

1999 REGULAR REPORT

FROM THE COMMISSION

ON

ESTONIA'S

PROGRESS TOWARDS ACCESSION

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A. Introduction

a) Preface

In Agenda 2000 the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership and that it would submit its first report at the end of 1998. The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European candidate State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*”...“In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating candidate States' ability to meet the economic criteria and fulfil the obligations deriving from accession.”

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

This Regular Report on Estonia follows the same structure as the Commission's 1997 Opinion. It

- describes the relations between Estonia and the Union, particularly in the framework of the Association Agreement;
- analyses the situation in respect of the political conditions set by the European Council (democracy, rule of law, human rights, protection of minorities)
- assesses Estonia's situation and prospects in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- addresses the question of Estonia's capacity to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union. This part gives special attention to nuclear safety standards as underlined by the Cologne European Council.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Reports have been carried out and examines new initiatives, including those directly related to addressing Accession Partnership priorities. The report contains a separate section which

examines the extent to which Estonia has addressed the short-term priorities and started to address the medium term priorities set out in the Accession Partnership.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of Estonia's economic performance. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations at the meetings held under the auspices of the Europe Agreement, their National Programmes for the Adoption of the *Acquis*, the information provided in the context of the analytical examination of the *acquis* (screening) and in the negotiations were additional sources of information. Council deliberations and European Parliament reports and resolutions¹ have been taken into account in the preparations. The Commission also drew on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions as well as that of non-governmental organisations.

b) Relations Between the European Union and Estonia

Developments under the EU-Estonia Europe Agreement (including bilateral trade)

Estonia has continued to implement the Europe Agreement correctly and contributed to the smooth functioning of the various joint institutions.

The second meetings of the Association Council and the Association Committee were held in April and June 1999 respectively. The June 1999 was the first occasion to discuss the implementation of the Accession Partnership priorities. Since the entry into force of the Europe Agreement, all sub-committees have met at least once, and during the first half of 1999 four other meetings were held.

Since the issuing of the last Commission's Report the Joint Parliamentary Committee comprising representatives of the Estonian and European Parliament has not met due to legislative elections in Estonia and elections to the European parliament. A first meeting is foreseen for the next month of November.

Estonia's trade with the EU has continued to increase its share of total trade. By the end of April 1999, Estonian exports (except transit exports) to the EU accounted for 70% of total exports (Finland 30.7 %, Sweden 24 % and Germany 14.7 %). Imports from the EU amounted to 74.3% (Finland 47.8 %, Sweden 14.8 % and Germany 14.5%) of total imports. Estonia's main exports to the EU are machinery and electrical

¹ For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

equipment, wood and mineral products, while the most important import products are machinery and electrical equipment, agricultural products including processed foodstuffs and transport equipment.

Under the Europe Agreement an adaptation protocol, covering in particular agricultural and processed agricultural products, has entered into force to take into account the results of the Uruguay Round and the accession of Austria, Finland and Sweden to the EU.

In March 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture.

There is no specific trade problem in the relations between Estonia and the EU. An anti-dumping case against Estonian exports of hardboard to the EU was closed earlier this year. Bilateral negotiations with Estonia on a Protocol on European Conformity Assessment (PECA) started in October 1998. Due to delays in the adoption of the relevant Estonian legislation, negotiations will only resume this autumn.

Estonia has not agreed yet to a Joint assessment on medium term economic policy priorities with the Commission.

Accession Partnership/ NPAA

An Accession Partnership was adopted in March 1998. Its implementation is reviewed in section D of this Report

In May 1999, Estonia presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnership (see further part D).

Pre-Accession Aid: Phare

In 1999 Phare was the main instrument providing financial assistance to help Estonia's pre-accession strategy.

The programme is "accession-driven", concentrating support on the Accession Partnership priorities which help the candidate countries to fulfil the Copenhagen criteria. Around 30% of the Phare allocation is used for "institution building" (i.e. helping the countries to improve their capacity to implement the Union *Acquis*; see twinning below) and the remaining 70% is used for financing investments to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and to reinforce economic and social cohesion including the effects of restructuring in important sectors of the economy.

The Phare programme allocated 187M € to Estonia during the period 1992-1999.

The 1999 Phare Programme for Estonia consists of a national allocation (of 8M€), concentrated on the following priorities :

- the reinforcement of the institutional and administrative capacity of Regulatory and Surveillance Bodies and in the fields of financial services supervision (3,5M€);

- the strengthening of the co-operation in the field of Justice and Home Affairs (development of police criminalistics and forensic sciences), (2,50M€);
- social affairs (occupational safety and health) (1,2M€).
- participation in various Community Programmes including the 5th Framework Programme (0,8M€).

An additional 3M€ have been allocated in 1999 for a cross-border co-operation (CBC) programme within the Baltic Sea Region .

Estonia also participates in and benefits from Phare funded multi-country and horizontal programmes such as TAEIX, the Small and Medium-sized Enterprises programme and the Large Scale Infrastructure Facility (13M€in 1999).

Since 1990 Phare has provided support in addressing key economic transformation and structural reform issues. It has been delivered mainly in the form of technical assistance and used primarily in support of institution building and policy development. Increasingly Phare resources have also been mobilised in the form of support for investment priorities identified by the Government as essential to the fundamental restructuring of the economy over the medium term.

Overall the impact of Phare has been positive. Effective transfer of know-how and scarce equipment and financial resources has taken place in a number of important fields such as industrial restructuring and privatisation, SME development, trade and investment promotion, energy, land registration, etc. Phare support to agriculture and SME development has succeeded in developing sector strategies and initiating essential institutional and financial mechanisms servicing enterprises in these sectors.

Phare has played an important role

- in cooperation with the United Nations Development Programme (UNDP to enhance the knowledge of Estonian among non-Estonian-speaking adults and students, thereby facilitating social cohesion, strengthening national identity and increasing economic efficiency.
- by supporting the establishment of the Estonian Privatisation Agency thereby assisting in the privatisation of large companies in the railway, energy and telecommunications sectors.
- in the transport sector, by upgrading 65 kilometres of railway (value 5M€) of the main East-West railway line (Tallinn-Narva). The upgrading of this line is vital to the Estonian economy as it represents a strategic East-West link.
- To establishment a National Land Information System. The equipment for the National Land Board in Tallinn and its regional agencies was installed in the first quarter of 1999 and was complemented by the elaboration of a strategy and an implementation plan for the Land Information System.

Phare management system

The Phare management system was reformed in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. Phare assistance has been implemented on a centralised basis since it began and was gradually decentralised as of 1997. The authorities in the partner country are gradually taking over the responsibility for contracting and payment of the assistance. However the European Community's Financial Regulation requires that the Commission supervise the contracting procedure and endorse any contracts financed from Phare signed by the partner country before they go into effect. The regulation co-ordinating assistance from Phare, SAPARD and ISPA, which was approved in June 1999 will allow the Commission to move to ex post control of contracting where the Financial Control exercised by the partner country is deemed by the Commission to be sufficient. This possibility will be reviewed on a country-by-country, sector-by-sector basis and introduced gradually.

In the meantime, and in order to streamline the implementation of Phare programmes, the Commission has transferred much of the responsibility for the supervision of contracting from headquarters in Brussels to its Delegations in the Candidate Countries.

Phare implementation structures have been rationalised in Estonia to increase transparency and avoid dispersion of funds. This process increases the responsibility of the Candidate Countries by using, as far as possible, sustainable institutions and implementing agencies which will be responsible for the management and implementation of programmes financed from Community funds after membership.

Since summer 1999, a National Fund located within the Estonian Ministry of Finance is the central entity through which Phare and other EU funds will be channeled. The National Fund has overall responsibility for financial management of funds and for ensuring that Phare procurement rules, reporting and financial management are respected, and that there is proper project information system. A Central Finance and Contracting Unit has also been established within the Ministry of Finance in early 1998 to increase visibility and transparency in financial administration, accounting and payments. As regards the investment side of Phare, Estonia started to establish a limited number of Implementing Agencies which will be responsible for the implementation for specific projects.

During the period 2000-2006, pre-accession aid to the candidate countries will be more than doubled. Alongside the Phare programme, it will, as from the year 2000, comprise aid for agricultural and rural development (SAPARD) and a structural instrument (ISPA), which will give priority to measures similar to those of the cohesion fund in environment and transport.

In the years 2000-2002 total financial assistance available will amount to between 168 and 213M€ (Phare €72 million + Sapard €36 million + Ispa between €60 and 105 million)

Twinning

One of the important challenges the candidate countries are facing is the need to strengthen their administrative capacity to implement and enforce the *acquis*. The European Commission proposed to mobilise significant human and financial

resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States expertise is now being made available to the candidate countries, in particular through the long-term secondment of civil servants. The strong support and response from EU Member States has meant that twinning partnerships covering a total of 108 projects involving all candidate countries and almost all Member States are presently being implemented.

Phare funding for twinning has so far focused primarily on the priority sectors of agriculture, environment, public finance, Justice and Home Affairs and preparatory measures for the Structural Funds.

For Estonia, eight projects have so far been twinned under Phare. France, Sweden and Germany are leading three agricultural projects to support reform of the information system of the agricultural sector, modernisation of the fisheries sector, and updating of phytosanitary control systems. Two environmental twinning projects for the improvement of air and water quality will be led by Finland and Sweden respectively. Furthermore, Finland and Germany have been selected to help Estonia with the harmonisation and enforcement of legislation in the field of competition. The strengthening of the Estonian Court system will be addressed by Germany, while Ireland is leading a group of administrations from several Member States to help prepare Estonia for the management of the Structural Funds.

Twinning is foreseen for six projects under the 1999 programme and will cover a wider field including metrology and accreditation, consumer protection, patents, occupational safety and health, and police criminalistics and forensic science. For three projects, the Estonian government has already selected its partners: a modern centre for metrology and accreditation will be set up with the support of Sweden and France, and the consumer protection board will be established with the assistance of Sweden and Greece. Finland and Italy will carry out the project to develop the occupational health sector.

The negotiations/screening process

The analytical examination of the acquis (screening) has been concluded for Estonia except with regard to the agricultural acquis, which is foreseen to be held in autumn 1999.

Since the opening of accession negotiations in March 1998, Estonia has participated in two rounds of ministerial negotiations. As a result of these negotiations seven chapters have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, and consumer protection) while eight (culture and audio-visual, CFSP, company law, free movement of goods, fisheries, external relations, customs union, competition policy) remain open.

B. Criteria for membership

1. Political Criteria

Introduction

In its 1998 Regular Report on Estonia's progress towards accession, the Commission concluded that:

“Developments in Estonia confirm the conclusion of the Opinion that Estonia's institutions continue to function smoothly. However it is regrettable that the Parliament has not adopted amendments to the citizenship law to allow stateless children to become citizens. Continuing attention needs to be paid to public administration reform and the reinforcement of the judiciary, particularly to training of judges and promotion of Estonian language learning among non-citizens.”

In the 1998 Accession Partnership with Estonia measures to facilitate the naturalisation process and to better integrate non-citizens including stateless children” are mentioned as a short-term priority and measures to enhance Estonian language training for non-Estonian speakers are mentioned as short and medium-term priorities.

Recent developments

Estonia's parliamentary elections took place on 7 March 1999. The vote turnout was 56%. Of the 12 parties that had registered for the polls, only 7 received the 5% of votes necessary to gain a seat in Parliament. These results reflect a trend towards the streamlining of the political picture of Estonia, until now fragmented into many small parties.

The Centre Party won the most votes, 23.4% of the total, on a programme targeting pensioners, the unemployed and workers . It proposed the introduction of a progressive income tax. However, the party did not have enough support to form a government. Therefore, a coalition government of the Moderates, Reform and Pro-Patria parties took office. The new government has a liberal, business-oriented programme and is strongly committed to EU accession..

1.1. Democracy and the rule of law

As mentioned in the last Regular Report, Estonia has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year.

The Parliament

In December 1998, the Parliament adopted a bill forbidding election alliances and allowing mergers between parties only before elections. This decision has contributed to streamlining the political landscape in Estonian by reducing the number of parties that have attained the 5% necessary to seat in the *Riigikogu*.

The Executive

The Estonian public administration continues to suffer from an insufficient skills and a high turnover of staff. A continued commitment to public administration reform is necessary to create a body of highly qualified civil servants which can ensure the adequate implementation and enforcement of the EU *acquis*.

(An assessment of the current progress in public administration is found in chapter 4).

The Judiciary

Although a series of reforms to improve the judicial system have been undertaken, Estonia needs to undertake further adjustments to its civil and penal legislation in order to complete the transition from the former system. Progress in this area is very slow. In the fields of commercial and civil law the reform has been delayed and the necessary legislation to complete this reform has not yet been adopted. The training of judges and elaboration of new penal legislation that meets European standards continue to remain top priorities for Estonia.

Currently, the caseload of the courts continues to be high relative to the number of judges. Nineteen of the 238 positions for judges remain vacant. The backlog in the courts (cases still to be settled as the proportion of total cases) was 64% in the first half of 1999 (See chapter 4 on Administrative Capacity). The vacant posts reflect the unattractiveness of judicial salaries for qualified lawyers in contrast to those in the private sector. Most vacancies are for posts in the north-east part of Estonia. Nevertheless, salaries of judges are above the average in the public administration. Inexperienced judges continue to pose major difficulties for the judicial system. Justice in lower level courts continues to be unsatisfactory, as there are many new, inexperienced and overburdened judges. These problems affect mostly the application of civil law. Co-operation between the different authorities in the court system (police, prosecutors and judges) is weak which subsequently weakens the system's efficiency.

Measures which have been taken in this area, include the adoption of the *Code of Administrative Court Procedure* that will enter into force in January 2000 and the Statute of Prosecutor's Office. Also, some measures to intensify the training of judges have been taken.

Anti-corruption measures

A new *Anti-Corruption Act*, containing measures to prevent corruption entered into force in February 1999. The most important amendments to the new law affect the contents of the declaration of economic interests by civil servants and parliament members. These now have to be more detailed. The acceptance of bribes for failure to perform are covered by the law, as well as payments to persuade other officials. Finally, disciplinary, criminal and administrative liability have been introduced.

In spite of these legislative efforts, the fight against corruption continues to need political attention. Estonia needs to ratification both the 1997 OECD Convention on

Combating Bribery of Foreign Public Officials in International Business Transactions and the 1999 Council of Europe Criminal Law Convention on Corruption, Two remaining issues to be covered by the law are the criminal liability of legal persons and the passive corruption of foreign or international officials. Furthermore, Estonia has not yet criminalised promises accepted by public officials in favour of someone else, e.g. a political party. In 1998, the Estonian courts settled 5 cases of corruption. Currently 4 cases are being investigated. However this data does not include cases of bribery.

In June, Estonia has signed the Convention on Laundering, Search, Seizure and Confiscation of the proceeds from Crime. Ratification is underway.

1.2. Human rights and protection of minorities

As mentioned in the last regular Report, Estonia continues to respect human rights and freedoms. The following section only concentrates on subsequent major developments.

Estonia has ratified the major international conventions in the field of human rights (see annex). However, the European Social Charter has not yet been ratified and the UN Convention relating to the Status of Stateless Persons has not been signed.

Civil and political rights

Further improvement is needed in the following areas, which were already a matter of concern in the Opinion and in last year's regular Report:

- Pre-trial conditions that continue to be a problem in Estonia.
- Prison conditions which remain poor, although there have been some improvements. Lack of resources and trained staff continue to be a serious problem. Overcrowding in the Tallinn Central prison persists. The introduction of probation has slightly alleviated the problem of overcrowded prisons, 549 inmates being paroled by the end of 1998. The multi-year plan to refurbish and restructure the country's prisons and to close the Tallinn Central prison has been adopted but its implementation has not yet started.

Economic, social and cultural rights

As regards the situation and role of women, overall women's educational levels are higher than men's. However, and despite the legislative framework that guarantees equal rights and opportunities, women's pay remains considerably lower.

The Act on Social Benefits for Disabled People has been adopted. Furthermore, several projects aimed at organising a network of preventive social services for people who encounter difficulties coping with the market economy are being implemented.

Restrictions to the acquisition of real state by non-residents, which is subject to a special permission by county governors, still exist in Estonia. However, in practise very few requests are refused. In special areas such as islands and border areas,

purchase of land is forbidden to non-citizens for security reasons (see section on free movement of capital).

Minority rights and the protection of minorities

Ethnic non-Estonians constitute² 35% (around half a million people) of Estonia's total population (1,450,000). Twenty-eight percent of the total population (400,000) is of Russian origin.

The naturalisation procedure

As recommended by the Commission's 1998 Regular Report, the Estonian parliament adopted amendments to the Citizenship Law on stateless children on 8 December 1998. These amendments will grant Estonian citizenship to children of non-citizens, born in Estonia after the 26 February 1992, upon their parents' request. This measure entered into force on 12 July and could immediately affect around 6,000 children as well as an estimated 1,500 per year in the future. However, so far applications for only 34 children have been submitted. No decisions have yet been taken.

108,000 non-Estonians have been granted Estonian citizenship since the Citizenship Law entered into force in 1992. Since the 1 August 1998, 7,946 persons have received citizenship as compared to 9,762 between June 1997 and October 1998. Bureaucratic delays and the Estonian language requirement continue to be cited as the main disincentives for securing citizenship.

Residence permits and special passports for non-citizens

Around 34,000 non-citizens have been granted permanent residence permits, out of the nearly 130,000 that have requested them. This represents 27% of all applications. Around 30,000 non-citizens are estimated to be illegal. In August 1999, 4,754 illegal residents had actually filed applications for residence since the government's registration campaign started in July 1997. This compared with 3,784 in August 1998. The largest number of illegal residents have been registered in the Tallinn region and in the north-east of Estonia.

In August 1999, The government adopted a decree introducing minimum income requirements for persons applying for Estonia residence permits. Henceforth, foreign subjects applying for a residence permit can only obtain one if their total income over the previous six months equals three times the average half yearly Estonian wage (€1,850). A minimum income level was also introduced for persons who wish to exchange a temporary residence permit for a permanent residence permit and for family reunification (children, parents and spouses of people legally residing in Estonia). The decree introduces an important obstacle for illegal residents to regularise their situation.

Following an amendment in the Alien's Law that will enter into force on 1 October, the immigration quota will not be applied for those stateless persons who settled in Estonia prior to 1 July 1990 and have not since left the country.

² In 1998 (OSCE data)

Integration of minorities

The rights of the Russian-speaking minority (with or without Estonian nationality) continue to be largely observed and safeguarded. Russian continues to be widely used in the courts and in the administration in those areas where Russian speakers represent a majority of the local population. However, non-citizens are still subject to some restrictions such as the right to sit on the boards of state-owned companies, to belong to a political party and to be employed in certain areas of the public administration.

On 2 March 1999, the Government adopted a document “Integration of non-Estonians into Estonian Society: Government Action Plan”, which builds on the integration strategy adopted in 1998 and mandates the Integration Foundation with the task of elaborating a state integration programme for the period 2000-2007. In 1999, the state budget allocated €370,000 to activities connected with integration and language training. Furthermore, in September 1999, the government decided to open a representation of the Ministry of Ethnic Affairs in the north-east of Estonia.

