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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 Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Estonia is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on three minor points. Firstly, the part of the present report assessing Estonia’s ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Estonia’s administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report). Thirdly, the report includes, for the first time, a section assessing the progress made by Estonia in translating the *acquis* into its official language.

In line with previous regular reports, the present report:

- describes the relations between Estonia and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Estonia’s situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);

- addresses the question of Estonia's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms, referred to in the 1999 regular report, have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Estonia in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Estonia's administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Estonia's economic performance.

The report contains also a separate section examining the extent to which Estonia has addressed the short-term Accession Partnership priorities, and has started to address the medium-term priorities set out in this framework.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as the information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional sources. Council deliberations and European Parliament reports and

resolutions¹ have been taken into account in the preparations. The Commission has also drawn 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

Recent developments under the Association Agreement (including bilateral trade)

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

The third meetings of the EU-Estonia Association Council and Committee were held in February and June 2000, respectively. The system of sub-committees continues to function as an efficient instrument for technical discussions. Current discussions within the institutional framework of the Europe Agreement focus particularly on the implementation of the Accession Partnership (see below) and seek to achieve progress in areas such as the internal market, agriculture and justice and home affairs.

Since the last regular report, the Joint Parliamentary Committee comprising representatives of the Estonian and European Parliament has met three times, in November 1999 and in March and October 2000.

Estonia's trade with the EC decreased slightly in 1999, to recover again in the first half of 2000. By June 2000, Estonian exports (except transit exports) to the EC accounted for 73% of total exports. Imports from the EC amounted to 73% of total imports. Estonia's main EC trading partners are Finland, Sweden and Germany and the main exports to the EC are machinery and electrical equipment, wood and mineral products, while the most important import products are machinery and electrical equipment, agricultural products including processed foodstuffs and transport equipment.

In March 1999 the Council mandated the Commission to open negotiations with the associated countries with a view to new reciprocal concessions for agricultural products. The negotiations, which form a part of the overall accession process, have been carried out on a reciprocal basis and with the aim of leading to a fair equilibrium between the interests of the European Community, the EU Member States and those of Estonia. The negotiations have been based on the principle of neutrality with respect to the functioning of the CAP.

The negotiations with Estonia for agricultural products were concluded between negotiators in November 1999. As a consequence more than half of traditional Estonian exports to the EC will benefit from preferences. EC exports will continue to enjoy full free access to the Estonian market. The new regime for agricultural products entered into force on 1 July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement.

¹ For the European Parliament the *rapporteur* is Ms Gunilla Carlsson.

In addition, negotiations on further mutual concessions for a number of processed agricultural products were also concluded between negotiators in May 2000. A Council Decision to implement the new concessions is under discussion.

In July 2000, the Council mandated the Commission to open negotiations with the associated countries on new reciprocal concessions in the field of fish and fishery products.

There is no specific trade problem in the relations between Estonia and the EU. Bilateral negotiations with Estonia on a Protocol on European Conformity Assessment (PECA) have continued.

In March 2000, Estonia signed a Joint Assessment on Medium Term Economic policy priorities with the Commission.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999. Its implementation is reviewed in chapter D of this Report.

In May 2000, 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 of the Accession Partnership.

Community aid

Since January 2000, there are three **pre-accession instruments** financed by the European Community to assist the applicant countries of Central Europe in their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. These programmes concentrate their support on the Accession Partnership priorities that help the candidate countries to fulfil the criteria for membership.

In the years 2000-2002 total financial assistance to Estonia will amount annually to € 24 million from Phare, € 12 million from SAPARD, and between € 21 and 37 million from ISPA.

The **Phare** programme has been providing support to the countries of Central Europe since 1989, helping them through a period of massive economic restructuring and political change. Its current "pre-accession" focus was put in place in 1997, in response to the Luxembourg European Council's launching of the present enlargement process.

Phare provides the applicant countries of Central Europe with support for institution building, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and accompanying investment support projects, to help them in their efforts to adopt the *acquis* and strengthen or create institutions necessary for implementing and enforcing the *acquis*. This also helps the candidate countries develop the mechanisms and institutions that will

be needed to implement Structural Funds after accession and is supported by a limited number of measures (investments or grant schemes) with a regional or thematic focus.

Around 30% of the Phare allocation is used for “institution building”, while the remaining 70% is used for financing investments.

During the period 1990 – 1999, the Phare programme allocated € 190 million to Estonia. The **2000 Phare Programme** for Estonia consists of a national allocation of € 24 million, concentrated on the following priorities:

- *Political criteria*– social integration and language training for ethnic minorities (€3.14M)
- *Administrative Capacity* – financial management and financial control (€1 M)
- *Internal Market* – market surveillance and master customs tariff system (€3.8 M)
- *Employment and Social Affairs* – labour market services (€1.8 M)
- *Justice and Home Affairs* – drugs, police training and crime prevention (€1.9 M)
- *Agriculture* - agricultural support systems (€1.98 M)
- *Economic and Social Cohesion* – business development, training and investment. (€10.1 M)

An additional € 3 million has been allocated under the Cross Border Cooperation programme for investment in infrastructure, to improve water quality, and for a small project facility to support cooperation activities in the Baltic region.

Estonia also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX, Justice and Home Affairs and the Small and Medium-sized Enterprises Facility. Furthermore, Estonia participates in a number of Community programmes – Small and Medium-sized Enterprises, 5th Framework Programme on Research and Development, Leonardo da Vinci, Raphael, Socrates, Youth for Europe, Drug Dependence and Health Promotion. Estonia has expressed its interest in participating in the Culture 2000 Community programme. Following the opening of negotiations regarding Estonia’s participation in the European Environment Agency, an agreement has been reached. Following ratification and entry into force of this agreement, scheduled for early 2001, Estonia will become a member of the Agency.

Overall, the impact of Phare in Estonia has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as banking, education, the social sector, privatisation, investment and export promotion, SME development, statistics, agriculture and land reform, environment, energy, transport, regional development, and justice and home affairs.

For example, Phare played a particularly important role in:

- **Language training for non-Estonians:** In cooperation with the United Nations Development Programme, Phare support has been used to provide Estonian language

training in order to improve the social and economic integration of the Russian speaking population. Phare has provided €1.4m out of a total project cost of €2.2m

- **Strengthening the judicial system:** A twinning project has been helping to train judges, prosecutors and bailiffs. Information technology equipment has also been provided for court probation departments and for all judges and court secretaries in order to improve storage and processing of data. Phare is contributing € 1.4 million.
- **Improving the effectiveness of border controls** at the future external borders of the European Union. Phare assistance has been used to supply electro-optical sensors to the Estonian border guards and to provide training in how to use them. This equipment should allow for a more efficient border control. Phare has provided € 2 million.
- **Improving water quality.** With Phare support, the Island of Vormsi has been able to address the problem of the lack of sewage treatment systems, which threatened both the quality of the drinking water and the ecology of the surrounding Baltic Sea. Phare CBC has contributed € 0.4 million from a total project cost of € 0.9 million.
- **Increasing European integration:** This wide-ranging Phare project is supporting the introduction of EC compatible legislation and the implementation of legislation in a number of important areas. New legislation has been developed covering the environment, internal market and agriculture sectors. Phare is contributing € 4 million.

Estonia has taken steps in order to improve the programming and management of the pre-accession instruments. In particular, the government has taken steps to improve coordination between ministries and to accelerate preparations of the National Phare Programme. These new procedures have been implemented in respect of the 2001 programme. Still, considerable efforts to reinforce programming capacities need to be made in order to maximise the efficient use of Phare funds.

A reform of the **Phare management system** took place in 1998 and 1999 to improve the speed, efficiency, effectiveness and transparency of Phare activities. The recent Phare Review Communication in 2000 continues to refine these basic management structures so as to further bridge towards accession and the structural funds. First, management can be fully decentralised from 2002 if the strict pre-conditions set down in the Co-ordination Regulation 1266/99 are met. Second, Phare programming can be moved onto a multi-annual basis if supporting strategies are in place. Third, the trends introduced in 1997 will continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis of management on raising the impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Estonian Rural Development Plan received a favourable opinion by the STAR Committee (EC Management Committee on agricultural structures and rural development) in October 2000. The plan is likely to be adopted by the Commission before the end of the year. The plan is based on three major priorities, namely the improvement of competitiveness in the agriculture sector and the agri-food industry (60.1% of EC funds), rural regeneration and rural development (36.5% of EC funds) and effective programme implementation (3.4% of EC funds). The average annual expenditure will amount to €34 million during the period 2000-2006, of which €12.3

million (at 2000 prices) will represent the Community contribution. Estonia established the **SAPARD** agency in March 2000 within the Estonian Agricultural Register and Information Board (ARIB). This agency will be responsible for all aspects of implementation of SAPARD including making of payments. The preparation of its accreditation is currently underway. Unlike Phare, SAPARD will be implemented on a fully decentralised basis from the start.

As regards the **ISPA** programme, the Estonian government has elaborated two strategy papers for transport and environment respectively, defining the main funding priorities in these areas. Priority projects agreed with the Commission for the year 2000 in the field of transport include a programme for reconstruction of the Via Baltica (Tallinn-Pärnu-Ikla), the rehabilitation of the Tallinn-Narva road, and the Tapa Railway Yard Reconstruction Project. In the environmental sector, projects include the construction of a sewage collector in Tartu, the Narva and Viljandi wastewater treatment plants and the construction of landfills at Pärnu and Tallinn. ISPA allocation for Estonia amounts to €14.5 million for 2000 (50% transport and 50% environment).

Implementation of the ISPA projects will follow the same institutional framework as for the Phare programme, with the National Fund at the Ministry of Finance being in charge of the overall financial management and a number of Ministries responsible for the technical implementation. For the programme and financial management of SAPARD, a different system will apply which reflects the EAGGF (European Agricultural Guidance and Guarantee Fund) rules and is based on a fully decentralised approach through an accredited paying and implementing agency.

The National Fund located within the Estonian Ministry of Finance has become the central entity through which Phare, ISPA and SAPARD funds will be channelled. The National Fund has overall responsibility for financial management of funds and for ensuring that procurement rules, reporting and financial management are respected. The Phare Joint Monitoring Committee is responsible for coordination of monitoring for the 3 instruments. The Joint Monitoring Committee (representatives will include the Commission and Estonian Ministry of Finance) meets every year to review the implementation of all assistance to Estonia.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, 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 through the long-term secondment of civil servants and accompanying short-term expert missions. Thanks to the strong support and response from EU Member States 107 twinning partnerships, funded by Phare 98 and involving all candidate countries and almost all Member States are operational. Under Phare 99 a further 107 projects are being implemented and the programming exercise for Phare 2000 includes a further 129 twinning projects. It is estimated that around 250 twinning projects will be operational throughout the candidate countries at any one time.

To start with, twinning focused primarily on the priority sectors of agriculture, environment, public finance, justice and home affairs and preparatory measures for the Structural Funds. It now covers all sectors pursuant to the *acquis*.

For Estonia, 14 twinning projects have been approved since 1998 and are at various stages of implementation. In addition to the above-mentioned sectors, the twinning projects in Estonia intend to support the development of the internal market and the social sector. Eight new twinning projects are foreseen for the year 2000, covering financial control, market surveillance, computerised tariffs, labour market services, drug strategies, police training, crime prevention and agricultural administration systems.

The total commitment from the Commission to twinning projects in Estonia amounts to approximately €14m, including the 2000 projects.

Eight Member States (France, Germany, Finland, Sweden, Greece, Italy, Ireland and Denmark) are currently involved in Twinning with Estonia.

Negotiations / screening

The analytical examination of the *acquis* (screening) for Estonia started in April 1998 and concluded in autumn 1999 with the examination of the agricultural chapter. An update of the screening exercise started in February 2000 in order to review the *acquis* entered into force in 1 January 2000.

Since the opening of accession negotiations in March 1998, Estonia has participated in four rounds of ministerial negotiations. As a result of these negotiations, thirteen chapters have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, health and consumer protection, CFSP, company law, fisheries, external relations, EMU and free movement of capital) while negotiations continue for the remaining chapters.

B. Criteria for membership

1. Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Estonia’s progress towards accession, the Commission concluded that:

“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.”

The section below aims to provide an assessment of developments in Estonia since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the political Copenhagen criteria, including as regards the overall functioning of the country’s executive and its judicial system. Developments in this context are in many ways closely linked to developments regarding Estonia’s ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Estonia’s ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1* of this report.

Recent developments

There has been no major political change in Estonia since last year’s regular report. A new Russian political party has been created, aiming at increasing involvement of non-Estonians in Estonian politics. There has not been any major shift in government policy and EU membership continues to be a key objective in Estonian foreign policy.

1.1. Democracy and the rule of law

As mentioned in the previous Regular Reports, Estonia has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore focuses on the most significant developments of the last year.

The parliament

The Estonian Parliament (*Riigikogu*) continues to operate satisfactorily. Its powers are respected and the opposition plays a full part in its activities. Efforts made by the current parliament in the adoption of EU-related legislation should receive special mention. This

has allowed Estonia to fulfil its legislative timetable and thus contributed to considerable progress in several areas. Efforts in this direction need to be maintained.

The executive

Progress as regards the modernisation of the public administration and of the civil service has been limited.

There are 20,505 employees in the Estonian administration², including ministries (11.7%), government agencies (83%) and county governments (5.3%). In addition, local governments employ 4,008 persons. Overall, Estonia's civil servants continue to perform their tasks in an impartial and politically neutral way.

The Estonian administration still suffers from a lack of qualified staff at the middle management and technical levels of the civil service. Some ministries remain weak because of difficulties in attracting and retaining good staff – due to low salaries and lack of career schemes- and poor resources management. Turnover of staff remains high (approx. 15%), which in some sectors results in a loss of expertise within the administration. Lack of coordination among ministries and between the local and central levels continues to be a problem. Homogeneous standards applicable to all public administration settings are unlikely under the present arrangements.

Despite the fact that it has been signalled by the government as a major political priority, no comprehensive strategy for public administration reform has been developed yet. The Office of Public Administration Reform (OPAR), within the State Chancellery, became operational in November 1999. Its role in the definition and implementation of a comprehensive public administration strategy is much more limited than early expectations would suggest. Its tasks remain ambiguous. In addition, lack of co-ordination among the key authorities involved (the Ministry of the Interior, the State Chancellery and the Ministry of Finance) has also hindered progress in this area. In December 1999, the OPAR prepared a discussion paper on the “starting points of the Administrative Reform Programme”. The paper is still under discussion with the different ministries.

The State Administration department in the Ministry of Finance is also involved in administrative reform. With a staff of 14 people, it is in charge of proposing salary structures for civil servants, mapping and analysing the functions of state institutions, assessing how to change or merge state structures at the central level, and monitoring administrative expenses from the perspective of cost-effectiveness. Co-operation with the Office of Public Administration Reform should be improved.

Civil service reform needs to be completed. Efforts are needed as regards recruitment and promotion criteria and the salary system. The lack of a cross-administration system of training and human resources management reinforces these problems.

Under the coordination of the European Integration Office, Estonia has continued to make efforts to train civil servants in EU affairs. The new civil servants performance appraisal system, adopted in 1999 has been launched. The use of information technology

² Data as of 1.9.2000. Includes police, border guard and prisons staff. Does not include education and healthcare personnel.

is widespread within the Estonian administration. The adoption of the Law on Digital Signature has been a new step forward in this area since it establishes the framework in which electronic, rather than paper, records will be recognised, authenticated and used.

Reform and consolidation of local government is underway. Currently, Estonia is organised into 15 counties and 247 municipalities, some of them very thinly populated. The Ministry of the Interior is in charge of the territorial reform of municipalities. The Ministry of Finance and the Minister without Portfolio responsible for regional development are in charge of the territorial reform of the counties. The main objective of the reform is to reduce the number of municipalities from the current number to less than 100.

The judicial system

Estonia has made some progress in addressing the concerns raised in last year's regular report in this area, in particular as regards training for judges. However, the workload of judges and backlog in the system have not registered noticeable improvements.

No concrete developments have taken place as regards the reform of the penal and civil law systems in order to complete the transition from the former system. Co-operation between the different authorities (police, prosecutors and judges) still needs to be reinforced.

A document outlining the strategy for all the institutions under the competence of the Ministry of Justice- the court system, public prosecution, probation and civil enforcement –for the years 2000-2003 was adopted in March 2000. The document also redefines the functions of the Ministry. As regards the administrative capacity of the Ministry of Justice, an internal audit unit was established in May 2000. In September 2000, the government adopted the principles of the Court Reform until 2003.

Estonia has a three-instance court system. There are 18 courts (21 in 1999) of first instance: 3 city courts, 12 county courts and 3 administrative courts. The city and county courts deal with civil and criminal cases while the administrative courts (located in Tallinn, Tartu and Pärnu) are the only “specialised” courts. In order to improve the efficiency of the courts system, three city and county courts have been merged in Tartu, Pärnu and Sillamae. A new Administrative Court has been established in Pärnu. There are 3 district courts (second instance), in Tallinn, Tartu and Jõhvi. Finally, the Supreme Court also serves as Constitutional Court and is therefore fully independent, with its own budget. The Supreme Court has criminal, civil and administrative chambers; for constitutional issues, a five-member Constitutional Chamber convenes.

All judges are appointed for life. Although there has been a slight change in the trend, a career in the judiciary remains unattractive for young qualified lawyers. Of a total of 238 judge posts, 14 remain vacant as compared to 19 in 1999. Since last year's regular report, nine judges have been appointed in Estonia, five of them to the Tallinn City Court. This is a first step in order to address the relevant short-term priority of the 1999 Accession Partnership. Concrete measures to attract highly qualified judges into Northeast Estonia need to be adopted. As regards the courts administration there are currently 150 prosecutors (out of 172 positions), 80 assistant judges, 37 registrars of the court, 167 court bailiffs and 148 probation officers. There are only 381 barristers (members of the Bar Association) in Estonia. The reason for this relatively low number is that barristers

have a monopoly of representation before the Supreme Court. In all other courts, legal consultants can also provide legal assistance.

In 1999, the number of pending cases in Estonia's courts, per judge/per month, amounted to 42.4, 13.6 and 26.9 for the civil, penal and administrative fields respectively as compared to 38.8, 12.5 and 17.9 in 1998. The backlog in the courts (calculated as the proportion between pending cases and the number of total cases) has slightly decreased to 62% from 64% since the last regular report. In June 2000, the Ministry of Justice changed the reporting format according to which courts compile statistical data. "Backlog" is now defined as the proportion of criminal cases pending for more than one year and civil cases pending longer than two years. In the past the backlog included all cases pending at the beginning of the year.³ Under the new methodology the estimated backlog decreases considerably to 21.7% for criminal cases and 5.7% of civil cases. Much of the backlog of criminal cases is concentrated in north-east Estonia. In 1999, proceedings in criminal cases lasted 3 months and 20 days on average, while proceedings in civil cases lasted 4 months and 24 days, reflecting no major changes since last year's regular report. In addition, in July 2000 the government adopted the main goals in the fight against crime, which include the introduction of measures to accelerate court proceedings.

Uncertainty by judges applying the law, in particular in the administrative and penal law field, continues to be a problem. The quality of court decisions varies considerably, although it remains unsatisfactory in the lowest-level courts. In 1999, first instance courts made 21,432 judgements in civil cases of which around 10% were appealed. In criminal cases, first instance courts made 6,681 judgements, of which 30.5% were appealed. Finally, as regards administrative cases, 43.2% of cases (1,316 judgements) were appealed.

Efforts to improve the training of judges have continued, thus addressing the relevant short-term priority of the 1999 Accession Partnership. Most of the training has focused on the recent changes in the legislation, especially in those areas that have changed dramatically since Soviet times as well as in EC law. Sixty per cent of judges and prosecutors have undergone an average 112 hours of training each.

The probation system, established in June 1998 is working well. On 1 May 2000, there were approximately 5,800 probationers in Estonia, of whom 5,400 were conditionally sentenced and 400 conditionally released. The number of probation supervisors is 200, so the legal limit of 30 probationers per supervisor is respected. Forty new probation officers have been appointed since last year's regular report. A hundred probation supervisors were trained in 1999. Around 4% of probationers reoffend in the course of their probation. This is a good result, given the novelty of the institution in Estonia.

Despite the fact that a number of measures in this area are under preparation, no concrete developments as regards the introduction of information technologies in courts can be reported.

³ For the purposes of this report and in order to allow comparability of data last year's methodology will be used.

Anti-corruption measures

Corruption is a relatively limited problem in Estonia. Only isolated cases can be reported, mainly in the local administrations where business and officials are more closely interconnected. Overall, Estonia has made considerable progress as regards the fight against corruption. Estonia has ratified the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. It has also signed, but not ratified, the Council of Europe Criminal and Civil Law Conventions on Corruption. Estonia has not yet signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. These efforts need to be continued and strengthened, in particular as regards the fight against corruption in the police and customs administrations. (*see chapter 24 - Co-operation in the field of justice and home affairs*).

1.2. Human rights and the protection of minorities

As mentioned in previous regular reports, Estonia continues to respect human rights and freedoms. The following section concentrates on subsequent major developments.

Estonia has ratified the major international conventions in the field of human rights (see annex). Further progress was made with the ratification by the Estonian Parliament, in May 2000, of the Revised European Social Charter. Estonia has not yet signed the 1991 European Social Charter or the UN Convention relating to the Status of Stateless Persons.

