

LITHUANIA

Document Type	Law
Document Number	VIII-1312
Document Title	Law on Investments No. VIII-1312 of 7 July 1999, as Amended by 2 November 2004 No. IX-2527
Year	2004
Date	2 November
Language	English
Provenance	Government

LAW ON INVESTMENTS NO. VIII-1312 OF 7 JULY 1999, AS AMENDED BY 2 NOVEMBER 2004 NO. IX-2527

REPUBLIC OF LITHUANIA

LAW ON INVESTMENTS

7 July 1999 No. VIII-1312

(As amended by 2 November 2004 No IX-2527)

Vilnius

CHAPTER ONE GENERAL PROVISIONS

Article 1. Purpose of the Law

1. The Law sets forth the terms and conditions of investment in the Republic of Lithuania, the rights of the investors and investment protection measures for all types of investments.

2. The specific features of investment into commercial banks, other credit institutions, insurance undertakings and other undertakings engaged in financial activities shall be established by the laws of the Republic of Lithuania which regulate the activities of the above-mentioned undertakings and agencies.

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Article 2. Definitions

As used in this Law,

1. **“Investments”** means funds and tangible, intangible and financial assets assessed in the manner prescribed by laws and other legal acts, invested in order to obtain from the object of investment profit (income), social result (in education, culture, science, health and social security as well as other similar spheres) or to ensure the implementation of state functions.
2. **“Reinvestments”** means investments from the profit (income) in the economic entity in which the profit (income) was obtained.
3. **“Investment”** means the act of investing performed by an investor in the manner prescribed by this Law whereby the investor acquires the right of ownership or the right of creditor’s claim against the object of investment, or the right to manage and use the object.
4. **“Investors”** means legal and natural persons of the Republic of Lithuania and foreign states, who invest, according to the procedure set forth in the laws of the Republic of Lithuania, own or borrowed assets or assets held and used on trust.
5. **“Strategic investor”** means investor with whom the Government of the Republic of Lithuania or an institution authorised by it concludes an investment contract in the manner laid down in this Law.
6. **“Object of investment”** means own capital of the economic entity, all types of securities, fixed tangible assets and fixed intangible assets.
7. **“Economic entities”** means undertakings, agencies and organisations of all types and forms of ownership established in accordance with the procedure laid down in the laws of the Republic of Lithuania .
8. **“State priorities”** means the basic needs of economic development, social and defence needs of the state, determined by the Seimas or the Government of the Republic of Lithuania.
9. **“State Investment Programme”** means the document defining the investment strategy of the state, in which the funds necessary for implementing the investment projects of state-supported programmes, also the sources of financing and the time limits for the implementation of the said investment projects are provided for.
10. **“Investment project”** means a document corroborating the feasibility of the project from the financial (economic), technical and social point of view, assessing the return on the investment (commercial project) and other efficiency indicators, specifying funds required for project implementation as well as sources and time limits of financing.
11. **“Municipality investor”** means an investor with whom the municipality concludes an investment contract in accordance with the procedure established by this Law.
12. **“Green field”** means an unbuilt-on (undeveloped) plot of land.
13. **“Greenfield investments”** means a type of investments made into building for business purposes of a new facility from the ground up.
14. **“Innovation”** means creation and commercial adjustment of new technologies, ideas, methods by offering to the market new or improved products and processes.

Article 3. Types of Investments

1. Types of investments according to the investor's influence over the economic entity:

1) direct investments - investments aimed at establishing an economic entity and acquiring the capital of a registered economic entity or a share in the capital, also reinvestments, loans to economic entities the capital whereof is owned by the investor or in which the investor has a share in the capital, subordinated loans where the objective of investment is to establish or to maintain long-term direct links between the investor and the economic entity into which investment is made, and the share in the capital acquired through investment grants the investor the right to either control the economic entity or to exert a considerable influence over it;

2) indirect (portfolio) investments – investments where the share in the capital acquired through investment does not allow the investor to exert any considerable influence over the economic entity.

2. Types of investments according to the investor's registered office (domicile):

1) domestic investments - investments in the Republic of Lithuania made by the State of Lithuania, natural and legal persons of the Republic of Lithuania;

2) foreign investments - investments in the Republic of Lithuania by foreign states, international organisations, foreign natural and legal persons.

3. Types of investments according to the status of the investor:

1) state investments - investments for meeting the needs of the state made using the national budget resources, state (municipal) funds resources, loans obtained on behalf of the State of Lithuania (municipalities), resources of state-owned (municipal) enterprises and other state-owned (municipal) assets as well as loan guarantees extended by the state (municipalities);

2) private investments - investments by the subjects of private property law of the Republic of Lithuania and foreign states;

3) investments by foreign states and international organisations.