In June 1999 the Law on Local Council Elections was amended in order to allow for non-citizens legally resident in Estonia to vote in the local elections. For the local elections on 17 October 1999, this amendment will affect 220,000 people.

Language Legislation

Language training is one of the main instruments for the integration of ethnic minorities into Estonian society. Currently, 36% of the population has a first language other than Estonian. The Phare programme continues to provide important support in this area.

In February 1999 an agreement was signed between the Ministry of Education and the Integration Foundation for the implementation of national integration policies. The Ministry's role covers: the development of a methodology for teaching Estonian as a second language, further training for teachers, intensive Estonian language training in vocational and higher education institutions, teaching materials, language training camps and youth work. Furthermore, 17 new official language teachers (18 in 1998) out of a total of 50 were appointed. Progress in this area is handicapped by lack of financial resources.

In December 1998, The *Riigikogu* adopted amendments to the *Parliamentary and Local Elections Law*. These amendments require candidates for parliamentary and local elections to have a sufficient level of Estonian. Estonian authorities claim that these amendments do not change the "status quo" and do not imply the introduction of discriminatory restrictions for non-Estonian speakers. The amendments entered into force on 1 May 1999.

The *Riigikogu* also adopted a set of amendments to the 1995 Language Law, which entered into force in July 1999. An attempt to amend this law in 1997 was declared unconstitutional by the Supreme Court due to the high degree of discretion the proposed amendments would give to the government. The amendments distinguish and regulate the use of Estonian in the private and public sectors.

The concerns raised by the adoption of this law go beyond the non-compliance by Estonia of the political criteria for membership on minorities issues and could conflict between the law and the obligations of Estonia under the Europe Agreement, in particular in the fields of free movement of persons, right of establishment, supply of services, capital movements and award of public contracts (Title IV and V of the EA). In this context, the provisions added to the 1995 Language Law are likely to have a negative impact on the establishment and operation of Community companies and of self-employed Community nationals in the territory of Estonia. In addition, it may also constitute a restriction to entry into and temporary presence in the territory of Estonia of Community nationals. The imposition of linguistic knowledge requirements may not only deter Community companies from exercising their right of establishment in Estonia but also force them to reduce the scale of business operations in the country.

The most controversial provision of the amendments to the law is that the employees of business associations, NGOs and foundations and physical persons as entrepreneurs (self-employed) must use the Estonian language for offering goods and services while performing their work. The Estonian language requirements will not be applied to those foreign experts who have arrived in Estonia on the basis of a work permit for a period of up to a year.

Much of the impact of the law will depend on how it is implemented and the capacity of the Estonian authorities to enforce it. The Estonian government has adopted a decree implementing the law in the public sector (which also regulates the use of Estonian for medical personnel, psychologists and pharmacists) and is preparing another decree applicable to the private sector. An examination of the draft decree by the Commission indicates that the draft texts envisaged so far, suffer from a lack of precision in the definition of professions and that the language requirements are unjustified in relation to the stated objectives, thus constituting a possible restriction in the application of the Europe Agreement. The application of the law in the public sector could have considerable impact in some groups of public workers such as prison officials, of which around 40% are non-Estonian citizens and have a relatively low command of the Estonian language. Another example of the difficulties that can arise in the application and interpretation of requirements by the law is the ban, by the National Language Board, of electoral posters and signs not exclusively in Estonian. This issue is currently being dealt with by the Estonian Courts.

The OSCE High Commissioner for Minorities has also pointed out that the current text contradicts a number of international standards as regards freedom of expression, in particular those introduced by the European Convention on Human Rights, of which Estonia is a contracting party.

Ombudsman

On 26 February 1999, the Estonian Parliament adopted amendments to the Legal Chancellor Law in order to extend the functions of the latter to those of an ombudsman. The new law entered into force on 1 June 1999 and its functioning will be reviewed.

1.3 General Evaluation

Estonia fulfils the Copenhagen political criteria. However, the adoption of the Language law, which restricts access of non-Estonian speakers in political and economic life constitutes a step backwards and should be amended. In the meantime, the Commission will closely monitor the implementation of the law to see what impact it will have in practice. Attention needs to be paid to the fight against corruption.

2. Economic criteria

2.1 Introduction

In its 1997 Opinion on Estonia's application for EU membership, the Commission concluded:

“Estonia can be regarded as a functioning market economy”; it “should be able to make the progress necessary to cope with competitive pressures and market forces within the Union in the medium term”.

This finding was strengthened in the 1998 Regular Report, where the Commission noted that “Estonia has improved its competitiveness”.

In examining the economic developments in Estonia since the Opinion, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the Opinion and the 1998 Regular Report.

2.2 Economic developments

After high growth in economic activity, the Estonian economy has experienced a sharp slowdown since the second half of 1998. While this decline has led to an increase in unemployment and has swung the budget into deficit, macroeconomic stability has been preserved. However, the slowdown has revealed some underlying structural weaknesses of the economy. This has reinforced the need to accelerate reforms, many of which had been delayed in the run up to the general elections of March 1999.

Macroeconomic developments

Since mid-1998, the economy has experienced a very rapid fall in activity. While real GDP grew by 4% in 1998, growth in the second half of the year was only 0.6%. In fact, real GDP has fallen continuously since the last quarter of 1998. The sharp decline in activity has been caused by the fall in external demand due to the Russian crisis, as well as by the restrictive policy measures taken in 1997 and 1998. Domestic demand, and in particular private investment, also weakened considerably as a result of slower credit growth, higher interest rates and lower business confidence.

The labour market has been affected by the decline in growth. Companies in the sectors worst affected by the slowdown have reduced employment in line with the level of demand. As a result, registered unemployment increased by a third between October and August 1999, representing 5% of the labour force. While the unemployment rate measured according to ILO methodology has not been published

since the second half of 1998, it is traditionally much higher than the registered unemployment.

The Russian crisis has had a very important impact on economic activity. Exports to Russia (excluding transit trade) fell by more than 10% in 1998. In July 1999, they represented only half of the level reached in July of the previous year. After the very fast expansion of foreign trade in 1997 and early 1998, the year-on-year growth of exports and imports became negative in 1999, due to the fall of exports to the eastern markets and the reduction in domestic demand. In the first seven months of the year, exports and imports were 10% and 17% lower than in the same period of 1998, respectively.

The sharper drop in imports led to a reduction in external imbalances. In 1998, the current account deficit fell from 12.1% of GDP in 1997 to 9.2%. In 1999, the decline of both the current account and trade deficits has continued; in the first half, the current account deficit amounted to less than 7% of GDP.

In 1998 and 1999, Estonia has continued to attract high foreign direct investments inflows. However, there were also instances of large capital outflows. Combined with more active management of liquidity by banks and deposits to the Stabilisation Reserves Fund (SRF), this has led to the stabilisation of the country's foreign exchange reserves. Net repayment of external loans and repatriation of foreign assets led to a fall of the external debt of Estonian residents from the level of June 1998. In particular, the external debt of the general government declined to 4.5% and 1% of GDP at the end of March 1999, on a gross and net basis, respectively.

Inflation has slowed down considerably. In September 1998, consumer prices were increasing at an annual rate of 6.6%; in August 1999, they grew by only 2.6%, while producer, export and import prices were declining. The main factors behind this trend have been falling commodity prices on world markets and weak domestic demand. Also, the loss of export markets has led some local producers, in particular in the food industry, to reduce prices on the domestic market in an effort to increase sales. The remaining inflation is now accounted for by the increase in the prices of services and administratively controlled items.

The financial crisis on international emerging markets had clear, albeit relatively short-lived, consequences on credit conditions. In the autumn of 1998, local banks faced difficulties in refinancing foreign credits. The reduction in debt-creating capital inflows to banks led to a tightening of liquidity, forcing banks to be much more prudent in extending credit. In early 1999, the low level of activity and shattered business confidence reduced demand for credit. As a result, the growth of domestic credit to the non government sector fell from 82.7% in December 1997 to 27.6% in September 1998. It actually fell by 3.1% in July 1999. Interbank interest rates evolved in line with banks' liquidity position: the three-month Tallinn Interbank Offered Rate increased up until November 1998, when it reached 18.7%, and then fell to 6.3% at the end of August 1999. However, the average interest rates on foreign currency loans have not fallen as rapidly.

Lower economic activity has had a negative impact on fiscal revenues: as a result, the general government accounts swung from a surplus of 2.2% of GDP at the end of

June 1998 to a deficit of 0.2 % of GDP for 1998. The 1999 draft budget was elaborated before the full extent of the slowdown became known and in a pre-election period. It provided for a nominal increase of 21% of the State budget expenditures. The deficit increased even further in 1999, reaching 3.1% of GDP in the first half. The failure to change the economic assumptions of the draft 1999 budget at the end of 1998 explains partly the extent of the deterioration of the public accounts.

After the elections, the new government prepared a supplementary budget, which cut expenditures (in particular related to investments and administrative costs) by about 1.2% of GDP and aimed to reduce the deficit to about 2-3% of GDP at the end of 1999. This budget was adopted by Parliament in June 1999. As for the budget for the year 2000, the authorities are aiming to reach the equilibrium. Despite the more difficult fiscal situation, the authorities have continued to increase the amounts transferred to the Stabilisation Reserves Fund (notably a large share of the proceeds earned from the privatisation process), which amounted to about 3.5% of GDP at the end of June 1999. At the end of the summer of 1999, they have repatriated a small amount of these reserves, which are invested in overseas accounts, to fund the increased budget deficit.

Main Economic Trends						
Estonia	1995	1996	1997	1998	1999 latest	
Real GDP growth rate	4.3	3.9	10.6	4.0	-3.9	Jan-Jun

Inflation rate							
- annual average	per cent	29.0	23.1	11.2	8.2 ³	3.4	Jan-Aug
- December-on-December	per cent	28.8	14.9	12.4	4.3	2.6	Aug
Unemployment rate, end-year							
- ILO definition	per cent	9.7	10.0	9.7	:	:	
- registered unemployment	per cent	4.1	4.3	3.6	4.0	5.0	Jul
General government budget balance	per cent of GDP	-0.9	-1.6	2.6	-0.2	-8.5	Jan-Mar
Current account balance	per cent of GDP	-4.4	-9.2	-12.1	-9.2	-7.1	Jan-Mar
	million ECU/€	-122	-319	-499	-428	-126	Jan-Jun
Foreign debt ⁴							
- debt export ratio	per cent	-	-	73	66	74	Jun
	per cent	:	:	29	43	:	
- gross foreign debt	billion ECU/€	-	-	2.3	2.5	2.7	Jun
	billion ECU/€	:	:	1.0	1.7	:	
Foreign direct investment net inflow							
- according to EBRD	per cent of GDP	5.6	2.5	2.8	11.0	:	
- balance of payments data	million ECU/€	156	86	113	511	155	Jan-Jun

Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics, EBRD.

Structural reforms

Since mid-1998, Estonia has experienced more difficulties in designing and implementing key structural reforms. Because most of the 'first generation' structural reforms (including trade, price, exchange rate liberalisation, privatisation, and a setting up a good legal basis for the functioning of a market economy) were largely implemented by 1996, only the thorniest reforms remain to be implemented.

In the field of privatisation, only a small number of large industrial and infrastructure companies remains to be sold. In February 1999, the government sold with remarkable success a 24% stake in the national telecommunication company through an international stock offering. It also sold two small electric distribution networks and several divisions (maintenance, passenger transport and Tallinn suburban railways) of the railways company, which had been spun-off from their parent companies. However, the privatisation of the oil shale mining, power generation and railways freight companies has been repeatedly delayed.

The crisis in Russia and the fall of oil prices, combined with other structural factors such as the decline in electricity consumption, have exposed the weaknesses of the oil shale-based industrial sector, characterised by under-capitalisation, outdated

³ See methodological note on inflation rate in statistical annex.

⁴ The first row is taken from national sources. The data in the second row are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

production technologies and high pollution. Some mines are not profitable under current or foreseeable economic conditions. Discussions on a restructuring plan for the sector have been going on for three years, delaying the adoption of concrete measures. The government decided to form a new company that will control the oil shale mining company and the two large electric power plants. It is envisaged that a large stake in this new company will be sold to a strategic investor before the end of 1999. One underground mine was closed in 1999 and a decision to close a second was taken in July. Other sectors such as food and chemicals were also affected by the Russian crisis.

The new budget law, which was adopted at the end of June 1999, includes important new features, such as the requirement to establish a three-year economic scenario with detailed evolution of expenditures and revenues. However, no legislation has been introduced yet on the statute, mandate, composition and control of the Stabilisation Reserves Fund. The delay in adopting clear rules allowed the government to use the proceeds of the partial privatisation of the telecommunication company to finance the budget deficit and replenish its cash reserves in early 1999. In the context of the preparation of the public budget for the year 2000, the authorities have announced a major change in tax policy. They intend to simultaneously abolish corporate income tax on reinvested profits and increase import tariffs on a selected number of countries and items.

In 1997, the authorities chose to reform social security by introducing a three-pillar system. Important steps were taken in early 1998, but since then progress has stalled. In July 1999, the authorities announced some of the details linked to the introduction of the second pillar (mandatory and fully funded). In spring 1999, the first pension fund under the third pillar (fully funded and voluntary) was granted its licence and started to collect funds. Despite favourable tax treatment, the level of contributions has been modest.

Reforms in the financial sector have continued. The rapid pace of restructuring and consolidation led to a drastic cut in the number of banks. Leading Scandinavian investors took controlling stakes in the two largest Estonian banking groups. In 1999, two small banks were declared bankrupt. In addition, the central bank has started negotiations to sell the majority stake that it had acquired in the third largest bank in October 1998, in an effort to prevent a systemic crisis at the height of the turbulence on local and international financial markets.

The regulatory framework of the financial sector was strengthened, notably by the creation of the deposit insurance fund in October 1998, which was put to the test immediately following the bankruptcies of small banks. The central bank and the government agreed to create a unified regulatory agency for the financial sector, through the merger of the existing banking, insurance and securities supervisory bodies. However, it has not been possible yet to reach agreement on the nature and control of the new unified agency.

Progress, from a low base, has also been made in the area of land reform. Following changes in legislation in 1996, 1997 and again in early 1999, the pace of titling and privatisation has increased significantly, from a low level. At the end of May 1999, about half of the total land of the country was put in the cadastre, while the share of

registered private land grew from about 15% at the end of 1997 to 25% at the end of May 1999.

Main Indicators of Economic Structure in 1998		
Population (average)	thousand	1450
GDP per head	PPS-€ per cent of EU average	7300 37
Share of agriculture 5 in:		
- gross value added	per cent	6.2
- employment	per cent	9.4 ⁶
Investment-to-GDP ratio	per cent	29.1
Gross foreign debt/GDP	per cent	36.8
Exports of goods & services/GDP	per cent	79.8
Stock of foreign direct investment, according to EBRD	billion € €/per head	1.2 817
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD</i>		

Overall, Estonia has made further progress on structural issues, particularly in the financial sector and fiscal reforms. Privatisation has continued, albeit at a slower pace due to the significant achievements made in previous years. However, restructuring of the oil-shale mining and electricity generation sectors has not advanced much, while the Russian crisis has exposed the weaknesses of some industries, notably in food- and fish-processing.

5 Agriculture, hunting, forestry and fishing.

2.3 Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. The performance of a market economy is enhanced by macroeconomic stability and consensus about economic policy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

The new government has reaffirmed its commitment to the principles of the market economy. It has decided to repeal the increase in excise taxes for vehicles and reduce the number of tax free zones created by the previous government. The authorities have started work on a new medium term economic strategy, which will serve as the basis for a Joint Assessment of economic policy priorities with the Commission.

Estonia continues to have a very liberal external trade and payments regime. In 1999, it successfully concluded accession negotiations with the WTO and it will become a WTO member in October, after parliamentary ratification and the adoption of several legislative decisions. It has also signed free trade agreements with Hungary and Poland which, pending their official entry into force, have been applied provisionally since the beginning of 1999. In the face of severe economic difficulties in some sectors, the authorities have not introduced protective tariffs, but will introduce them on a selected number of items as of 1 January 2000.

Further progress has been made in the field of price liberalisation. The share of administered prices in the consumer basket amounted to about 20% in mid 1999, and mainly concern the natural monopolies (water, sewage, electricity, and thermal energy). In addition, the government's tax policy has an important influence on the price of other products (notably tobacco and alcohol).

Privatisation is almost complete. All small and medium sized enterprises are privately owned, while only a very small number of large companies and one bank remain to be privatised. At this stage, it is envisaged that only the Port of Tallinn, the Airport of Tallinn, and some utilities (including water and sewage companies) will remain in public ownership, although minority stakes might be sold to private investors. The private sector generates more than 70% of Estonia's gross domestic product.

Macroeconomic stability has improved in recent months. The simultaneous reduction in the external imbalances, inflation and public external debt has been important to preserve markets' confidence. However, strict control of public expenditures, underpinned by social security reform, is crucial if spending pressures stemming from the need to strengthen public administration, carry out key investments in infrastructure and remaining structural reforms are not to endanger the medium term fiscal position. The proceeds from privatisation should be used to fund investment and not current expenditure. In addition, there is a need for continuing careful demand management in order to avoid that the likely acceleration of domestic demand from its current depressed level translates into a new rapid growth of the current account deficit.

Since mid-1998, the new competition Law and the Deposit Insurance Fund scheme entered into force. Except in a few well-defined areas, there are no significant barriers to entry on the market. In fact, the number of new private limited companies entered in the commercial register has increased by more than a quarter between early October 1998 and early August 1999. Also, the very liberal trade regime provides for strong competition from foreign producers. Similarly, bankruptcy legislation is properly enforced and bankruptcy proceedings have usually gone smoothly. In the wake of the Russian crisis, many enterprises, for example in the food, banking and chemical sectors, have been declared bankrupt. Overall, courts issued 184 bankruptcy orders against corporate entities and individuals in 1998, compared with 164 in 1997 and 170 in 1996.

The number of financial institutions (banks, insurance companies, brokerage houses) has declined dramatically through mergers and bankruptcies. In this difficult context, the confidence of the general public in the financial sector has been preserved and the momentum towards increased financial deepening has not been lost. The share of domestic credit increased from 29.8% of GDP at the end of 1997 to 32.3% at the end of 1998, but fell to 30.2% at the end of March 1999.

Following large losses recorded in 1998, the largest banks achieved positive financial results in the first quarter of 1999. The decision of the Bank of Estonia to start to remunerate their mandatory reserves will also improve their profitability. The high degree of capitalisation (17% of total risk-weighted assets at the end of August, compared to the official requirement of 10%) and the longer-term structure of banks' liabilities also reflect the increased strength of the banking sector. The restructuring and consolidation of the banking sector are positive indications that it is in a good position to play its role as intermediary between savers and investors.

However, some sectors continue to face difficulties in the access to finance. This is particularly true for agriculture (notably in the wake of the collapse of the Land Bank in June 1998) and for small enterprises. The main difficulties encountered are the high interest rates on bank loans and the availability of collateral acceptable to financial institutions. In addition, the capital market remains small and immature. Its capitalisation, both in absolute amounts and as a share of GDP, declined in 1998. The regulatory framework of the financial sector needs to be strengthened further, in particular by continuing to strengthen supervisory agencies and implementing rapidly the plan for consolidating the banking, insurance and securities supervisory agencies, while ensuring the high quality and independence of supervision.