Civil and political rights

As regards the areas which were a matter of concern in the previous regular reports, the following developments can be reported:

- *Pre-trial conditions*: some isolated cases of ill treatment suffered by prisoners in custody have been reported, including the use of punishment cells. However, some progress has been made as regards pre-trial detention periods, which have been shortened. In addition, in July 2000 the government adopted the main goals in the fight against crime until 2003, which include to considerably shorten custody periods.
- *Prison conditions* in Estonia remain poor although considerable progress has been made in this area. The current prison population rate is 320 prisoners per 100,000 inhabitants. A first step to reform the prisons system in Estonia has been taken by bringing the administration and control of prisons under the direct responsibility of the Ministry of Justice. On March 2000, the Ministry of Justice adopted a development plan, until the year 2003, for the Estonian prison system. In June 2000, the Imprisonment Act was adopted in order to introduce further Council of Europe recommendations in this area, such as the abolition of in-prison regimes. In addition, implementation of the existing multi-year plan to refurbish and restructure the country's prisons has started. However, delays have occurred in the construction of a new prison in Tartu, which together with the introduction of the probation system should considerably alleviate the current overpopulation. Efforts have been undertaken to improve training among prison employees, including the teaching of the Estonian language.

Economic, social and cultural rights

As regards *equal opportunities*, no major changes can be reported. Despite the legislative framework that guarantees equal rights and opportunities, for women further efforts need to be made to implement these in practice.

Estonia has not ratified those articles of the Revised European Social Charter related to the rights to a decent salary, social protection for the elderly, dignified treatment at work, protection against poverty and social deprivation, and shelter. No concrete date is envisaged for the ratification of the remaining articles.

Minority rights and the protection of minorities

Ethnic non-Estonians constitute⁴ 35% of Estonia's total population (1,445,580⁵). Twenty-eight per cent of the total population (406,000) is of Russian origin.

The naturalisation procedure

112,822 non-Estonians have been granted Estonian citizenship since the Citizenship Law entered into force in 1992. Since 1 August 1999, 3,637 persons have received citizenship, as compared to 7,946 between 1 August 1998 and October 1999. In addition, following the amendments to the Citizenship Law in relation to stateless children, 427 applications have been introduced for the naturalisation of Estonian-born children of non-citizens legally resident in Estonia.

The Citizenship Act has been amended in order to lift the language and civic test requirements for disabled people, thus easing the conditions for receiving citizenship. Overall, Estonia has fulfilled the recommendations expressed by the OSCE in the area of citizenship and naturalisation.

Residence permits and special passports for non-citizens

A large-scale process of converting temporary residence permits into permanent ones is currently underway. Since the beginning of this year, the Citizenship and Migration Board has faced the difficult task of having to convert 196,913 temporary residence permits into permanent ones or to renew them. In order to overcome these difficulties, steps were taken to increase the capacity of the Citizenship and Migration Board, e.g. by increasing staff in its offices in north-east Estonia.

Currently, 192,072 non-citizens have been granted permanent residence permits and 84,180 hold temporary permits. Around 30,000 residents are estimated to be illegal. By August 2000, 6,741 illegal residents had filed applications for residence under the Government's registration campaign, which started in July 1997. This compared to 4,754 in August 1999.

Since September 1999, the Aliens Act has been amended on six occasions. Most of the amendments relate to the immigration quota regime (*see chapter 24 - Co-operation in the field of justice and home affairs*). Following a decision of the Estonian Supreme Court,

⁴ In 1999 (OSCE data)

⁵ As of 1 January 1999

spouses and children of Estonian citizens or holders of a valid residence permit are now excluded from the immigration quota. Although efforts in this area need to be continued, these amendments constitute a first step in resolving the issue of family reunification in Estonia. However, minimum income requirements for persons applying for a residence permit still exist.

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. Furthermore, non-citizens legally resident in Estonia for the last five years, were allowed to vote in the local elections that took place on 17 October 1999. Non-citizens are subject to some restrictions affecting the right to sit on the board of state-owned companies, to belong to a political party or to be employed in certain areas of the public administration.

In March 2000, the Estonian government adopted the state integration programme, "Integration in Estonian Society 2000-2007", thus addressing one of the short-term priorities of the 1999 Accession Partnership. The programme, which covers a wide range of actions to promote the integration of non-Estonians, will be implemented by the Estonian Integration Foundation. It focuses on four main areas: integration through the education system targeting adults and children, language training for adults and socially disadvantaged groups such as the unemployed, activities intended to protect the cultural rights of minorities and promoting through a public awareness campaign a positive attitude towards integration among Estonians and non-Estonians. The programme intends to spend €3.68 million in 2000, to be partly financed by foreign assistance. In addition, a regional office of the Minister without portfolio responsible for Population Issues was opened this year in Ida-Virumaa.

In the field of education, the *Law on Basic and Upper Secondary Schools* was amended in April 2000 to guarantee that, after 2007, 60 per cent of teaching in upper secondary schools will be in Estonian, while the remaining 40 per cent can be in another language. Initially, the law foresaw that, by that date, all upper secondary instruction would be provided exclusively in Estonian.

The ombudsman institution in Estonia was established in June 1999 by extending the powers of the existing Legal Chancellor from ensuring legislative compliance with the Constitution by the state to dealing with specific complaints by citizens. The Ombudsman institution is particularly important in Estonia, since it is to play an important role as regards the protection of minorities, as recommended by the OSCE High Commissioner on National Minorities.

By June 2000, 688 applications had been lodged with the ombudsman, of which 110 (15.9%) were filed by members of the national minorities. Of these cases, 23 related to residence issues.

Given the relatively short time since the ombudsman institution was established in Estonia, it is too early to evaluate its functioning. In addition, the term of the previous Legal Chancellor finished in June 2000 and the post is currently vacant. Procedures to nominate a new Legal Chancellor need to be accelerated. Furthermore, the capacity of the Legal Chancellor to deal with specific complaints by citizens needs to be reinforced. The

creation of an Ombudsman Office in north-east Estonia so as to ensure that the specific concerns of non-Estonians in the region are properly addressed needs to be speeded-up. Finally, public awareness, accessibility and visibility of the institution need to be raised.

Language policy

Estonia has made considerable progress in this area. As recommended in last year's regular report, the Estonian Parliament amended the Language Law in April 2000. The law regulates the use of the Estonian language in the public and private sectors. The amendments aim at ensuring the compatibility of the law with international standards on such issues as the freedom of expression as well as with the obligations of Estonia under the Europe Agreement. They intend to clarify the scope of the law as well as to enhance the proportionality of the restrictive provisions contained in the text. Under the new law, the compulsory use of Estonian in the private sphere has to be clearly justified on the grounds of a specific public interest, such as public security, public order, public health, health-protection, consumer protection and safety at work. Alignment of language legislation with international standards and the Europe Agreement constituted a short-term priority in the 1999 Accession Partnership with Estonia. Efforts in this area need to be continued in order to ensure that the implementation of the law, including the adoption of secondary legislation, also complies with those principles.

Under the Parliamentary and Local Elections Law, language requirements for candidates to parliamentary and local elections still remain. Although enforcement of these provisions is weak in practice, these restrictions affect the right of non-Estonian speakers to choose their candidates, in particular at local level.

A new integrated language certification system has also been adopted. The new system rationalises the previous system, which involved three different tests (for naturalisation, for education/graduation exams and for professional certification) with different methodologies and three different bodies responsible. The new system will involve single comprehensive language testing methodology that will be under the responsibility of the National Examination and Qualification Centre. These changes should also help to increase the speed of naturalisation, in particular for graduates of the basic and upper secondary schools. In order to ensure the proper functioning of the Centre and its capacity to cope with the increasing demand for language certification resulting from the application of the Language and Citizenship Laws; the necessary budgetary and human resources need to be allocated.

1.3. General evaluation

Estonia continues to fulfil the Copenhagen political criteria. It has addressed most of the short-term priorities of the 1999 Accession Partnership in this area, including the introduction of amendments to the language law, the adoption of the State Integration Programme for non-Estonians, the reinforcement in the training of judges and the reduction in the number of judge vacancies. In addition, steps have been taken to improve the capacity of the Citizenship and Migration Board to handle residence and citizenship applications. Progress towards the modernisation of the public administration has been limited. Efforts should be made to introduce a comprehensive strategy in this area, aiming at addressing the current deficiencies. Measures which have so far been taken to improve the functioning of the judiciary need to be continued, in particular to reinforce

the training of judges. Co-ordination between the different justice bodies needs to be reinforced and the reform of the penal and civil law systems needs to be accelerated.

As regards the integration of minorities, Estonia needs to ensure that the implementation of the Language Law takes place in accordance with international standards and the Europe Agreement. The capacities of the ombudsman, in particular as regards the protection of minorities need to be reinforced.

Estonia needs to continue efforts as regards the integration of non-citizens, reinforcing the capacity of the public administration, and improving the judicial system, in order to meet the medium-term priorities of the 1999 Accession Partnership in these areas.

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 confirmed in the 1998 and 1999 regular reports. In its 1999 regular report, the Commission found that:

“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.”

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, as well as in the previous regular reports.

2.2. Economic developments

Economic growth has resumed in Estonia from the second half of 1999. A stable economic and legal environment and proper policies have supported the rapid return to relatively strong growth after the economic recession partly prompted by the Russian crisis. In particular the Government's stability-oriented macroeconomic policy has led to restructuring and a rapid adjustment to the new conditions by enterprises and other economic actors. This has allowed the economy to take full advantage of the more favourable international economic and financial conditions. As a result, previous macroeconomic imbalances, in particular large fiscal and current account deficits, have been reduced, while inflation has been kept under control.

Estonia		1996	1997	1998	1999	2000 latest
Real GDP growth rate	per cent	3.9	10.6	4.7	-1.1	6.4 Jan-June
Inflation rate ⁶						
- annual average	per cent	19.8	9.5	9.3	4.6	3.7 ⁷ June
- December-on-December	per cent	13.0	11.2	5.7	5.1	3.2 June
Unemployment rate, end-year						
- ILO definition	per cent	10.0	9.7	9.9	12.3	13.2 April-June
General government budget balance	per cent of GDP	-1.6	2.6	-0.2	-4.6	:
Current account balance	per cent of GDP	-9.2	-12.1	-9.2	-5.8	-5.4 Jan-June
	million €	-315	-497	-429	-296	-135 Jan-June
Foreign debt						
- debt export ratio	per cent	15.9	32.2	36.3	29.9 E	:
- gross foreign debt	million €	367	1,031	1,348	1,109 E	:
Foreign direct investment in flow						
- balance of payments data	per cent of GDP	3.4	5.7	10.9	5.9	5.7 Jan-June
	million €	119	235	513	284	149 Jan-June

E = Estimates

The acceleration of the pace of structural reforms has addressed many of the structural weaknesses of the economy. The restructuring and consolidation of the financial sector, further progress in privatisation of state assets, in particular in the oil-shale/energy sector, and some important decisions in the areas of pension, health-care and fiscal reforms have strengthened the bases for a sound and sustainable increase in economic activity. Progress continued to be made in improving external competitiveness. However, the continuing growth in unemployment suggests that much remains to be done in the fields of education and skills development and in the reforms of the labour market to avoid potential bottlenecks to growth.

⁶ PROXY HICP since 1996 (see methodological notes).

⁷ Moving 12 month average rate of change.

Main Indicators of Economic Structure in 1999		
Population (average)	Thousand	1,442
GDP per head ⁸	PPS-€	7,682
	Per cent of EU average	36
Share of agriculture ⁹ in:		
- gross value added	per cent	5,7
- employment	per cent	8,8
Investment-to-GDP ratio ¹⁰	per cent	25,1
Gross foreign debt/GDP ¹¹	per cent	23,0
Exports of goods & services/GDP	per cent	76,9
Stock of foreign direct investment	million €	2,454
	€ per head	1,703
End of 1999 data (Eurostat)		
<i>Source Eurostat, National sources, OECD & IMF</i>		

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. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

Estonia has continued to enjoy a broad political consensus on the principles of the market economy and macroeconomic policies, enabling a climate of economic stability. The government has abolished one of the four existing tax-free zones and decided to suspend the creation of new ones. It adopted a medium term economic strategy in October 1999, concluded a Joint Assessment of medium term economic policy priorities with the European Commission services in March 2000 and a precautionary stand-by arrangement with the International Monetary Fund in March 2000. Estonia's medium term economic strategy remains anchored in the same principles that have been followed since the onset of transition. These are the Currency Board Arrangement, open external

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

⁹ Agriculture, hunting, forestry and fishing.

¹⁰ Data refer to Gross fixed capital formation as % of GDP.

¹¹ The 1999 data for foreign debt are estimates.

trade, free movements of capital, prudent fiscal policy and continued commitment to structural reforms.

Macroeconomic stability has improved substantially over the last year. The acceleration of a broad-based growth has been combined with a reduction in the fiscal deficit, which has helped to stabilise the external deficit. This has been accompanied by better monetary and financial conditions, including moderate inflationary pressures, and further progress on structural reforms.

After falling in the first half of 1999, real GDP growth has resumed from the second half. In 1999, the economy contracted by 1.1%, mainly because of a large fall in domestic demand. Since the last quarter of 1999, real GDP growth has been supported by internal and external factors. In the first half of 2000, real GDP grew by an estimated 6.4% compared to the same period of 1999. Most significantly, after falling in 1999, gross fixed capital formation and exports have increased in 2000.

The deficit of the general government amounted to 4.7% of GDP in 1999 and the target for 2000 is 1.2% of GDP. After a deterioration in the second half of 1998 and the first half of 1999, the government took a number of policy actions, including a negative supplementary budget in the summer of 1999 and a deferral of expenditures. The 2000 budget has lower total expenditures as a share of GDP and aims to reduce the general government's deficit by almost two thirds to about 1.2% of GDP. So far, fiscal performance in 2000 is meeting these targets. Fiscal management and transparency have been strengthened by the adoption of clear rules on the use of privatisation receipts (60% of which are to be channelled to the Stabilisation Reserves Fund), the management of the Stabilisation Reserves Fund and the adoption of a medium term fiscal strategy. This strategy envisages lowering the tax burden and public expenditures and achieving balanced budgets while carrying out important fiscal reforms.

Much progress has been made in the fiscal area, but there are still a number of important fiscal challenges ahead. In particular the pension and health-care reform needs to be completed, and the expenditures and debt policy of local governments needs better control. Under the currency board arrangement, fiscal policy has a crucial role in order to ensure internal and external balances. Also, further consolidation of public expenditure management and maintaining prudent fiscal policy will allow the Estonian economy to cope better with a possible acceleration of capital inflows in the run-up to EU accession.

Progress on pension and health-care reform has been steady. With the entry into force of the State Pension Insurance Act on 1 April 2000, the long term financial sustainability of the first pillar (pay-as-you-go element) has been reinforced. Due to difficult discussions among social partners, the introduction of the second pillar (fully-funded contribution programme) has been postponed to 2002 and the government decided to make contributions voluntary rather than mandatory as originally envisaged

The current account deficit has been reduced and the level of external official debt has remained low. In 1999, the current account deficit fell to 5.8% of GDP, a strong reduction from the very high levels reached in 1997 and 1998. In the first half of 2000, the current account deficit has continued to decrease, despite the fact that the trade deficit increased moderately due to higher internal demand. Nevertheless, exports of goods have grown strongly (+49% in value terms in the first seven months) and at a faster rate than imports, while the continuing growth of exports of services (up by 31% in the first quarter) has helped to increase the already sizeable surplus in the services balance.

Estonia has continued to attract large capital inflows, in particular foreign direct investment (FDI) and portfolio investment. In 1999 and the first half of 2000, capital inflows were larger than the current account deficit, allowing for an increase in foreign exchange reserves.

The consolidation of macroeconomic stability has been reflected in the positive evolution of monetary indicators. Nominal interest rates have reached historically low levels at the end of 1999 and real interest rates have fallen from the high levels reached in the late summer of 1999. Inflation increased to 4.4% on a yearly basis in August 2000, due to higher commodity prices, the depreciation of the currency vis-à-vis the US dollar and higher value added tax rates on heating fuels. Credit growth has stabilised at a level supporting economic activity. No significant pressures on asset prices or the exchange rate have emerged and the authorities' strong domestic and international credibility has been reflected in historically low spreads between Estonian kroon- and deutsche mark-denominated deposits, which fell from 114 basis points at the end of August 1999 to 6 basis points at the end of July 2000, and the kroon and euro money market rates.

Unemployment measured by the ILO methodology increased to 13.2% of the labour force in the second quarter of 2000. The main causes have been the impact of lower growth and restructuring in many sectors, even though the increase in unit labour costs in 1999 and 2000 may have had also some detrimental effect on job creation. Employment in the sectors of agriculture, education as well as health and social care declined significantly compared to the second quarter of 1999, while employment in manufacturing rose.

Estonia continues to have a very liberal external trade and payments regime. In November 1999, it joined the World Trade Organisation (WTO). On 1 January 2000 a limited number of tariffs on a selected number of agricultural products were introduced for countries with which Estonia has no free-trade agreement. Tariffs have been set at rates below the level agreed in the WTO agreement. Some of the few remaining restrictions on foreign direct investment were removed.

Regulated prices are adjusted regularly to ensure adequate cost coverage. While the majority of prices were liberalised quite rapidly following independence, regulated prices still account for 25.6% of the consumer price index (CPI) basket. They concern essentially natural monopolies in service sectors, some of them controlled by local governments. In fact, the goods for which the authorities set the price directly account for only 0.9% of the CPI basket, while the goods for which the authorities must give their approval to price changes account for 16.8% of the CPI basket. Finally, the government's tax policy has an important influence on the price of some products (notably tobacco, alcohol and fuels, accounting for 8% of the CPI basket). Decisions by the public authorities on the timing and size of regulated price changes therefore continue to have an impact on the rate of inflation.

All small and medium sized enterprises are privately owned, while only a very small number of large companies have yet to be privatised. The central bank has completed the privatisation of the only remaining state-owned bank. Major progress has been made in the privatisation process of two railway companies and of the company that extracts oil-shale and generates electricity. This last operation involves a foreign investor buying a 49% stake in the company, with a state-owned company holding the remaining shares. It has great significance for the long-term future of the indigenous electricity generation industry and for promoting further restructuring in the north-east region.

The State has continued to sell its minority stakes in private companies and public assets. Privatisation of assets controlled by local governments and municipalities, in particular ports, waste disposal companies, as well as water and heating utilities, has gathered speed. The private sector generates more than 70% of Estonia's gross domestic product. The economic structure is characterised by a predominant services sector and a very small agricultural sector (excluding forestry and fishing, the share of agriculture shrank from 3.8% of GDP in 1998 to 3.3% in 1999), making the Estonian economy increasingly similar to more developed ones.

Except in a declining number of well-defined areas, there are no significant barriers to market entry. In fact, the number of new companies being entered in the Commercial Register increased from about 4200 in the period 1 October 1998 - 1 June 1999 to about 5600 in the same period of 1999-2000. The liberalisation of the telecommunications sector continues to progress and the fixed-line monopoly of the current operator will cease at the end of 2000. Also, the liberal trade regime provides for strong competition from foreign producers. On the exit side, bankruptcy legislation is properly enforced and bankruptcy proceedings are usually going smoothly. Between 1 October 1998 and 1 June 1999, 115 companies were liquidated from the Commercial Register and 140 companies went bankrupt. The corresponding figures in the same period of 1999-2000 were 254 and 205 companies.

Property rights are firmly established and around 80% of land restitution has been completed. The share of land registered in the cadastre has increased to 57% of the total land stock, although it is recognised that a large part of Estonia's territory (notably inland waters and unfit land) will not be registered. Private land accounts for about a third of the total land stock. Following amendments to existing legislation, privatisation of land has continued, in particular for forests and agricultural land, albeit at a slow pace. The lack of enforcement by local authorities and the high financial costs involved for claimants are delaying the process of restitution and privatisation, in particular in the northern regions of the country. More determined action by local authorities and the simplification of procedures to privatise land should improve the functioning of the land market, notably by allowing more farmers to offer property certificates as collateral for loans.

The banking sector is well developed and strong. This year, the central bank granted a licence to a new bank. As a result, there are six banks in Estonia and a branch of a foreign bank. The three largest domestic banks controlled more than 95% of total assets at the end of June 2000. The largest banks achieved positive financial results in 1999 and in 2000. They have also reduced the amount and share of short-term external funding from non-resident credit institutions, reducing their vulnerability to international market sentiment and improving macro-economic stability. Non-performing loans accounted for only 2.1% of the total loan portfolio at the end of July 2000, compared to 3% a year before, while the difference between lending and deposit rates has narrowed considerably in the same period. Following the sale of the third-largest, public-owned bank to foreign investors, foreign-owned banks control more than 95% of domestic banks' assets. This has strengthened the access of local banks to long term, more secure funding and improved their financial strength and development perspectives. The high degree of capitalisation (13.5% of total risk-weighted assets at the end of July 2000, compared to the official requirement of 10%) and the longer-term structure of banks' liabilities also points to the increased strength of the banking sector.

Financial intermediation is expanding. The share of domestic credit increased from 31.9% of GDP at the end of September 1999 to 36.3% at the end of June 2000, while

there was a similar increase for the share of domestic residents' deposits in relation to GDP.

