Council evaluates the specific circumstances and uses the most effective tool.

In addition to the enforcement of the Law on Competition, the Competition Council also carries out the supervision of certain provisions of other laws of the Republic of Lithuania, namely the Law on Advertising, the Law on the

The Council investigates competition restrictions both on its own initiative and on the basis of notifications and complaints. The Council has extensive investigatory powers. It may: request information from undertakings under investigation; search premises; inspect and copy documents; seize evidence; obtain oral and written explanations and require individuals to appear at the offices of the Council. In addition, the Law on Competition entitles the Council to obtain information and documents from other economic entities non-subjects and also from public and local authorities.

In 2012, the adoption of the new version of the Law on Competition the Competition Council gave a right to establish priorities of its activities that contribute to the proper allocation of institutions resources and make it possible to waive minor investigations.

According to the Law on Competition, the Council has the right to: impose administrative fines up to 10 percent of the gross annual income; prohibit concentrations; prohibit anticompetitive practices; apply interim measures, etc.

Box 1: Cartel in the Orthopaedic Devices Production and Trading Market

On May 17, 2012 the Supreme Administrative Court of Lithuania (SACL) passed the final and non-appealable ruling upholding the Competition Council's decision of January 20, 2011 to impose fines on the Association of Providers of Orthopaedic and Rehabilitation Services and nine companies engaged in the production and trading in orthopaedic devices for concluding the cartel agreement. By this ruling the SACL also dismissed the complaint of the Compulsory Health Insurance Fund (CHIF) which infringed the requirement of Article 4 of the Law on Competition to ensure freedom of fair competition.

By its decision, the Competition Council stated that the producers of orthopaedic devices concluded anticompetitive agreements concerning prices of orthopaedic devices, production amounts, and were seeking to share the funds allocated by the CHIF for the reimbursement of orthopaedic devices. The agreements led to an inefficient use of the budget funds, fewer patients could receive the services, and patients had to pay higher surcharges for partial recoverable orthopaedic devices. The restricted agreements also caused poorer quality of goods. The CHIF failed to ensure competition among companies, therefore it was recognised that the CHIF infringed the requirements of Article 4 of the Law on Competition.

In the Competition Council's opinion, its decision had a definite influence on increased competition in the market, since consumers are free to choose the producer of orthopaedic devices after the anti-competitive agreements were broken. In the absence of the agreement setting production amounts of the orthopaedic devices, companies may decide how to efficiently use their production capacities, and to produce the devices according to the demand but not to the established amounts. The state budget funds allocated to the CHIF for reimbursement of orthopaedic devices actually produced and acquired by the patients can also be used more efficiently because of the competitive prices, and the CHIF is able to reimburse for more orthopaedic devices.

It is likely that this favourable situation is undoubtedly affected by the Competition Council's decision breaking the anti-competitive agreement between the producers of the orthopaedic devices.

It is noteworthy that the Lithuanian government on January 18, 2012 adopted a resolution establishing a new methodology for setting the amount of fines ('Resolution'). The latter Resolution resembles the year 2006 Guidelines on the method of setting fines imposed pursuant to Article 23(2)(a) of Regulation No 1/2003.5 The revised Resolution seeks to individualise and set up a more transparent mechanism while establishing the amount of fine. The Resolution envisages that fines may be based on up to 30 per cent of the company's annual sales to which the infringement relates, multiplied by the number of years of participation in the infringement. Moreover, it has an aim of deterring the infringers by the imposition of higher fines on the recidivists.

Anticompetitive Business Practices
All agreements which have as their object the restriction of competition or which may restrict competition are prohibited, including:
- directly or indirectly fixing prices of certain goods or other conditions of sale or purchase;
- sharing the product market on a territorial basis, according to groups of buyers, suppliers or in any other way;
- fixing production or sale volumes for certain goods, as well as restricting technical development or investment;
- applying dissimilar (discriminating) conditions to equivalent transactions with individual undertakings,
thereby placing them at a competitive disadvantage; and entering into agreements to require other undertakings to assume supplementary obligations which, according to their commercial nature or purpose, have no direct connection with the subject of the contract.