Except for the agricultural sector, the land and real estate markets are functioning satisfactorily. The absence of a functioning market for agricultural land is one of the reasons why the decline of agricultural activity is continuing (agriculture accounted for 4.3% and 3.7% of gross value added in 1997 and 1998, respectively), despite the increased direct support granted to farmers. In addition, relative timid restructuring in previous years has exposed most of the food sector to the negative consequences of the Russian crisis.

Estonia is a functioning market economy where market forces play their full role. Estonia's legal, institutional and regulatory framework is largely in place while its

open trade and capital movements policy, combined with a large private sector, has provided strong incentives for the development of economic activity. Nevertheless, there is a need to complete the regulatory framework, manage public expenditures carefully, keep the current account under control, continue with land privatisation, and improve access to market-based credit for agriculture and small and medium-sized enterprises.

The capacity to cope with competitive pressure and market forces within the Union

As set out in Agenda 2000, Estonia's ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Evidence of this is provided by both the volume and the range of products traded with EU Member States.

Estonia's well-established market economy continues to provide a sound basis for ensuring the modernisation of the supply side. In addition, because internal and external shocks cannot be accommodated by changes in monetary and exchange rate policies under the currency board arrangement, they are rapidly transmitted to the economy. As a result, it has achieved a high degree of structural flexibility. The adjustment of the labour and products markets, in the wake of the Russian crisis, offers evidence in this respect. In a number of sectors, average nominal wages in the fourth quarter of 1998 fell on a quarterly and yearly basis; for example, average wages in the fishing industry fell by about a third in the fourth quarter compared to the second quarter. For the whole economy, the growth of average gross wages fell from 19.4% in the first quarter of 1998 to 9% in the fourth quarter of 1999, while real wages growth fell from 7.6% in 1997 to 6% in 1998.

In line with the slower growth of domestic demand, the growth of investment has fallen in late 1998 and early 1999. Many companies with strong trade links with Russia and other eastern markets have cancelled, or put on hold, their investment plans. The higher level of nominal and real interest rates, as well as the more cautious lending behaviour of banks, has also deterred some investments. However, as a ratio to GDP, fixed investment has remained at a high level (29.1% of GDP in 1998, compared to 27.9% in 1997).

The increase in foreign direct investment inflows that has been recorded since June 1998 has been impressive. Gross foreign direct investment inflows have reached 11% of GDP in 1998; in the first half of 1999, they were at about the same level as in the same period of the previous year. The vast majority of foreign direct investment comes from EU countries. In 1998, it was concentrated in the financial sector. As a result, foreign capital controlled about two-thirds of the total capital of the banking sector at the end of 1998.

Trade integration has also progressed: exports and imports of goods and services accounted for 171% of GDP at the end of 1998, making Estonia one of the world's most open economies. The EU has improved its position as the country's main trade partner, accounting for 70% and 74.3% of exports and imports, respectively, at the end of June 1999. Despite the Russian crisis and the slowdown of growth in the EU, exports from Estonia to the EU have grown by 29.5% in 1998 compared to 1997 and by 9% in the first half of 1999. These trends reflect a continuous improvement in price and non-price competitiveness. Indeed, average unit labour costs in a number of key industrial and services sectors, like electrical machinery, wood processing, financial intermediation, and hotels and restaurants have fallen compared to 1995, as a result of fast productivity growth.

The product composition of trade has continued to change. Excluding transit trade, machinery now accounts for the largest share of total trade. Estonia continues to enjoy a strong competitive advantage in a number of industries (textiles; machinery, including electronics) where it imports goods for processing and re-export. This part of trade has strongly increased in 1998 and 1999, accounting for about a third of the total. Exports of wood and wood products have also continued to grow at a brisk pace, reflecting large investments in the sector. On the other hand, exports of food, mineral and chemical products declined further in relative terms, reflecting both a strong dependency to the eastern markets and structural weaknesses.

Estonia has continued to maintain a competitive position in the field of services, in particular transport and tourism. Despite the economic slow down, the activity of the Port of Tallinn increased significantly in the first half of 1999. The country attracts an increasing number of tourists, who come from a larger number of countries and stay longer. In 1998, tourism receipts increased by almost 15% and were equivalent to a fifth of the exports of goods. However, average spending per tourist fell sharply in the first quarter of 1999.

A particular challenge for coming years will be to manage the industrial restructuring of the industries located in the north-eastern region. Some of these industries are still characterised by low efficiency, which is weighting negatively on the country's overall level of productivity. The partial privatisation of the company controlling the oil-shale mines and power plants should be conducted in a transparent manner. The restructuring process will inevitably lead to redundancies of skilled labour. Public investment has a key role to play in fostering the right conditions for the creation of private jobs in the region, in particular in small and medium-sized enterprises. So far, small and medium-sized enterprises have not developed well in this region, due to an insufficient access to credit, and the difficulties of readapting the workforce to alternative activities.

Almost 99% of enterprises in Estonia are small and medium sized. The share of small and medium-sized enterprises is largest in wholesale and retail activities and in construction, while larger enterprises are still dominant in industry, energy production and fishing. Around 60% of the workforce are employed in small and medium-sized enterprises, compared to 55% in 1996. Small and medium-sized enterprises are the main source of new jobs. The authorities recognise their potential as an engine for

growth and employment, and are drawing up a strategy for small and medium-size enterprise development.

Estonia should be able to cope with competitive pressures and market forces within the Union in the medium term. Lower inflation and unit labour costs, combined with a transparent and predictable regulatory environment and large foreign direct investment inflows, have sustained the overall competitiveness of the economy. However, the Russian crisis has revealed weaknesses, including a low level of productivity and insufficient non-price competitiveness in some sectors. It is crucial to ensure a continuing rapid increase in productivity, notably through restructuring of the oil shale and food sectors and maintaining the high level of investment.

2.4 General evaluation

Estonia is a functioning market economy where market forces play their full role. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided it completes the remaining key structural reforms.

Macroeconomic stabilisation has improved. The previous large external imbalances have been curbed and the increase in the external debt has been halted. While the budget deficit increased sharply, corrective measures have been taken to reduce it. The restructuring and consolidation of the financial sector have advanced, while the country has continued to attract high levels of foreign direct investments. Despite the slowdown of the EU economy, Estonia has continued to increase its exports to the European Union.

Priority should now be given to the implementation of the remaining structural reforms, in particular the transparent restructuring of the oil-shale sector, the finalisation of the pension and health reforms and the strengthening of the supervision of the financial sector. The pace of land privatisation should be accelerated, notably in order to encourage the development of agriculture. Investment in infrastructure and the development of the skills of the labour force should be continued so as to sustain the long-term growth of productivity and attract foreign direct investment. Strict control of public expenditures over the medium term is necessary in order to reap the full benefits of the proposed reforms in tax policy, public administration and the health sector.

3. Ability to assume the obligations of membership

This section aims to update the Commission's Regular Report of 1998 on Estonia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives.

In the 1998 Regular Report on Estonia's progress towards accession, the Commission concluded that :

"Estonia has made general progress in the approximation process, although increased attention needs to be paid to the enforcement of internal market legislation (in particular intellectual property, standards and certification and state aids) and to the preparation of a strategy to introduce customs duties and the corresponding administration. Estonia has taken important steps to put legislation in place in the justice and home affairs area and is taking steps to ensure its effective implementation.

Estonia has addressed aspects of all the short term Accession Partnership priorities, although efforts related to the internal market, in particular establishing a credible system of state aid control, need to be enhanced."

The presentation which follows uses the same structure as the 1998 Regular Report. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

3.1 Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

Existing legislation in the area of *public procurement*, is broadly in line with the *acquis*. The procurement market is open to European companies. The enforcement and the remedies system appeal procedures are broadly in line with EC requirements. No new legislation has been adopted in this area. The remaining elements of the *acquis* to be implemented in Estonia's legislation concern: scope, procurement procedures, qualification of tenders and the definition of contracting authorities and technical specifications. Also, the Public Procurement Act needs to be amended to

cover the whole utilities sector as defined by EC legislation. No major problems can be identified as regards implementation of legislation in this area (see chapter on Administrative Capacity).

As regards *intellectual property*, Estonia's legislation is not fully in compliance with the *acquis*. It has made some progress in the strengthening of its legislative framework with the adoption the Copyright Act, the Code of Administrative Offences, the Criminal Code, the Consumer Protection Act and the Customs Act Amendment Act. These legal acts provide measures to fight piracy and form the legislative basis for preventing the circulation of counterfeit goods. The most important change regarding enforcement are the amendments to the Customs Act, which provide for the customs authorities, in case of counterfeit and piracy, to seizure "ex officio" of pirated goods. Furthermore, the Copyright Act has been amended in order to incorporate the provisions of the Bern Convention for the Protection of Literary and Artistic Works. The Layout-Design of Integrated Circuits Protection Act has also been adopted. A government regulation provides for the establishment of the Permanent Copyright Committee in the Ministry of Culture. The Committee will act as an implementing agency.

On *industrial property*, the Patent Act has been amended in order to comply with the TRIPs agreement. The government has also adopted the Statutes of the Patent Register, which allow for the implementation of the Patent Act. In November 1998 the Madrid Protocol entered into force in Estonia. To implement these new rules the government has also adopted regulations in the field of trademarks. Estonia has been invited to become a member of the European Patent Convention from 1 July 2002. Further efforts have to be made concerning enforcement of industrial property rights. Estonia has requested, in the framework of accession negotiations, special arrangements as regards the recognition of trademarks registered in Estonia before accession.

Concerning *data protection*, legislation in this field is not yet fully in compliance with the *acquis*. The main new development has been the establishment of an independent supervisory authority at the beginning of 1999. Estonia has not signed yet the European Convention on Data Protection.

In relation to *company law*, Estonia's legislation is broadly in compliance with the *acquis*. No major developments have taken place. However, particular attention will have to be given to the implementation of the Language Law in this area, and in particular as regards freedom of establishment (see Free movement of persons). As regards *accounting*, the *Auditing Act* was adopted in February 1999. It lays down the requirements for approval of persons carrying out statutory audits as well as the legal framework for an auditor's professional activities. It also sets the basic principles for the Institute of Authorised Auditors.

The four freedoms

In its Opinion, the Commission indicated that Estonia had made significant progress with the alignment of its legislation with Community rules in most of the areas covered by this chapter. Legislation had been adopted in full or in part to implement

most of the measures, as assessed by the Estonian authorities, although the Commission could not express at that stage, a position on its total compatibility with Community law. However, considerable efforts were still needed in the area of financial services.

The assessment in the 1998 Regular Report focused on the need of further progress in legislative alignment in the *New Approach* area and the capacity of Estonia to meet the internal market *acquis* in the medium-term. This assumed current efforts would be continued and greater attention dedicated to ensuring an effective implementation and enforcement of the legislation.

Free movement of goods

Adoption of legislation implementing the basic principles of the *New Approach* on standardisation, conformity assessment, accreditation and market surveillance, has slowed down mainly due to resource constraints.

The Technical Norms and Standards Act, adopted in April 1999 is the main legislative framework for adopting standards and establishing the institutional organisation of standardisation. It abolishes the obligation of translating standards into Estonian, which should speed up the implementation of European standards. Since October 1998, 24 European standards have been implemented. Overall only 78 out of approximately 7000 European standards have so far been adopted. No clear strategy on how to speed up and to structure the process has been yet provided.

The Product Conformity Assessment Act is not yet in compliance with the EC *New Approach* principles. The drafting of amendments to this law is considerably delayed. A new Metrology Act entered into force in January 1999 establishing an independent accreditation body, the Estonian Accreditation Agency, which will start operating on 1 July 1999. However, it does not provide a comprehensive legal base for accreditation as intended. As a consequence, full membership in European Accreditation has been denied. This act also needs to be further amended in order to adequately address its aim at covering old and new approach directives.

As regards sector specific legislation related to areas covered by the new approach, progress has been uneven. The Safety of Pressure and Lifting Equipment Act not only transposes the EC directives on lifts and pressure equipment but sets out the new structure for market surveillance in regard of the Technical Inspectorate. The Electrical Safety Act is in force since May 1999 but it is not fully in compliance with the *acquis*. Legislation on recreational crafts is broadly in line with the *acquis*. No legislative progress has been made in the gas cylinders, machinery, toys and medical devices sectors.

Concerning implementation of sector specific legislation related to areas covered by the old approach, significant progress has been made in the field of foodstuffs. An amendment to the Food Act aligned the control principles and hygiene requirements with those of the EU. Several Government regulations were also adopted for further alignment in the areas of labelling, flavourings, purity requirements and methods of analysis as well as contaminating substances. In the field of pharmaceuticals, government regulations have been adopted to implement the EU Transparency Directive for reimbursement, the EU principles on distribution and the classification

rules. In the field of chemicals, significant progress has been achieved with the adoption of several regulations implementing the Chemical Act, which clarify procedures and responsibilities in substances registration, labelling and notification as well as on the list of dangerous substances. Further progress has also been achieved in the fields of fertilisers, pyrotechnical goods, cosmetics and footwear. No significant progress has taken place in the motor vehicles sector.

(Regarding product safety, see section on consumer protection)

Free movement of capital

The liberalisation process in Estonia is well advanced with only a few restrictions remaining. These relate mainly to the acquisition of real estate by non-residents, which are subject to special permission to be granted by county governors. In special areas such as islands and border areas, purchase of land is forbidden to non-citizens for security reasons. Minor restrictions still exist to Foreign Direct Investment in certain strategic sectors. However, some of them have been removed by the new Insurance Act, which removes certain restrictions on institutional investors not justified on prudential grounds, and the new Aviation Act which abolishes the majority national ownership requirement.

Estonia has requested a special arrangement in this chapter, in the framework of accession negotiations, as regards the date applicable for the standstill clause for preserving special restrictions towards third countries on free movement of capital.

Free movement of services

Estonia has adopted the *acquis* almost completely in the *banking* field. Further steps have been taken to align legislation with the *acquis*. The new *Credit Institutions Act*, adopted in February 1999, harmonises almost fully the Estonian legislation with the banking directives on Capital Adequacy for Market Risks. However, rules on bilateral netting and commodity risks are not in compliance with EC law.

A new law transposing the Money Laundering Directive, adopted in November 1998, has entered into force. In order to implement the sanctions established in the Act, amendments have been made to the Criminal Code and the Administrative Offences Act (see chapter 4 on Administrative Capacity).

Estonia has adopted almost the complete *acquis* in the *insurance* field. Progress has continued in the approximation of the European Insurance Directives. The investments rules established by the European Directives have been transposed by the Insurance Amendment Act (in February 1999).

In the field of *securities* two government regulations have been issued in order to improve the regulatory framework for investments funds. However, in this area, compliance with the *acquis* in relation to investment services, insider dealing, pension funds and investor compensation schemes needs to be ensured.

In the area of *payment systems*, the above-mentioned Credit Institution Act, adopted in February 1999, introduces a framework for harmonisation of the payment systems

legislation, notably the Directive on settlement finality in payment and securities settlement systems. Further progress has been achieved towards the implementation of the new interbank payment system, based on a real time gross settlement (RTGS) system for large value payments and a Designated-time Net Settlement (DNS) system for retail payments. Work in this area will be completed at the end of the year 2000.

Free movement of persons

As regards free movement of persons, freedom of establishment and mutual recognition of diplomas and qualifications, access to the labour market continues to be restricted by a quota based on the number of immigrants. This quota does not apply to the nationals of the Member States of the European Union, the United States, Norway, Iceland, and Switzerland.

As regards mutual recognition of diplomas and qualifications, Estonia still needs to make progress in regulating access to professions in line with the *acquis*. Particular attention will have to be given to the implementation of the Language Law in this area.

Competition

Following the entering into force of the new *Competition Act* in October 1998, Estonia's legislation on anti-trust is largely compatible with the *acquis*. In March 1999, the Government adopted a Regulation introducing block exemptions in certain categories of restrictive agreements (franchise, exclusive distribution, exclusive purchasing and motor vehicles distribution and service). Regulations on remaining block exemptions need to be adopted. However, full merger control remains to be covered by the Competition Act, currently under revision.

Although the Competition Act also contains provisions on state aids, these need to be further aligned with the *acquis*, in particular as regards granting and monitoring procedures. Progress in this field includes the adoption of the state aid application and reporting forms that will enable the monitoring of state aids already at the stage of drafting the state budget. A comprehensive state aid inventory listing all aid measures in operation in Estonia has to be established. Furthermore, Estonia still needs to ensure the compliance of aid, by way of assessing aid plans and existing legislation according to which authorities at various Government levels grant aid to enterprises. Enforcement capacity in the area of state-aids remains weak (see Chapter 4 on Administrative Capacity)

Conclusion

Estonia has partially addressed the short-term priorities of the Accession Partnership in this area. Further progress needs to be made in public procurement, enforcement of industrial and intellectual property rights and data protection.

As regards free movement of goods, considerable progress has been made in product specific areas. Progress in the New Approach area has been much slower as major horizontal elements both as regards of legislation and administrative capacity are still not yet fully harmonised. Certain progress has been made in some New Approach

sectors. The main challenges remains the shortage of human resources and the lack of explicit policies.

No major problems exist as regards free movement of capital and free provision of services, although an EC compatible legal framework has to be completed.

While progress has been made in anti-trust, emphasis should be put on tackling more significant cases of distorting competition. Legislation does not cover yet full merger control. Moreover, regulations on the remaining block exemptions still need to be adopted. In the State aid field, Estonia must still make a number of efforts in order to meet the short and medium term priorities of the Accession Partnership such as establishing ex-ante state aid control, reinforcement of the monitoring authority, setting up of a comprehensive inventory on existing aid and the submission of annual reports to the Commission on the total volume of aid disbursed.

3.2 Innovation

Information society

Estonia continues to support actively the development of the information society. The implementation of the Estonian school computerisation program Tiger Leap, aiming at achieving a full-computerisation/Internet access for all schools, has continued. However, problems related to access to quality telephone lines in remote areas and budget restrictions on schools has caused several delays. Internet host penetration is the highest amongst Central and Eastern European Countries.

Education, training and youth

Estonia has amended its legislation on higher education in order to prevent higher educational institutions from charging higher tuition fees to foreign citizens. These changes include also setting the length of studies for certain professions in accordance with EC Directives (doctors, dentists, pharmacists, veterinary surgeons and architects).

As regards vocational training, work towards developing professional standards and establishing vocational training curricula needs to be continued. The supply of vocational training remains underdeveloped. In order to better respond to labour market needs, a stronger involvement of enterprises needs to be supported.

Since November 1998 Estonia participates in the Socrates, Leonardo da Vinci and Youth for Europe programmes.

In 1998-99, 350 students have benefited from Erasmus mobility grants to study in EU countries and 816 young Estonians have taken part in the Youth for Europe programme. In 1998, 69 Estonians participated in exchanges within the framework of the Leonardo programme (vocational training).

Research and technological development

The present Community *acquis* does not require transposition into the national legal order. However, the compatibility of the general legal order with the Community *acquis* needs to be ensured.