The non-bank financial sector is less developed than the banking sector in terms of economic importance and its regulatory framework is incomplete. Important progress has been made recently. Restructuring and consolidation of the insurance sector has been rapid in 1999-2000, notably through mergers and *acquisitions* by foreign companies. Activity on the stock market increased and investment funds collected significantly more resources. The regulatory framework of the non-bank financial sector has also been strengthened. More significantly, the authorities decided to create a single financial supervisory authority through the mergers of the existing agencies responsible for banking, insurance and securities supervision. The agency is scheduled to start operation in early 2002 and the authorities will need to ensure its operational and budgetary independence. In addition, the regulatory framework of the financial sector needs to be strengthened further, in particular by improving supervision of the securities market and of consolidated financial groups as well as increasing the early information system. In the run-up to the effective start of operations of the single Financial Supervisory Authority, it is important to maintain and reinforce the operational capacities of the existing supervisory agencies.

The capital market remains small, although many steps have been taken to facilitate access. A list of the main stocks in the Baltic region was created and links with Scandinavian stock exchanges enhanced. In addition, there has been an increase in the share of bonds issued on the domestic market with longer-term maturities.

Estonia is a functioning market economy. The legal, institutional and regulatory framework is in place and enforcement is largely adequate. Estonia's open policy towards trade and capital movements, combined with a large private sector and an attractive business environment, has provided strong incentives for the development of economic activity. The Currency Board Arrangement has been supported by flexible labour and product markets, as well as by the government's commitment to fiscal discipline and structural reforms. Nevertheless, there is a need to keep the current-account deficit under control and maintaining prudent fiscal policy is essential. A number of important challenges remain. The pension and health care reform needs to be completed, further consolidation of public expenditure management is needed and the expenditure and debt policy of local governments need to be better controlled. Remaining structural reforms include the oil-shale and the land reforms. In addition, the regulatory framework of the financial sector needs reinforcing and the access to market-based credit for agriculture and small and medium-sized enterprises needs to be improved.

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. Both the volume and the range of products traded with EU Member States provide evidence of this.

Estonia's well-established market economy continues to provide a sound basis for the modernisation of the supply side. In the wake of the Russian crisis, the stability-oriented economic policy and open competitive environment, which have been key elements of Estonia's economic policy since the onset of transition, have encouraged local businesses to restructure their operations and improve their competitiveness. The involvement of the state in the economy remains small and mostly limited to completing transition, providing public goods and a proper regulatory framework for the economy.

Labour markets have shown the capacity to adjust to changing market conditions. There was simultaneous reduction in nominal wages and employment levels in the worst affected sectors. This has hastened the reallocation of labour to the growing sectors of the economy, in particular services, where employment grew, albeit modestly, in the second quarter of 2000 compared to the same period of 1999. At the same time, this adjustment process has had negative consequences on already fragile sectors and regions of the country, increasing regional disparities further.

In the first half of 2000, real wages have continued to grow rapidly (+7.4% compared to the same period of 1999) and faster than the pace of productivity increase. Because the increase in real wages in 1998 and 1999 was to a large extent attributable to the strong growth of public sector wages, the authorities have decided to basically freeze the public sector wages in 2000. While wage growth has reflected a catch-up phenomenon in some sectors, where growth had been subdued or negative in 1999, it also points towards to supply shortages in the expanding sectors of the economy. Part of this structural problem is a sign of the low mobility of workers in certain regions and of skill mismatch. Tackling the structural problems of the labour market is one of the most pressing challenges for sustaining Estonia's growth in the medium term. In the shorter term, there is a danger that excessive wage growth could increase the current account deficit and negatively affect cost competitiveness. In order to tackle these problems the National Employment Action Plan has been adopted. However, there is a need to increase reform efforts in the areas of technical education and vocational training.

Investment has recovered partially in 2000, after the strong fall in the first half of 1999. This has been linked primarily to better economic prospects and also to lower nominal and real interest rates and an increased willingness of financial institutions to extend credits. The authorities also took important decisions that support the objective of increasing investment profitability, exports and business creation. Among the most significant measures were the decisions to reform corporate income tax and launch the restructuring of a number of public foundations involved in business creation as well as export and investment promotion. Government needs to make sure that the tax reform does not have major distortionary effects.

While there are still notable deficiencies in infrastructure, in particular in the area of transport, there has been considerable progress over recent years. These efforts should continue in the coming years in particular because of important projects that have been launched recently and because of the expected impact of privatisation on the level of investment in the railways and energy sectors. Already, Estonia has good telecommunications infrastructures, which has allowed a high use of modern information technologies among the population. Nevertheless, there is a need for continuing public

investment in many areas, in particular in education, roads and the environment. This is a necessary element for successfully achieving some of the authorities' key fiscal reforms, including the health care reforms and the improvement of the efficiency of public administration.

Estonia has continued to attract a high level of foreign direct investment inflows. Gross foreign direct investment inflows reached 5.96% of GDP in 1999 and 5.7% in the first half of 2000. EU investors have continued to be the most important foreign investors. The increase in reinvested earnings in 1999 and in the first half of 2000 indicates the continuing confidence of existing investors. Partly because EU-controlled companies make investments in foreign countries through their Estonia-based affiliates, Estonian companies have increased their investments in foreign markets, primarily in their Baltic neighbours, an indication of the capacity of some local businesses to adapt to a changing economic environment and prepare for functioning in the much bigger EU market.

Estonia's *government policy* continues to promote a stable and predictable economic environment for enterprises.

Trade integration with the EU has continued to increase. While total exports declined in value in 1999, those going to the EC increased in value and in relative terms. In the first half of 2000, this trend accelerated as exports of goods to the EC increased by more than 59% in local currency terms and by 47% in volume terms. As a result, in the first half of 2000, the share of imports from the EC remained stable at about 73% of all imports, but the proportion of exports going to the EC increased, also reaching 73%. Although this performance is partly due to the positive impact of the depreciation of the national currency against the US dollar, it reinforces the trend of sustained high export growth to the EC, which has always been higher than the growth of overall trade. The rebound of economic activity in the EU has been one of the factors explaining this export performance, notably through the increase of sub-contracting, but there has also been an improvement in price and non-price competitiveness of local businesses.

The importance of sub-contracting trade in foreign trade has continued to increase, most notably in the first half of 2000, when it represented 40% of total exports. The relative importance of machinery and equipment in imports for processing and re-exporting has risen significantly in 2000, making sub-contracting trade in textiles a distant second. While the value added remains small in the process of sub-contracting, the ability of Estonian sub-contractors to respond to rapidly rising external demand, in particular in high technology industries, demonstrates their capacity to integrate their production in the fastest-growing segments of the EU and world economies.

Home-originated exports are dominated by exports of timber, paper products and furniture. Encouragingly, the share of processed timber in the total export of timber increased significantly from 50% in 1998 to 57% a year later. The share of exports of machinery and equipment also grew in the second half of 1999 and in the first part of 2000. The exports of the food industry, which used to sell a large part of its output on the Eastern markets, continued to fall despite the recovery in economic activity in Russia and other regional markets. In 1999 and in the first half of 2000, exports of services grew faster than imports, a reversal of the trend of the previous two years.

Overall, Estonia's external trade has become more concentrated on a small number of broad product categories. The diversification and expansion of the export base in terms

of geographic coverage, traded commodities and number of exporters remain a key challenge to reduce the vulnerability of the economy to external shocks.

More than 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 dominant in industry, energy production and fishing. At the end of 1998, small and medium-sized enterprises accounted for around 47% of the total workforce, and for more than 74% of enterprise employment. Small and medium-sized enterprises are the main source of new jobs. However, their development continues to be hampered by difficulties in raising bank finance and hiring skilled labour. Farms and small enterprises continue to face difficulties in the access to finance. Two of the main difficulties encountered are finding collateral acceptable to financial institutions and uncertainty about property rights for part of the land stock (*see also chapter 16 – Small and medium-sized enterprises*).

Estonia should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it stays with its present reform path. It has made considerable progress, restructuring the enterprise and financial sectors, and in implementing structural reforms in the utilities and energy sectors, in a context of macroeconomic stability. Exports to the European Community have grown strongly as enterprises have adapted to changing economic circumstances and maintained their external competitiveness. Estonia should continue to implement the planned reforms in full and on time. Measures to improve the response of the labour market to economic growth, with a focus on improving education and training, need to be developed. This would allow Estonia to continue to attract large inflows of foreign direct investment and broaden its export base.

2.4. General Evaluation

Estonia is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it stays with its present reform path.

It has made considerable progress in strengthening macroeconomic stability, restructuring the enterprise and financial sectors, and in implementing structural reforms in the utilities and energy sectors. The legal, institutional and regulatory framework is in place and enforcement is largely adequate. Enterprises have adapted to economic circumstances and have maintained their external competitiveness.

Nevertheless, the current account deficit remains high, and not enough progress in containing government expenditures has been made, especially in the pension and health-care reform area, in the control of local government expenditure and debt policy. Remaining structural reforms must be completed, particularly the oil-shale and land reforms.

Estonia must continue with fiscal adjustment, further fiscal consolidation and improved expenditure management, including the control of local government expenditure and debt policy. Measures must be taken to reinforce the regulatory framework of the financial sector, complete land privatisation and improve access to market-based credit for agriculture and small and medium-sized enterprises. Initiatives to improve the response

of the labour market to economic growth, with a focus on improving education and training, need to be developed.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 1999 regular report on Estonia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*¹², by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Estonia's ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Estonia's administrative capacity to implement the *acquis* in its various aspects (in previous regular reports this had been covered in a separate section). Furthermore, for the first time, a separate section has been included assessing progress made by Estonia in translating the *acquis* into its official language.

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, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and 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, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Estonia's administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that:

“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.

¹² A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Estonia's application for EU membership.

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.”

3.1. The chapters of the *acquis*

As indicated, the review of Estonia's ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called “four freedoms”, the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Since last year's Regular Report, Estonia has made considerable progress in this area, in particular as regards standardisation and conformity assessment.

As regards **horizontal and procedural measures**, progress has been made in the implementation of the *principles of the New Approach*. In the field of *conformity assessment*, a new Product Conformity Assessment Act, which will enter into force in January 2001, was adopted in November 1999. The law constitutes the legal framework for the procedures of product conformity assessment and certification, including the issuing of product conformity certification documents, affixing of the conformity mark, the basis and rules for the designation of approved bodies (future notified bodies) and the surveillance of their activities. As regards *metrology*, amendments to the Metrology Act were adopted in June 2000, in order to align legislation in this area with the *acquis*. The amendments also establish the legal metrology authority, principles of legal metrology control and the market surveillance of measuring instruments. Overall, Estonia has met the 1999 Accession Partnership short-term priority in this area.

Progress has also been made as regards **sector specific legislation**. Estonia has also addressed the relevant short-term priority of the 1999 Accession Partnership. In the areas covered by the *New Approach Directives*, implementing regulations have been adopted in the area of construction products and medical devices. As regards sectors covered by the

Old Approach Directives, implementing regulations, aiming at further alignment with the *acquis*, have been adopted as regards textiles and motor vehicles. The new Food Act, which entered into force in January 2000, provides the framework law in the field of foodstuffs. Furthermore, procedures for notification, classification, identification, packaging and labelling of dangerous chemicals as well as the restrictions on their use have been established. Finally, amendments to the Medicinal Products Act as regards marketing authorisation and market surveillance for veterinary products have been introduced. No major progress has been made as regards pressure equipment, lifts and gas appliances and machinery.

Also in relation to the establishment and strengthening of the administrative structures necessary for the implementation of the *acquis* in this area, considerable progress has been made since the last Regular Report.

As regards *standardisation*, the Estonian Centre for Standardisation started operating in April 2000 as the official standards body, in the legal form of a non-profit organisation. It has a staff of 14 persons. Its functions include participation in the work of international and European standards organisations, compiling the Estonian standards programme, the implementation of *EC* and international standards as well as the adoption, amendment, and publishing of Estonian standards. The Centre is a member of the ISO and an affiliated member of CEN. Furthermore; Estonia has made considerable progress in the adoption of European standards. The total number of European standards (out of 7,000) adopted and enforced in Estonia by 30 September 2000 was 4,670 as opposed to 78 in October 1999.

In January 2000, the Estonian Accreditation Centre was established in the form of a foundation with a staff of four persons. The Centre is the national accreditation body and it is responsible for the accreditation of testing and calibration laboratories as well as of the inspection and certification bodies. By June 2000, 30 testing and 2 calibration laboratories, 3 inspection and 5 certification bodies had been accredited. The Centre has been a member of the European co-operation for Accreditation since June 2000.

No major progress has been made as regards **market surveillance**. Therefore, Estonia has not met the relevant 1999 Accession Partnership short-term priority. The Consumer Protection Board (CPB), the Technical Inspectorate and the Health Protection Inspectorate are the independent state authorities responsible for market surveillance. The Consumer Protection Board (retail trade) in co-operation with the Health Protection Inspectorate (wholesale trade) is responsible for consumer products, including toys, building materials, cosmetics and chemicals. The Technical Inspectorate is responsible for market surveillance in the fields of electrical safety, pressure vessels, gas appliances, lifts, cranes and explosives for civil use. It reports to the Ministry of Economy. It has a total staff of 35 persons, most of whom (approx. 30) perform inspection activities according to the yearly inspection plan. In 1999, the Inspectorate made recommendations in 10 cases, mostly concerning electrical appliances. In most of these cases, the sales of the product were halted. No fines were imposed, as the situation was always remedied within the given deadline.

No major developments have taken place in the **non-harmonised areas** since last year's Regular Report.

In the area of **public procurement**, progress has been limited. In March 2000, a strategy towards setting up a Public Procurement Information System was adopted. Estonia has not met the short-term priority of the 1999 Accession Partnership in this area.

The Public Procurement Office is the body responsible for enforcing the public procurement policy. Currently it has a staff of 22 persons. Its main tasks include drafting guidelines for central and local authorities, implementing legislation, publication and review of tenders. In 1999, 1,852 public tenders were launched in Estonia. 316 (23.5%) of these tenders corresponded to single source procurement, needing the explicit permission of the Office. 112 of these applications were refused. Overall, the Public Procurement Office received a total of 113 complaints, of which 54 were considered ineligible. The Office cancelled 38 tendering procedures and 107 appeals were reviewed by the arbitration body.

Overall assessment

Overall, Estonia has made considerable progress in the area of free movement of goods. Efforts need to be pursued as regards market surveillance and further strengthening and developing of the administrative capacity.

As regards **horizontal and procedural measures**, considerable efforts have been made to introduce the necessary framework legislation, in particular as regards the implementation of the basic principles of the New Approach on standardisation, conformity assessment, metrology and accreditation. Estonia has also established an important part of the necessary administrative structures. However, implementing regulations on conformity market assessment, designation of pre-notified bodies and the establishment of a register of pre-notified bodies still need to be adopted.

Although, overall, progress has been made in aligning **sector specific legislation**, both under the Old and New Approach Directives, further efforts need to be made in order to complete alignment with the *acquis*. In particular, administrative structures and the strengthening of its capacity to implement and enforce the foodstuffs legislation need to be strengthened.

As regards **market surveillance and product safety** although *ad-hoc* steps have been taken towards setting-up the administrative framework, overall progress has been limited. A market surveillance strategy including implementation and financial plans needs to be adopted. Also, the definition of responsibilities among the different authorities involved in market surveillance needs to be clarified and co-operation among them reinforced. As regards safety checks on products at external borders, Estonia still needs to establish appropriate customs and market surveillance infrastructure as well as effective administration cooperation between competent authorities.

As regards **public procurement**, Estonian legislation is not fully in compliance with the *acquis*. Alignment with the *acquis* needs to be completed as regards scope, procurement procedures, qualification of tenders and the definition of contracting authorities, technical specifications and remedies. The current law does also not cover utilities and work concessions as required by the *acquis*. Unfortunately, the adoption of a new Public Procurement Act has been delayed. As regards enforcement capacity, although the flow of information from procuring agencies to the Public Procurement Office needs to be

improved, no major problems can be singled out in the implementation of the legislation in this area.

Chapter 2: Free movement of persons

Since the last Regular Report, Estonia has made considerable progress in this area.

In the area of **mutual recognition of professional qualifications**, some progress has been made with the adoption of the Recognition of Foreign Professional Qualification Act. The Law intends to align Estonian legislation with the 1st and 2nd General System Directives on mutual recognition of professional qualifications. It covers the recognition of foreign professional qualifications in regulated professions requiring and not requiring higher education. However, professions such as medical doctors, pharmacists, general care nurses, midwives and lawyers are excluded from its field of application. On the basis of this law, a regulation was adopted in September 2000 establishing the requirements and procedures for the recognition of foreign vocational qualifications.

In the fields of **citizens' rights** and **free movement of workers**, no new developments can be reported.

With a view to the future **co-ordination of social security matters**, progress has been made by establishing, at the beginning of 2000, a Social Security Department in the Ministry of Social Affairs which will be the body responsible for implementing social security co-ordination with EU Member States. Staff numbers and training need to be reinforced. In addition, Estonia has signed the European Interim Agreements on Social Security Schemes relating to Old Age, Invalidity and Survivors, on Social Security other than Schemes for Old Age, Invalidity and Survivors and the European Convention on Social and Medical Assistance. These conventions provide for equal treatment of nationals of the Contracting Parties in respect of social security benefits, and social and medical assistance. In addition, Estonia has signed the European Code for Social Security establishing European minimum standards on social security systems.

Overall assessment

Overall, Estonia has progress in this area. Efforts to tackle the remaining issues need to be continued.

First steps have been taken as regards the implementation in Estonia of the *acquis* on **recognition of diplomas and professional qualifications**. However, substantial work remains to be done on both the legislative framework and the implementing structures. In this context, attention should be paid to seeing that those procedures regulating the recognition of academic qualifications and professional qualifications are clearly distinct. Legislation on the professions regulated by EC Sectoral Directives and implementing decrees to the current framework legislation need to be adopted. Competent authorities have to be designated.

No major problems can be reported in the fields of **citizen's rights** and **free movement of workers**, provided that the implementation of language legislation avoids unnecessary restrictions in this area. Furthermore, efforts to allow Estonia's participation in the European Employment Service (EURES) need to be continued.

With a view to the future **coordination of social security** schemes with other member states, Estonia has already introduced the necessary administrative structures. Training of staff needs to be continued. Estonia has concluded bilateral social security agreements with Finland, Sweden, Latvia, Lithuania, and Ukraine. In the framework of these agreements Estonia has granted 1,800 pensions, of which 800 involved export of benefits. This practice has allowed Estonia to familiarise itself with the administrative procedures involved in this area.

Chapter 3: Freedom to provide services

Since last year's Regular Report, Estonia has made significant progress in completing legal approximation in this area and has taken additional steps towards strengthening administrative capacity, in particular in the area of financial services.

In the field of **freedom of establishment and freedom to provide non-financial services** no major progress can be reported.

As regards **financial services**, and notably in the *banking* field, implementing regulations on the statute of the Banking Supervision Department within the Bank of Estonia, credit institution reporting, and the rules for the acquisition of the qualifying holding in a bank, have been adopted. Furthermore, a new regulation on disclosure of financial statements of credit institutions on sole and consolidated basis was adopted. In the *insurance* field, a new Insurance Business Act, further harmonising Estonian legislation with the *acquis*, has entered into force. However, provisions on insurance intermediation will only come into force in August 2001. Furthermore, secondary legislation establishing subclasses of life and non-life insurance as well as insurance intermediation, the rules for calculating the solvency margin of insurance companies and rules as regards reporting of insurance companies has been adopted. As far as *securities* are concerned, amendments to the Securities Market and Investment Funds Acts have been adopted, covering take-overs of public companies, simplifying licensing procedures for EC securities intermediaries and clarifying certain definitions such as public issuing and offering of securities. Furthermore, the Act on the Estonian Central Register of Securities has also been adopted.

The Banking Supervision Department of the Bank of Estonia is the authority responsible for supervision of banks and credit institutions. Its current staff is 23. The Department carries out the on-site inspections of credit institutions. The overall assessment of efficiency in banking supervision is largely positive and has continuously improved since last year. In order to reinforce consolidated supervision, the Banking Supervision Department has further developed inspection manuals and other in-house instructions.

The Insurance Supervisory Authority is the supervisory body for the insurance market. It is responsible for the authorisation of insurers, approval of business plans, revoking licenses and monitoring prudential requirements. The Authority has three departments responsible for financial supervision and reporting, supervision of Life insurance and supervision of Non-Life Insurance. The new Insurance Business Act has increased the powers of the agency, including the capacity to supervise brokers and agents. The current number of staff is 17, which seems insufficient to undertake its new tasks. In 1999, the Authority reviewed 232 complaints.

The Securities Inspectorate is the securities market regulatory and supervisory body. The Inspectorate has the power to carry out inspections of firms, institutions and organisations operating in Estonia, including the Stock Exchange. Since last year's Regular Report its powers to deal with insider dealing cases have been reinforced. In 1999, the Inspectorate carried out a total of 57 inspections.

In May 2000, the government adopted the main principles as regards the creation of a unified financial supervisory agency, which should be completed by 2002. A commission responsible for preparing the relevant legislation as well as co-ordinating the establishment of the supervisory agency was created in July 2000. Therefore, Estonia has partially addressed the relevant 1999 Accession Partnership short-term priority.

With regard the **protection of personal data and the free movement of such data** the European Convention on Data Protection was signed in January 2000. The Data Protection Inspectorate is responsible for the implementation and enforcement of legislation in the area of data protection. Although it is an independent body in practice, legally and from a budget point of view is still dependent on the Ministry of Interior. Currently, staff is insufficient to carry out its tasks.