4. Types of investments according to the object of investment:

1) capital investments - investments in the production, acquisition or increase of value of long-term tangible and intangible assets;

2) financial investments - all investments other than those specified in subparagraph 1 of this paragraph.

Article 4. Methods of Investing

Investors may invest in the Republic of Lithuania according to the procedure established by law by using any of the following methods:

1) by setting up an economic entity, acquiring the capital of an economic entity registered in the Republic of Lithuania or a share therein;

2) by acquiring securities of all types;

3) by creating, acquiring long-term assets or increasing the value thereof;

4) by lending funds or other assets to economic entities, in which the investor owns a share in the capital enabling it to control the economic entity or to exert a considerable influence over the economic entity;

- 5) by implementing concession contracts and contracts of financial lease (leasing).

CHAPTER TWO

RIGHTS OF INVESTORS AND PROTECTION OF INVESTMENTS

Article 5. Rights of Investors

1. Domestic and foreign investors shall be ensured under this and other laws a level playing field for operation. The rights and lawful interests of investors shall be protected under the laws of the Republic of Lithuania.
2. The investor shall have the right to manage, use and dispose of the object of investment in the Republic of Lithuania in compliance with the laws and other legal acts of the Republic of Lithuania.
3. The investor shall have the right, upon paying the taxes in the manner prescribed by the laws of the Republic of Lithuania, to convert into foreign currency and/or transfer abroad without any restrictions the profits (income) held by him by ownership right.
4. A foreign investor may make a monetary contribution into the economic entity's capital under formation both in foreign and in the national currency of Lithuania.

Article 6. Guarantees of Investors' Rights

1. State and local authorities and officers shall have no right to interfere with the management and use as well as disposal of by the investors of the object of investment according to the procedure established by law. Damage inflicted upon the investor by unlawful actions of state or local authorities and their officers shall be compensated according to the procedure established by the laws of the Republic of Lithuania.
2. Disputes relating to 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 relating to 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.
3. Investment disputes shall also be settled with due regard being had to the provisions of international treaties. In case of investment disputes the foreign investor/investors shall have the right to apply directly to the International Centre for Settlement of Investment Disputes.

Article 7. Protection of Investment in the Event of Expropriation

1. Expropriation of the object of investment shall be allowed only in the cases specified and according to the procedure set forth in the laws of the Republic of Lithuania and only for public needs, paying the investor/investors just compensation in the manner prescribed by the Government.
2. 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 (hereinafter - the date of assessment).

Compensation shall be paid in the national currency of Lithuania within 3 months of the day of expropriation of

the object of investment. Included in the sum 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 (hereinafter - period of delay).

3. Upon the request of a foreign investor, compensation shall be paid in any currency for which London Inter Bank Offered Rate (LIBOR) is quoted. The sum 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 sum of compensation shall include the sum of interest amounting to the London Inter Bank Offered Rate (LIBOR) quoted for the appropriate currency on the day of receipt of compensation, calculated for the period the duration whereof is the closest to the period of delay. Compensation may be transferred abroad without any restrictions.

CHAPTER THREE

SPECIFIC FEATURES OF INVESTMENT

Article 8. Areas of Investment

1. Investments in the Republic of Lithuania shall be permitted in all lawful commercial-economic activities, subject to the restrictions established by this Law and other legal acts of the Republic of Lithuania.

2. Foreign investments shall be prohibited in the activities guaranteeing state security and defence (except for investments by the economic entities meeting the criteria of European and Transatlantic integration which Lithuania has opted for, provided this is approved of by the State Defence Council).

3. When investing in the economic entity under formation, the activities whereof are subject to licensing under the laws regulating the specific sphere of activities, the economic entity must acquire a licence for its activities in accordance with the procedure prescribed by laws and other legal acts.

Article 9. Investment in Free Economic Zones

The specific features of investment in free economic zones shall be regulated by the Law of the Republic of Lithuania on the Fundamentals of Free Economic Zones as well as laws on the setting up of individual free economic zones.

Article 10. Investment by Acquiring Immovable Property

1. Investors in the Republic of Lithuania shall have the right to acquire title to immovable property all types.

2. The procedure and terms and conditions of investment by acquiring title to land by legal persons of the Republic of Lithuania and foreign legal and natural persons shall be established by the 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.

3. The investors may take on lease the state-owned land plots according to the procedure set forth in the Civil Code of the Republic of Lithuania.

4. Foreign states shall have the right to acquire title to land according to the procedure and under the terms and conditions established by the Law of the Republic of Lithuania on the Procedure and Conditions of

Acquisition and Lease of Land Plots by Foreign State Diplomatic Missions and Consular Posts.