Estonia started its association with the 5th Framework Programme in June 1999. In order to prepare the successful association, a new support structure within the Ministry of Education has recently been established. The real implementation capacity will be tested during the association to the 5th Framework Programme. Estonia has also decided to open its corresponding research activities to enterprises, researchers and universities from Member States.

Telecommunications

Privatisation as well as the modernisation of infrastructures in the telecommunications sector is quite advanced in Estonia. Privatisation of the telecommunications operator has continued through the launching in January 1999 of a large public offer of shares in the international market. Penetration rates were of 16.6 and 33.8 per 100 inhabitants for the mobile and fixed telephone sectors, by the end of 1998. The mobile telephone sector has been especially successful. At the same time, productivity in the fixed sector has grown quickly and prices are more balanced. Further progress in rebalancing is needed along with measures to maintain the affordability of the universal service through special tariffs.

Estonia's legislation on telecommunications is not yet fully in conformity with Community legislation. A new Telecommunication Act needs to be adopted, *inter alia*, to set the basis for the functioning of the independent regulator.

The Cable Transmission Act was adopted in February 1999. This law regulates the provision of telecommunication services through cable networks and the lifting of limits established on the provision of cable services. It also controls cross-holdings between telecommunications and cable networks.

Although the postal service is already *de facto* deregulated, no major legislative progress has taken place this year in the postal services sector.

Audiovisual

In June 1999 Estonia adopted a law amending the Broadcasting Act which brings Estonian legislation closure to the EU Television Without Frontiers Directive. However, major discrepancies remain concerning jurisdiction criteria and the promotion of European and independent works. Further work is needed concerning in particular public access to major events, advertising and teleshopping. Estonia has not yet ratified the Council of Europe Convention on Transfrontier Television. Little progress has been made by the Estonian Ministry of Culture in developing implementing structures.

Conclusion

Estonia has made some progress by further privatising the telecommunications company, although crucial legislation needed has not yet been enacted. A determined effort is needed if full liberalisation is to be achieved by January 2001. Information society as well as research and technological development, where progress has been achieved with the full association to the 5th Framework Programme, continue to be a priority in Estonia. Some progress has also been made in the education and audiovisual sectors. Further efforts need to be made in the audiovisual sector to complete alignment.

3.3.Economic and fiscal affairs

Economic and Monetary Union

Estonia has indicated that it accepts and will comply fully with EMU *acquis* as defined by title VII of the EC treaty and the other relevant texts. Estonia has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Estonia has made limited progress in its preparation for participation in the Economic and Monetary Union. Although the Bank of Estonia continues to enjoy a high degree of independence and direct financing of the public sector by the central bank is prohibited by law, Estonia still needs to introduce some changes to the Bank of Estonia Law, as regards the composition of its Supervisory Board, for full alignment with the *acquis*.

Compliance with the EMU "acquis" is conditional upon the process of liberalisation of capital movements, which is examined under section 3.1 "free movement of capital".

Taxation

Estonia's legislation on taxation is not fully in compliance with the *acquis*. Progress has been made in the area of excise duties and reinforcement of the administrative capacity in the field of VAT.

Estonia's VAT system is based on the 6th EU VAT Directive. Since June 1999, the 0% rating for sales of thermal energy, coal and wood has been abolished. However, several differences with the *acquis* still remain - zero-rating, certain exemptions and modalities of VAT reimbursement to non-residents.

In the field of *excise duties*, the new Tobacco and Alcohol Excise Tax Acts have entered into force. The Tobacco Excise Tax Act brings excise tax rates for tobacco products closer to the minimum EU levels. At present, the tax on cigarettes is lower than the minimum EU level. Estonia has not yet started preparing a new law for further harmonisation of tobacco excise duties. The Alcohol Excise Tax Act

harmonises the excise tax rates on beer with the rates applied in the EU. In addition, the lower tax rate for small national brewers has been abolished. However, wine, fermented beverages and other intermediate products will need additional legislation. As regards implementation Estonia does not have either tax warehouse or registration systems.

An agreement between all three Baltic States entered into force in June 1999 on cooperation in the organisation of simultaneous audit of taxes. This agreement envisages broader possibilities for cooperation between tax administrations with regard to effective control of taxpayers in the Baltic States.

Conclusion

Estonia has partially addressed the short-term priorities of the Accession partnership in this area. It has made some progress on bringing excise duties into line with EU legislation particularly for alcohol and strengthening the administrative capacity in the field of taxation. Harmonisation of excise duties for tobacco is likely to be much slower. On VAT legislation limited progress has been made.

Statistics

Estonia's statistics are not yet fully in line with EU requirements. Progress towards bringing them in this direction has continued, in particular, as regards the legal framework, classification, registers, infrastructure and dissemination.

Following the Population and Housing Census Act, the Government has adopted the new date for the Census (31 March 2000) and the Census Questionnaire.

A Governmental Commission on the Agricultural Census has been established as well as an Agricultural Census Section in the Statistical Office. The Agricultural Census Questionnaire has been elaborated and the pilot agricultural census has been carried out. The compilation and publication of output price indices of agricultural production has started. However, in order to complete work in this area, the Agricultural Census Act needs to be adopted.

Statistics produced by the Bank of Estonia are generally in line with EU standards. In the area of monetary and balance-of-payments statistics, co-operation between the Bank of Estonia and Eurostat has continued.

Priority areas for further improvement are regional GDP, agricultural statistics and VAT based trade statistics. Co-operation with other administrations needs to be improved in the collection of deficit and debt statistics. Transport statistics, including vessel and vehicle registers as well as external trade statistics require significant progress. Further progress also needs to be made on the business register, in particular as regards local units, . Finally, labour force and labour cost and earnings surveys need to be improved in terms of detail, frequency and sample size.

3.4 Sectoral policies

Industry

Industrial development entered a new phase in 1999. The main economic and structural reforms are indeed over (privatisation in the manufacturing sector is complete), and the need to further reorient industrial exports towards western markets in the aftermath of the Russian crisis makes it essential to enhance competitiveness. Emphasis is now being put on training and retraining, innovation, the introduction of information technologies, and the development of quality infrastructure. These principles have been reflected in a document, 'The main principles of industrial policy', which was adopted in February 1999. They will be part of the National Development Plan.

As a consequence of the Russian crisis (insolvency of Russian customers and competition from NIS products after the devaluation of the rouble in August 1998), the restructuring process has speeded up and industry awareness of some competitiveness gaps has increased. Indeed enterprises that were both dependent on exports to the NIS and/or that were relying too much on the competitive advantage of cheap labour, have lost important market share and faced difficulties in finding new outlets. Mostly as a result of the weakening of these companies, a series of mergers occurred in the food, forest-based and light industries

Investment in the manufacturing sector has continued to be substantial (€63.2 million in 1998). Now that privatisation is virtually complete in the industrial sector, upgrading infrastructure and supporting the implementation of retraining programmes remain the most important challenges to develop an environment that could continue to be attractive for investors. This is particularly true for FDI in the manufacturing sector, which has slightly decreased in the last year.

The industrial restructuring process has progressed further, although unevenly across different branches (in the food sector restructuring still has a long way to go). Restructuring is proceeding more swiftly in companies with foreign capital, which have already started adapting their production to EU quality standards and safety requirements. The lack of implementation of an EU compatible conformity assessment system continues to prevent local economic operators from gaining experience in taking full responsibility for the conformity of their products.

An important dimension of the industrial policy is the control of state aids (see competition chapter).

Agriculture

Agricultural situation

Agriculture in Estonia accounted for only 3.7% of GDP in 1998, as opposed to 4.3% in 1997, raising to 9% if combined with the food and beverages industry. Efficiency in the agro-food sector has improved while employment in agriculture has declined strongly over the past 5 years accounting for 8,2% of total employment. Still, hidden unemployment remains a serious problem in rural areas.

In 1998 the agricultural producers' situation in Estonia was affected by low income levels, a negative trade balance, bankruptcy of the Estonian Rural Bank and bad weather conditions. All of this has contributed to give a mixed picture of the Estonian agricultural situation.

Although crop output fell sharply (by 12%) in 1998 due to bad weather, strong growth in the livestock sector (milk production up by 2%, animals slaughter by 9% and egg production by 8%) compensated for losses in the gross agricultural output, which remained at the same level as in 1997. In the last quarter of 1998, livestock prices suffered badly from declining international prices and declining exports, due to the Russian crisis, specially in the dairy sector.

Privatisation of the food and beverage industry was largely completed in 1998 with the exception of the distillery sector. The main problem of the agro-food industry is over-capacity in some sub-sectors and lack of financing, problems that were aggravated with the bankruptcy of the Maapank, highly involved in the agricultural sector. The Russian crisis has accelerated the restructuring of the sector.

In 1998, EU imports of agricultural products originating in Estonia decreased by 7% to €30.7 million. EU exports to Estonia dropped by 6.5% to €240.1 million. The decrease in imports as well as in exports is registered in the dairy sector. The trade balance in favour of the Community amounted to €209.4 million in 1998, compared to €12.8 million in 1997.

In march 1999, the Council mandated the Commission to open negotiations with the associated countries in view of new reciprocal concessions in the field of agriculture which will enhance the progressive and orderly liberalisation of bilateral trade.

Agricultural policy

While in 1998 no market price support policies were applied, several measures were aimed at improving production efficiency and the structure of the industry. At the end of 1998 a major shift in agricultural policies was decided and the number of farmers receiving direct aid subsidies increased. The state budget allocated to agriculture in 1998 increased to 3,7% (mounting to 5,1% with subsidies for compensating losses due to poor weather conditions). In 1999, agricultural support amounts to €52 million and represents 3,9% of the total state budget.

The main pieces of legislation ensuring application of direct support payments(e.g. introduction of a premium for bovines for slaughter, of a direct subsidy for milking cows and of direct payments for arable crops), capital support, insurance support and interest subsidy have been adopted. The relevant application acts are based on the "Government Support to entrepreneurship Act Amendment Act", adopted in February 1999.

As regards *land register*, about half of the total agricultural land has been registered in the land cadaster. Approximately 95% of it is private. In February 1999 amendments to the Land Reform Act, which should speed up the privatisation of agricultural and forest land, were adopted.

As regards *veterinary and phyto-sanitary legislation*, the Food Act adopted in February 1999 and the Veterinary Service Act (June 1999) are not fully in compliance with the *acquis*. Also, no progress has been made in veterinary and phytosanitary control for import and export goods and the establishment of common borders offices.

Zootechnical and animal welfare legislation is not yet in compliance with the *acquis*. Breeding books are kept by independent breeding associations. The system for identification and registration covering 85% of the bovines is close to the EU system. The system of co-financing of expenditure for serious outbreaks and eradication measures is not yet in place. The notification system and contingency plans for major animal diseases are not yet in full compliance. Estonia follows a non-vaccination policy with regard to Foot-and-Mouth-Disease. Most of the plants processing products of animal origin do not yet meet EU hygiene and public health requirements and treatment of animal waste does not take place in compliance with the *acquis*. The treatment capacity only covers 50% of the need.

Implementing regulations of the Seed and Plant Propagating Act have been in force since 1 July 1999. On plant protection products, most of the legislation is harmonised following the implementation of the new Plant Protection Act.

With a view to introducing the agriculture structural (and market support) policy, some progress has been made in the implementation of the Integrated Administration and Control System. (IACS). The Estonian government has authorised the Agricultural Registers and information Centre to become the Competent Authority responsible for IACS operations following EU rules. In particular, this applies to plans aimed at land identification, which should still be addressed. In November 1998 the Farm Animal Breeding Act came into force including the regulation for marking and register of breeding material. Registers for pigs, sheep and goat have been created but registration has not been completed for all animals. The ministry of agriculture plays the role of competent authority for the management of EU pre-accession funds in this area (SAPARD).

As regards market organisation, the *acquis* in the field of *arable crops* is only partly covered. Currently, there is no market organisation for cereals as it exists in the EU. On *fruits and vegetables*, Estonia has until now applied non-compulsory standards and has adopted only some EU standards. The two existing associations of producers could not be recognised as proper producers' organisations according to the Common Market Organisation for fruits and vegetables, because they do not carry out trading or marketing activities. In the beef sector, there is no public intervention. Moreover, there are no quotas for milk production and no intervention or aid scheme exists for the use of milk products.

Conclusion

Estonia is making slow progress in tackling the short-term priorities identified in the Accession Partnership. Preparation for the introduction of structures and instruments to apply the Common Agricultural Policy is continuing but implementation of the relevant legislation should be speeded up. Although the situation on the harmonisation of legislation in the veterinary field is progressing, efforts must be sustained, in particular as regards the upgrading of establishments and the implementation of the veterinary legislation (upgrading of information systems; public health sector animal

welfare legislation). Restructuring of the agro-food sector should continue to be a priority.

Fisheries

The fisheries sector constitutes 2.6% of Estonia's GDP and employs about 20,000 people. Yearly production is 130,000 Tons and the fleet comprises 200 vessels. Neither Estonia's legislation in this area nor its implementation capacity are fully in compliance with the *acquis*. Estonia still needs to make considerable efforts in this area. No legislative progress can be reported. In particular, it needs to set up the necessary structures of inspection and control, a fleet register and fisheries market organisations and to prepare a restructuring plan for its fleet.

Although the preparations of the Estonian Fisheries Management Plan and Fisheries Policy have started, the final plan has not been adopted. Also, first steps have been undertaken to restructure the fisheries department of the Ministry of Environment with a view to implementing the Fisheries Common Policy (see chapter 4 on administrative capacity).

Energy

The underlying market principles of the Energy Act, which regulates the energy sector in Estonia, are modelled on the Electricity Directive. However, it still needs to be further amended for full alignment with Electricity and Gas Directives, in particular in relation to third party access to networks, procedures for building new capacity and the definition of the role of the regulator in the future internal market. In October 1998 the government adopted the regulation establishing the procedures to issue, extend and revoke licences in the sector.

Energy prices have increased, but still , do not cover production costs.

Emergency preparedness in the energy sector including the obligation to hold ninety days of oil stocks (Estonia's stocks only cover two days of consumption and storage capacity only covers two months), does not yet comply with the *acquis*. For the moment, Estonia intends to maintain only 25% of the stocks inside the country for strategic and economic reasons. No progress has been made in this area. In December 1998, Estonia signed the Kyoto Protocol, which should enhance energy efficiency in relevant sectors of the national economy. Currently, there is no legislation in force regarding energy efficiency and labelling requirements in Estonia. Participation in the relevant EU energy programmes could play a role for improving energy efficiency and also to promote renewable energy. Currently Estonia does not participate in the EU's SAVE II or THERMIE programmes.

Estonia's oil shale sector, providing 98% of locally generated primary electricity supply, continues to be a major challenge for regional (the Narva region) and sectoral restructuring due to the economic, social, political and environmental implications associated with it. Estonia needs to prepare a viability plan for the sector.

In the area of energy distribution licences have been given to two small companies (Läänema and Narva Elektrivõrk AS) to compete with Eesti Energia. The government also approved the restructuring and privatisation plan for Eesti Energia (electric power company) and the Estonian Oil Shale Company. Finally, the state sold its remaining 27% shareholding in Eesti Gaas to small shareholders and legal persons. The Commission has reiterated on several occasions the need for transparent privatisation procedures in this area. In the absence of further information in this respect, it is not possible to assess whether this process is fully in line with EU state-aid rules and the internal energy market *acquis*.

Regional co-operation continues to be a key element of Estonia's strategy to liberalise and diversify supplies in the energy sector. The Baltic Energy Council Treaty on Co-operation was signed in 1998 by the energy producers associations of the three Baltic States to develop co-operation between energy companies. Also, in October 1998, a co-operation agreement between Estonia, Latvia and Lithuania was signed in order to enhance co-operation in this area.

Conclusion

Estonia has not made progress in aligning the energy market rules with those of the EU. Further efforts are needed to prepare participation in the internal energy market (electricity and gas directives) including the adjustment of monopolies, access to networks, energy pricing and the further development towards an appropriate mechanism for regulation, and improvement of energy efficiency. Further steps have been taken in the liberalisation of the energy sector, although a comprehensive plan for the restructuring of the oil-shale sector needs to be drawn up as soon as possible. It is to be recommended that privatisation in the sector be made in the most transparent way. No major difficulties are foreseen for compliance with Euratom provisions, although exchanges on the *acquis* including on safeguards may be necessary.

Transport

In March 1999 the Government adopted the "Development Plan of Transport and Telecommunications for the Years 1999-2006", which specifies the problems of the transport sector and defines strategic objectives of transport development in the light of accession to the EU. The main guidelines are the development of the transport and transit infrastructures, the improvement of traffic safety and environmental protection, the promotion of public and combined transport, and the harmonisation of the whole legislation with the Community *acquis*.

Concerning *road transport*, Estonia has amended existing rules on domestic transport of dangerous goods by road and on technical supervision of motor vehicles. The Roads Act that was adopted in February 1999, transposes some principles of the *acquis* on fiscal issues. Estonia needs to completely align its legislation to the *acquis* in the fields of market access and pricing for freight and passengers, fiscal harmonisation and social legislation on road transport.

No definition of combined transport exists yet in Estonian legislation. Estonia does not currently promote combined transport by any measures.

Estonian *railways* restructuring has continued to progress in compliance with the *acquis*. The Railways Act entered into force in May 1999. It regulates the procedures for issuing and supervising licenses to railway operators and sets the general safety requirements on managing railway transport. It separates the provision of railway transport services and the management of railway infrastructure, regulates free access to railway infrastructure for different operators and conforming transport conditions. It also establishes an independent regulatory agency, the Railway Administration. Furthermore, technical rules and rules on signalling instruments have been issued. As regards privatisation, international passenger transport, railway maintenance and suburban passenger transport in Tallinn have been privatised.

In the field of *maritime transport* (the same legislation applies for inland waterways), several secondary regulations have been adopted implementing the Port and Maritime Safety Acts and the Ship's Property, Ship's Flag and Ships Register Acts. These relate to improvements in the quality requirements for vessels or boats and their equipment, in the management of the shipping register and in administrative procedures and infrastructure (National Maritime Board) and to the annual inspection of small crafts.. Yet, amendments to these laws in relation to vessel registration conditions and free movement of labour in the maritime sector need to be made in order to fully comply with the *acquis* in these areas. Despite an additional governmental programme to strengthen flag state control, and increasing inspections of Estonian vessels in domestic and foreign harbours, the safety of ships under Estonian flag still remains a matter of concern.

In relation to *air transport*, the new Aviation Act, entered into force in September 1999,. It regulates basic aviation activities and principles of air safety and appears to be largely in compliance with the principles of the *acquis* as well as the relevant international conventions requirements and recommendations. Since April 1999 the Standards and Norms Act enables the application of the Joint Aviation Requirements (JAR) without translating them into Estonian. As a consequence, harmonised technical requirements and administrative procedures to the Joint Aviation Agency Requirements entered into force in September 1999. Estonia has in the past year concentrated on the conclusion of the agreement on a European Common Aviation Area (ECAA).

As far as *transport infrastructure* development is concerned, Estonia has identified priority projects in the context of Transport Infrastructure Needs Assessment (TINA) with a view to ISPA financing. Selected projects include the Via Baltica and East-West road and rail links.