In the field of **information society services**, the Digital Signature Act has been adopted in order to align with the *acquis* in this area. It foresees the use of a digital signature for transactions under public law. For private law transactions the use of a digital signature has to be agreed by the parties. The National Communication Board bears the responsibility for its implementation. The competencies related to the co-ordination of the information technology policy have been transferred from the State Chancellery to the Ministry of Transport and Communications.

Overall assessment

Estonia has made considerable progress in this area and legislation is largely in compliance with the *acquis*.

As regards **freedom of establishment and provision of non-financial services** attention should be paid that the procedures regulating establishment and provision of services are clearly distinct.

In the field of **financial services**, Estonian legislation is largely in compliance with the *acquis*. However, certain provisions of the *acquis* still need to be implemented. In the *banking* sector, provisions related to the recognition of contractual netting by the authorities, home and host country supervision and commodities and commodity derivatives risks are not covered by the current legislation. In the *insurance* sector, despite the progress made, full compliance will only be achieved with the adoption of the Law of Obligations, which is suffering considerable delays. As regards *securities*, compliance with the *acquis* in relation to investment services, insider dealing, pension funds and investor compensation schemes needs to be ensured. Although efficiency in banking supervision is largely positive, efforts to strengthen insurance and securities supervision need to be continued.

As regards **data protection**, current legislation is not yet fully in compliance with the *acquis*. The European Convention on Data Protection has to be ratified.

In the field of Information Society services, Estonia has taken a first step towards aligning the *acquis* in this area. Efforts have to be made in order to complete alignment as regards the Transparency, Conditional Access and Electronic Commerce Directives.

Chapter 4: Free movement of capital

Since last year's Regular Report, Estonia has continued to make progress in this area.

As regards **capital movements and payments**, Estonia has made further progress in abolishing remaining restrictions on capital movements. In particular, prudential restrictions vis-à-vis EEA member states and restrictions on foreign capital participation in the ownership of broadcasting companies have been removed. This constitutes a first step in addressing the relevant short-term priority of the 1999 Accession Partnership with Estonia. Furthermore, the Foreign Investment Act has been amended in order to revoke the provision allowing the government to specify areas of activity where the establishment of enterprises with foreign capital or participation of foreign investors is prohibited or can only take place under special permits.

As regards **cross border credit transfers**, no major developments can be reported. Work to introduce a 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 has continued.

In the field of **money laundering**, Estonia has ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. The necessary amendments to the Criminal Code and related legislation have also been adopted. This is an important step that will, *inter alia*, allow Estonia to increase its capacity to confiscate proceedings of crime.

The Financial and Intelligence Unit, created in June 1999, is the body responsible for implementing legislation in this area and for investigating reports on suspicious transactions as established by the money laundering legislation. The Unit is under the responsibility of the Police Board and it currently has a staff of four persons. By May 2000, 134 cases had been reported to the Unit since its creation in June 1999, of which 91 were reports of suspicious or unusual transactions. 29 cases out of the 91 were closed.

Overall assessment

Estonia has made considerable progress in transposing the *acquis* in this area. Efforts to reinforce administrative capacity in the money laundering area need to be continued.

As regards alignment in the field of **free movement of capital** considerable progress has been made. However, some restrictions still remain, in particular those related to the acquisition of real estate by foreigners. Alignment also needs to be completed as regards foreign investments in a limited number of strategic sectors.

Concerning **cross-border credit transfers**, Estonia has introduced a legal framework for the harmonisation of the legislation and achieved some progress in the implementation of a modern payment infrastructure.

As regards **money laundering**, Estonia has made important progress with the adoption of new legislation to combat money laundering. Efforts should now concentrate on ensuring adequate enforcement. The Financial Intelligence Unit is currently understaffed if it is to carry out its tasks in an efficient manner. In addition, training of judges and court staff dealing with financial crime should be reinforced.

Chapter 5: Company law

Since the last Regular Report, Estonia has made considerable progress in further aligning legislation in this area.

With regard to **company law**, amendments to the Commercial Code were adopted in March 2000 in order to achieve further alignment with the Twelfth Company Law Directive on single-member private limited liability companies. Legislation implementing the European Economic Interest Grouping has been adopted. In November 1999 Estonia joined the European Business Register which will allow the cross-usage of registered data via the internet. In February 2000, Estonia was invited to accede to the Lugano Convention.

No major legislative developments have taken place in the *accounting* and *auditing* fields. As regards administrative capacity, the Institute of Authorised Auditors has been established. The Minister of Finance is responsible for the supervision of the activities of the Institute. The Authorisation Committee for Auditors was established in November 1999 with representatives of the Institute of Authorised Auditors, the Ministry of Finance, the Bank of Estonia, State Audit Office and Tax Board. Training and qualification of auditors need to be reinforced. In relation to **industrial property rights**, the Patent Act was amended in October 1999, introducing *inter alia* supplementary protection (SPC) of medicinal and plants protection products. The new SPC legislation includes a transitional arrangement for products with old market authorisations. The Utility Model Act was amended in February 2000, in order to broaden the protection by Utility Models to substances and processes. Furthermore, several regulations implementing the law have been adopted, establishing, *inter alia*, the requirements and procedures for the certification of utility models

The Geographical Indications Protection Act was adopted in December 1999 and several implementing regulations have been issued. This law also amends the Trademark Act by specifying the administrative liability of legal persons and enabling the protection of geographical indications against an identical or confusingly similar trademark.

The national authority responsible for industrial property protection is the Estonian Patent Office. Since last year's Regular Report four new work places have been created. In addition, a new section for the international registration of trademarks under the Madrid Agreement Protocol has been established. The Estonian Patent Office (EPO) and the Office for Harmonisation in the Internal Market (OHIM) signed, in December 1999, a Memorandum of Understanding in order to make preparations for the integration of Estonia in the implementation of the Community trademark system. Since March 2000 a free electronic search system for trademark applications and registered trademarks has been available.

As regards **intellectual property rights**, the Copyright Act was amended in December 1999 and in September 2000 in order to align Estonian legislation further with the *acquis*

and the other relevant international agreements. The latest amendments make the storage and carriage of pirate copies into an administrative offence. Estonia joined the Rome and Geneva Conventions in April and May 2000 respectively although it has made a reservation to article 12 of the Rome Convention. This reservation means that non-Estonian producers and performers have no broadcasting rights in Estonia

The Copyright Committee, established in June 1999, has started its activities. It is responsible for co-ordinating all intellectual property issues in Estonia. The main task of the Committee is to provide an overview on compliance of Estonian legislation with international copyright norms and to monitor the quality of enforcement in this area. The Media and Copyright Department within the Ministry of Culture is responsible for copyrights protection in Estonia. Copyright protection in Estonia is still weak and trade in pirated goods is a continuing problem. Some efforts to reinforce the fight against pirated and counterfeited goods have been undertaken since last year's Regular Report. In May 2000, a special task force was created within the Tallinn Police Department to deal with piracy issues although it is still too early to assess its efficiency. In 1999, the police seized 53,052 pirated goods, mostly CDs and videotapes. 73 administrative and 42 criminal procedures were initiated. From January to May 2000, 34,273 seizures took place and 40 administrative and 37 criminal procedures were launched.

Overall assessment

Overall, as far as **company law** is concerned, Estonia has made considerable progress in aligning its legislation. However, full alignment with the 1st Council Directive is not completed yet. Estonia's accounting and audit legislation is largely in compliance with the *acquis* although measures related to consolidated accounts are still to be adopted.

As regards **intellectual and industrial property rights**, Estonia's legislative alignment is considerably advanced. However, Estonia is encouraged to withdraw its reservation regarding Article 12 of the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations of 1961, and thus to fully implement Article 8 of the EC Rental and Lending Right Directive. In addition, doubts exist regarding Estonia's administrative capacity to address current piracy issues. Currently piracy and counterfeiting of goods on the Estonian market affects all industries. Both civil and criminal enforcement of intellectual property rights should be improved, by strengthening the existing legal tools for the fight against piracy. Human and financial resources allocated to this purpose need also to be considerably reinforced. The efficiency of the judiciary, police and customs authorities should also be further enhanced in order to improve judicial enforcement and reduce the length of prosecution delays in this area.

Chapter 6: Competition policy

Since last year's Regular Report, Estonia has made some progress in this area, in particular in the field of state aids.

In the field of **anti-trust**, over the past year Estonia has adopted additional implementing regulations introducing block exemptions on restrictive agreements, hence bringing legislation on block exemptions closer to the *acquis*. The new regulations affect technology transfer, specialisation and research and development agreements, as well as agreements in the insurance sector. No progress has been made as regards the

introduction of full merger control, which was indicated as a short-term priority in the 1999 Accession Partnership.

The *Competition Board* is the national competition authority in Estonia. It is a fully independent authority and has sufficient resources and expertise in place. In 1999, the Board handled 53 cases related to the telecommunications and postal services sectors, the establishment of control and abuse of dominant position in the milk and meat markets, competition in the oil market, prices of professional associations (unions), surveillance of undertakings having exclusive or special rights and concerted practices in the taxi services market. Nine of these cases were considered to be in breach of the competition legislation. The Board participated in seven court cases. In addition, the Board analysed 39 merger notices and dealt with two applications for exemptions. Currently, the Board employs 47 civil servants, including 13 lawyers. In March 2000, the Board was restructured in order to improve its monitoring capacity. Restructuring includes the creation of three separate departments, specialising in different economic sectors. In addition a merger department and legal department have been established. Reinforcement of the Competition Board was identified as a short-term priority in the 1999 Accession Partnership.

In the field of **state aid**, amendments to the state aid provisions of the *Competition Act*, specifying conditions for the grant of state aid, entered into force in January 2000. In particular, the amendments lay down the procedural rules for ex-ante state aid control and strengthen the role of the national state aid monitoring authority whose clearance is now required for all new aid projects. In addition, implementing regulations on *de minimis* aid and on aid for SMEs, training and employment have been adopted. The state aid notification form for local authorities has also been introduced. The state aid survey for 1997 and 1998 was completed in January 2000 and largely follows the methodology and the presentation of the European Commission's survey on state aid in the EC. Plans to complete the state aid map have been delayed. The relevant 1999 Accession Partnership priority has been only partially met.

The national state aid monitoring authority is the *Division of Competition and State aid* within the Financial Services Department of the Ministry of Finance. Currently, four people work in this division. Several training activities on the EC state aid *acquis* have been undertaken. In 1999, the Ministry of Finance received notifications for and approved ten state aid programmes.

Overall assessment

In the field of competition, Estonia has made good progress in the area of anti-trust. Progress has been less satisfactory in the area of state aids.

As regards **anti-trust**, Estonia's legislation is largely in line and covers most of the *acquis* provisions, with the exception of full merger control. Further alignment is still necessary, especially in view of the new *acquis* on vertical restraints. The Competition Board has broad powers to enforce competition rules and sufficient staff in place. The most important challenge is now for the Competition Board to ensure the effective application and enforcement of the anti-trust rules, where priority should be given to cases that concern the most serious distortions of competition.

As regards **state aids**, and although additional legislation needs to be introduced to complete alignment, the existing provisions are largely in line with the *acquis*. In order to make the control framework fully operational, regulations covering EC secondary legislation and other relevant instruments need to be adopted. In addition, Estonia still needs to ensure that old aid, which entered into force before the amendment of the *Competition Act*, is systematically scrutinised by the state aid monitoring authority and brought into line with the EC *acquis*. In this context, a review of acts potentially containing aid award provisions, such as the acts on taxation, principles of local government, customs, budget and privatisation, is of particular importance. Furthermore, the regional aid map and the state aid inventory, covering all existing aid measures, need to be completed. Enforcement capacity in this area needs to be further strengthened in order to ensure the effective application and enforcement of the state aid rules, including the alignment of existing aid schemes and legislation under which authorities at various levels grant aid. Evidence of such enforcement practice is still scant.

Chapter 7: Agriculture

Agriculture in Estonia accounted for 5.7% of GDP in 1999, as opposed to 6.3% in 1998¹³. Employment in agriculture has declined strongly over the past years, accounting for 8.8% of total employment¹⁴.

The situation in 1999 was particularly difficult for the agricultural sector, whose total output decreased by 4.3% compared to 1998¹⁵. Particularly important was the decrease in production in the livestock sector, where a decline both in production and in prices was observed. In particular, total production of milk decreased. This was the result of low productivity and a decline in the number of cows following a steep decrease in milk prices, which on average were 20% lower than in 1998. The recovery of milk prices started in the last quarter and continued this year. In meat production, pigmeat is by far the most important product. Prices of pigmeat were, on average, 30% lower than in 1998. The unfavourable international market conditions and increased exposure to international competition explain the big decrease in prices.

In 1999, EC imports¹⁶ of agricultural products originating in Estonia decreased by 17% to €34.2 million. EC exports to Estonia dropped by 25% (€231 million), although exports of meat and meat products increased by 6.8%. The trade balance was favourable to the EC and amounted to €197 million in 1999, compared to €238 million in 1998. The main EC imports from Estonia are dairy products. The main EC exports to Estonia are alcoholic beverages; coffee, tea and spices; edible fruits and nuts and meat and edible meat offal. In

¹³ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

¹⁴ In order to improve consistency and comparability, the employment figures presented are now defined according to Labour Force Survey definitions (LFS). Agricultural employment is defined in LFS terms as economically active persons who gain a significant part of their income from agriculture. The agricultural census, which was previously a source of employment data in many countries, takes into account all persons nominally active on a farm. There are therefore some significant differences between previous and new figures. Further information can be found in the Eurostat publication "Central European Countries' Employment and Labour Market Review" available free of charge through the Eurostat Data Shops.

¹⁵ Source: FAO.

¹⁶ Source: Uruguay Round Agreement definition of agricultural products, figures taken from EUROSTAT COMEXT (see Agriculture in the EU-statistical and economic information 1999, p.36 for definition of the products).

this context, and following the new reciprocal concessions on agricultural products negotiated under the Europe Agreement, Estonia's agricultural exports to the EC will be considerably liberalised (*see section A.b. – Relations between the European Union and Estonia*).

Since last year's Regular Report, Estonia has taken further steps as regards its agricultural policy. The Strategy document on agriculture, adopted by Parliament in June 2000, establishes the main goals and measures of the Estonian agricultural and rural development policy for the period 2000-2003. The strategy for the period aims at increasing the efficiency of agricultural production; guaranteeing stable domestic prices as well as a stable supply of main domestic foodstuffs and contributing to the development of the rural economy. In order to achieve these goals, the strategy covers a set of concrete actions, including the introduction of market regulation measures, subsidies from the state budget and rural development measures. In addition, in March 2000 the Ministry of Agriculture went through an important restructuring, which should improve the Ministry's capacity to cope with the tasks related to preparation for membership. Elements of this reorganisation include the creation of four new departments responsible for Agriculture, Rural development, Veterinary and Food and agri-food matters and trade.

In 2000, the state agricultural budget will amount to approx. €45.4 million. Out of the total agriculture budget, €14.8 million will finance direct support schemes to farmers, €8 million input support and €10.8 million general and other support measures. State support to agriculture, including rural development, represents 2.4% of the 2000 state budget. As compared to previous years, this year's budget did not include compensation granted due to bad weather. In 2000, five types of direct support will be granted: sheep breeders, goat breeders, ecological farmers (the only new type of support introduced this year), dairy farmers with Estonian breed cattle, and growers of oil plants, flax, grain and grass seed.

As regards land reform, progress has been slow since the last Regular Report. Although the legal basis to speed up the reform already exists, the lack of enforcement by local authorities, the high financial costs involved in the process for claimants and discrepancies between the authorities responsible as to the amount of land to be privatised are considerably delaying the process.

Horizontal issues

As regards the implementation of measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)*, Estonia has made considerable progress since last year's Regular Report.

In March 2000, a SAPARD Agency was established within the Agricultural Register and Information Centre. The agency consists of two separate structures responsible, respectively, for the implementation of the SAPARD pre-accession fund (*see section A.b. – Relations between the European Union and Estonia*) and the administration of the existing national support schemes. Each structure has three departments responsible for support, control, and finance. Although several training programmes have been carried out during 2000, training of staff is far from completed.

In June 2000, amendments to the Government of the Republic Act provided the legal basis to restructure the current Agricultural Register and Information Centre into the

Agricultural Register and Information Board, which became operational in July 2000. This change will allow the SAPARD Agency to fulfil the functions of a state authority. In addition, the Rural Development and Agricultural Markets Regulation Act, adopted in October 2000 empowers the Agricultural Register and Information Board to implement the EC rural development and other market support schemes and mechanisms upon accession.

As regards preparations to establish the Integrated Administration and Control System (IACS) in Estonia, progress has taken place mainly in the registration of animals. Identification and registration of animals is compulsory since the entry into force of the Animal Disease Prevention Act in January 2000. On the basis of this law, the regulation allowing for the establishment of the animal register entered into force in October 2000. On the other hand, progress in the identification of land use and the establishment of the land register has been much more limited.

As regards the implementation of *trade mechanisms*, Estonia has taken the first step, by introducing customs duties on agricultural and processed agricultural products from third countries not having concluded a free trade agreement with Estonia. These tariffs entered into force in January 2000.

In relation to *quality policy*, the Act on Protection of Geographical Indications, which entered into force in January 2000, constitutes a first step to implement EC legislation as regards designations of origin and protection of geographical indications. However, the law is not fully in line with the *acquis*. The new Bureau of Environment which was established within the Ministry of Agriculture in April (see below) is responsible *inter alia* for the promotion of organic farming.

Concerning preparations for Estonia's participation in the *Farm Accountancy Data Network*, considerable progress has been made in the field of data collection and data processing. The Agricultural Census Act entered into force in May 2000. Preparations have started to carry out the first agricultural census for 2001.

Common Market Organisations

Since last year's Regular Report, Estonia has made some progress as regards the introduction of a legal framework and administrative structures for the establishment of Common Market Organisations.

The above-mentioned Rural Development and Agricultural Markets Regulation Law also provides the legal framework to regulate and manage agricultural markets (state support and other support measures) for several sectors (grain, milk and meat). It also establishes the requirements as regards statistics and reporting, and establishes the framework for intervention and private storage.

Regulations introducing quality requirements, as provided for in the *acquis*, have only been introduced for a limited number of products. Concerning *arable crops*, a regulation on the certification and quality requirements for cereals has been adopted. In the field of *specialised crops*, requirements as regards the identification, description and presentation for sale of alcohol and alcoholic beverages have been adopted. Finally, in relation to *animal products*, the list of animals subject to marking and the methods and procedures for their marking and registration have been introduced. The newly created Agriculture Register and Information Board (ARIB) will also be the institution responsible for the

administration of common market organisations for all field crops and animal species, including the management of export/import regimes.

Rural development and forestry

Little progress has been made in this field. However, it should be highlighted that, according to the *acquis*, only *agro-environmental measures* are compulsory. In April 2000, a new Bureau of Environment within the Ministry of Agriculture was established. The bureau is responsible for the co-ordination of the development of agro-environmental programmes, the promotion of organic farming, and for general environmental issues related to agriculture.

Veterinary and phytosanitary issues

Since last year's Regular Report some progress has been made in the **veterinary** sector, in particular as regards measures related to the internal market, notably veterinary control. However, no progress has been made as regards *common measures* including animal waste treatment, and *animal welfare*.

In this area, continuing alignment and upgrading of inspection arrangements, in particular at the future external border, as well as continuing upgrading of the food processing industry, were identified as short-term priorities in Estonia's 1999 Accession Partnership.

In the fields of *veterinary control* – including animal registration and identification and external border control–, *control of animal diseases and animal health* and *public health protection*, regulations on border control for animals and products of animal origin, on veterinary requirements for import and export of animals, and on the remuneration of veterinarians have been adopted. The Infectious Animal Disease Control Act entered into force in January 2000. It provides for financing from the state budget for the control of A-list diseases and for the system of notification in the case of outbreaks of an infectious disease. Furthermore, the lists of most hazardous and infectious animal diseases, which are subject to notification or registration, provisions on quarantine control, and regulations on the eradication of certain animal diseases have been adopted. Finally, hygiene requirements have been adopted for several products and establishments, including fresh meat and meat preparations, fishery products, milk and milk products, and egg and egg products.

As regards administrative capacity in this field, some steps forward have been made to strengthen the veterinary and food control system, by reorganising the food and veterinary inspectorate into the Veterinary and Food Board. The Board is the authority responsible for enforcing legislation as regards animal health, animal welfare and public health. However, so far its powers only cover veterinary control, given that the competencies as regards food control (both animal and non-animal origin) are currently under the Health Inspectorate. The restructuring of the system has made it possible to increase the efficiency of official meat hygiene control in slaughterhouses and meat processing establishments. Since January 2000 all the activities performed by veterinarians are financed from state budget. The number of authorised veterinarians in Estonia is 206.

There are 5 veterinary and food laboratories in Estonia. All laboratories have been accredited by the Estonian Standards Board. Authorisation of laboratories for official veterinary and food control started in the first half of 2000.

Currently, veterinary and food control is carried out at 14 border inspection posts. Since the beginning of 2000, border posts with third countries have been in the process of being upgraded for veterinary and food control. So far, only the upgrading of the Luhamaa border post has been completed. None of the border inspection posts has so far been recognised as meeting EC requirements in this field..