Article 11. Investment in the Exploitation of Natural Resources

Investment into objects related to the exploitation of natural resources owned by the state by exclusive ownership right shall be permitted under the Law of the Republic of Lithuania on the Underground and other laws.

CHAPTER FOUR

STATE INVESTMENT POLICY

Article 12. State Investment Policy

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

2. The state shall support investments in the ways specified in Article 13, where:

1) the minimum amount of capital investments set in subparagraph 6 of Article 13(1) of this Law is invested in the means for refurbishing and modernising technologies of prospective industry enterprises, improving the country's ecological situation, developing the SMB;

2) greenfield investment is made;

3) investment is made in buildings (structures) in the course of construction, which may not be completed due to lack of funds or which become not needed by state (municipal) institutions (being no longer suitable for use for the purpose for which they were intended);

4) investment is made in problem territories (parts of the state territory with specific social and economic problems, which meet the problem territory criteria defined by the Government);

5) investment is made in free economic zones, science and technology parks;

6) investment is made in innovations, knowledge economy clusters –

clusters of geographical interrelated industries and institutions of a certain sphere.

3. Taking into account the parameters set by the Government of the Republic of Lithuania or an institution authorised by it, the state may allocate funds, grant loans and give loan guarantees for investments into the restructuring of sectors of the economy, reduction of economic and social differences between separate regions of the country, job creation and mitigation of natural disaster effects.

Article 13. Promotion of Investment

1. Investment shall be promoted by the following methods:

1) the investors shall be granted tax incentives determined by appropriate tax laws.

2) personnel retraining costs shall be covered in part or fully in the manner specified by the Government of the Republic of Lithuania or an institution authorised by it;

3) Lithuanian and foreign creditors who have granted loans for the execution of investment projects

shall be given state and municipal guarantees according to the procedure established by the laws of the Republic of Lithuania;

4) the repayment to the banks of loans intended to be used by economic entities for financing the execution of investment projects may be secured by the guarantees offered by the guarantee institutions set up by the Government or the guarantees offered by insurance undertakings or by insurance of the loans;

5) investment contracts worth at least LTL 200 million and meeting the criteria set by the Government of the Republic of Lithuania, concluded with strategic investors by the Government or an institution authorised by it by 1 September 2001 shall be implemented in accordance with special terms and conditions of investment and business set in the said contracts;

6) contracts for the investment of not less than LTL 20 million and, in the districts where the unemployment level is above the national average officially announced by the Department of Statistics under the Government of the Republic of Lithuania, not less than LTL 5 million, shall be concluded with investors according to the procedure established by the Civil Code of the Republic of Lithuania by the Government of the Republic of Lithuania or an institution authorised by it, with special terms and conditions of investment and business set in the contracts,

7) contracts for investment in municipal infrastructure, production or service area, which meet the criteria set by the municipal council shall be concluded by the municipality. Special terms and conditions of investment, business or choice of a land plot shall be established in such contracts according to the competence of municipality;

8) in the cases specified by laws of the Republic of Lithuania state- owned land shall be leased to the investor without holding an auction;

9) the infrastructure shall be created (up to the boundaries of the land plot allotted to the investor) with the state/municipality resources following the procedure established by the Government of the Republic of Lithuania or an institution authorised by it.

2. Investment promotions methods shall be applied to the extent this is not in breach of the EU legislation on state aid.

Article 14. Regulation of State Investments

1. The state investment policy shall be formulated in the Republic of Lithuania Government Programme, state-supported programmes, State Investment and Government Borrowing programmes, with due regard being had to the forecasts of the development of the economy and economic-social development of the Republic of Lithuania.

2. The State Investment Programme shall be drawn up for an at least 3-year period. The Government of the Republic of Lithuania shall submit the State Investment Programme to the Seimas of the Republic of Lithuania for consideration and approval together with the Draft Law on the Approval of the Financial Indicators of the State Budget and Municipal Budgets of the appropriate year according to the procedure established by law.

3. The Government of the Republic of Lithuania shall establish the procedure for the planning, revision, use, accounting and control of state funds earmarked for state investments.

Article 15. International Agreements

1. Foreign investments in the Republic of Lithuania and investments abroad by the investors of the

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Republic of Lithuania shall also be regulated by bilateral and multilateral agreements of the Republic of Lithuania on investment promotion and protection as well as other international agreements.

2. If an international agreement ratified by the Seimas of the Republic of Lithuania establishes other terms and conditions of foreign investment in the Republic of Lithuania than those prescribed by this Law, the provisions of the international agreement shall apply.

CHAPTER FIVE

FINAL PROVISIONS

Article 16. Recognition of the Law Regulating Foreign Capital Investment as Invalid

The Law of the Republic of Lithuania on Foreign Capital Investment in the Republic of Lithuania No. I - 938 shall be recognised as invalid.