Conclusion

Although progress in implementing the transport *acquis* in the different transport areas has continued, further and more effective measures are necessary particularly in fiscal harmonisation in road transport and in maritime safety.

Small and medium-sized enterprises

Almost 99% of the enterprises in Estonia are SMEs. The share of SMEs is the largest in wholesale and retail trade and in construction. SMEs are the main generators of

new jobs and around 60% of the workforce are currently employed in them as compared to 55% in 1996.

Estonia participates in the Third Multi-annual EU Programme for SMEs which should help the European integration of business organisations and the SME sector.

Estonia is taking steps to increase the coherence of SME policy, with the aim of improving the business environment. It is of utmost importance that a strategy is adopted and that it is followed up practically.

3.5 Economic and social cohesion

Employment and social affairs

Registered unemployment has increased by 35% between October 1998 and June 1999 representing 5% of the labour force. Regional disparities in unemployment rates continue to be very important: from 9.5 percent in the north-eastern Ida-Virumaa region to just 2.7 percent in Parnu County.

Estonia's *labour law* is still not in compliance with the *acquis*. No major progress has been made in this field. Legislation implementing the *acquis* as regards collective redundancies, establishment of European works councils, posting of workers and safety and health for temporary workers still remains to be introduced.

social dialogue, is still at an early stage of development, in particular at the employers' side. The Social and Economic Council has been established in order to promote social dialogue and partnership, as well as to monitor macroeconomic relations and submit recommendations to the government.

No major progress has been made in aligning legislation on *equal opportunities* to the *acquis*. However, Estonia participates in several international projects to increase awareness in this area.

The newly adopted *Occupational Health and Safety Act*, which transposes the framework directive, constitutes the legal framework for transposing and implementing the *acquis* in this area. It establishes occupational safety and health requirements, the duties of employers and workers in creating a safe and healthy working environment and the organisation of occupational safety and health in the private and public sector. Several governmental regulations still need to be adopted to ensure full alignment with the *acquis* by transposing individual directives. Furthermore, effective enforcement of health and safety legislation will require considerable strengthening of the administrative capacity of the Labour Inspectorate.

Estonia is still lacking a clearly defined policy and strategy in the field of *labour market* and human resources development. The Employment Action Plan currently under preparation needs to be completed. The Labour Market Board has been re-established in January 1999. Currently, legislation is not fully in compliance and no supervision mechanisms are in place.

As regards *public health*, Estonia is participating in the Community Health Promotion programme as of 1999.

Conclusion

Very limited progress has been made in this area. Therefore, a serious and sustained effort is necessary if the timetable foreseen by Estonia is to be respected. In the field of social dialogue, more effort should be made as regards developing bipartite collective bargaining. Finally, the Estonia's capacity to enforce the social *acquis* continues to represent a serious cause of concern.

Regional policy and cohesion

The Union supports the strengthening of cohesion, mainly through the Structural Funds. Estonia will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Starting from a level at which limited progress had been made, Estonia has during the last year continued to carry out reforms in the area of structural policies.

Estonia's regional GDP per capita (1996 reference year) corresponded to 34% of the EU average. Estonian regional development presents considerable imbalances between regions. Within Estonia the level ranged from 151% of the national average in the Tallinn region to 66% in the Kesk-Eesti region, giving a highest/lowest regional GDP ratio of 2.9. It is still to be decided whether the whole territory of Estonia will be considered as one region (NUTS 2), in accordance with the EU methodology on classifying regions..

With regard to legal basis, Estonia has decided not to introduce a specific law on regional policy. It has, however, to amend existing legislation to be fully in line with the Community *acquis*. The Estonian Government adopted the Estonian Regional Development Strategy, which establishes the basic priorities for Estonia's regional policy with a view to accession and participation in EU Structural Funds. It also sets the guidelines to develop a national regional policy.

Estonian co-financing of EU structural programmes will originate mostly from the State Budget. The financial procedures linked to commitments and payments need to be strengthened. In particular, the State Budget Act needs to be amended to allow for co-financing and multi-annual programming of budgetary expenditure. Currently, public investments are planned through the Public Investment Programme mechanism. The participation of extra-budgetary funds is possible. The body channelling support from structural funds still needs to be identified. Clarification of inter-ministerial co-ordination between the Ministry of Finance and the Ministry of Interior is also needed.

Estonia has only limited experience in appraisal and evaluation procedures.

Conclusion

Estonia needs to continue efforts to reduce regional disparities within the country. Although, Estonia has made some progress in adopting legislation, strengthening institutions, and making budgetary provisions, considerable work still needs to be done as regards the strengthening of the administrative capacity to manage EU structural funds upon accession. Co-ordination between ministries and the local, county and national levels of the administration needs to be strengthened and the allocation of responsibilities clarified. Furthermore, Estonia's capacity to address the budgetary issues related to the structural fund needs to be closely monitored. Estonia has started to address the short-term priority identified in the Accession Partnership for this area.

3.6 Quality of life and environment

Environment

Although some of the major framework laws have already been adopted, progress in the transposition of environmental legislation needs to be speeded up.

Estonia has addressed the issue of the Integration of environment in to other sectors in its National Environmental Action Plan and is also party to the Agenda 21 for the Baltic Sea region, an action programme that emphasises the environmental dimension of sustainable development and its bearing on economic and social aspects.

As regards *horizontal legislation*, progress has been limited. Estonia has adopted in Environmental Monitoring Act which transposes some provisions of the Directive on access to information. In December 1998, Estonia signed the Kyoto protocol. Legislation on environmental impact assessment and civil protection still needs to be aligned with the *acquis*. Estonia has signed the Aarhus convention on access to information, public participation and access to justice in environmental matters.

As regards *water quality* a substantive part of the monitoring requirements have been introduced by the Environmental Monitoring Act. The Public Water Supply and Sewerage Act has been adopted, further aligning legislation in this area to the urban waste water directive. Estonia still needs considerable efforts to align its legislation in this area to the *acquis*. Furthermore, administrative structures have to be strengthened and reform of water companies is also required. Also, major gaps still exist in the framework legislation for the sector.

As regards *waste management* the legislation transposing the framework directive is to a large degree already in place. Secondary legislation has been adopted, introducing regulation concerning permits for waste generation, waste classification, labelling of hazardous waste and management of waste oils. However, Estonia's limited capacity both at central and local level as well as limited financial resources raise severe doubts as regards its implementation capacity.

In the field of *Industrial Pollution Control and Risk Management*, two governmental regulations have been adopted transposing the substantial part of the directive on control of major-accident hazards involving dangerous substances (Seveso II

Directive). All the requirements concerning new large combustion plants have been transposed.

In the field of *air quality protection* Estonia is quite advanced in the alignment of legislation. The Ambient Air Protection Act and several implementing regulations have entered into force partly transposing the air quality framework directive. Three regulations concerning limit values in ambient air, methodologies to specify emission, and issuing of ambient air permits have been adopted. The directive on control of volatile organic compound emissions has been further aligned for new installations but existing installations have been given additional time to fully comply. The new Pollution Charges Act establishes emission rates and charges for pollutants into the air.

EC legislation on *noise* emission still needs to be adopted.

In the field of *chemicals*, Estonia already has the legal framework as regards the evaluation and control of the risks of existing substances. Several government regulations have been adopted on procedures for labelling, packaging, classification, identification and notification. The Estonian regulation concerning import and export of certain dangerous substances is now largely in compliance except for those elements that can only be introduced upon accession.

Estonia has limited practical experience on the issues related to the use and deliberate release of *genetically modified organisms*. The Act on the Deliberate release of genetically modified organisms has been adopted. A lot still remains to be done in this field. Administrative capacity needs to be strengthened and transposition needs to be speeded up.

Substantial progress has been made in aligning the Estonian legislation as regards *ozone depleting substances* (ODS). Estonia has ratified the London and Copenhagen Amendments to the Montreal Protocol in January 1999 and approved procedures to control production, use, import, export of ODS. A Government programme for the phasing out of ODS has been approved.

In relation to *radiation protection and nuclear safety*, Estonia has amended its law on radiation protection and three regulations have been adopted for radiation protection and follow-up of workers. A bilateral agreement between Estonia and Finland was approved in May 1999. Efforts continue to be made in order to remedy the problems with the nuclear waste from the former Soviet Union, i.e. decommissioning of Paldiski nuclear training centre.

In the field of *nature protection*, Estonia has adopted the Protection and Use of Wild Fauna Act, partially transposing the provisions concerning trade of protected species, the Forest Acts and several implementing governmental regulations. The Protection and Use of Wild Fauna Act, it is not yet fully in compliance with the *acquis* since it does not introduce sanctions in case of illegal trade of endangered species. Also legislation implementing the birds and habitat directives needs to be introduced. Work in this area needs to speed up.

The National Environmental Action Programme estimates the total cost for Estonia to reach full compliance by 2010 at €2,21 billion. Attention needs to be paid to future

financing strategies. Efforts to increase the levels of private and public investment in the environmental field to meet Community standards will need to be continued. Close co-operation should be developed with the International Financial Institutions in this regard.

Progress on removing nuclear facilities at Paldiski and Sillimae should be continued. Estonia has not yet signed the Joint Convention on the Safety of the Spent Fuel management and on the Safety of Radioactive Waste Management.

The issue of nuclear safety is dealt with in the energy chapter.

Conclusion

Estonia has continued making progress as regards legal transposition. However, the existing level of formal compliance between Estonia and EU environmental legislation varies greatly from sector to sector. In sectors such as air, waste and chemicals the level of formal compliance is already quite high, but some efforts still need to be made. Greater efforts are necessary in other legislative sectors such as industrial risk management, nature protection and GMOs where many important parts of the legislation are still missing.

Estonia has continue to address the short term priorities of the Accession partnership. However, administrative structures remain weak and efforts to strengthen them are necessary, particularly in the areas such as of water quality control, waste management, chemicals and genetically modified organisms, nature protection and control of major industrial accidents.

One of the vital issues when implementing the environmental *acquis* is to have a good estimation of the related costs. Until now Estonia has not established such a financing plan.

Consumer protection

The existing legislation on general product safety and misleading advertising is broadly in conformity with the *acquis*. No major progress in the legislative field has been made. Still, amendments to product safety legislation need to be made to include comparative advertising.

It is regrettable that the Obligations Law, which should harmonise Estonian legislation with non-safety related directives such as distance selling, unfair contractual terms, consumer credit, door-step selling, time - share and package travel has not been adopted yet by Parliament.

The consumer movement continues to be relatively weak, mainly due to the lack of active members.

3.7 Justice and home affairs

The Regular Report 1998 noted significant efforts as to immigration, border controls and asylum, even if implementing measures were lacking. Organisation of the police has also been the focus of serious work. As regards the two short-term priorities of the Accession Partnership, Estonia was recommended to devote more resources to combat organised crime and drugs, to adopt rapidly national and international legal instruments in this area and to push ahead with combating corruption. In relation to the medium-term priorities the upgrading of equipment on the eastern border and appropriate staff training were mentioned.

Immigration/border controls

In the field of *immigration*, Estonia lies off the international migration routes and is not for the time being a major country of destination or transit. In 1998, 450 foreigners were detained while attempting to cross the border illegally.

Estonia's visa policy is aligned with that of the EU, except for the facilitated border crossing formalities for Russian nationals living in border areas (Narva-Ivangorod). Estonia should continue progressive alignment of visa legislation and practice with that of the EU.

Arrangements concerning readmission of persons who entered illegally are similar to those of Russia's other northern neighbours. Progress concerning admission requirements has been achieved, as new amendments to the Aliens Act entered into force on 1 October 1999 and bring legislation closer in line with the *acquis*. Provision of sanctions against transport companies bringing in insufficiently documented persons also became effective from 1 October 99. A law on Expulsion entered into force in April 1999. A series of implementing Regulations to the Obligation to Leave and Entry Ban Act were adopted to facilitate expulsion.

Still, some attention should be paid to developing readmission agreements with third countries from which illegal immigration might originate.

As far as *border control* is concerned, a technical agreement with Russia on border demarcation was finalised in March 1999. However the signature and ratification are dependent upon Russia. Although there are still staff shortages in the Border Guards (see chapter on Administrative Capacity), border management is relatively efficient. This is thanks partly to the fact that the Eastern border is an area of water, marshland and dense forest but also to the optimum use in this area of modern technology such as radar and thermal imaging. Nevertheless, additional modernisation of equipment (i.e. Radar installations on the coast, aircraft and vessels) and infrastructure is still required as is increased staff.

Asylum

Implementing regulations on cases of unfounded application and temporary residence permits entered into force in September and October 1999, respectively. Estonia still needs to adopt legislation on the provision of state financed legal aid to asylum seekers, although in practice, all asylum seekers who have wanted it have received it. The asylum regulations are thus broadly in line with the requirements of the EU *acquis*. Up to now, no asylum application has been fully processed (38 are in the

pipeline as compared to 25 in 1998). These delays reflect a lack of experience in this area by the relevant administrative bodies and the need to increase training.

Further legislative and administrative adjustments will need to be undertaken to accede to the Dublin Convention.

Police

The government adopted the Police Development Programme for the years 1999-2000 and has introduced a five year tenure for the Chief of Police, which should result in increased continuity of policy. The Money Laundering Prevention Act came into force in July 1999.

In spite of legislative efforts (see Chapter 1 on Political Criteria), corruption within the police still persist, partly related to low pay in lower ranks (see chapter 4 on administrative capacity). Furthermore, the capacity of the Estonian police to deal with the apparent increases in crime is causing concern, and significantly more efforts will be needed to cope with economic crime, for which the police is, as yet, unprepared. The standard of the police education should be improved. Efforts are still needed to improve forensic research capacity, currently very weak, and to create a central tracing and information system. It is essential that this system meets the technical requirements of the Schengen Information System.

Drugs

Although several acts implementing new legislation, entered into force in late 1998. Estonia has yet to ratify the 1988 UN Convention on Illicit Drug Trafficking. Every effort should be made both within the law enforcement sector and in drug demand reduction to ensure effective action towards drugs.

Judicial co-operation

No major problems have been noted in the area of judicial co-operation in civil matters. Foreign judgements are recognised without any special proceedings, in civil, commercial and family matters. However, Estonia still needs to accede to The Hague Convention abolishing the need for legalisations (1961), to The Hague Convention on Civil Aspects of Child Abduction (1980) and to the Luxembourg Convention on Custody of Children (1980).

On the whole, mutual assistance in criminal matters, and extradition with EU Member States work relatively well but translation problems concerning requests for mutual assistance have apparently led to delays in the procedures. It is necessary to improve this situation and to introduce legal provisions allowing for direct contacts between judicial authorities for the purpose of mutual assistance. Furthermore, Estonian legislation does not cover yet the Second Protocol of the Convention on the Protection of the European Communities' financial interests. In order to comply with this Convention, fraud against the Community budget should be specifically criminalised.

Conclusion

Estonia has followed most of the recommendations of the 1998 Regular Report. The re-organisation of the police is an important step towards increasing efficiency in dealing with crime but it is now essential to develop training and to improve working conditions. It is also essential to develop an online access central data and search system, according to the requirements of the Schengen Information System, covering all the law enforcement agencies.

Estonia should also complete the process of bringing the management and control of its Eastern border up to EU standards, through, in particular, infrastructure and equipment development. The facilitated border crossing procedures need to be brought into conformity with EU-visa practice. Further political and administrative attention is needed concerning drugs and corruption. In all branches the contacts with Member States for acquisition of training and experience should be continued.

3.8 External policies

Trade and international economic relations

Estonia continues to have a very liberal trade regime, with very few import duties or quantitative restrictions being applied. Its average import tariff remains at 0%. Exports duties are applied on objects of cultural value (100%). In June 1999, the law setting up the legal basis for control of exports, imports and transit of strategic goods was adopted.

Estonia completed WTO accession negotiations in May 1999. The Protocol is open for ratification by Estonia until 31 October 1999. Upon Membership, Estonia will implement the Uruguay Round Agreements together with the multilateral Civil Aircraft Code and Government Procurement Agreement with no transition periods. Estonia has expressed its willingness to work closely with the EC in the forthcoming WTO Round, with a view to aligning positions and policies as closely as possible.

Estonia has already signed free trade agreements with several countries. In addition and since the adoption of the 1998 Regular Report, Estonia has signed free trade agreements with Poland and Hungary.

Development

The State Budget includes a special budget line for financing the implementation of Estonian humanitarian and development projects (€460,000 for 1999).

On 20 January 1999, the *Riigikogu* adopted the "Principles of Development Co-operation for the Years 1999-2000", which incorporates all basic principles laid down for humanitarian and development aid by the international organisations, especially the United Nations and the Organisation for Economic Co-operation and Development. The Government of Estonia supports the development co-operation strategy adopted by the OECD in May 1996.

Progress has also been made in the field of establishing necessary administrative infrastructure to efficiently implement the *acquis* and a special structural unit responsible for development co-operation has been created within the Ministry of Foreign Affairs.

Customs

Estonia's custom legislation is still not in compliance with the Community Customs Code requirements. It is a cause for concern that preparations of a Customs Code compatible with the *acquis*, which began in January 1998, are considerably delayed. Although the Customs Tariff Act provides a legal basis for the introduction of custom tariffs, Estonia has not introduced any tariff yet (except for furs, motorcycles, cycles and recreational boats). In the absence of customs duties, there is no provision of duty relief in the customs field. The application of customs duties is a precondition to the effective adoption of the Community *acquis* in the customs area. A new Estonian Goods Nomenclature establishing rules for the classification of goods, has been adopted and it is broadly in compliance with the EU Combined Nomenclature. In February 1999, amendments to the Customs Act entered into force, providing for the fight against counterfeit and pirated goods. Also, regulations on the format and completion of customs declarations were adopted. Finally, in the field of rules of origin, Estonia participates in the pan-European system of cumulation, which has been applied since 1 January 1999.

The Baltic Transit Convention between Estonia, Latvia and Lithuania came into force in June 1999 (implementation planned for early 2000). The Baltic system is based on the EU/EFTA Common Transit Agreement.

The Customs Strategic Plan (1998-2002) was adopted in March 1999. The strategy covers five main areas: human resources, infrastructure, customs technology, legislation and international co-operation.

As regards customs free zones, a customs territory with a free zone regime has been created at Muuga Port including five customs warehouses. The relevant customs legislation is only partially compatible with the *acquis*.

Finally, the development of the Estonian Customs computerised information and control system (ASYCUDA) has been launched. It gives a new basis to declaration processing, customs statistics, imposing of taxes and the control of tax revenues.

Conclusion

Estonia has not yet met the short-term priorities of the Accession Partnership in this area. Estonia has made limited progress and ongoing legislative work in order to comply with the *acquis* has encountered considerable delays. Administrative modernisation, computerisation, strengthening of operational capacity and human resources development should also be carefully monitored. In addition, Estonia needs to introduce a short-term strategy for the progressive and effective implementation of tariffs and tariff-related measures in order to be able to efficiently apply and enforce the *acquis* in these areas. It is regrettable that the adoption of a new Custom Code has

not been completed yet. Further efforts are needed in the fights against fraud and corruption.