In the **phytosanitary sector**, some progress has been made since last year's Regular Report. As regards *plant health (harmful organisms and pesticides)*, the Plant Protection Act was adopted in March 2000. In addition, the import-export regulation and the nomenclature of goods and pesticides requiring a special import and export licence and subject to plant health control have been adopted. Furthermore, implementing regulations establishing the list of harmful organisms that are banned from import, the statutes of the plant health register, the list of plants subject to phytosanitary control at the border inspection posts, the list of border posts authorised for the import of plants as well as the measures for the control of plant pests have also been adopted. As regards *plant variety protection*, amendments to the Plant Variety Protection Act entered into force in March 2000 with a view to adapting Estonia's legislation to join the Convention of the International Union for the Protection of New Varieties of Plants (UPOV).

As regards *pesticides*, several regulations have been adopted establishing the rules for the sale of pesticides on the grounds of the Plant Protection Certificate, the requirements to obtain the Plant Protection Certificate, the safety requirements for the use of plant protection equipment, the list of agents forbidden in plant pesticides, and the regulation and methods for classification of plant pesticides.

No progress has been registered as regards *plant hygiene and animal nutrition*.

The national competent authority for the phytosanitary sector is the Estonian Plant Production Inspectorate. The Inspectorate is responsible for keeping the official registers, co-ordinating the work of inspectors at regional level, and checking the market. The inspectorate was reorganised at the beginning of the year. Following this reorganisation, the inspectorate currently has seven technical departments responsible for seed certification, variety control, plant protection products, plant health (including Border Inspection Service), feedingstuffs, fertilisers and organic agriculture. 15 regional bureaux in districts carry out the practical inspection work. Currently, the Inspectorate employs 181 persons, including 42 inspectors. The total staff at border controls is 61. In 1999 2,265 inspections were carried out and 3,554 samples were taken. Inspectors have the capacity to impose administrative sanctions up to €625. Fines over that amount can only be imposed by the administrative courts. Last year, 3 fines were imposed.

Laboratory controls and management are the responsibility of the Control Centre of Plant Production. This is a semi-state institution with around 100 employees under contract to the Ministry of Agriculture. Laboratory capacity for analyses and training of specialists need to be increased. So far, only two laboratories (seed testing and agro-chemistry) have been accredited according to EC standards. The plant health laboratory is not yet operational. In 1999, about 10,000 analyses were carried out in the laboratories of Control Centre of Plant Production, both for the public and the private sector.

The number of border inspection posts has been reduced from 11 to 9. Only the border posts at Luhamaa and Narva are largely in compliance with EC requirements.

Overall assessment

Overall, the most important steps taken by Estonia in the agricultural field so far have been made during this last year. However, considerable efforts still need to be made.

Regrettably, progress in land reform has continued to be slow. By September 2000, only 57% of Estonian land (2.5 million ha out of 4.3 million) had been registered in the cadastre (since 1992). Of the total land, about 3.8 million ha are subject to restitution and privatisation. Of the land still to be registered, 0.6 million ha correspond to pending claims, half of which have been pending since 1992. Delays in this area constitute a strain on the development of the agricultural sector in Estonia as well as on the adequate identification of land for CAP purposes.

As far as the restructuring of the *agri-food industry* is concerned, the sector still suffers from a 50% over-capacity. Overcoming technical barriers to trade, sanitary and phytosanitary measures as well as raising quality standards to internationally accepted levels are still big challenges for Estonia.

As regards **horizontal issues**, and in order to properly implement *trade mechanisms* upon accession, an intervention unit responsible for the administration of import and export licences, advanced fixed certificates and export subsidies still needs to be established within the structure of the Agriculture Register and Information Board. Furthermore, in the framework of preparations to establish the Integrated Administration and Control System (IACS), existing databases and data networks should be improved in order to allow a better integration of data with cross-checking purposes. In particular, considerable progress needs to be made to complete the land parcel identification system, especially as regards digitalisation of land parcels according to EC requirements. Further investments in training should be made.

As regards the implementation of **Common Market Organisations**, considerable progress still needs to be made in order to implement the Rural Development and Agricultural Market Regulation Law by adopting secondary legislation, including the establishment of quality and marketing standards for *arable crops* and *animal products* (cereals, milk and meat products). In addition, Estonia still needs to adopt the Horticultural Products Act in order to establish the framework legislation for regulating the markets for *specialised crops* (fruit and vegetables, plants and flowers and bananas). Market Intervention systems in line with the *acquis* are not yet established.

In the area of **Rural Development and Forestry**, Estonia needs to make further progress as regards the introduction of agro-environmental schemes.

Concerning the **veterinary field**, while legislation adopted so far represents an important step, Estonia needs to make further progress in adopting and implementing legislation if it wants to achieve full alignment with the *acquis*.

In the area of *veterinary control in the internal market*, the process of introducing both the internal computerised system linking veterinary authorities inside the country and an external movement control system (ANIMO) needs to be completed. Although the system for identification of bovine animals is close to full alignment and covers more

than 90% of the animals, more progress is needed as regards the identification and registration of pigs, sheep and goats. Controls at the future external border of the EU are not yet in full compliance with the *acquis*.

In the field of *control of animal diseases and animal health*, Estonia still needs to establish contingency plans and to create a reserve fund covering expenses for compensation in the case of an outbreak of an infectious disease. Preparations to participate in the animal disease notification system (ADNS) need to be completed.

The process of bringing food processing establishments into line with EC requirements is far from being completed. Of the 130 fish processing and 32 dairy plants currently existing in Estonia, only 19 and 5, respectively, have been approved by the EC. None of the egg farms (37), packaging centres (2) or meat plants (281) have been approved by the EC.

Progress in the fields of *animal waste treatment* has been very limited and the situation in this field is far from meeting EC requirements, both for low-risk and high-risk materials. Currently, only 30% of animal waste is processed. Progress towards setting up a rendering plant covering the whole of the country needs to be accelerated.

In the area of *animal welfare* progress has equally been limited. The situation in this field is far from compliant with EC requirements, both in terms of legislation and implementation.

In the **phytosanitary sector**, despite the adoption of a number of legislative measures transposing the *acquis* into Estonian legislation, much still remains to be done. The adoption of the remaining legislative and implementing measures in this field needs to be speeded up.

While the Plant Protection Inspectorate seems to have adequate human resources to carry out its tasks, training of staff needs to be considerably reinforced. The feedingstuffs legislation cannot yet be considered as EC compatible, the plant health and the plant producers' register have to be completed, and the ISTA seed control laboratory of the Control Centre of Plant Production has to be accredited. Furthermore, a phytosanitary emergency fund and specific budgetary allocations have to be established. In addition, registration of data on animal feedingstuffs and fertilisers in an official register and practical official control and sampling need to be completed.

Chapter 8: Fisheries

Since last year's Regular Report, Estonia has made progress in aligning its legislation on fisheries with the *acquis* with the adoption of new amendments to the Fisheries Act in January and October 2000 respectively. However, the reorganisation undertaken within the Fisheries Department puts into question progress made so far in building the administrative capacity needed in this area.

The new Fisheries Act, as amended in October 2000, establishes the first elements to develop a **market policy** in the sector by providing the legal basis to introduce the common marketing standards.

As regards **resources management**, a first set of amendments to the Fisheries Act entered into force in March 2000, in order to establish conservation measures and

improve the legal basis for controls and penalties. On this basis, the government has adopted a number of fisheries rules, regulations on issuing of fishing licences and submission of fisheries data. In addition, the latest amendments to the Fishery Act provide for the legal basis to regulate distant fishing. The Fisheries Department is under the responsibility of the Deputy Secretary-General of the Ministry of Environment. Its tasks include drafting and implementing the fisheries policy, resources management – including issuing licences, managing quotas, collecting data on fisheries activities–, market policy and the implementation and monitoring of structural actions. The department was reorganised earlier this year, and as a consequence, the competencies related to fish processing and marketing have been transferred to the Ministry of Agriculture. Following this reorganisation, the total number of posts in the department has been reduced from 24 to 12.

In the area of **inspection and control**, some progress has also been made in the legislative field, since the latest amendments to the Fisheries Act constitute the legal basis to implement the satellite-based Vessels Monitoring system. The tasks of inspection and control—including supervision of ports, vessels and other equipment—are under the remit of the Nature Protection Department in the Environmental Inspectorate. This Inspectorate was merged in January 2000 with the Sea Inspectorate. Furthermore, the Inspectorate is responsible for maintaining the fishing vessel register and the fisheries information system. Overall, there are currently around 50 inspectors working on fishery control. Since the Environmental Inspectorate reports directly to the Minister of Environment, it is unclear how an efficient co-ordination with the Fisheries department is attained. At local level, there is one person responsible for fisheries in each of the 15 Regional Environmental Departments. Their main tasks are collecting data, and drawing up plans on restocking and conservation.

As regards **structural actions** the above-mentioned Fisheries Act also provides the legal basis for introducing regulations in this field, in particular to establish the Fishing Vessels Register.

Overall assessment

Although the adoption of the new Fisheries Act constitutes a very important step in this direction, Estonia's legislation and administrative capacity are far from meeting the requirements of the Common Fisheries Policy. Considerable efforts still need to be made in this area, in particular to strengthen administrative structures and to adopt and implement secondary legislation in order to develop the Fisheries Act.

As regards the general **fisheries policy**, a fisheries strategic plan needs to be adopted. This plan should establish the main lines guiding the work of the fisheries administration in planning and managing the activities concerning fish resources, the fishing fleet, fishery ports, fish processing, marketing and trade, the relevant control and enforcement, human resources, scientific research, legislation and international co-operation.

As far as legislative alignment is concerned, considerable progress needs to be achieved in the adoption of secondary legislation to cover the *acquis* in the **resources management** and **structural policy** areas. In relation to administrative capacity, the Fisheries Department is considerably understaffed. Responsibilities related to the fisheries policy are scattered among different departments and ministries. Co-ordination and definition of tasks between them is unclear. Inspectors of the environmental

inspectorate also carry out a number of additional tasks related to environmental control. A refocusing of their activities in favour of fisheries activities would be desirable.

As regards **market policy**, producers' organisations need to be created in order to control the implementation of the common market standards in Estonian ports. So far, no common marketing standards exist in Estonia.

In the field of **inspection and control**, the setting-up of a fisheries information system has to be completed. The satellite surveillance system for fishing vessels needs to be established and the inspection activities intensified and refocused.

As regards **structural policy**, Estonia still needs to launch the re-measurement of fishing vessels and subsequently establish the fishing vessel register. These actions are a pre-condition for the future management of the fleet capacity and connected EC structural aid.

Chapter 9: Transport policy

Since last year's Regular Report, Estonia has made considerable progress in completing the legislative framework in the transport sector. In relation to **horizontal issues**, Estonia has approved the final report on Transport Infrastructure Needs Assessment (TINA) of October 1999 that should form the basis for extending the trans-European networks to Estonia.

As regards **land transport**, provisions regarding public service obligations to be met by public transport, state aids to public transport and the conditions of access to the transport services market for enterprises have been adopted. In addition, rules on state aids as well as an accounting system for infrastructure for railway, road and inland waterway transport have been issued.

In the area of *road transport*, the new Road Transport Act, adopted in June 2000, regulates national and international transport of goods and non-professional passenger transport. It also provides the basis for a number of items of secondary legislation including fiscal issues and the international transport licences system. In addition, it introduces for the first time in Estonia the concept of *combined transport*. Furthermore, comprehensive rules and implementing acts on market access for road haulage and passenger transport operators as well as technical supervision of motor vehicles have been adopted. At the beginning of this year, the requirement to use tachographs for registering the working and resting times of drivers operating in national transport entered into force. Rules for admission to the occupation have also been introduced although full harmonisation has not yet been achieved.

In the area of *railway transport*, the elaboration of secondary legislation has continued in order to guarantee safe traffic (*inter alia* several regulations have been adopted regarding the engine driver's licence system) and equal conditions for railway entrepreneurs in order to have access to the railways' infrastructure. The national railway register has been established. The first stage in the process of privatisation of 66% of the shares of Estonian Railways has been completed. Privatisation concerns both infrastructure and operations.

The National Railway Administration is the national regulatory authority 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. Since last year's Regular Report the staff of the administration has increased to 23 employees from 15. Since its creation in June 1999, 26 operating licences and about 110 engine driver licences have been issued.

As regards *inland waterways*, qualification requirements for the crew of inland waterway ships and rules for traffic on navigable inland waterways have been adopted.

In the **air transport sector**, the Estonian National Development Plan of Aviation for the Years 2000-2006, including a Development Plan for Regional Airports, has been adopted. It outlines the main strategy for the sector development until 2006, including the alignment with the *acquis*, and the impact for the sector of EU accession. On the basis of the Aviation Act, regulations establishing the rules for issuing and cancelling licences and certification of air carriers and air navigation services, the conditions of issuing certificates for building, manufacturing and service of an aircraft, the requirements of airworthiness for aircraft, the environmental requirements for powered aircraft and the rules for using Estonian air space as well as for ensuring air traffic management, have also been issued. Negotiations between the EC and Estonia on the multilateral Agreement to establish a European Common Aviation Area were concluded at the end of 1999 and a bilateral country protocol has been signed. As regards administrative capacity, the new structure and statutes of the Estonian National Civil Aviation Administration have been adopted.

In the **maritime transport sector**, the Maritime Safety Act has been amended. The new law constitutes the framework for establishing the rules and conditions for issuing, terminating or cancelling operating licences for entrepreneurs providing services connected with construction, manufacturing, repairing, testing and inspection of ships. Furthermore, amendments to the Merchant Shipping Code Act adopted in April 2000 allow ships under the flag of an EU Member State to carry out shipping services between Estonian ports on a reciprocal basis. Furthermore, on the basis of the Ports Act, a regulation regarding ship's waste has been adopted, further aligning legislation with the *acquis* in this area.

The Estonian National Maritime Board operates under the responsibility of the Ministry of Transport. Its main function is to deal with maritime safety, including technical supervision over small craft, ship supervision, maintenance of navigation marks and hydrography. The Maritime Safety Department employs 70 persons, including 15 inspectors. Furthermore, two new departments have been created within the Maritime Board, the International Safety Management and the Vessel Traffic Management and Information Departments.

The Board has the capacity to impose administrative penalties and has already done so. In 1999, the National Maritime Board inspectors inspected a total of 1,035 vessels, including 789 under Estonian flag of which 12% were detained. In addition, 3.6% Estonian vessels were detained at ports of countries which are members of the Paris Memorandum of Understanding for Port State Control. This number, compared to 8.67% in 1998, indicates that considerable efforts have been made in this area. Strengthening the implementation of maritime safety standards was indicated as a short-term priority in the 1999 Accession Partnership.

Overall assessment

Overall, Estonia has made good progress in adopting legislation transposing the transport *acquis*. Efforts in order to strengthen administrative capacity need to be continued.

As for strategic documents and legislation, the Transport Development Plan for the Years 1999-2006, approved in March 1999, continues to be implemented following the envisaged timetable.

Estonia has made considerable progress in aligning its **road transport** legislation in various fields such as market access, pricing, technology or some social rules. Further harmonisation is still needed as regards legislation on minimum vehicle taxes and social legislation. Estonia has not yet initialled the multilateral INTERBUS agreement on occasional bus services. Overall, administrative structures to bolster the enforcement capabilities in road transport are still to be established.

As regards **railways**, efforts to complete alignment with the railway *acquis* need to be continued.

In the **aviation sector**, on the other hand, Estonia has made considerable progress to align towards full membership of the Joint Aviation Agreement (JAA). Negotiations to join EUROCONTROL are ongoing. Although the working guidelines of a permanent investigating body for accidents and incidents have been adopted, the actual body has not been established yet.

In the area of **maritime transport**, Estonia needs to continue the reinforcement of its administration and the implementation of the relevant safety requirements in order to bring its fleet up to the EC's standards. Care should be taken that there is a sufficient number of trained inspectors to apply the *acquis*.

Chapter 10: Taxation

Estonia has continued to align its legislation in this area.

Since last year's Regular Report, some progress has been made in the field of **indirect taxation**. Therefore, Estonia has partially met the relevant 1999 Accession Partnership short-term priority. As regards VAT, the Value Added Tax Act has been amended in order to abolish most VAT exemptions and lower rates existing in Estonian legislation. The amendments also align VAT refunds to non-residents with the *acquis* rules.

With regard to *excise duties*, the Alcohol Excise Duty Act, introducing the system of tax warehouses for alcohol and restructuring of the rates of alcohol excise, was adopted in June 2000. Furthermore, new tobacco excise rates have been introduced and amendments to the Mineral Oils Excise Duty Act regarding the range of taxable mineral oil products and aiming at reducing evasion of fuel excise duties entered into force in September 2000. Unfortunately, the new amendments also invalidate the existing timetable for the gradual increase in petrol excise. In addition, in September 2000 a regulation exempting fuel, motor oil and heating oil-like products and components in the chemical industry from the excise tax entered into force.

With the adoption of amendments to the Taxation Act, initial steps have been taken in order to provide the tax authorities with the necessary powers to effectively undertake the

acquis obligations related to **administrative co-operation and mutual-assistance** with other Member States.

On **direct taxation**, the new Income Tax Act entered into force in January 2000. The law exempts legal persons registered in Estonia and non-residents that have registered a branch or other permanent establishment in Estonia from paying income tax on re-invested profit.

The core administrative structure in the field of taxation consists of the Customs Board and the National Tax Board, both of which report to the Ministry of Finance. In 1999, 5,738 tax audits were carried out (2,106 in the first five months of 2000). In order to improve the efficiency of the tax administration, new procedures have been implemented as regards the control of VAT, income tax declarations, the supervision of tax payments and enforcement of arrears. Initiatives aiming at extending the use of information technologies within the tax administration such as pilot projects to file income tax returns electronically and to monitor individuals' social insurance tax payments via the Internet, have also been adopted.

Overall assessment

Estonia has made some progress in aligning its tax legislation with the *acquis*. However, considerable efforts need still to be made in order to complete alignment, in particular as regards excise duties. In this context, the withdrawal of the foreseen timetable for the gradual alignment of excise duties on fuel is a step backward in achieving this goal.

As regards **indirect taxation**, Estonia's legislation is not yet in full compliance with the *acquis*. Although Estonia's VAT system is based on the 6th Directive, the current application of the reduced and zero rates as well as of exempt transactions are not in compliance with the *acquis*.

Despite the fact that so far a gradual increase in *excise duties* has taken place, alcohol, tobacco and fuel excise duties are still currently lower than what is required by the *acquis*. The tax warehouse system for mineral oils and tobacco still needs to be introduced.

As regards **direct taxation**, Estonia needs to ensure that the new Income Tax Act has no discriminatory effects on non-residents.

Estonia needs to continue substantial efforts to reinforce its tax administration. Tax enforcement capacity remains low, in particular as regards the collection of fuel and alcohol excise duties. Estonia needs to strengthen cooperation between the different authorities currently involved in these areas (the Customs and Tax Board, the Energy Inspectorate and the Economic Police) in order to solve this problem.

Chapter 11: Economic and monetary union

A detailed assessment of Estonia's economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis*--as defined by title VII of the EC treaty and the other relevant texts--which candidate countries should implement by accession at the latest, i.e. the prohibition of

direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since last year's Regular Report, no major developments can be reported. However, it has to be noted that the Bank of Estonia has launched a reform of the operational framework of monetary policy, which will bring it in line with that of the European System of Central Banks.

Overall assessment

Estonia will participate in EMU upon accession with the status of a country with a derogation under article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Alignment with the *acquis* in this chapter is almost complete. The Bank of Estonia already enjoys a high degree of **independence** and **direct financing of the public sector by the central bank** is prohibited by law. Estonian law does not explicitly prohibit **privileged access of the public sector to financial institutions**, but this has never happened in practice. Yet, Estonia still needs to introduce some changes to the Bank of Estonia Act for full alignment with the *acquis*, notably as regards the composition of the Supervisory Board.

Chapter 12: Statistics

Since last year's Regular Report, Estonia has made some progress in the field of statistics.

As regards **statistical infrastructure**, amendments to the *Official Statistics Act* were adopted in June 2000 in order to further align the statistical legislation with the *acquis*. These amendments allow the Statistical Office to communicate directly with ministries and other governmental agencies for the preparation of statistical surveys, and enable the government to establish statistical classifications and rules to restrict the use of collected data for purposes other than the production of statistics.

The Statistical Office and the Bank of Estonia are the only statistics producers in Estonia. The Statistical Office co-ordinates the production of statistics, it is responsible for the quality and respect of fundamental principles in the production of most statistics and for their dissemination. The Office has the status of a government agency dependent on the Ministry of Finance. Following the reorganisation of the statistical services, 18 staff members have been transferred from the regional statistical bureaux to the central office. Additional increases in staff have also taken place. Statistics related to the balance of payments and banking institutions are collected by the Statistics Department and Banking Statistics and Analysis Department of the Bank of Estonia. 21 persons work in these departments.

Concerning **demographic and social statistics**, the first Population and Housing Census was carried out in April this year. The Household Income and Expenditure Survey has

been revised and improved and the quarterly Labour Force Survey (LFS) has been implemented.

As regards statistics at **regional level** and **macro-economic** statistics, no changes have been registered.

For **business statistics**, a new questionnaire has been established in order to fulfil the requirements of the structural business surveys.

As regards **external trade** statistics, the special trade system has been introduced.