When concluded between competitors, these agreements shall be in any case considered as restricting competition.

This Article may be not applicable to agreements concluded between undertakings, which because of their small influence cannot substantially restrict competition. The requirements, terms and conditions in respect of such agreements shall be laid down by a relevant decision of the Competition Council. Further, this provision may not apply where the agreement promotes technical or economical progress or improves the production or distribution of goods, and thus creates conditions for consumers to receive additional benefit.

Abuse of dominant position by an undertaking within the relevant market is prohibited when it carries out actions, which restrict or may restrict competition, limit without cause the possibilities of other undertakings to act in the market, or violate the interests of consumers, including:

- direct or indirect imposition of unfair prices or other purchase or selling conditions;
- limitation of trade, production or technical development to the prejudice of consumers;
- application of dissimilar (discriminating) conditions to equivalent transactions with certain undertakings, thereby placing them at a competitive disadvantage; and
- making the conclusion of contract subject to acceptance by the other party of supplementary obligations which, by their commercial nature or usage, have no connection with the subject of such contract.

Amendments to the Law, which came into force on January 01, 2010 introduced amendment that reduced the dominance position threshold applicable for the retail trade operators. Thus, unless proved otherwise, an undertaking engaged in retail trade with the market share of not less than 30 percent (compared to previous 40 percent) shall be considered to enjoy a dominant position within the relevant market. Moreover, unless proved otherwise, each of a group of three or a smaller number of undertakings engaged in retail trade with the largest shares of the relevant market, jointly holding 55 percent (compared to a previous 70 percent) or more of the relevant market shall be considered to enjoy a dominant position. The January 01, 2010 amendment aimed to strengthen supervision of the major chains of supermarkets.
A proposed M&A is required to be notified to the Competition Council and permission obtained when the aggregate turnover of the undertakings participating in concentration and their combined aggregate turnover exceeds a certain threshold. The aggregate turnover of undertakings participating in concentration is an important criterion for establishing whether it is obligatory to submit a notification of the intended concentration to the Competition Council and obtain the permission.

In its activity the Competition Council holds a view that aggregate turnover, as an indicator of economic activity, has to reflect, as precisely as possible, the economic capacity and status of the undertakings participating in the concentration. The notification on concentration is to be filed with the Competition Council prior to the implementation of concentration.

**Sectoral Regulation**

**Telecommunications Sector**

During the past several years, the telecommunications sector saw a fast introduction of new technologies and expansion of the services market.

Efforts to regulate the telecommunications sector commenced soon after restoration of country's independence in March 1990. The very first law on telecommunication was adopted on May 30, 1991. However, the changing structure of the sector inspired further regulatory steps. On November 30, 1995, the new Law on communications was adopted.

On June 09, 1998, the Lithuanian Parliament passed a new Law after carrying out several amendments in the law of 1995, which envisaged the creation of the Telecommunications Regulatory Authority. However, its establishment was delayed until June 2000, and only in 2003 did this agency receive the necessary powers to impose ex ante obligations and, thereby, preclude anticompetitive conduct in this important sector.

The Communications Regulatory Authority was established as the main regulatory institution for overall supervision of the Telecommunications sector of Lithuania. It is an independent agency financed from State budget.

**Energy Sector**

Since 1990, the Lithuanian Government has initiated policy reforms in the energy sector. The most important move was launching a transitional process towards a market-oriented economy and restructuring of the legal and institutional system.

On May 16, 2002, the Parliament of the Republic of Lithuania passed the new law on Energy. The law came into effect from July 01, 2002. It set up the legal preconditions for effective management of the energy sector in Lithuania, which is pursuing EU membership. Furthermore, the law aimed at liberalising the market of energy production, transmission and distribution and increasing its competitiveness.

The law governs the general energy activities; basic principles of energy development and management; also the efficient use of energy resources; sets the regulatory objectives of energy activities; defines relevant administrative institutions; and their competence. It also determines the principles and basic responsibilities for the energy development, pricing and State control over the energy activities.