Common foreign and security policy

Estonia continues to orientate its foreign and security policy towards the EU and NATO. It participates actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings at political directors', European correspondents and in Working Group level. In order to co-ordinate internally the work in this area, the Ministry of Foreign Affairs created a special CFSP. Estonia has regularly aligned its positions with those of the Union and, whenever invited, it has adhered to the Union's statements, declarations and démarches, including those in the context of the UN and OSCE. Thus, Estonia has joined the EU Common position on Kosovo, the ban of Yugoslavian flights and the oil embargo on Yugoslavia.

During the Kosovo crisis, the Estonian government expressed its support for the NATO operations against the FRY. Estonia participates in the international peace-keeping force in Bosnia-Herzegovina with 38 men.

Estonia strives to contribute to regional stability through a policy of good-neighbourly relations and regional co-operation in the Baltic Sea Region, i.a as an active member of the Council of the Baltic Sea States (CBSS). It has also signed a trilateral agreement on Consular Protection with Latvia and Lithuania in February 1999. The further development of good relations with Russia remains a key element of Estonia's foreign policy. The border agreement with Russia was initialled on 5 march 1999.

3.9 Financial questions

Financial control

External control is exercised by the State Audit Office which carries out external audits of the entire government system and reports directly to the Parliament. In order to strengthen the audit capacity of the office, the Auditing Act has been adopted. It provides for the qualification and authorisation requirements, the legal framework of an auditor's professional activities and sets the basic principles for the functioning of the Institute of Authorised Auditors.

As regards *internal financial control*, responsibilities, roles and functions are not explicitly set out in the existing legislation. The newly adopted State Budget Law provides currently the main legal framework for financial control and internal audit. Also, a Government expert commission to develop the financial and internal audit system has been established. At present, no common procedures for the detention of irregularities and the recovery of assistance exist.

The role of the Ministry of Finance in exercising financial control remains insufficiently specified. The Ministry of Finance still needs to ensure that the Accounting and Finance Manual, which was issued by the Ministry, is implemented

by all ministries and budget institutions. Particular attention needs to be given to the adoption of internationally accepted audit standards, the development of a standard audit manual and the training of internal auditors. Also, further emphasis needs to be put on the design of a clearly defined audit trail as well as on the implementation of the standard accounting system and its alignment with the budget format, to be operational by the year 2000.

An "Internal Control Bureau" had been established in 1999 in the Ministry of Environment for carrying out ex-ante control including financial risk analysis for major infrastructure projects in view of the implementation of ISPA. A parallel structure needs to be established in other relevant Ministries (Transport, Agriculture etc.) under the co-ordination of the Ministry of Finance.

Conclusion

Estonia has not met the short-term priority in the Accession Partnership as regards internal financial control. Estonia needs to accelerate efforts to establish the necessary management and control mechanisms as required by the relevant EC Regulations, in particular, in view of the future use of Structural Funds upon accession. Financial control is still not in line with good practices in EU Member States. Institutional arrangements, such as the re-organisation of the Co-ordination and Control Department of the Ministry of Finance and the establishment of internal audit units in each ministry, need to be completed.

3.10 General evaluation

Estonia has continued its alignment in the single market area, at a steady but slow pace, in particular as regards intellectual property and data protection, free movement of goods and state aid monitoring. As regards the New and Global approach for certification and standardisation the lack of human resources has delayed the reform. Major efforts are also required in the field of state aids. Good progress has been noted in the fields of energy and transport, where legislative alignment and liberalisation have been taken further. However, transparent restructuring of the oil-shale sector should be a priority, as should fiscal harmonisation in road transport. The capacity to enforce environment acquis remains an issue together with a financing plan for investments, which is lacking.

Although some progress has been made in the agriculture, fisheries and regional development significant efforts are required to build up the necessary institutional structures and to develop the capacity to manage funds. Delays in the customs area are a matter of concern. Considerable efforts are needed on customs code, tariffs and capacity building. Very limited progress has been noted in financial control and in the social field, where attention should be paid to implementation capacity. Estonia has followed most of the 1998 report's recommendations in justice and home affairs, where efforts need to be sustained, in particular as regards the police.

Overall, Estonia has continued to make progress in aligning further its legislation to the acquis. Progress has been limited in improving administrative and judicial capacity, where the short-term Accession Partnership priorities have only been partly

met. It remains difficult to recruit and retain qualified staff, a situation which is delaying capacity building, and priority should be given in both budgetary and staffing terms to remedying this situation. Considerable efforts should be made in this respect in particular as regards standards and certification, State aids, agriculture, customs, regional policy and in the social field.

4. Administrative capacity to apply the *acquis*

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership. The administrative capacity has become a central issue in the negotiation process.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“Although Estonia has taken some steps to reform public administration and the judiciary, due in particular to limited human resources, progress is slow and administrative shortcomings exist in key areas such as financial market supervision, state aid monitoring, maritime transport and employment and social policy. The current reorganisation of financial control institutions and the development of regional development structures need to be sustained and consolidated in order for Estonia to be in a position to effectively use EU funds.

There is a human resource problem in the judiciary: there are not enough judges and those in place are either young and inexperienced or have been trained under the previous regime. There is thus an important need for training and career development in the judiciary.”

4.1. Administrative structures

There are around 18,800 employees in the Estonian administration⁶, including ministries (10%), government agencies (83%) and county governments (8%). In addition, local governments employ around 3,300 persons. The Estonian administration still lacks highly qualified staff at the medium and technical levels of the civil service. Although competition from the private sector for young, motivated professionals has continued, the recent slowdown of the economy has slightly reversed this trend. Nevertheless, the public service continues to be an attractive career start for young people, but its attractiveness in the long term remains low. Hence, the significant turnover of staff.

The main changes in the public administration legislative framework include the enforcement of the Anti Corruption Act, which introduces a legally enforceable Code of Ethics that sets standards for the behaviour for civil servants, and the adoption of a government Regulation that attempts to narrow the ratio between official salaries and bonuses.

Reforms of the public administration undertaken in 1999 have been limited, due to budgetary constraints. However, some restructuring has been introduced, in particular towards greater prioritisation of European Integration.

The Office of Public Administration Reform (OPAR) was established in January 1999 in the State Chancellery under the responsibility of the Prime Minister. However, so far the tasks of this Office have not been clearly defined and it is a matter of concern that no overall public administration reform strategy has been adopted yet. Progress has been slow and mainly carried out by individual Ministries or other public bodies.

Civil Service reform has made some progress but is far from completed. Staff quality and professionalism is not guaranteed due to insufficient transitional arrangements in the 1996 Public Service Act. Efforts are needed concerning the separation between political and professional positions, recruitment and promotion criteria, and the salary system. Capacity for co-ordination of civil service management is lacking. The lack of a cross-government structure negatively affects other aspects of the civil service by endangering the effective enforcement of legislation. Homogeneous standards applicable to all public administration settings are unlikely under present arrangements. Co-ordinating and monitoring mechanisms for personnel management are not sufficiently developed. Staffing and career conditions are up to each ministry and institution.

Nevertheless positive developments such as the introduction of new staff evaluation procedures and the update of the EU training strategy for civil servants have taken place.

The process of developing legislation, carrying out inter-ministerial consultations and presenting legislation for adoption to the parliament is well established and relatively

⁶ Includes police, border guard and prisons staff. Does not include education and healthcare personnel.

efficient. However, it appears that this process takes place against a background of limited policy development and analysis - there is insufficient assessment of the budgetary, social and economic impact of proposals. There is also limited consultation with outside organisations. This reflects weaknesses of policy-making skills within Ministries. Although Explanatory Notes accompanying legislation are regularly prepared, the quality of this material is generally low. There is no tradition in Ministries in engaging in policy analysis, but rather the normal approach is to proceed directly to legal drafting. There is also no capacity in the State Chancellery to assess the information included in the Explanatory Notes.

4.2 Administrative and judicial capacity: key areas for the implementation of the *acquis*

The uniform application of EC law : Currently, the heavy caseload of the courts, relative to the number of judges (219), continues to pose problems for the efficiency of the judicial process.. In the first half of 1999, the number of cases per judge/per month amounted to 16.8, 53.5 and 15.2 in the penal, civil and administrative fields respectively. Of 238 judge posts, 19 remain vacant reflecting the lack of attractiveness, for qualified lawyers, of the judge salaries in relation to those in the private sector. Yet, the salaries of judges are above the average in the public administration (a district court judge's salary -€18 a month- is 233% of the average Estonian salary as opposed to 112% of that of a normal civil servant) and have been increased by 19% in 1999. The number of lawyers (only 335 barristers) and prosecutors (172 posts of which 20 are vacant) continues to be insufficient. Currently there are 80 assistant judges, 37 registrars of the court, 167 court bailiffs and 108 probation officers.

Uncertainty by judges applying the law and inexperienced judges continue to be the major difficulties faced by the judicial system. Justice at lower courts level continues to be considered as unsatisfactory, as there are many new inexperienced and overburdened judges. These problems affect mostly the application of administrative law. Of all cases only 53.7% in the penal courts, 51.2 % in the civil courts and 2.4% in the administrative courts were settled, thus reflecting a backlog of about 64% of cases.

In 1998, first instance courts made 18,910 judgements in civil cases of which around 10% were appealed. Of those, higher courts fully revoked 199 judgements (1.1% of all cases) and partly revoked 3%. In criminal cases, first instance courts made 5,945 judgements of which 33% were appealed. 105 judgements (1.8% of all cases) were fully revoked by higher courts and 11.6% partly revoked. Finally, as regards administrative cases 43% of cases (1,294 judgements) were appealed and 10.9% of the total were fully revoked and 8.2% partly revoked. The average duration of the proceedings is of 3 months and 24 days for civil cases and 4 months and 22 days for criminal cases.

The Department of Courts (13 employees) in the Ministry of Justice was established in October 1998. It is in charge of the reform of administrative and first instance courts as well as for the provision of training for judges. A five year post-training programme for judges and prosecutors began in April 1999, focusing on the principles

of the post-soviet law system. The first stage of the programme intends to train trainers. In a latter stage, 55 judges and prosecutors will be training their colleagues. In addition, a special EC law training programme has been implemented since September 1998 to May 1999 providing seminars for judges and prosecutors. However, the high workload in the courts makes it difficult for judges to participate in further training.

Although efforts have been made to reinforce training of judges in the area of Community law, they have to be continued. In particular, participation of judges in relevant courses needs to be extended. Training should be accompanied by an increase in the number of judges. As regards application of EC law, gaps in the capacity of courts to enforce the relevant legislation have been identified in areas such as competition, intellectual and industrial property rights, consumer protection or labour law.

Single market: The *Public Procurement Office (PPO)* employs currently 22 persons and it is under the administration of the Ministry of Economic Affairs. It has been reinforced since February 1999 by the establishment of two new divisions, the EU integration division under the policy planning department, and the IT division under the information and analysis department. These new divisions deal mostly with international aspects (EU, WTO etc.) and with the creation of Public Procurement information systems (Internet homepage, electronic bulletin and tendering etc.). The PPO gives its consent for carrying out single source public procurement procedures. It has the right to cancel tendering procedures in cases provided for in the Public Procurement Act and carries out reviews of protests. In 1998, the PPO gave 110 approvals to carry out single source public procurement. 24 tenders were rejected and 20 tendering procedures were cancelled. *Although the flow of information from procuring agencies to the PPO needs to be improved, no major problems can be singled out in the implementation of the legislation in this area.*

In the field of *intellectual and industrial property*, limited progress has been made to strengthen the administrative capacity. The Permanent Copyright Committee in the Ministry of Culture was set up in June 1999 and is responsible for protection of intellectual property. Doubts exist on the administrative capacity of Estonia to address current piracy issues. Little human and financial resources have been provided for enforcement and judicial enforcement is poor. Prosecution delays are far too long to allow effective enforcement of rights. Intellectual Property Rights (IPR) cases generally result in very low damages awards. A special IPR unit, under the authority of the Central Criminal Police, was created within the police. The police should be given further resources and authority. Customs authorities should become more active in the fight against piracy. So far customs have made 17 seizures since the Customs Act was amended in February. About 40 cases are still in progress and the number increases every weekly. *The administrative capacity of Estonia to ensure an effective enforcement regime will have to be closely monitored.*

The *Data Protection Inspectorate* (under the responsibility of the Ministry of Interior) has been designated as the data protection supervision authority. Its main task is the independent supervision over the legality of processing personal data and keeping data files, as well as organising data protection activities. The issuing of precepts to the responsible and authorised personnel dealing with data files as well as administrative penalisation for violating the order of keeping and processing personal

data also falls within the competence of the Inspection of Data Protection. At present 8 officials have been appointed to work in the Inspectorate. *In order to ensure the proper implementation of the EU acquis in this area, the administrative capacity of the inspectorate needs to be increased.*

On *free movement of goods*, a non-governmental independent technical institution has been established. The Technical Inspectorate (public service) is responsible for supervision of safety and quality of equipment as well as market surveillance. The independent technical inspectorate is in charge of pre-market surveillance and technical inspection. On metrology, a public advisory board was created in February 1999, currently preparing the long-term strategy for metrology. In July 1999, a decision has been taken to separate the activities of the National Standards Board into three new institutions (Public Standards Organisation, Estonian Accreditation Agency and State Metrology Center). These institutions are planned to be set up in the first half of 2000. The Public Standards Organisation will take the form of an association. The technical and financial participation of Estonian industry in standardisation activity needs to be increased to enable the future Public Standards Organisation, which will be financed by the fees paid by its members, to become fully operational. The Estonian Standards Board employs currently 21 persons an insufficient number, in particular to undertaking promotion and information activities towards the industry.

The capacity to set up the necessary institutions (conformity assessment bodies, testing laboratories, metrology laboratories and market surveillance authorities) remains Estonia's main challenge in order to effectively implement the New Approach directives.

In the financial sector, a plan to unify the supervision of the financial sector has been adopted but not yet implemented. The supervisory capacity in the *banking sector* is the Banking Supervision Department in the Bank of Estonia. Supervision capacity includes credit institutions (not co-operatives). The Department has a staff of 23 persons. It carries out at least one regular on-site inspection a year. Inspections take an average of 1.5 months. Licensing processes up to 3 months. All decisions of the department are obligatory and can be appealed in the administrative courts. *Training of specialists in the relevant fields still needs to be reinforced.*

The *Securities Inspectorate* (17 employees) supervises the securities market under the administration of the Ministry of Finance. The Inspectorate is in charge of registering of public issues of securities and units of UCITS, prescriptions and financial sanctions to all securities firms, stock exchanges, fund management companies and UCITS as well as suspension of licenses of securities firms and stock exchanges. In 1998, 31 on-site controls were carried out to management companies and securities intermediaries, 80 public issues were registered and 74 prescriptions to fund management companies were done. *Enforcement capacity of the inspectorate remains weak. It still needs to increase efforts to reinforce and train staff in several fields such as supervision techniques, security markets and investment strategies.*

The *Insurance Supervisory Authority* has a staff of 17 persons. It is in charge of suspending licences, approval of business plans and insurance conditions. The Authority carries out around 6-7 on-site inspections a year. In 1998, 12 licenses were granted. The capacity of the insurance supervisory authority to effectively supervise insurance companies has been strengthened as regards interim reports and the

procedures for carrying out audits in insurance companies. *However, the agency needs to be reinforced by being given the capacity to issue and revoke licences and by increasing its staff.*

Competition : The Competition Board is the responsible body to enforce *anti-trust* rules. It is responsible for investigations and examination of cases while administrative courts have the capacity to impose the sanctions established by the Competition Act. The number of staff of the Estonian Competition Board has been increased from 26 in 1998 to 41 employees in 1999 in order to fulfil the obligations provided for by the new Competition Act. The enforcement practice of the Estonian Competition Board still needs to be further developed. In 1998, the Estonian Competition Board undertook 107 investigations. The majority of these dealt with cases not relating to serious distortions of competition. *At present, the number of notifications has been very limited and therefore it is difficult to assess its monitoring record.* As regards *state aid*, the National Monitoring Authority is placed within the Budget department in the Ministry of Finance (4 officials).

Currently, the monitoring authority does not have sufficient powers, and resources to carry out an efficient state aid control. It is not in a position to receive systematically information on planned state aid measures and assess their compatibility prior to their granting.

Telecommunications : The Estonian National Communications Board became operational as national regulatory body in the telecommunications and postal services area in 1998. It has increased its staff from 55 at the end of 1998 to 75 in September 1999. It issues radio and CATV licenses, organises CATV license tenders, carries out type approval and issues import licenses for radio transmitters. It also deals with telecommunications standardisation issues. Until the adoption of the draft Telecommunication Act the Board will not have full powers as a national regulatory authority independent of the Ministry of Transport and Telecommunications (currently owner of the 27.3% of Eesti Telekom).

No major problems can be singled out in the implementation of the legislation in this area.

Audiovisual services : Supervision and enforcement in this area should be done by the National Communications Board. Work in this area has just begun.

Taxation : Progress that have taken place in this area include the introduction of annual programmes for fiscal controls, a simplification of administrative procedures for tax-payers and the restructuring of the main fiscal administration. The core administrative structure consists of the Customs Board and the National Tax Board, both of which report to the Ministry of Finance. The Tax Board levies direct and indirect taxes and since January 1999 also collects the social tax. Individuals and companies make tax declarations which are checked by local tax offices. Since 1997, VAT audits have been carried out as well as cross-checking tax declarations to ensure that declarations are correct. A new information system, which links all local tax offices has been introduced in 1999. In addition, the Customs Board and the National Tax Board have started a co-operation agreement which aims to avoid duplication and improve co-ordination. As regards administrative co-operation and mutual assistance with other countries, Estonia has concluded agreements with Ireland, Denmark and

the other Baltic countries, allowing parties to carry out joint controls and investigations of partners of companies established in the other country.

Tax enforcement capacity remains very low in Estonia. Although improvements have been made as regards the VAT system, efforts in this area need to be considerably strengthened.

Agriculture: The new Food Act reorganises the veterinary and food surveillance system. The *Veterinary and Food Inspectorate* (254 people), under the jurisdiction of the Ministry of Agriculture, is in charge of surveillance of animal and non-animal production, related enterprises and warehouses. Existing control systems are not in conformity with Community requirements. Import controls are based on a system of import permits/licenses. Decisions to block imports from specific countries or specific regions are managed by the relevant veterinary officer by non-issuing of import licenses or by non-issuing of veterinary export certificates. Fees for inspections are currently not collected. The border inspection posts are computerised, but the system will need to be upgraded in order to take over the Community information systems, ANIMO and SHIFT. The Health Care Inspection is in charge of surveillance of the retail sale and catering business. Finally, the Consumer Protection Board is in charge of surveillance over certifying, conservation conditions and ingredients of food in retail and gross sale.

The *phytosanitary* control is carried out by the Plant Production Inspectorate (179 people), the Plant Production Control Center and the Animal Breeding Inspectorate.

The Bureau of Intervention and State Reserve has been established in January 1999 within the Ministry of Agriculture. The bureau is responsible for the administration of food security stocks of the state reserve and state seed reserve as well as the preparation of the application of intervention measures.