For **agricultural statistics**, considerable progress has been achieved with the adoption of the Agricultural Census Act in April 2000. This law constitutes the legal basis to establish the agricultural census.

Overall Assessment

Overall, Estonia has made considerable progress so far in this area. Statistics produced by the Bank of Estonia are largely in line with the *acquis*. Still, additional efforts need to be made, in particular as regards classification, registers, infrastructure and dissemination. Priority areas for further improvement are regional, business, labour, transport and trade statistics.

Although the Estonian Statistical Office largely functions following the criteria established in the *acquis*, Estonia needs to increase efforts as regards the allocation of budgetary and human resources to the Statistical Office.

Chapter 13: Social policy and employment

Since last year's Regular Report, Estonia has taken steps in all areas covered by this chapter. Main progress has taken place in the implementation of the occupational and health protection legislation and social protection.

As regards **labour law**, no major developments have taken place since the last Regular Report. Adoption of a new labour code was identified as a short-term priority in the 1999 Accession Partnership.

In relation to **equality of treatment for women and men**, a concept paper on gender equality was adopted by the government in April 2000. This paper should be the basis of the legislation transposing the *acquis* in this field. Since June 2000, the competencies of the Ministry of Social Affairs have been extended to gender equality issues. In order to fulfil this new task, two additional posts have been created within the Equality Bureau of the Ministry. Training of civil servants in this field has also been strengthened.

Several regulations implementing the **Occupational Health and Safety Act** have been adopted. They include, *inter alia*, provisions on safety requirements at construction sites as well as for working with asbestos, for the use of work equipment, for metallic lead and its ionic compounds at work and for work in environments with biological risk factors. Furthermore, implementing legislation on personal protective equipment, protection of workers from the risks related to exposure to carcinogens and mutagens, requirements for health exams for workers and procedures for the examination and registration of occupational accidents and diseases have also been approved. Finally, a list of

occupational diseases and the procedures for the examination and registration of occupational accidents and diseases have been issued. The Occupational Health Centre started its activities in August 2000 with a staff of 11 persons. The Centre is responsible, *inter alia*, for organising and co-ordinating occupational and health activities in Estonia, developing and implementing occupational health programmes and organising training for occupational health specialists. In 1999, the total public and private expenditure on working environment and occupational health and safety was between €160 and €300 million. Estonia has met the relevant 1999 Accession Partnership priority to a large extent.

As regards **public health**, in May 2000, the government adopted a strategy with a view to restructuring the Estonian health care system. It covers the reform of the primary health sector, the restructuring of the hospital network, the development of human resources and the effective use of financial resources. With the adoption of the Tobacco Act, progress has been made in implementing the *acquis* concerning the labelling of tobacco products and maximum tar yield of cigarettes.

In order to enhance the legal environment of **social dialogue**, the Trade Unions Act has been adopted. It lays down basic rights and legal status of trade unions, their relations with central and local government bodies and employers as well as the provisions concerning their creation and functioning. Furthermore, Estonia has continued to promote and support social dialogue both on a tripartite and bipartite level, thus partially addressing the relevant short-term 1999 Accession Partnership. First steps to establish tripartite regional employment councils at county level have been taken, in order to find solutions to regional socio-economic problems. These councils will define labour market measures including re-training and vocational training. At bipartite level, collective agreements have been concluded at branch level in the agri-food and road transport sectors. No new developments have taken place as regards collective bargaining and collective agreements at sectoral level.

The unemployment rate (ILO methodology) of 11.7% in 1999, increased to 14.8% in the second quarter of 2000. Officially registered unemployment was 6.8%. In the field of employment, Estonia has made considerable progress and has addressed the relevant short-term priority of the 1999 Accession Partnership. In October 2000, the government adopted the National Employment Action Plan (NEAP) following the European Employment Guidelines. The priorities of the plan include the development of active labour market policies, support to microenterprises, reducing administrative burdens for business, development of vocational education more suited to business needs, integrating disadvantaged groups into the labour market and improving the administrative capacity of the public employment services. In addition, the Labour Market Services Act was adopted in June 2000 to provide the legal framework for the functioning of employment services, including the licensing of private providers of employment services and vocational counselling. Since the beginning of the year, six vocational counsellors have started providing their services within local state employment offices. In order to monitor the functioning of these services, a Labour Market Department with a staff of four has been established within the Ministry of Social Affairs. No progress can be reported as regards the preparations towards the implementation of the rules and procedures of the **European Social Fund**.

Since the last Regular Report, some progress has also been made in the implementation of **social protection** reform. Legislation on social protection for the unemployed,

measures to strengthen protection of families with children and the State Pension Insurance Act, introducing the mandatory pillar of the pension system, have been adopted. Furthermore, the Disability Benefits Act partly entered into force in January 2000. In addition, several implementing regulations as regards procedures for the granting of social benefits have been issued. A committee in charge of resolving disputes on social benefits for disabled persons has been established within the National Social Insurance Board. Furthermore, the National Pension Insurance Register became operational in January 2000.

As regards administrative capacity, the Labour Inspectorate is the authority responsible for the implementation of legislation in the field of labour relations and occupational health and safety. The 15 county centres employ 84 labour inspectors. The Board has an estimated capacity to annually inspect approximately 15% of all Estonian firms. Inspections are carried out on the basis of the inspectorate work plan and complaints. In 1999, it received 398 written complaints as opposed to 503 in 1998. A total of 4,994 inspections took place during 1999 (in 1998 the number of inspections was 4,775). The inspectorate can impose administrative sanctions up to €17,000. In 1999, administrative penalties were imposed in 282 cases (in 1998 this was 353). Alternatively, the inspectorate can also suspend the activities of the infringing company, a measure taken on 80 occasions during 1999. Preliminary steps have been taken to reinforce training on occupational health and safety requirements among the Labour Inspectorate staff. In this context, a number of guidance materials for labour inspectors have been developed.

Overall assessment

Although Estonia has taken steps to implement the *acquis* in all areas of this chapter, progress has been uneven and a number of problems still remain. Efforts should continue focusing on the implementation and enforcement of the current framework legislation. In this context, efforts to strengthen enforcement bodies, in particular the National Labour Inspectorate, should be pursued. In addition, the capacities of the Ministry of Social Affairs need to be reinforced in order to ensure, *inter alia*, coherence between the different policies under its responsibility.

Estonia's **labour law** is still not in full compliance with the *acquis*. Furthermore, due to a change in the legislative strategy, delays have occurred in the adoption of remaining legislation in this area. Legislation implementing the *acquis* as regards collective redundancies, establishment of the European work councils and posting of workers still needs to be introduced.

As regards **equality of treatment**, considerable efforts need to be made to complete alignment with the *acquis*.

As regards **public health**, Estonia continues promoting different public health programmes related to the prevention of alcohol and drug abuse, tuberculosis, HIV/AIDS and other sexually transmitted diseases. The setting up of a network for the epidemiological surveillance and control of communicable diseases, as required by the *acquis*, needs to be completed. Furthermore, procedures for measuring the tar and nicotine content of cigarettes and rates of excise duties still need to be adopted.

As far as **social dialogue** is concerned, further efforts need to be made to extend achievements made to improve the number and also the contents of collective agreements

at sectoral level. In this regard, administrative capacity should be reinforced to further promote autonomous social dialogue.

Estonia has made some progress in transforming its labour market and adapting its employment system in order to be able to implement the European Employment Strategy. However, structural problems persist. Efforts should now be focused on the full implementation of the measures included in the new National Employment Plan. Furthermore, efforts in the preparations for the implementation and management of the **European Social Fund** need to be strengthened.

Legislation transposing the EC Directive based on Art. 13 of the Treaty relating to **discrimination** on the grounds of race or ethnic origin will have to be introduced and implemented.

Chapter 14: Energy

Since the last Regular Report, progress in this area has been limited, the most noticeable step being the completion of the first step of the sale of the 49% of the oil-shale power stations to a private strategic investor.

Concerning **security of supply**, a limited stock for diesel fuel and petrol was established by November 1999, falling considerably short of the *acquis* requirements of 90 days' consumption.

As regards **competitiveness and the internal energy market**, Estonia, Latvia and Lithuania decided in February 2000 to create a Common Baltic Electricity Market (CBEM) as well as to establish power transmission links between the three countries. This constitutes an important step as a preparation for the internal energy market, also in view of the current absence of interconnections with the EU. The Estonian and Latvian governments signed a co-operation agreement between Eesti Energia and Latvenergo in May 2000. The content of possible cooperation is under negotiation.

In the area of **energy efficiency**, the Estonian government adopted the National Energy Conservation Programme in January 2000.

As regards **nuclear energy**, Estonia signed an Additional Protocol to its IAEA Safeguards Agreement in April 2000 .

The Energy Market Inspectorate is the regulatory body in the energy sector. It is in charge of supervising the sector, ensuring correct implementation of the legislation and monitoring energy prices. Since the last Regular Report three new departments have been created and staff has increased by 30%.

Overall assessment

Estonia needs to make considerable progress to complete the implementation of the *acquis* in this area. In addition, the Energy Market Inspectorate needs to be reinforced in order to increase its capacity to cope with its increasing functions in the internal energy market. In particular, its supervision and licence withdrawal powers need to be increased. Furthermore, Estonia needs to complete the restructuring plan for the oil-shale sector and ensure that the privatisation agreement in the electricity sector that has been signed is

implemented in compliance with the *acquis* rules, in particular as regards the internal energy market and state aids rules.

As regards **security of supply**, emergency preparedness in the energy sector, including the obligation to hold ninety days of oil stocks, is far from complying with the *acquis*. Framework legislation as well as a sound programme for building up the required stocks need to be adopted. Estonia is encouraged to calculate oil stocks according to EC methodology.

As regards **competitiveness and the internal energy market**, Estonia still needs to amend its legislation and enact the necessary secondary legislation in order to complete alignment with the Electricity and Gas Directives. In particular, further efforts need to be focus on third party access to networks, procedures for building new capacity or gas facilities, the establishment of an independent transmission system operator in the electricity sector and the definition and the role of the regulator in the future internal energy market. Furthermore, price distortions need to be gradually removed.

Currently, Estonia does not have legislation regarding **energy efficiency** (e.g. labelling requirements, minimum efficiency standards). An action plan to implement the National Energy Conservation Programme needs also to be adopted. Estonia does not participate in the relevant EC energy programmes, which could play a role in improving energy efficiency and promoting renewable energy.

Although Estonia does not operate **nuclear** power plants, due attention should be given to preparing the implementation of Euratom safeguards.

Chapter 15: Industrial policy¹⁷

Since last year's regular report, Estonia has continued to develop industrial policy measures. Privatisation and restructuring of the industrial sector has progressed further.

As regards the preparation of an **industrial strategy**, several initiatives have been launched although concrete progress has been limited. Since last year's Regular Report, Estonia has taken some steps to adopt a genuine and comprehensive industrial policy, independent from its general economic policy, by integrating its principles into the preliminary National Development Plan under preparation. In addition, it has concentrated on the promotion of technological development and innovation activities such as the reform of the Innovation Fund. Also, national quality policy and quality programs have been launched.

Estonia has continued to promote foreign direct investment. As far as specific sectors are concerned, an information memorandum has been adopted in order to attract potential investors to wood processing activities.

Since last year's Report, Estonia has continued the process of **privatisation and restructuring** of its industrial sector. In January, the privatisation programme for the year 2000 was adopted. Ten additional companies have been privatised in the manufacturing sector. As regards industrial restructuring, a comprehensive restructuring

¹⁷ Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16 – *Small and medium-sized enterprises*).

plan for the Ida-Virumaa region has been adopted, focusing mainly on the social and regional impact of restructuring.

The Ministry of Economic Affairs is the administration responsible for developing and implementing Estonian industrial policy. In 1999, it carried out different activities in this area, including the development of an information network in order to increase awareness of industrial policy measures among enterprises.

Overall assessment

Estonia's policy measures in industry are by and large in line with the concepts and principles of EC industrial policy, i.e. market-based, stable and predictable. Estonia's industrial policy principles are based on minimal state intervention and intend to create a favourable economic environment for entrepreneurship. However, Estonia needs to develop an industrial policy which is distinct from its general economic policy. Although some progress has been made in this direction, achievements as regards the design and implementation of specific measures have been limited. In this context, it has to be pointed out that the control of state aids is an important dimension of industrial policy (*see chapter 6-Competition*).

As regards specific industrial policy measures, so far Estonia has mainly focused on the promotion of technological development and innovation activities. However, these measures have had a limited impact due to a minimal allocation of resources. Furthermore, the co-operation network among enterprises, research institutions and government agencies should be further developed.

As regards privatisation, of industry, the bulk of manufacturing industry has been privatised. The restructuring process for Ida-Virumaa is intimately linked to the prospects and restructuring of the oil-shale sector (*see Chapter 14-Energy*), which is directly and indirectly the main employer in the area. The oil-shale restructuring plan still needs to be adopted. This issue was identified as a short-term priority in the 1999 Accession Partnership. The basic administrative capacity for implementing an industrial policy is in place in Estonia.

Chapter 16: Small and medium-sized enterprises¹⁸

Since the last Regular Report, Estonia has continued developing its SME policy by paying special attention to business development in the less developed and single-industry regions.

As regards **SMEs policy and its implementation**, Estonia adopted, in April 2000, the SMEs Development Plan, which states the main lines of SME policy in accordance with the draft Preliminary National Development Plan. The plan establishes the objectives, target groups and key sectors for SME support. In addition, in June 2000, the government took the decision to reform the Estonian business support system in order to consolidate the current business support foundations in a more efficient organisation. In the process of the transformation of the foundations, a decision to establish the Business and Housing Loans Guarantee Foundation, which merges three former foundations, was taken in July

¹⁸ Developments concerning SME policy should be seen in relation to developments in the context of industrial policy (*see Chapter 15 - Industrial policy*).

2000. This institution should be in charge of promoting the development of entrepreneurship through guaranteeing loans and export transactions.

Estonia's **business environment** continues to be stable and relatively predictable. The statistical database of small business, which was created in February 2000, will make it possible to improve the analysis of small business' development. In addition, the National Employment Action Plan adopted in October 2000 foresees specific measures to promote microenterprises and simplify the business environment.

Two Euro Info Centres have been opened in Estonia and are functioning.

Since last year's Regular Report, no new developments can be reported as regards the **SME definition** applied in Estonia.

Overall assessment

Estonia has made progress in developing a policy towards SMEs that is in line with the principles and objectives of EC enterprise policy. The main lines of Estonia's policy towards SMEs revolve around internationalisation, creation of a system of regional business support and the development of innovation and technological development. However, the current SME strategy is still not clear as regards its integration with other policies. The current number of support schemes and bodies should be streamlined.

SMEs represent 99% of Estonian enterprises and by the end of 1998 accounted for around 47% of the workforce. However, their development continues to be hampered by the difficulties of access to finance and employing skilled labour. Efforts in this direction need to be continued.

Although the definition of SMEs recommended by the European Commission is not officially recognised in Estonia, it is applied in practice.

Chapter 17: Science and research

Since the last Regular Report Estonia's progress in this area has mainly focused on the implementation of the Fifth Framework Programme.

Some steps have also been taken in order to build up appropriate capacities in this field, including the reorganisation of the Estonian Innovation Fund into a Technology Agency in order to increase the effectiveness and quality of the Estonian innovation system. The main fields of activity will be co-financing of innovative projects, preparation of national technology programmes and creation of an innovative environment.

Estonia has been fully associated with the **Fifth Framework Programme** since June 1999. The relevant infrastructure for assisting the research community at national and local level has been introduced under the supervision of the Ministry of Education. A system of National Contact Points to disseminate information and to assist researchers in the preparation of proposals has been established. The necessary staff and financial resources have been allocated, so that the system is working efficiently. Representatives to all programme committees have been nominated.

Overall assessment

So far Estonia's association with the Framework Programmes has been relatively successful and the management capacity of the existing structures for association with these programmes is adequate. During the past year there has been a high level of participation.

The level of the existing gross domestic expenditure on research and development as a share of GDP is relatively low in Estonia (0.51% of GDP in 1998). Further concrete measures are required in order to increase gradually the financial support for the sector and in particular to stimulate private sector research activity.

Efforts need to be continued to increase the participation of small and medium sized enterprises, and industry in general, in research and technological development programmes. Links between research institutes and industry and SMEs need to be further promoted.

Chapter 18: Education and training

Since the last Regular Report, Estonia has taken further steps to reform **its education and training system** and to introduce European standards.

In the past year, Estonia has continued to participate in the **Community programmes** (*see bilateral part A*). In addition, the Association Council adopted a decision in July 2000 to allow participation in the second phase (2000-2006) of the Socrates and Leonardo da Vinci programmes. The decision to allow participation in the new Youth programme, which incorporates European Voluntary Service activities, was adopted in September 2000.

As regards *vocational training*, some progress has been made. A number of vocational standards have been adopted. In order to improve the vocational school network, the management of a number of schools has been merged. Some schools are currently being reorganised so as to also carry out adult retraining, training for people with special needs, and specific vocational instruction for upper-secondary students. This should also allow filling of the current gap between vocational secondary education and professional education at the university level.

In relation to *higher education*, the Universities Act and implementing legislation have been amended to clarify the procedures on the state-commissioning of student places, the initial training of medical doctors and the transition from professional higher education to academic education. Work has continued towards the consolidation of public higher education institutions aiming at increasing the quality of higher education. In addition, with a view to enhancing the mobility of students and lecturers between the Baltic States, an agreement on recognition within the Baltic Higher Education area between Lithuania, Latvia and Estonia was signed in February 2000

Overall assessment

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning. Estonia's legislation as regards the education of **children of migrant workers** is largely in line with the *acquis*. Still, steps need to be

taken to ensure its effective implementation. Estonia has made considerable progress in reducing existing discrimination against EU citizens in the field of education (*see Chapter 2-Free movement of persons*). However, discrimination against foreign students as regards vocational training still remains.

Estonia has introduced the legal framework in order to diversify and reorganise the **vocational education and training** system. However, efforts to implement these reforms, in particular the qualification systems, vocational standards and curricula need to be continued. The supply of vocational training is still insufficient. In addition, the involvement of social partners, in particular enterprises, needs to be strengthened. Inter-ministerial coordination in this field also needs to be reinforced.

Chapter 19: Telecommunications and information technologies

Since the last Regular Report, Estonia has made considerable progress in this area.

Particular progress has been made as regards **liberalisation** and alignment of the **regulatory framework**. The new Telecommunications Act was adopted in February 2000. The law introduces the regulatory framework to implement the *acquis* in this area. It regulates the competencies of the independent regulator, as well as a new regime for authorisation and licensing and for interconnection as required by the *acquis*. It constitutes the legal basis for the provision of national universal services and establishes that tariffs have to be cost-oriented. In addition, the law foresees the expiry on 31 December 2000 of the exclusive rights of the Estonia Telephone Company. Estonia has therefore addressed the relevant short-term priority identified in the 1999 Accession partnership.

Several regulations implementing the Telecommunications Act have also been adopted. These include the National Radio Frequency Plan, the rules for conformity assessment as well as the procedures for marking of terminal equipment, the rules for verifying radio frequencies, the establishment of the National Numbering Plan as well as rules and procedures for using and reserving blocks of numbers and the identification code and short –code for carrier selection.

The Telecommunications Act regulates the activities of the National Communications Board, as a full independent regulatory authority. The Board operates under the responsibility of the Ministry of Transport and Telecommunications, which retains some auditing functions, and has a staff of 98 employees. In addition, since August 2000 it has been responsible for the numbering of telecommunication networks, the registration of telecommunications service providers and the issuing of permits to use blocks of numbers.

Currently, the state participation in Estonia Telephone Company is 27.3%. In order to enhance further the independence of the National Communications Board, the ownership rights have been transferred from the Ministry of Transport and Communications to the Ministry of Finance.

In April 2000, Estonia ratified the Conventions of the International Telecommunications Union and Convention of the formation on the European Telecommunications Office. It has also acceded to the Convention on the formation of the European Radio Communication Office.

As regards **postal services**, no progress has been registered in this area. The national Communications Board is also the regulatory authority in this area.

Overall assessment

Overall Estonia has made considerable progress in this area.

Although the Telecommunication Act introduces a regulatory framework largely in line with the *acquis* in the **telecommunications** sector, some problems still remain. In particular, the law does not require the universal service to be affordable nor it is clear from the law whether an affected party has a right of appeal against decisions of the national regulatory authority. Therefore, a credible policy to secure the availability of an affordable universal service needs to be devised. In addition, further implementing regulations need to be adopted. Although, important formal steps have been taken in order to ensure the independence of the National Communication Board, this independence needs to be monitored in practice. Furthermore, its availability of staff needs to be reinforced, in particular as regards licensing and interconnection. Prices have been rebalanced to a considerable extent and it is expected that the imminent arrival of competition will lead to a rapid completion of the process.

The **postal services** in Estonia are *de facto* deregulated. However, legislation to bring the sector into full compliance with the *acquis* still needs to be adopted, in particular as regards the establishment of the mechanism for guaranteeing universal postal services in a competitive environment and the strengthening of the independent regulator.