National Control Commission (NCC) for Prices and Energy was established in October 1997. In the beginning it was responsible for pricing in electricity and gas sectors. Since 1999, it regulates district heating and water supply. Since 2002, it issues licenses, monitors compliance with the license requirements, settles disputes between market players. It also monitors quality of supply and seeks to promote competition. Over the years, NCC has developed from a pricing agency to an economic regulator. Despite various obstacles, it acts in an open, transparent way.

**Consumer Protection**

Law No 1-657 on Consumer Protection of the Republic of Lithuania was enacted on November 10, 1994, and further amended as Law No VIII-1946 of September 19, 2000. The law establishes and guarantees the rights of the population as the consumers of goods and services, and protects their economic and social interests.

The National Consumer Rights Protection Board was established in year 2001. The Board coordinates state institutions' activities on protection of consumers. One of the main priorities of the Board is to create a consumer rights protection system corresponding to high EU standards. The main aims, tasks and priority trends of consumer right protection for 2004-2006 are determined by the National Strategy for Consumer Protection and the National Consumer Education Programme of Lithuania, approved on November 11, 2003 by the Government of the Republic of Lithuania.

The Ministry of Justice of the Republic of Lithuania is responsible for development and implementation of consumer protection policy. The Government of the Republic of Lithuania (the Council of Ministers) every four years approves the national strategy for the protection of consumer rights. The National Consumer Rights Protection Strategy 2007-2010 was approved in 2007. It sets out key aims and objectives for consumer rights protection, and provides the action plan for enforcement of the foreseen implementation measures.

The State Consumer Rights Protection Authority (hereinafter referred to as 'the Authority') is established
and operates under the Ministry of Justice. The Authority implements the national consumer protection policy and ensures protection of consumer rights. The main functions of the Authority are the following:

- coordinating of activities of consumer rights protection bodies responsible for the regulation of different areas of consumption, in the sphere of the protection of consumer rights;
- adoption and harmonisation of legal acts relating to the protection of consumer rights;
- investigation and consideration of consumer complaints in accordance with the out-of-court procedure of the settlement of consumer disputes;
- imposing sanctions provided for by law; and
- control of fairness of consumer contracts standard terms.

There are 18 various institutions which protect consumer rights and interests in certain areas of consumption, i.e. the State Food and Veterinary Service under the Government of the Republic of Lithuania, State Non-Food Products Inspectorate under the Ministry of Economy of the Republic of Lithuania, Communications Regulatory Authority, Insurance Supervisory.

Concluding Observations and Future Scenario

Lithuania's economic growth enhanced when it became a member state of the EU. Effectively, the member states of the EU work in partnership, where enforcement of national competition law is the responsibility of the Member State.

At the inter-state level, where practices will have an impact on trade between Member States, the European competition law comes into effect, regulated by the EC.

Lithuania's prospect for export markets in the European Union is the key assumption of the central economic development scenario. The central economic development scenario providing for the sustainable potential growth of the economy depends on the speed of implementation of structural reforms, falling interest rates, and the growth of investments up to the multi-annual average.

The transformation of the Lithuanian competition authority from a governmental agency to an autonomous body was instrumental in reinforcing free market values and developing a competition culture in the Lithuanian market.

The amendments in the competition law as well as harmonisation of national law with the EU competition law has been producing tangible positive effects upon the market structures and the conduct of market participants. The enhanced competition amongst undertakings promotes innovations, reduces production costs and increases the overall production efficiency. Lithuanian producers are becoming increasingly competitive in the opened European markets, and the values generated by competition are becoming apparent to growing numbers of Lithuanian consumers, benefiting from improved options to choose from a wider supply of goods and services at lower prices.

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Endnotes

3 Enforcement of competition rules in Lithuania www.ebrd.com/pubs/law/lit
4 (http://ec.europa.eu/competition/ecn/brief/02_2012/lt_law.pdf)
5 Legal Framework in Lithuania
6 (http://ec.europa.eu/consumers/empowerment/docs/LT_web_country_profile.pdf)