Border inspection posts in the veterinary and phytosanitary field do not meet EC requirements. The reorganisation of the Veterinary and Food Inspectorate constitutes a positive step although it is still considerably understaffed to implement the acquis. Overall, Estonia is making slow progress in establishing the necessary structures and instruments to implement the Common Agricultural Policy.

Fisheries: The Fisheries department in the Ministry of Environment has been restructured in order to establish an administration capable of implementing the Common Fisheries Policy. Two new units to manage the national plan implementing the EU structural policy and the Fisheries Common Market respectively, have been created. The number of employees has increased by 3 people.

The Fisheries Board (17 people) under the Ministry of Environment is in charge of monitoring, inspecting and controlling fishing vessels and fishing-related activities. 11 posts (out of 28 budgeted) in the board remain vacant. Nevertheless, staff has doubled since 1998. The Estonian Sea Inspectorate is in charge of inspection and control. In 1999 10 additional persons were employed for improving the quality and promptness of fisheries information, implementing VMS and fishing vessels register. The main attention is paid to the control of fishing vessels at sea and in the ports. The

pilot project of placing permanent inspectors to the main fishing ports has started to increase the reliability of landing data and effectiveness of the control.

Estonia needs to increase efforts to implement the necessary structures to participate in the common fisheries policy. In particular, Estonia needs to set up structures of inspection and control and a fleet register. The Fisheries Board also needs to be reinforced in order to implement the acquis.

Energy: The Energy Market Inspectorate (6), created in January 1998, has as its main task to supervise the implementation of the Energy Act. It will become the independent regulatory authority. Since the beginning of 1999, the Inspectorate has been reinforced in order to increase its capacity in the field of analysis and approval of energy prices. Furthermore, the head of the Technical and Market Surveillance Division has been appointed, which has enabled the Inspectorate to start issuing market licences.

No major problems can be singled out in the implementation of the legislation in this area.

Transport : The bodies responsible for implementing transport legislation are the Road Traffic Department of the Ministry of Transport and Telecommunications, the Railways Administration, the National Maritime Board, including the Sea Safety Service, and the Civil Aviation Administration, including the Air Safety Service. To increase the institutional capacity towards EU accession the Ministry of Transport and Communications was reorganised in March 1999.

The Road Traffic Department issues licenses for market access (freight and passengers).

The *Railways* Administration was established in May 1999 and it is an independent regulatory agency in charge of carrying out state surveillance, applying coercive measures, regulating competition, drawing up conditions and principles of capacity distribution and charges, and laying down safety regulations. Staff amounts to 15 people.

The statutes, structure and staff of the National Maritime Board have been modified in order to enable it to carry out its new functions. Currently, 432 working places are filled. Since 1 January 1999, the National Maritime Board carries out technical supervision of small craft, keeps the register of small craft and of ships chartered without crew. A new Port Register Bureau has been set up. In 1998 the Maritime Safety Service (106 employees) checked 1030 Estonian vessels (236 were detained as temporarily unseaworthy) and 257 foreign vessels (15 were detained as temporarily unseaworthy). The services also started to check Estonian vessels in foreign harbours. Although the number of detained vessels has decreased, the problems to meet safety standards of Estonian flag vessels in port inspections indicates that the administration continues not to be able to fulfil entirely its supervision and control tasks.

The *Civil Aviation* Administration capacity presents a problem and there is a lack of resources on the side of the safety authorities. No major changes have taken place in this area other than the creation of a new sub-unit in the Civil Aviation Administration responsible for aviation policy and European integration issues.

Although Estonia has made considerable efforts to reorganise and update its administrative capacity in the transport sector, the capacity to enforce maritime safety rules and of the aviation administration remain a cause of concern.

Employment and social policy : The State National *Pension Insurance* Register was set up in January 1999. The Register was established as a new structural unit of the National Social Insurance Board to keep data on the insured persons, including the amounts of social tax paid on their behalf. Currently preparations are being made to put the register to use – designing the system, collecting data, etc. and it should start functioning on 1 January 2000.

As regards *health and safety* at the workplace, overall legislative responsibility lies with the Ministry of Social Affairs. The Labour and the Technical Inspectorates (under the jurisdiction of Ministry of Social and Economic Affairs, respectively) are responsible for implementation and surveillance. The Labour Inspectorate has 140 employees including 87 regional labour inspectors. The implementation of new inspection methods, following the adoption of the new Occupational Health and Safety Act, requires in-service training of officials, preparation of training materials and implementation of a modern training system for both labour inspectors and social partners. The new law allows the Labour Inspectorate to impose fines of up to €6,000 against employers who violate health and safety regulations. Since mid 1998, the Inspectorate has carried out 3,700 health and safety inspections. In 1,200 cases recommendations were made on safety levels and in 2,000 cases on health protection levels. The Bureau of Equality in the Ministry of Social Affairs is responsible for ensuring enforcement of equality legislation.

The capacity of the Estonian enforcement bodies, including the courts, to carry out its enforcement tasks in the social field remains a cause of concern.

Regional policy and cohesion : The responsibility relating to the management of local government, regional development and the corresponding draft legislation lies with the Ministry of Internal Affairs. The Ministry supervises county governments on general administration issues and concerning regional development issues. There are currently 5 officials working in the Local Government and Regional Development Department. The Ministry of Finance is responsible for the preparation of the National Development Plan.

The Estonian Regional Development Agency (7) whose main responsibility is to offer technical support to regional development programmes, as well as to support business in Estonia, operates under the responsibility of the Ministry of Internal Affairs. During 1998-1999 the Estonian Regional Development Agency hired 3 employees: a programme co-ordinator, an international projects co-ordinator and a loan manager. Regional development programmes are implemented by regional development agencies. Up to now, the Agency has had difficulties in coordinating the regional policies of the different relevant ministries.

Inter-ministerial co-ordination in the area of regional development is performed by the State Regional Policy Council, which comprises representatives from all ministries concerned as well as from county governments and local self-governments. The Council is chaired by a ministry without portfolio. The Council acts primarily as

a consultative body. An inter-ministerial working group supervises the implementation of regional programmes.

The Central Co-ordination and Programming Unit was established in November 1998 in the Ministry of Finance. The Ministry of Finance is also responsible for preparing the National Development Plan.

Notwithstanding the existence of these bodies, real inter-ministerial co-ordination remains very weak. Furthermore, Estonia still needs to identify the body channelling support from EU structural funds.

Environment : The Ministry of Environment is responsible for developing the policies, strategies and legislation, arranging environmental impact assessment at national level and monitoring. In some areas these responsibilities are shared with other ministries. The Ministry has received additional staffing for integration issues. The Regional Environmental Departments are involved in environmental protection management and control. The government has taken the first step by deciding to subordinate the regional environmental departments to the Ministry. Under the Ministry several bodies are in charge of implementing the legislation: the Environmental Information Centre, the Environmental research centre, the Environment and Marine Inspectorates and the National forest and National land Boards. The sector employs 140 persons in the Ministry, 260 in the supervisory bodies, 140 in nature protection and 140 in the regional environmental departments.

Administrative structures in the area of environment remain weak. Limited capacity at both central and local level as well as limited financial resources raise doubts as regards implementation capacity. This is mainly the case in the areas of water quality control, waste management, nature protection, control of industrial accidents and genetically modified organisms.

Consumer protection : The Consumer Protection Board and the Health Protection Inspectorate are responsible for the implementation and supervision of legislation in this area. In the Consumer Protection Board, the number of the staff working directly with consumer and market surveillance matters is 50. It is under the jurisdiction of the Ministry of Economic Affairs although it is an independent institution with its own budget. The Board is entitled to impose fines and prescriptive orders in case of violation of the Consumer Protection Act and other regulations. There are no special consumer or small-claim courts in Estonia so consumer disputes are handled by ordinary Courts. Hence, the importance of training of judges in EC law.

The Consumer Board needs to be reinforced to properly carry out its enforcement tasks. The capacity of the courts to enforce legislation in this area needs to be increased.

Justice and home affairs : The Police Board has been designated, the responsible authority for the national implementation of the strategy against organised crime. However, cases of corruption, organised crime, arms trade and drug crimes by senior officials are still handled by the Security Police Board. Decisions on asylum, earlier formally made by the Ministry of Interior, are now made by the Citizenship and

Migration Board, which becomes an independent body. Further organisational efforts are needed to improve administrative structures in this area.

A specialised police unit, the Data Bureau on Money Laundering (3 police officers and 1 banker), has been established following the coming into force of the Money Laundering Prevention Act in July 1999. Its tasks include gathering, registration and processing of data, supplying information to investigators of money laundering cases, cooperation with credit institutions and investigation of money laundering.

The low efficiency of the police constitutes one of the main weaknesses in this area. At the end of July 1999 there were 4,200 police officers in Estonia. Although the total number has increased by 130 since February 1999, 800 posts remain vacant. The main reason is low salaries. In 1998, about half of the 545 officers that left the police, did so due to the low level of pay. The average salary in the police is €387 a month. In order to tackle this problem, a salary reform is gradually being introduced (salaries have increased 26% as compared to 1998). The reform has already affected roughly 40% of police officers. Poor police performance is also a concern and it is directly linked to the low pay levels and lack of adequate training. In 1998, overall crime increased by 10%, mainly due to the considerable increase of economic crime (indeed, traditional crime has slightly decreased) against which the police lack the necessary techniques and research capacity. The frequent violent power struggles between rival gangs in the field of organised crime is also a cause of concern. The average clear-up rate is very low: 28.3% in the country as a whole and only 13% in the area around Tallinn where 50% of all offences are committed.

More personnel were allocated to the Special Anti-drug unit in 1998, but concrete results have been limited. For example, the decrease in the seizures of marijuana are explained as a result of the increased use of heroin and other heavier drugs. As regards border controls, efforts have resulted in achieving standards close to those of EU Member States. Nevertheless, there is still a lack of personnel and of certain infrastructure.

Despite the reinforcements already received, the Estonian Border Guard is still understaffed (2,900 employees of which 2,000 border guards, 520 administrative employees and 380 conscripts) in terms of its own objectives (3,500). Recruitment is set to run at 100 per year, so that it will be approximately 9 years before the service is up to strength.

Estonia needs to continue efforts to improve payment conditions in the police forces with a view to increase its efficiency, ensure adequate levels of staff and combat corruption. Furthermore, training and police officers skills have to be particularly strengthened. Estonia needs to continue reinforcing the Border Guards if the current levels of performance are to be maintained.

Customs : A reorganisation of the Customs Administration began in 1997, including the creation of an internal audit department. A Development Department now exists which is responsible for European integration matters. Based on the *Blueprints a GAP- analysis* was carried out in the Customs Board at the end of 1998.

The Customs Board (under the supervision of the Ministry of Finance) is in charge of control of cross-border movement of goods and collection of excise tax, VAT and

tariffs on imported goods. The number of officials working in the National Customs Board is 1,645. Training of customs officials has been reinforced, 910 participated in specific programmes (6.4 days/per employee) .

Estonia has still to develop a strategy to reinforce its administrative capacity in order to be able to implement customs tariffs in the future. Administrative modernisation, computerisation and strengthening of operational capacity and human resource development should be carefully monitored.

Financial control : Progress in the re-organisation of the *internal* financial control in Estonia has been very limited. Only five ministries have internal control units. There is no legal base, no common standards nor financial control for agencies and subsidiary bodies. Co-ordination between ministries is weak.

In the Ministry of Finance the Co-ordination and Control Department is understaffed (9 employees), although it has been restructured. The two main new responsibilities are the control of the State Budget funds and of EU related resources, funds and own resources. It is also intended to set up three units in the department: the Budget, European Funds and European Union Own Resources Control Units.

As regards *external* financial control, the number of officials in the State Audit Office has been increased. All employees are following a compulsory training programme, including an examination. The State Audit Office furthermore conducts regular assessments of its personnel to maintain a high quality. The human resources are sufficient to implement the *acquis*. Strategic planning on the role of the Office is ongoing and will be finalised later in the year. Discussion on internal auditing is conducted with the Ministry of Finance, especially in relation with the reorganisation of the Audit Department. At the moment the number of employees working in State Audit Office is 100. The number of employees working with European Union accession matters is 3.

Estonia has made very limited progress to introduce an efficient system of internal financial control, in particular with a view to its participation in EU structural policies. Efforts in this area need to be strengthened, in particular to ensure coordination between ministries.

C. Conclusion

Estonia fulfils the Copenhagen political criteria. However, the adoption of the Language law, which restricts access of non-Estonian speakers in political and economic life constitutes a step backwards and should be amended. In the meantime, the Commission will closely monitor the implementation of the law to see what impact it will have in practice. Attention needs to be paid to the fight against corruption.

Estonia is a functioning market economy where market forces play their full role. It should be able to cope with competitive pressure and market forces within the Union in the medium term, provided it completes the remaining key structural reforms.

Macroeconomic stabilisation has improved. The previous large external imbalances have been curbed and the increase in the external debt has been halted. While the budget deficit increased sharply, corrective measures have been taken to reduce it. The restructuring and consolidation of the financial sector have advanced, while the country has continued to attract high levels of foreign direct investments. Despite the slowdown of the EU economy, Estonia has continued to increase its exports to the European Union.

Priority should now be given to the implementation of the remaining structural reforms, in particular the transparent restructuring of the oil-shale sector, the finalisation of the pension and health reforms and the strengthening of the supervision of the financial sector. The pace of land privatisation should be accelerated, notably in order to encourage the development of agriculture. Investment in infrastructure and the development of the skills of the labour force should be continued so as to sustain the long-term growth of productivity and attract foreign direct investment. Strict control of public expenditures over the medium term is necessary in order to reap the full benefits of the proposed reforms in tax policy, public administration and the health sector.

Estonia has continued its alignment in the single market area, at a steady but slow pace, in particular as regards intellectual property and data protection, free movement of goods and state aid monitoring. As regards the New and Global approach for certification and standardisation, the lack of human resources has delayed the reform. Major efforts are also required in the field of state aids. Good progress has been noted in the fields of energy and transport, where legislative alignment and liberalisation have been taken further. However, the transparent restructuring of the oil-shale sector should be a priority, as should fiscal harmonisation in road transport. The capacity to enforce environment *acquis* remains together with a financing plan for investments, which is lacking.

Although some progress has been made in the agriculture, fisheries and regional development significant efforts are required to build up the necessary institutional structures and to develop the capacity to manage funds. Delays in the customs area are a matter of concern. Considerable efforts are needed on customs code, tariffs and capacity building. Very limited progress has been noted in financial control and in the social field where attention should be paid to the implementation capacity. Estonia

has followed most of the 1998 report's recommendations in justice and home affairs, where efforts need to be sustained, in particular as regards the police.

Overall, Estonia has continued to make progress in aligning further its legislation to the acquis. Progress has been limited in improving administrative and judicial capacity, where the short-term Accession Partnership priorities have only been partly met. It remains difficult to recruit and retain qualified staff, a situation which is delaying capacity building, and priority should be given in both budgetary and staffing terms to remedying this situation. Considerable efforts should be made in this respect in particular as regards free movement of goods, state aids, agriculture, customs, regional policy, environment, financial control and in the social field.

D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global Assessment of Implementation

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's Opinions,
- the financial means available to help candidate countries implement these priorities,
- the conditions which will apply to this assistance.

Each candidate country was invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how it would deal with the Accession Partnership, the timetable for implementing its priorities and human and financial resources implications. Both the Accession Partnerships and the National Programme for the Adoption of the *Acquis* will be revised regularly to take account of progress made and to allow for new priorities to be set.

1. Accession Partnership: Assessment of short and medium-term priorities

Short-term priorities

The short-term priorities of the Accession Partnership⁷ and an assessment of the progress made concerning their fulfilment are indicated below.

- **Political criteria** : *take measures to facilitate the naturalisation process and to better integrate non-citizens including stateless children. Enhance Estonian language training for non-Estonian-speakers.*

Assessment : Estonia has adopted amendments to the Citizenship law regarding stateless children. It has also continued to take measures towards integration of non-Estonian speakers, although these efforts need to be pursued further. The adoption of the Language Law in its current form represents a step backwards in the policy of integration of non-citizens. Therefore, this priority has been partially met.

- **Economic reform** : *establishment of medium-term economic policy priorities and joint assessment within the framework of the Europe agreement; in particular with a view to sustain the high growth rates of recent years, while reducing inflation and increasing the level of national savings; acceleration of land reform with a view to increase private ownership and introduction of key legislation linked to pension reform.*

Assessment : Estonia has not yet elaborated a medium-term economic strategy and the joint assessment with the Commission is still under preparation. The

⁷ Council Regulation 622/98, OJ L85 of 20 March 1998

privatisation process in the manufacturing sector has been completed. Privatisation of the big utility companies has progressed further but is still to be completed in the energy sector. Further efforts in enterprise restructuring will be needed during several years, in particular in the food processing sector. Land reform has stepped forward but it is far from completed and Legislation related to pension reform needs to be completed. Therefore, this priority has been partially met.

- **Reinforcement of institutional and administrative capacity** : *in particular as regards regulatory and monitoring bodies and the development of a comprehensive national training strategy for civil servants and developing a strategy and timetable for the consolidation of the various supervisory agencies in the financial sector, strengthen internal financial control, reinforcement of phytosanitary and veterinary administrations, particularly as regards facilities at external borders, institutional strengthening in the area of environment, begin to set up structures needed for regional and structural policy.*

Assessment : Estonia needs to make further efforts to increase the institutional and administrative capacity of its administration. A strategy of public administration reform has not been adopted yet. Efforts in the establishment and reinforcing of supervisory and enforcement bodies need to be continued (consumer protection, industrial and intellectual property, taxation, customs, securities, competition, environment, phyto-sanitary). A plan to consolidate supervisory agencies in the financial sector has already been adopted, but still awaits a formal decision on how it will be done. Therefore, this priority has been partially met.

- **Internal Market** : *including further alignment in the areas of public procurement, intellectual and industrial property, financial services, taxation, technical legislation and competition (especially the transparency of state aids). Adoption of new competition law, covering both anti-trust and state aid, reinforcement of the state aid monitoring authority and the establishment of a first state aid inventory.*

Assessment : Estonia has continued alignment in the field of free movement of goods, in particular as regards sector specific legislation. Progress in the New Approach area has been much slower. Alignment has been almost completed as regards free movement of capital and free provision of services. Although Estonia has adopted a new competition law, it does not cover fully merger control nor fully aligns state-aid legislation with the *acquis*. The state aid monitoring authority needs to be reinforced. Therefore, this priority has been partially met.

- **Justice and Home Affairs** : *in particular further efforts to implement measures to combat corruption and organised crime and continue judicial reform.*

Assessment : Estonia has continued to make efforts in the fight against corruption and organised crime. Steps to restructure and modernise the police service have continued to be taken. However, further efforts need to be made in particular to fight corruption within the police and increase its efficiency. The same applies for the judiciary where training of judges and prosecutors has to be intensified, particularly in regard to Community law. Limited training and low salaries continue to jeopardise achievements attained in this area. Further political and administrative attention are needed concerning the drugs situation. Estonia has now reached a relatively high standard of security on its eastern border. Border

infrastructure and equipment development need to be continued and the facilitated border crossing procedures need to be brought into conformity with EU-visa practice. Therefore, this priority has been partially met.