Chapter 20: Culture and audio-visual policy

Since last year's Regular Report, Estonia has made considerable progress in further aligning legislation in the audio-visual area. In May 2000, amendments to the Broadcasting Act of 1999 were adopted largely in line with the Television without Frontiers Directive. The law provides for Estonian broadcasters to comply with the requirements of the directive by 2003. In addition, the new amendments introduce provisions as regards jurisdiction, the definitions of European works and independent producers, the principle of freedom of reception and retransmission, and the rules concerning exclusive rights and regulates access to major events. The act also contains provisions as regards the right of reply, protection of minors, requirements for advertising and teleshopping and the definition of sponsorship. Therefore, Estonia has addressed the relevant short-term priority identified in the 1999 Accession Partnership.

In January 2000 Estonia ratified the European Convention on Transfrontier Television and the protocol amending it.

A Media and Copyright Department has been created within the Ministry of Culture to carry out the tasks of application and enforcement of the audio-visual legislation; it is under the responsibility of the Ministry of Culture.

Overall assessment

Estonia has made considerable progress in the audio-visual field and its legislation is largely in line with the *acquis*.

However, Estonia needs strengthen the necessary administrative capacity and improve co-ordination of the different authorities in charge of the implementation of the legislation, in order to cope with the new competencies and powers conferred on them by the new legislation. Particular attention needs to be paid to monitoring and sanctioning powers.

Chapter 21: Regional policy and co-ordination of structural instruments

Since last year's Regular Report, progress has been limited in the field of regional policy.

As regards the general regional policy framework, the government adopted in November 1999 the Regional Development Strategy establishing the main priorities in this area.

As far as **territorial organisation** is concerned, the State Statistic Act, amended in June 2000, constitutes the legal basis for the adoption of the NUTS classification.

With regard to the **legislative framework**, the new State Budget Act, which entered into force in January 2000, allows for co-financing and three-year programming of budgetary expenditure., Furthermore, amendments to the Local Government Organisation Act entered into force in October 1999 establishing that local budgets must be based on a multi-annual plan of at least three years..

Concerning the **preparation for programming**, Estonia prepared a first version of the preliminary National development Plan (PNDP) in autumn 1999, which constitutes a first step towards developing a comprehensive and detailed programming document in line with Structural Funds requirements. The Ministry of Finance is in charge of co-ordinating the preparation of the NDP. Furthermore, a Regional Development Committee of Ministers has been created in order to discuss and pre-select regional development projects before they are submitted to the government. The Committee of Ministers will allocate resources between different sectors on the basis of priorities of the National Development Plan. The current draft of the Preliminary National development Plan identifies three target regions: Northeast Estonia, East Estonia and the western islands Estonia has also elaborated programming documents for ISPA and SAPARD (*see section A.b. – Relations between the European Union and Estonia*).

As regards the **evaluation and monitoring system**, no particular progress can be reported.

In order to enhance **administrative co-ordination**, the division of responsibilities between the Ministry of Internal Affairs and the Minister without portfolio responsible for regional affairs have been specified within the Preliminary National Development Plan. The Ministry of Internal Affairs and the Estonian Regional Development Agency (ERDA), under its responsibility, are the authorities responsible for designing and implementing regional policy in Estonia. The National Regional Policy Council is the body in charge of co-ordinating the different activities undertaken in the area of regional policy, although so far it has not been very active. The Council comprises representatives from all ministries and a few county governors. As regards the administration of regional development programmes, the government has launched the reform of state agencies supporting business development. Two subsidiaries of the ERDA have been established in North-eastern and Southern Estonia.

As regards **financial and budgetary management**, the procedures for the use of the funds allocated in the state budget, in particular regarding the assessment and selection of projects, have been improved. In addition, the amended Government of the Republic Act gives the Ministry of Finance the powers to co-ordinate the internal control and audit activities in the public sector (*see chapter 28 on Financial Control*).

Overall assessment

Although Estonia has made some progress in this area, a number of difficulties remain, and efforts to complete the legal and administrative framework to apply the EC regional and cohesion policy need to be continued. Estonia has only limited experience in appraisal and evaluation procedures. Management of pre-structural funds should increase Estonia's capacity in this area.

As regards **territorial organisation**, the adoption of the regulation establishing a provisional NUTS classification is still pending. A definition of the statistical regions corresponding to NUTS 3 level has not been agreed upon so far.

As regards the **preparation for programming and managing Structural Funds support**, considerable efforts still need to be made. The Preliminary National Development Plan 2000-2002 has to be further developed and adopted. Furthermore, Estonia needs to clarify the division of responsibilities between different administration departments and institutions for implementing structural funds support. Special emphasis should be put on strengthening administrative capacity necessary to carry out programming and managing tasks.

Further progress as regards the preparation of an **evaluation and monitoring** system corresponding to structural funds requirements is necessary.

As for **administrative coordination**, a clear division of competencies between institutions responsible for regional development is needed. The current structures do not yet seem to provide an appropriate framework for efficient decision making. The role of the inter-ministerial Regional Policy Council has to be reviewed. The structures need to be rationalised and strengthened in order to upgrade the level of programming and project approval, monitoring and evaluation of pre-accession instruments and activities preparing for future Structural Funds assistance. As far as **regional statistics** are concerned most of the key indicators are available at national level, with some shortcomings in the fields of social indicators, employment statistics and structural business statistics. No regional data are available yet for GDP data, social indicators and structural business statistics.

Chapter 22: Environment

Since the last Regular Report Estonia has made considerable progress in this area, by speeding up the implementation of the existing framework legislation in most sectors.

With regard to the **integration of environment into other policies**, Estonia has started, over the past year, to implement the action programme for sustainable development adopted by all Baltic Sea countries in the framework of 'Agenda 21 for the Baltic Sea region'.

As regards **horizontal legislation**, Estonia has adopted the Environmental Impact Assessment and Auditing Act in order to align its legislation with the *acquis*. Transposition and implementation of the impact assessment directive is a short-term priority in the 1999 Accession Partnership. Furthermore, secondary legislation has been introduced in the area of *environmental information* regarding the national monitoring stations and national sub-programmes. Environmental impact assessments are the responsibility of the Ministry of the Environment. At local and regional level, they are the responsibility of the County Environmental Departments of the Ministry of the Environment. They are carried out by licensed independent experts. There are about 195 licensed experts. In the area of *civil protection*, an emergency call number for the whole territory of Estonia has been introduced.

In the field of **nature protection**, in July 2000, the government adopted the National programme for the Implementation of Natura 2000. Furthermore, procedures for the export and import of different products and goods specified in the CITES Convention have been adopted. In addition, implementing regulations to the Protection and Use of Wild Fauna Act as well as regulations on protected animals and the assessment of damage caused to protected animals and birds on spring migration have been adopted. Accelerating the transposition and enforcement of nature protection directives was also identified as a short-term priority in the 1999 Accession partnership.

Concerning **water quality**, progress as regards the transposition of water quality requirements has been limited. Amendments to the Public Health and Radiation Protection Acts have been adopted in order to add quality control requirements for drinking and bathing water. The Public Water Supply and Sewerage Act has been amended to enforce the responsibility of the client in using the public water supply and sewerage system. Requirements on discharges of wastewater are largely in line with the directive. In addition, implementing legislation has been adopted regarding the statute of the water cadastre, the list of water bodies or parts to be used as wastewater recipients and the health protection requirements for bathing water and beaches. Therefore, Estonia has partly met the relevant short-term priority of the 1999 Accession Partnership.

On **Industrial Pollution Prevention Control (IPPC) and Risk Management**, a Programme on Reducing Pollutant Emissions from Large Combustion Plants has been launched. In addition, the Conventions on the Transboundary Effects of Industrial Accidents and the Prevention of Major Industrial Accidents have been ratified. Furthermore, Estonia has identified the installations covered by the IPPC directive. In relation to control of industrial accidents all enterprises concerned have provided information sheets on dangerous substances. Estonia has met the relevant short-term priority of the 1999 Accession Partnership to a limited extent.

As regards **noise emission**, a government regulation establishing environmental requirements was adopted in July 2000.

Concerning **air quality**, progress in introducing the necessary legislation has continued with Estonia's accession to the Geneva Convention on Long Range Transboundary Air Pollution and three of its protocols (SO₂, NO_x, VOCs). In addition, regulations regarding such issues as VOC control, pollutant emissions, target levels, quality requirements for liquid fuels, and ambient air pollution permits have been adopted. Furthermore, earlier concessions on lower fuel quality have been abolished and the capacity to enforce fuel

quality standards has been strengthened due to improved laboratory capacity. Therefore, Estonia has met the relevant short-term priority of the 1999 Accession Partnership.

In the field of **chemicals**, Estonia has continued implementing the existing framework legislation by adopting additional regulations on the management of dangerous chemicals. The Chemicals Notification Centre became operational in autumn 1999 with two employees. Implementing regulations in the field of **GMOs** have been adopted as regards the placing on the market of products containing GMOs and the release of GMOs into the environment. The Committee of Gene Technology has been established. It is responsible for issuing permits for intentional release of GMOs into the environment and the marketing of GMOs.

On **waste management**, the Packaging Excise Duty Act has been amended in order to expand packaging excise duties to reimported packages and to strengthen administrative capacity in this area. Furthermore, implementing regulations on requirements and conditions for issuing, amending and invalidating hazardous waste licences, the list of waste for the recovery and disposal operations, procedures for issuing waste permits as well as the implementation of the Basel Convention have been adopted. In addition, a regulation was adopted in November 1999, bringing legislation largely into line with the *acquis* as regards the use of sludge on agriculture. Estonia has also continued progress towards the establishment of a network of waste disposal installations. As regards the management of hazardous waste, two regional transfer stations have been completed and more than 50 collection points have been established. A new hazardous waste landfill meeting the requirements of the landfill directive became operational in April 2000. As for municipal solid waste one landfill was closed, one reconstructed and five new sites constructed. Therefore, Estonia has met the relevant short-term priority of the 1999 Accession Partnership.

On **radiation protection** a regulation has been adopted regarding the list of radiation sources, radiation generators, radiation protection devices and materials and consumer goods containing the radiation sources. In addition, a remedial plan has been approved for the tailing pond in Sillimäe and financial resources have been allocated for its implementation (*see also Chapter 14-Energy*)

The Environmental Inspectorate is the co-ordinating, organising and supervising body as regards the use and protection of natural resources. Currently, it shares enforcement and supervisory powers over the environmental legislation (water, waste, air, protection of forests, games, inland waters, radiation safety) with the County Environmental Departments (see below). It has the power to impose administrative sanctions. 260 people are currently working in the Environmental Inspectorate.

Since the beginning of 2000, the Environmental Departments of the County Governments have been converted into Regional Departments of the Ministry of the Environment. This step should improve the environmental administrative capacity at regional and local levels. The Regional departments play a key role in implementing environmental legislation, mainly through issuing permits (air, water and waste permits) and supervision of pollution emissions in their territories. They are also responsible for imposing and collecting pollution charges and environmental impact assessment in their territories. The fifteen regional departments employ around 275 persons. In 1999, they issued 1,419 water permits, 717 air permits and 868 waste permits.

Municipalities are responsible for the provision of public water supply, sewerage and treatment of waste water. Furthermore, they are also responsible for collection, treatment and final disposal of municipal solid waste.

Overall assessment

Overall, Estonia has made progress in transposing and implementing the framework environmental legislation. Progress needs to be continued in building the necessary capacity to implement and enforce this legislation, in particular at the local level. In addition, Estonia needs to further develop the plans for financing environmental investments (directive specific), which are based on the estimates of alignment costs and on realistic sources of public and private finance. It has to continue to fund the implementation of the heavy investment directives in air, water and waste as indicated by the relevant short-term priority of the 1999 Accession Partnership.

As regards **horizontal legislation**, Estonia needs to complete the necessary secondary legislation to finalise transposition of the Environmental Impact Assessment provisions and complete full implementation. Additional legislation needs to be adopted regarding environmental information. The implementation of these requirements is at an early stage and measures need to be introduced for its implementation. In relation to the monitoring mechanism of greenhouse gases, a monitoring and reporting system covering all gases needs to be established.

Recently substantial measures to accelerate efforts in the area of **nature protection** have been taken, but progress so far has been limited. Work to transpose and implement the Wild Birds and Habitat Directives need to be accelerated. Sanctions in the case of illegal trade in endangered species need to be introduced in the legislation. A system needs to be established to control the import and export of live specimens.

On **water quality**, Estonia has continued the implementation of the 1999 'National Programme of Water Protection'. Considerable progress has been made in the alignment of legislation as regards bathing water. Progress has also been made as regards public water supply and wastewater treatment, where approximately 50% of built-up areas are largely in compliance with the *acquis* on the discharge of wastewater. Nevertheless, Estonia still needs to provide the scientific documentation justifying the exclusion of some parts of its territory from requirements on discharges to sensitive areas. The vulnerable zones and criteria for identifying nitrate-affected waters need to be established. Further work is needed on establishing a monitoring system in the water sector and clarifying the responsibilities between different authorities.

In relation to **industrial pollution and risk management**, despite significant progress in the implementation of requirements on large combustion plants, the transposition of legislation on large combustion plants has been delayed.

Overall, progress as regards **noise emission** has been limited.

As regards **air quality**, Estonia's legislation is largely in compliance with the *acquis* as regards the framework directive and fuel quality directives. Furthermore, progress has been made as regards ambient air monitoring and reporting. Still, the ambient air quality-monitoring programme needs to be extended and the measurement of lead and particulate matter needs to be introduced.

As far as **waste management** is concerned, legislation transposing the framework directive is largely in place. Legal work should focus on completing transposition of specific directives in this sector, e.g. landfill sites, packaging waste and batteries. High priority needs to be given to the finalisation of the national waste management plan in order to progress further in the implementation of waste management structures, e.g. the closing of existing landfills and construction of new ones.

On **radiation protection**, further efforts are needed for the transposition of requirements on medical exposure, information to the public and protection of outside workers. Estonia continues the process for the management of radioactive waste, decommissioning and remedial work on Paldiski is in progress. The solid waste storage and liquid waste treatment plant are decontaminated and to be demolished. Furthermore, Estonia needs to start the implementation of the remedial programme for the tailing pond in Sillimäe.

Chapter 23: Consumers and health protection

Since last year's Regular Report, Estonia has made some progress in this area.

As regards **safety related measures**, amendments to the Product Safety Act have been adopted in order to further align legislation as regards dangerous imitations.

No major progress can be reported as regards **non-safety related measures**.

In the field of **market surveillance**, the conditions and procedures for notifying other countries of dangerous products detected in the course of market surveillance, as required by the *acquis*, have been adopted. The Consumer Protection Board and Health Protection Inspectorate are responsible for implementation and supervision of legislation related to consumer protection. The Consumer Protection Board has been designated as the national contact point with the transitional rapid exchange information system (TRAPEX) on dangerous goods. The Consumer Protection Council is the main body through which the local governments and voluntary organisations can participate in the decision making process in the area of consumer protection policy. It also advises the Consumer Protection Board on consumer policy. In 1999, the Consumer Protection Board inspected 3,058 enterprises. 2,481 consumer complaints related to goods and services were received. The most frequent related to household appliances (such as the absence of instructions). The Board forwarded 24 cases to the administrative courts, 20 of which related to infringements of the sales procedures for alcohol and tobacco products.

The Health Protection Inspectorate is responsible for general health matters although its functions overlap with those of several other institutions (e.g. Consumer Protection Board, Veterinary and Food Board, Environmental Inspectorate, Medicine Board, etc.). The division of responsibilities within the different departments of the inspectorate is ambiguous.

Overall assessment

Overall, Estonia has made some progress in aligning its legislation with the *acquis*. Efforts to adopt the remaining legislation, in particular the Law of Obligations, and to ensure correct implementation and enforcement of the existing legislation need to be continued.

Existing legislation on **product safety** is largely in line with the *acquis*.

As regards **non-safety related** legislation, progress in this area continues to be hindered by the delay in the adoption of the Law of Obligations. This provision should cover distance selling, unfair contractual terms, consumer credit, doorstep selling and timeshares and package travel. Legislation on comparative advertising still needs to be adopted. Legislation on misleading advertisements is still not fully in line with the *acquis*.

Chapter 24: Co-operation in the field of justice and home affairs

Since last year's Regular Report, Estonia has made further progress in the field of justice and home affairs.

In the area of **data protection**, Estonia signed the 1981 Council of Europe Convention on the Protection of Individuals with regard to the Automatic Processing of Personal Data in January 2000.

As far as **visa policy** is concerned, progress has been made in order to align it further. Since September 2000, Estonia has abolished visa-free border crossing for Russian nationals living in border areas. In addition, amendments to the Aliens Act were adopted in December 2000, regulating the issuing of visas at border checkpoints. Visas are no longer granted at borders except in extraordinary circumstances specified in the law. In August 2000, a regulation providing the legal basis for the establishment of the National Visa Register was adopted. Furthermore, requirements for airport transit as well as the list of data to be kept in the National Visa Register have been established.

In the field of **border control**, actual progress has been limited as regards the transposition and the implementation of the *acquis*. However, Estonia has continued reinforcing the management of its eastern border by upgrading, with Phare assistance, its surveillance and infrastructure equipment. As regards preparations for Estonia's participation in the Schengen Information System, national databases and information systems are being rearranged with a view to their integration. Furthermore, and following a cooperation agreement on cross-border crime with Finland, Lithuania and Latvia, joint border control procedures have been introduced at all border control points on the border with Latvia. Since December 1999, there is an electronic data exchange on the common border control points of Estonia and Latvia.

Regarding **migration**, progress has been made in adopting legislation, in particular as regards family reunification. The Aliens Act has been amended in order to incorporate the requirements of international agreements as the basis for granting residence permits. These amendments also provide for accompanying measures, in accordance with Chapter 6 of Title II of the Convention implementing the Schengen Agreement. The rules regulating the immigration quota (*see also chapter on Political criteria*) have also been amended. As a result, the immigration quota does not apply, under certain conditions, to spouses or under-age children of Estonian citizens or to under-age children whose parents apply for a residence permit. Furthermore, the amended aliens law harmonises the definition of an under-age child with that of the *acquis*. The new Aliens Act also allows applicants for an extension of their residence permits or for a permanent residence permit to stay legally in Estonia until a decision is made concerning their application. Readmission agreements have been signed with Spain and Croatia .

As regards administrative capacity, the powers of the Ministry of Internal Affairs to distribute the immigration quota have been reinforced. The Citizenship and Migration Board and the Board of the Border Guard have unified and rearranged data collection concerning illegal immigration and further harmonised it with the *acquis*. From October 1999 to May 2000, Estonian courts decided on 12 expulsions of illegal residents at the request of the Police Board, the Board of the Border Guard or the Citizenship and Migration Board. During the same period 1,309 invitations to leave Estonia voluntarily were issued.

In the field of **asylum**, progress has been limited. In October 1999, the National Register of Refugees was established. Procedures for the replacement and revocation of refugees' travel documents and the list of documents and data to be submitted upon application have been adopted. Up to 5 June 2000, 47 asylum applications had been made in Estonia and so far only 3 applicants have been granted the status of refugee. As regards the remaining ones, 8 applications have been refused and 20 cases are still ongoing. 16 cases ended without a decision, either because of the death of the applicant or withdrawal of the application. . In April 2000, the new Illuka Reception Centre for Asylum Seekers was opened.

In the field of **police co-operation and the fight against organized crime**, several initiatives have been taken. An amendment to the Code of Criminal Procedure entered into force, easing the requirements for launching criminal cases. In addition, a Governmental Agreement between the Baltic States on the Protection of Victims and Witnesses has been adopted, aiming at reinforcing co-operation in the fight against organised crime and ensuring the application of measures to protect witnesses on the territory of all three countries. Furthermore, in March 2000, the Council of Criminal Prevention was created in order to develop a national criminal prevention strategy and ensure its implementation. In July 2000, the government adopted the national strategy for the prevention of crime (to run until 2005) and the main objectives for the fight against crime.

The reform of the *police* forces has continued. At the end of 1999, police structures were reorganised and the number of policemen was reduced from 4,255 in November 1999 to 3,738. The restructuring intends to reinforce the operational capacity of the police by reducing the size and increasing the efficiency of the current administrative departments. These measures have been accompanied by a plan to substantially increase police salaries, in particular at the lowest level of the chain of command. Steps have also been taken to reinforce training of the police in different areas. Whether the reform will attain its objectives without jeopardising police efficiency as a whole needs to be monitored. Although crime clear-up rate has improved in 2000 as compared to 1999, increasing to 31.7% from 27.3%¹⁹, efforts in this area need to be continued. The police information system POLIS, introduced by November 1999, registers all police alerts and decisions on criminal cases.

As far as the **fight against fraud and corruption** is concerned, progress has been made (*see also Political Criteria Chapter*) with the signature of the Council of Europe Civil and Criminal Law Conventions on Corruption. Signature and ratification of these Conventions was regarded as a short-term priority in the 1999 Accession Partnership. In addition, the Economic Crime Department in the Central Criminal Police has been

¹⁹ Data of clear-up rate refers to the period between January and June

designated as the contact body required by Article 7 of the Second Protocol of 19 June 1997 to the Convention of the European Communities Financial interests.

Regarding fight against **drugs** an important step has been taken with the ratification in May 2000 of the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. In the field of administrative capacity, a special advisory committee- with representatives from the Internal Affairs, Social Affairs and Justice Ministries, the Security Police and Customs Boards, the Border Guard as well as the State Prosecutor's Office and the Central Criminal Police- has been established in order to reinforce inter-ministerial coordination in the fight against drugs. In addition, a drugs prevention unit has been created within the Customs Board.