- **Environment** : *continue transposition of framework legislation, establishment of detailed approximation programmes and implementation strategies related to individual acts. Planning and commencement of implementation of these programmes and strategies.*

Assessment : Estonia has continued progress as regards legal transposition of framework directives, in particular in sectors such as air, waste and chemicals. Efforts are still needed in the industrial risk management, nature protection and genetically modified organisms. Administrative capacity, in particular at local level, to implement and enforce environmental legislation needs to be reinforced. Therefore, this priority has been partially met.

Although efforts in this respect have been uneven in each different area, Estonia has continued to address aspects of all of the short term Accession Partnership priorities. Overall, progress has been the weakest in the area of administrative capacity and public administration reform. Alignment of legislation in the single market and environment has continued at a good pace, with the exception of the New Approach Directives. However, enforcement and implementation of the legislation in these areas has remained somehow unattended. As regards the political criteria, Estonia has continued to be committed to increase integration of non-citizens. In this context, the adoption of the Language Law constitutes an important drawback. It has to be noted that Estonia has not yet elaborated a medium-term economic strategy and that the joint assessment with the Commission is still under preparation.

Medium-term priorities

Only the medium priorities of the 1998 Accession Partnership that have been met are mentioned below:

- **Political criteria**: *pursue integration of non-citizens by strengthening Estonian language training for Russian-speakers in primary and secondary schools as well as adult training courses, and by further measures to accelerate the naturalisation process.*

Assessment : Estonia has continued its committed towards a policy to increase integration of non citizens. The Citizenship Law has been amended in order to allow for granting citizenship to stateless children. Further measures, such as the creation of the "state language teacher" post and the continuation of funding of Russian elementary schools have been taken to strengthen Estonian language teaching in school.

- **Economic policy**: *regular review of the joint assessment of economic policy priorities, within the Europe Agreement framework, focusing on satisfying the Copenhagen criteria for membership of the Union and the acquis in the area of economic and monetary policy (co-ordination of economic policies, submission of*

convergence programmes, avoidance of excessive deficits); while Estonia is not expected to adopt the euro immediately upon accession, it is expected to pursue policies which aim to achieve real convergence in accordance with the Union's objectives of economic and social cohesion, and nominal convergence compatible with the ultimate goal of adoption of the euro;

Assessment : Estonia has continued to meet most of the *acquis* requirements with a view to a possible future adoption of the euro.

- **Internal market:** *including alignment, in particular in public procurement, financial services (banking and insurance rules), intellectual and industrial property and state aids, data protection, strengthening of securities regulatory bodies, audio-visual and indirect taxation. Upgrading of standardisation and conformity assessment structures, alignment of technical legislation on industrial products and establishment of a market surveillance system. Completion of alignment and effective implementation of competition law and the reinforcement of the competition authorities, promotion of enterprise development, including SME's, alignment with the *acquis* in the fields of telecoms, consumer protection and the internal energy market.*

Assessment : Estonia has continued alignment in the field of free movement of goods, in particular as regards sector specific legislation. Progress in the New Approach area has been much slower. Alignment has been almost completed as regards free movement of capital and free provision of services. Although Estonia has adopted a new competition law, it does not cover fully merger control nor fully align state-aid legislation with the *acquis*. The state aid monitoring authority needs to be reinforced.

- **Justice and home affairs:** *ratification and application of necessary international legal instruments relevant for the *acquis*, enhanced border management especially on the eastern border, implementation of migration policy and asylum procedures, enhanced fight against organised crime (in particular money laundering, drugs and trafficking in human beings), and to align visa policy with that of the EU and to complete alignment to international conventions, notably in view of the Schengen *acquis*.*

Assessment : Estonia has continued to make efforts in the fight against corruption and organised crime. Steps to restructure and modernise the police service have continued to be taken. Estonia has now reached a relatively high standard of security on its eastern border. Border infrastructure and equipment development need to be continued and the facilitated border crossing procedures need to be brought into conformity with EU-visa practice. Estonia's has brought its visa policy almost in compliance with the Schengen *acquis*. Estonia has already adopted laws on asylum and money laundering.

- **Transport:** *further efforts on alignment to *acquis* in particular on road transport (market access, safety rules) and maritime transport (safety) and rail transport, and to provide necessary investment for transport infrastructure, notably extension of trans-European networks.*

Assessment : Estonia has continued to align its legislation with the *acquis* in this area.

- **Employment and Social Affairs:** *development of appropriate labour market structures and joint review of employment policies as preparation for participation in EU co-ordination; alignment of labour and occupational health and safety legislation and development of enforcement structures in particular early adoption of the framework directive on health and safety at work; enforcement of equal opportunities between women and men; further development of active, autonomous social dialogue; further development of social protection, undertake steps to bring public health standards into line with EU norms.*

Assessment : Estonia has adopted the framework legislation as regards occupational health and safety allowing to implement the *acquis* in this area. The Social and Economic Council has also been established, thus reinforcing the currently weak social dialogue.

- **Environment:** *including development of monitoring and implementation control structures and capacities, continuous planning and implementation of approximation programmes related to individual legal acts. A particular emphasis should be given to the water and waste sectors and air pollution, including radioactive waste. Environmental protection requirements and the need for sustainable development must be integrated into the definition and implementation of national sectoral policies.*

Assessment : Estonia has adopted framework legislation in the areas of water, waste and air pollution.

- **Regional policy and cohesion:** *further develop the legal administrative and budgetary framework for a national policy to address regional disparities through and integrated approach, in order to participate in EU structural programmes after membership.*

Assessment : Estonia has already adopted an strategy for regional development in order to set up its main priorities in this area.

2. National Programme for the Adoption of the *Acquis* Assessment

The latest edition of Estonia's National Programme for the Adoption of the *Acquis* (NPAA) was originally adopted by the Estonian government on 2 March 1999. The new government slightly revised the Programme which it presented to the Commission on 27 May 1999.

The Estonian document is well-structured, clear and concise and follows the same outline as the Regular Report. It covers all areas of the *acquis* although the level of detail differs considerably from one area to another. In this sense, areas such as agriculture, free movement of goods and economic criteria represent a considerable improvement as regards last year's NPAA. However, important areas such as customs and taxation, regional affairs or environment remain too general.

As regards the timetables set by the NPAA, unfortunately not all areas contain the same level of detail. Overall, short-term objectives are realistic, with the exception of the agriculture chapter where it is questionable whether legal approximation targets will be met. However, medium-term objectives become less and less clear. It is notable that the time targets stated in the NPAA refer to the dates at which the government plans to adopt legislative proposals and not the actual date of adoption by parliament. This of course, limits the value of the NPAA as a programming tool.

In general, the NPAA is coherent with commitments of Estonia in other fora (screening, sub-committees, position papers).

Although the NPAA covers several Accession Partnership priorities, important objectives such as land restitution, or regional policy and cohesion remain absent. It would be advisable if Estonia established its NPAA following more closely the sequence of priorities identified in future Accession Partnerships. As regards the recommendations made by the 1998 Regular Report, efforts still need to be made to overall assess the administrative and enforcement capacities that have to be established as well as to provide a detailed analysis of budget needs.

An extensive analysis, including training and financial needs has been provided for the chapters on agriculture, free movement of goods and transport.

Although most chapters provide a financial needs analysis, this is not always very detailed. Unfortunately as regards administrative capacity little detail is provided for planning financial needs.

Unless the NPAA is expanded and adjusted it cannot be used as a co-ordinating instrument (nor does it seem to have been designed with this aim). The inclusion of implementation timetables together with financing plans is essential for achieving this purpose.

Finally, the NPAA makes no specific reference to the regional and local levels. However, this reflects the specific territorial organisation of Estonia where, at this stage, the main role in the EU accession process is played by central government.

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES,
JUNE 1999**

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LIT	MT	PL	RO	SK	SV	T
ECHR (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	O	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the ESC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
Framework Convention for National Minorities	X	X	X	X	X	O	O	X	O	X	X	X	O
ICCPR (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (abolition death penalty)	X	O	O	O	X	O	O	X	O	X	O	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
CRC (Convention on the Right of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LIT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

Annex

STATISTICAL DATA

STATISTICAL DATA

	1994	1995	1996	1997	1998
Basic data	in 1000				
Population (average)	1499	1484	1469	1458	1450
	Km ²				
Total area	45 227	45 227	45 227	45 227	45 227
National accounts	1000 Mio Kroon				
Gross domestic product at current prices	29.6	40.7	52.4	64.3	73.2
	1000 Mio EURO				
Gross domestic product at current prices	1.9	2.7	3.4	4.1	4.6
	in EURO				
Gross domestic product per capita ⁸ at current prices	1300	1800	2300	2800	3200
	% change over the previous year				
Gross domestic product at constant prices (nat.currency)	-2.0	4.3	3.9	10.6	4.0
	in Purchasing Power Standards				
Gross domestic product per capita ¹ at current prices	5200	5600	6100	6900	7300
Structure of production	% of Gross Value Added ⁹				
- Agriculture	10.1	7.9	7.5	6.9	6.2
- Industry (excluding construction)	24.1	23.1	22.2	21.5	20.2
- Construction	6.4	5.9	5.8	5.8	6.1
- Services	59.4	63.1	64.5	65.9	67.5
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	84.4	84.3	84.8	81.2	82.2
- household and NPISH	61.5	58.9	60.7	59.1	59.6
- general government	22.9	25.4	24.1	22.1	22.6
- Gross fixed capital formation	27.0	26.0	26.7	27.9	29.1
- Stock variation ¹⁰	-0.4	-2.2	0.0	2.4	-1.7
- Exports of goods and services	76.0	72.4	67.1	78.1	79.8
- Imports of goods and services	87.0	80.4	78.6	89.6	89.4
Inflation rate	% change over the previous year				
Consumer price	47.7	29.0	23.1	11.2	10.5 ¹¹
Balance of payments	In Mio EURO				
-Current account	-139	-122	-319	-499	-428
-Trade balance	-300	-508	-804	-996	-998

⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

⁹ Including FISIM.

¹⁰ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

¹¹ As calculated by Eurostat. The estonian calculation give 8.2% (see methodological note).

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<i>Exports of goods</i>	1 028	1 296	1 429	2 028	2 398
<i>Imports of goods</i>	1 328	1 804	2 234	3 024	3 396
-Services, net	89	289	409	524	549
-Income, net	-25	2	2	-128	-85
-Net current transfers	96	96	79	103	132
<i>-of which government transfers</i>	92	77	66	85	99

	1994	1995	1996	1997	1998
Public finance	% of Gross Domestic Product				
General government deficit/surplus	3.3	-0.9	-1.6	2.6	:
Finance	% of Gross Domestic Product				
Gross foreign debt of the whole economy	8.8	9.4	10.7	24.4	36.8
Monetary aggregates	In 1000 Mio EURO				
- M1	0.5	0.7	0.8	1.0	0.9
- M2	0.7	0.9	1.2	1.6	1.7
- Total credit	0.2	0.4	0.7	1.2	1.5
Average short-term interest rates	% per annum				
- Lending rate	24.7	19.0	14.9	11.8	15.1
- Deposit rate	11.5	8.7	6.1	6.2	8.1
EURO exchange rates	(1EURO=..National currency)				
- Average of period	15.40	14.99	15.28	15.72	15.75
- End of period	15.24	15.07	15.57	15.81	15.65
- Effective exchange rate index	:	:	:	:	:
Reserve assets	Mio EURO				
-Reserve assets (including gold)	418	496	564	746	753
-Reserve assets (excluding gold)	416	494	562	744	751
External trade	Mio EURO				
Imports	1400	1946	2539	3913	4269
Exports	1104	1407	1636	2585	2893
Balance	-296	-540	-903	-1328	-1376
Terms of trade	corresponding period of the previous year = 100				
	:	:	:	:	:
	as % of total				
Imports with EU-15 (EU-12 in 94)	23.9	66	64.6	59.2	60.1
Exports with EU-15 (EU-12 in 94)	19	54.0	51.0	48.6	55.1
Demography	Per 1000 of population				
Natural growth rate	-5.3	-4.9	-3.9	-4.1	-5.0
Net migration rate	-4.9	-5.4	-5.7	-1.6	-0.7
Infant mortality rate	per 1000 live-births				
	14.5	14.8	10.4	10.1	9.3
	at birth				
Life expectancy : Males	61.1	61.7	64.5	64.7	:
Females	73.1	74.3	75.5	76.0	:

	1994	1995	1996	1997	1998
Labour market (ILO methodology)	% of labour force				
Economic activity rate	63	61.5	61.0	61.2	:
Unemployment rate, total	7.6	9.7	10.0	9.7	9.6
Unemployment rate of persons < 25 years	11.6	14.1	16.0	14.4	:14.5
Unemployment rate of persons >= 25 years	6.9	9.1	9.1	9.0	:8.8
Average employment by NACE branches (LFS)	% of total				
- Agriculture and forestry	14.6	10.5	10.1	9.4	:
- Industry (excluding construction)	25.0	28.7	27.7	26.2	:
- Construction	7.2	5.5	5.7	7.3	:
- Services	53.2	55.3	56.5	57.1	:
Infrastructure	Km per 1000 Km2				
Railway network	23	23	23	23	22.5
	Km				
Length of motorways	:	64	66	68	74
Industry and agriculture	previous year = 100				
Industrial production volume indices	97	101.9	102.9	114.6	101.8
Gross agricultural production volume indices	87.1	100.2	93.7	98.5	:
Standard of living	Per 1000 inhabitants				
Number of cars	226	260	278	294	312
Telephone subscribers	295	279	300	323	345
Number of Internet connections ¹²	:	:	:	:	13.20

: not available

¹² Source: United Nations.

From national source: number of ISDN-lines of Estonian Telephone Company per 1000 inhabitants: 1996:0; 1997: 6.2; 1998: 15.6;.

Methodological Notes

National account

Gross domestic product per capita in PPS. Revised data use the PPP figures from the International Comparison Project.

Inflation rate

Consumer price The EU Member States have designed a new consumer price index in order to meet the obligations in Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

10.5% is the 1998 annual average rate of inflation, calculated by Eurostat for Estonia on the basis of monthly indices published by the Estonian Statistics Office:

From January 1994 to January 1998, Estonia has been calculating the national CPI on the basis of the old basket with base period 1993=100 (base period prices were average 1993 prices). In January 1998, the Estonian Statistics Office started a new index that is based on a new basket of goods and services with base period 1997=100 (base period prices are average 1997 prices). Important changes in consumers' expenditure have been observed between 1993 and 1997. However, the Estonian Statistics Office did not collect prices for all goods and services, that have been additionally taken into the new basket, over the whole of 1997. They have estimated instead average 1997 prices for the goods and services concerned.

The two index series were linked using January 1998 as the linking month. Indices prior to February 1998 were not revised. The annual average rate of inflation for the year 1998 calculated by Eurostat on the basis of this official series of monthly indices is 10.5%. Referring to this result, Estonia suggests that the annual average rate of change for the year 1998 should be calculated indirectly by comparing average 1998 prices with average 1997 prices. The corresponding inflation rate would be 8.2%. This latter figure is the result the Estonian Statistics Office would like to use. Estonia announced that it is going to publish a revised index series with 1997 = 100 up until 1994.

It should be noted that this (indirect) method is equivalent to establishing the above mentioned link at an earlier point in time, notably in January 1997. Since monthly 1997 indices on the new basket have not been calculated, because of the missing price observations, this method also implies that missing monthly 1997 indices and prices should be imputed in a way that monthly 1997 prices average at the estimated 1997 average prices.

Finance

Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include foreign official reserves, monetary aggregates, interest rates, and exchange rates. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning gross foreign debt, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning general government deficit / surplus, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

Method

Reserve assets are end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

General government deficit / surplus is an approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis.

Monetary aggregates are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

Interest rates Annual average rates. Lending rates generally consist of the average rate charged on loans granted by reporting banks. Deposit rates generally refer to average demand and time deposit rates.

Exchange rates Where available, the EURO exchange rates are those officially notified.

External trade

Imports and exports (current prices). The recording is based upon the general trade system, according to that; external trade comprises goods crossing the customs border of the country. Trade data only exclude trade in services as well as licenses, know-how and patents, exports and imports at bank notes in circulation, monetary gold,

goods for use by embassies, supplies by duty and tax-free shops at ports and airports. Since 1994 is excluded temporary exportation (importation) with commitment of re-exportation (re-importation) in unchanged state. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurring in course of transport up to the customs frontier charges to the seller. The term CIF means that the purchaser discharges the additional costs.

Trade classification: Merchandise trade flows are using the commodity classification according to the Combined Nomenclature.

Exports are recorded here on FOB basis. They are captured with the date of acceptance of the customs declaration by customs authorities. Since 1997 they are captured with the date on which the commodities cross the customs border.

Imports are recorded on CIF basis and are captured in the same way as exports.

Imports and exports with EU-15. Data declared by the republic of Estonia.

Demography

Net migration rate. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$. This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

Economic activity rate (ILO Methodology). according to the Labour Force Sample Survey (LFS), represents the labour force as a percentage of population at working age (15 years or more), where:

- Labour force: employed and unemployed persons (in the sense of the ILO definitions).
- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, and members of co-operatives or contributing family workers. Members of armed forces and women on child-care leave are included.
- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:
 - (i) have no work,
 - (ii) are actively seeking a job and,
 - (iii) are ready to take up a job within a fortnight.

The persons on compulsory military service are excluded from the employed. The persons on maternity leave are included into the employed and persons on parental leave excluded from the employed.

Unemployment rate (by ILO methodology). Percentage of the unemployed labour force.

These rates are derived from LFSS (Labour Force Sample Survey) observing the ILO definitions and recommendations mentioned below.

The persons on compulsory military service are excluded from the employed. The persons on maternity leave are included into the employed and persons on parental leave excluded from the employed.

Average employment by NACE branches (LFS). The data refer to the Estonian Labour Force Survey (ELFS). The questionnaire of the ELFS consists of two parts: the reference week section and retrospective section for the earlier years uncovered by previous survey. ELFS 95 covered the period 1989-1995, ELFS 97 the period 1995-1997 and ELFS 98 the period 1997-1998. Data presented in tables for the years 1993-1997 are retrospectively collected annual average data. Data for the year 1998 are reference week data referring to the 2nd quarter of 1998. For the years 1994-1996 data are about population aged 15-69, since 1997 about population aged 15-74.

Infrastructure

Railway network. All railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

Length of motorway. Road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means.
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

Industry and agriculture

Industrial production volume indices. Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E). Index of Industrial Production covers total industrial production including estimates for enterprises up to 19 employees. Electricity, gas and water supply covers only energy production (NACE Rev. 1 classes : 40101, 40301).

Gross agricultural production volume indices. The gross agricultural output has been calculated in 1995 prices.

Standard of living

Number of cars. By the definition of the Vehicle Register, passenger car is the road motor vehicle, other than a motor cycle, with the gross vehicle weight since 3500 kg.

Telephone subscribers. Figures exclude mobile phone subscribers.

Sources

Total area, infrastructure, industry and agriculture, external trade, labour market, Standard of living (Except Internet connexions): **National sources.**

National accounts, inflation rate, balance of payment, public finance, finance, demography: Eurostat.