As regards the fight against **money laundering**, Estonia has ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Subsequently, the Criminal Code and the Code of Criminal Procedure have been amended. Therefore, Estonia has met the relevant short-term priority of the 1999 Accession partnership.

As regards **judicial co-operation in civil and criminal matters**, progress has continued. Estonia has signed the Luxembourg Convention on Custody of Children (1980), The Hague Convention on the civil aspects of child abduction (1980), The Hague Convention abolishing the requirement of legalisation for foreign public documents (1961) and the European Convention on the international validity of criminal judgements (1970).

Overall assessment

Overall, Estonia has made progress in aligning its legislation in this area. Efforts made so far need to be continued, in particular as regards asylum, the fight against organised crime, including drug trafficking, the fight against corruption in the police and customs administration, modernisation of the police and up-grading surveillance equipment and infrastructures at the borders.

As regards **data protection**, current legislation is not yet fully in line with the *acquis*. The 1981 European Convention on Data Protection still has to be ratified.

With the abolition of the special visa regime for Russian nationals living in border areas, progress has been made in further aligning Estonia's **visa policy**. Estonia should continue alignment of its visa practice, such as developing the Schengen-type visa sticker and generalising the electronically supported system for issuing visas to all diplomatic missions.

In the field of **border control**, as already highlighted in last year's Report, border management in Estonia is relatively efficient. Modernisation of equipment and infrastructure and reinforcement of human resources and training of the border guard need to be continued. Although a border agreement with Russia has been initialled, its signature and ratification are still dependent upon Russia. As regards preparations for Estonia's participation in the Schengen Information System, the common border control information system needs to be introduced.

In the area of **migration**, Estonia has made some progress by taking steps to address the issue of family reunification. Although Estonia lies off international migration routes and is not for the time being a major country of destination or transit, the capacity of the

Migration Board to implement the *acquis* in this area should still be considerably reinforced.

In relation to **asylum** policy, Estonia's legal framework is not yet fully in compliance with the *acquis*. Further legislative amendments and administrative adjustments need to be adopted in order to accede to the Dublin Convention. Remaining issues include exclusion clauses or the lack of safeguards in the accelerated procedure applied at the border. Furthermore, provisions of state financed legal aid to asylum seekers have to be adopted. In addition, asylum procedures need to be speeded up, training of border guards to correctly distinguish between illegal immigrants and asylum seekers has to be reinforced and the administrative and judicial capacity to deal with asylum cases has to be enhanced.

In the field of **police co-operation and the co-operation in the fight against organised crime**, efficiency of the police forces remain weak, in particular as regards the fight against drugs and economic crime. Efforts to increase forensic capacity, in particular as regards new technologies and investigation techniques, need to be continued. Estonia has concluded bilateral agreements on legal assistance with Latvia, Lithuania, Russia, Ukraine, Poland, and, on criminal matters, with the USA. Within the first four months of 2000, 102 legal aid requests were satisfied; including drug related proceedings. Estonia has also started contacts to join Europol, but still does not have a liaison officer in this organisation or in any other country.

As regards the fight against **fraud and corruption**, the importance of this problem is relatively limited in Estonia. Estonia has signed the two conventions of the Council of Europe in this area, and now efforts should be made to accelerate the process of their ratification. Estonia has not yet signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. In addition, changes in the legislation need to be made in order to introduce the criminal liability of legal persons and officials of foreign countries and international organisations, including passive corruption; corruption crimes in the private sector, the criminalisation of the obtaining of non-material benefits as well as promises accepted by public officials in favour of a third party, e.g. a political party. Estonian legislation does not yet cover the Second Protocol to the Convention on the Protection of the European Communities' Financial interests. Some preliminary steps have been taken in order to prepare cooperation with OLAF.

In the area of **drugs** Estonia continues to implement the national drug strategy it adopted in 1997. The Ministry of Social Affairs is the national drug information focal point. Co-ordination between the bodies involved and strengthening of human resources, including training, needs to be reinforced. In addition, a comprehensive national drug supply reduction strategy needs to be adopted.

As far as **money laundering** is concerned, Estonia has made important progress in implementing the *acquis*. Efforts should now concentrate on ensuring adequate enforcement. The Financial Intelligence Unit within the Crime Department of the Police Board is responsible for the prevention of money laundering. It is currently understaffed if it is to carry out its tasks in an efficient manner. In addition, training of judges and court staff dealing with financial crime should be reinforced.

As regards **customs cooperation**, Estonia has made some progress in its alignment with the *acquis*. However, efforts in order to improve Estonia's implementing capacity,

particularly on the development of risk analyses and on the efficiency of the investigation teams are still needed.

In the area of **judicial co-operation**, Estonia has signed nearly all the international conventions concluded in other fora and included in the *acquis*. Procedures for their ratification need to be accelerated. Furthermore, Estonia still needs to amend its Penal Code to complete alignment with the 1997 Joint Action concerning action to combat trafficking in human beings and sexual exploitation of children and the 1998 Joint Action on making it a criminal offence to participate in a criminal organisation.

Chapter 25: Customs union

Since last year's Regular Report Estonia has made some progress in the customs area, the most important development being the introduction of customs duties for certain products.

Regarding the **EC customs code and its implementing provisions**, progress has been limited. Amendments to the Customs Valuation Act entered into force in November 1999, in order to align the determination of customs value with GATT and Community rules.

As regards *free zones* some progress has been made. In January 2000, the government adopted the rules for customs procedures on free zones. Early this year, the government decided to close the Võru free zone, although it was not operational yet, and to freeze the establishment of new free zones. There are currently three free zones in Estonia, Muuga, Sillamäe and Valga.

Regarding the **customs *acquis* outside the Customs Code**, an important step has been taken with the entry into force on 1 January 2000 of the Customs Duties of Preferential Regime Act, which introduces customs duties for a limited number of agricultural products imported from third countries. In addition, implementing regulations to the Customs Act on binding tariff information have been adopted.

As far as the administrative and operational capacity to implement the *acquis* is concerned, some progress has been made with the introduction, in October 1999, of the new electronic customs declaration system, ASYCUDA. The system will enable Estonia to harmonise its customs' data processing system with that of the EC. The Customs Board is the national customs authority, under the responsibility of the Ministry of Finance, in charge of ensuring the effective application of customs rules. Since last year's Regular Report, the division of responsibilities between the central office of the Customs Board and its regional units (Customs Houses) has been redefined, an internal audit unit has been established and a code of ethics and conduct for customs officials has been adopted. Training of customs officials has continued, and in 1999, around 70% of customs officials received some kind of training. In 1999, the number of detected customs offences was 4,261, around 43% more than in 1998. In 1999, smuggling represented 37% of all customs offences as opposed to 21% in 1998. The total amount of fines imposed has doubled since 1997 and 1998.

Joint customs control has been introduced at all the Estonian-Latvian international road border-crossings.

Overall assessment

Overall, Estonia has made limited progress in the customs area.

As regards the **EC Customs Code and its implementing provisions**, Estonia's customs legislation is still not in compliance with the Community Customs Code requirements. Unfortunately, the adoption of the Customs Code is considerably delayed. Speeding-up the adoption of the Customs Code was a short-term priority in the 1999 Accession Partnership.

As regards the **customs *acquis* outside the Customs Code**, progress has also been limited. A timetable for the progressive and effective implementation of tariffs and tariff-related measures needs to be adopted as soon as possible. This issue was also indicated as a short-term priority in the 1999 Accession Partnership. Introduction of customs duties needs to be completed since the effective application of customs duties is a precondition of effective adoption of the *acquis* in this area. Particular efforts should be made in aligning customs procedures with economic impact as well as in adopting and implementing legislation on free zones that is compatible with the *acquis*. Regarding the pan-European system of origin, Estonia has agreed to the amendments to the system, which will enter into force in January 2001. For the system to be complete, it remains for Estonia to sign and enforce the necessary free trade agreements with Romania and Bulgaria.

As regards the administrative and operational capacity to implement the *acquis*, substantial efforts still need to be made. So far, and despite the limited number of tariffs, the tariff revenue for the first four months since the introduction of tariffs has been 12.9% of the total estimate for the year . These results raise doubts as regards the capacity of the customs administration to collect and estimate revenue related to tariffs and to manage these tariffs. In addition, Estonia needs to strengthen the enforcement capacity of the Customs Board as regards the fight against pirated and counterfeited goods and post-clearance controls. The fight against fraud and corruption must remain a priority and customs laboratories have to be strengthened. Furthermore, Estonia should improve co-ordination between the customs administration and the other Estonian administrations active in the area of enforcement and revenue collection.

In the field of IT, Estonia needs to continue efforts to install and make operational as soon as possible all of the relevant customs-related IT systems and the applications necessary for smooth implementation of the *acquis*. It should also develop a comprehensive Customs Computer Information Strategy.

Chapter 26: External relations

Since the last Regular Report, Estonia has made progress in continuing to align its trade policy with that of the EU.

As regards the **Common Commercial Policy**, Estonia has made some progress in aligning its tariffs with those of the EC by introducing tariffs, as of 1 January 2000, on imports from third countries for several agricultural products. These tariffs currently average 3.2 % (EC 5.3 %) on all products, 14.9 % (EC 9.4 %) on agricultural products, 3.1 % (EC 12.4 %) on fishery products and 0 % (EC 4.2 %) on industrial products.

As regards export control of strategic goods, implementing regulations concerning the statutes of the Export Control Commission, the establishment of exceptions to import requirements, the issuing of export or transit licenses and the procedures for export, import and transit of strategic goods have been adopted. The Estonian List of Strategic Goods is based on that of the EC.

Estonia became member of the World Trade Organisation (WTO) in November 1999. In order to bring Estonia's legislation into conformity with the WTO rules, several related pieces of legislation have been adopted in different fields ranging from telecommunications to protection of intellectual property rights. Estonia started negotiations to join the Government Procurement Agreement in July 2000.

As regards **bilateral agreements with third countries**, since last year's Regular Report, two MFN agreements with Kazakhstan and Vietnam entered into force, in September 1999 and May 2000 respectively. Furthermore, the Free Trade Agreement with Poland was ratified in March 2000. Economic co-operation agreements with Azerbaijan and Georgia have been signed and are under ratification. In addition, a double taxation Avoidance Agreement with the US entered into force in December 2000.

In the field of **development policy and humanitarian aid**, Estonia has continued progress in the establishment of a development policy. In 2000, the Estonian humanitarian and development budget amounted to about €0.47 million. Humanitarian projects carried out in 1999 were particularly targeted at the Balkan region.

The Ministry of Foreign Affairs is responsible for the administration of external economic relations and development and humanitarian aid in Estonia.

Overall assessment

With the exception of alignment with the EC external tariff, good overall progress has been made in alignment with the Community *acquis*. Estonia continues to have a very liberal trade regime, with very few duties or quantitative restrictions being applied.

The EU and Estonia have established a framework for co-operation regarding WTO issues both at ministerial and at departmental level. Estonia has been supportive of EU policies and positions within the WTO framework. As regards the new round, Estonia concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the built-in-agenda would be less substantial in its absence.

Estonia has committed itself to join, prior to accession, the two WTO plurilateral agreements on Government Procurement and Civil Aircraft. Estonia currently holds observer status in the Government Procurement WTO Committee and it is a signatory to the WTO Agreement on Trade in Information technology Products (ITA). As regards the WTO Agreement on Trade in Textiles and Clothing (ATC), Estonia needs to align its integration programmes for stages 1, 2 and 3 on those of the EC.

Further co-ordination is necessary in order to consolidate the adjustment of the Estonian list of commitments in GATS with the EC commitments and EC MFN exemptions.

As regards **bilateral trade agreements**, Estonia has so far, in addition to those mentioned above, concluded free trade agreements with the Czech Republic, the Slovak

Republic, Hungary, Slovenia, Latvia and Lithuania, the EFTA countries, Ukraine and Turkey. It is currently negotiating similar agreements with Bulgaria and Romania. In this area, further progress is still necessary in aligning with the EC's international trade obligations. Estonia should continue to keep the EU fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country.

Estonia has very recently started to implement a genuine development policy. Up to now, progress has been made as regards the establishment of a development aid strategy, an administrative structure responsible and a budget allocation.

Chapter 27: Common foreign and security policy

Since the last Regular Report, Estonia has continued to orient its foreign and security policy towards that of the Union.

The regular **political dialogue** established by the Europe Agreement is proceeding smoothly. Estonia continues to participate actively in the framework of the Common Foreign and Security Policy (CFSP), including the meetings at the level of Political Directors, European Correspondents and Working Groups.

Estonia has shown a keen interest in the development of the European Security and Defence Policy as part of the CFSP and has actively participated in the exchanges in this context with the EU, in EU + 15 format (ie non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Estonia has regularly aligned its positions with those of the Union and, when requested to do so, has associated itself with the Union's joint actions and common positions. Since last year's Regular Report, as of 30 June, Estonia has associated itself with all EU common positions.

Estonia signed and ratified in March 2000 the second amended Protocol to the Geneva Convention on Certain Conventional Weapons. In addition, Estonia has contributed to peace support operations in Bosnia-Herzegovina (SFOR) and Kosovo (KFOR). Since last year's Regular Report, new Estonian contingents have been deployed in the KFOR (10 troops) and SFOR (73 troops) missions. The Parliament decided to prolong this mission for another year and to increase the personnel up to a maximum of 30 persons.

Estonia has a separate CFSP unit in the Political Department of the Ministry of Foreign Affairs and a full-time post of European correspondent. Since December 1999 Estonia has participated in the Associated Correspondents' Network system.

Overall assessment

Overall, Estonia has achieved a good level of alignment with the *acquis* in the CFSP. As the *acquis* in the field of foreign policy and security develops further so Estonia should maintain the orientation of its foreign policy in line with that of the Union.

Estonia's relations with its neighbours remain good. Estonia strives to contribute to regional stability through a policy of good-neighbourly relations and regional cooperation in the Baltic Sea Region, *inter alia* as an active member of the Council of the Baltic Sea States (CBSS). Further development of good relations with Russia remains a key element

of Estonia's foreign policy. The border agreement with Russia has been initialled, but signature and ratification is awaiting Russia's decision.

Concerning the administrative capacity to implement the provisions relating to the CFSP, Estonia has a well-staffed and functioning Ministry of Foreign Affairs. It has the capacity to effectively participate in the Associated Correspondent's Network both in terms of staffing allocations and in terms of the appropriate information systems.

Chapter 28: Financial control

Since last year's Regular Report, Estonia has made considerable progress in introducing legislation and setting up the administrative structures needed in the field of financial control. As far as **internal financial control** is concerned, amendments to the Government of the Republic Act were adopted in June 2000. They define the internal control and internal audit in the government sector, and give the Ministry of Finance the formal authority to co-ordinate the internal control and audit activities in the public sector. The Ministry of Finance has the overall responsibility for the establishment of an internal audit system encompassing the whole government hierarchy and the creation of the legal environment necessary for the operation of such a system, for co-ordination of the system's activities and its proper functioning. In addition, a regulation was adopted in October 2000 establishing the general rules of internal audit for government and state agencies as well as the requirements set to internal auditors. Completing the legislative framework for internal control and setting up a central organisation within the government to harmonise internal audit and control functions were short term priorities identified in the 1999 Accession Partnership.

A new statute for the Ministry, adopted in December, provides for these responsibilities to be exercised by the Financial Control Department, which currently employs 15 officials. Following this decision, a reorganisation of the department has been undertaken, including the appointment of a Deputy Secretary-General of Government Control with overall responsibility for the area. A Best Practice Manual for the internal auditors of the public sector as well as amendments to the State Public Servants Officials' Titles and Salary Scale Act defining the status of internal auditors have been adopted.

As regards **external financial control**, a Strategic Development Plan for 2000-2003 aiming at further developing the capacity and effectiveness of the State Audit Office has been adopted. In accordance with the objectives set out in this plan, the reorganisation of the State Audit Office has been launched.

The State Audit Office reports directly to the Parliament. The Auditor General of Estonia is appointed by Parliament for a period of 5 years. The Office currently employs 60 auditors. A positive development that needs to be reported is an improvement in the co-operation between the Internal Audit Unit at the Ministry of Finance and the State Audit Office.

No major developments have taken place as regards control measures related to own resources and structural action expenditure.

In relation to the **protection of the EC financial interests**, progress has been limited. The Economic Crime Department in the Central Criminal Police has been designated as

the contact body required by Article 7 of the Second Protocol of 19 June 1997 to the Convention of the European Communities' Financial interests.

Overall assessment

Overall, Estonia has made progress in aligning its legislation and establishing the necessary administrative structures in the field of financial control.

Although progress has been made in introducing the necessary legislation to meet internationally accepted standards in the field of public **internal financial control**, the latter remains weak and efforts need to be continued. Responsibilities, roles and functions on internal financial control are not always explicitly set out in the existing legislation. Ex-ante control functions need to be developed methodologically. Secondary legislation introducing the functional independence of the internal auditors needs to be adopted. However, not all ministries and key governmental agencies have internal audit units. Furthermore, there is still scope to improve financial management as well as control mechanisms and related manuals. Finally, audit trails for pre-accession funds need to be developed. These issues are identified as short term priorities in the 1999 Accession Partnership.

As regards **external financial control**, currently the Parliament has no formal mechanisms for reacting to the State Audit Office reports. Therefore, the practical impact of these reports is considerably diminished. Steps need to be taken to reinforce parliamentary control in this area. Furthermore, co-operation between the State Audit Office, local government internal audit units and other audit bodies needs to be formalised. Moreover, progress is needed to increase the power of the State Audit Office to audit the use of public funds, assets and resources directly with all end users.

As far as **control measures related to own resources** are concerned, the capacity of the customs administration to collect and enforce customs duties is low, given the limited experience of Estonia in this area (*see chapter 25 - Customs Union*). Efforts in this area need to be particularly increased. As regards **structural action expenditure** Estonia needs to complete the legal framework to receive and manage EC funds upon accession.

As regards the **protection of the EC financial interests**, currently there are no common procedures for the detection of irregularities and the recovery of assistance. Estonian legislation does not yet cover 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. Currently protection of financial interests of the EC is arranged via bilateral agreements regulating the EC pre-accession funds (such as PHARE, ISPA and SAPARD) in Estonia.

Chapter 29: Financial and budgetary provisions

Estonia has made some progress in order to align its financial and budgetary provisions with EC standards.

As regards **the national budget and EC co-financed measures**, the new State Budget Act that entered into force in January 2000 intends to apply the main **EC** budgetary requirements. The new law also covers the rules and procedures regulating the transfer of budget revenues to the economic stabilisation reserve. In May 2000, the Government

approved a long-term budgetary strategy, which will constitute the basis for the preparation of the state budget until 2004. It includes economic forecasts for the period covered, the budgetary targets and loan burden, expenditure and investments.

As regards **own resources and administrative infrastructure**, progress since last year's Regular Report has been limited. The State Budget Department within the Ministry of Finance has been restructured in order to reinforce the state budget, tax policy and economic analysis department.

Overall assessment

Overall, Estonia has made some progress in this area, although further efforts are required as regards the national budget and management of own resources.

As regards the **national budget**, the implementation of the new budget legislation should allow Estonia to meet the main EC standards in this field. Nevertheless, improvements need to be made in accounting and reporting. While the expenditure management system is being developed, the expertise for the appraisal, the monitoring and the evaluation of the expenditure programmes should be increased in the Ministry of Finance as well as in the spending departments. Progress is being made in setting up procedures for managing and controlling the use of EC pre-accession funds and establishing the National Fund.

As regards **own resources**, Estonia needs to develop a timetable for the introduction of customs tariffs and for strengthening the customs administration in order to ensure the necessary administrative capacity from the day of accession. In addition, legal provisions with regard to the levying and collection of sugar levies need to be adopted. Estonia's budgetary statistics are already compiled in accordance with ESA 95 norms

3.2. Translation of the *acquis* into the national language

Applicant countries are to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. The *acquis*, consisting of primary and secondary binding legislation, represents at present a considerable volume of acts, roughly estimated at 60,000-70,000 pages of the Official Journal. To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a centralised Translation Co-ordination Unit has been created in each of the ten candidate countries of Central Europe.

The translation of the *acquis communautaire* is managed and co-ordinated by the Estonian Legal Translation Centre (ELTC), a state agency administered by the State Chancellery. The ELTC is responsible, *inter alia*, for the translation of the EC *acquis* into Estonian and the Estonian legislation into English, and for the creation and management of the full-text database of legal translations. These are made available to the public through the Internet. The ELTC has two departments, the Estonian and English Translation Units. Translation priorities are established in co-operation with the line ministries and approved by the Council of the Senior Civil Servants. The ELTC has 86 employees, 72 of whom are translators, terminologists and linguistic and legal revisers.

The Centre's terminologists work in close co-operation with subject field specialists in the line ministries and other institutions. All translations produced by the Centre pass

through in-house linguistic and legal revision and, where possible, receive a content edit by a subject area specialist in the ministry concerned.

So far, the ELTC has translated and revised all primary legislation of the *acquis communautaire*. As of 31 May 2000, the ELTC and ministries had translated 18530 OJ pages of secondary legislation, of which 11385 OJ pages had been revised. Considerable further efforts are required in this area.

3.3. General evaluation

Overall, Estonia has continued alignment of legislation at a good pace in most areas of the *acquis*. Although some steps have been taken in order to set up administrative structures for most chapters, Estonia still needs to make considerable efforts in this area.

Concerning the *internal market*, considerable progress has been made as regards the adoption of framework legislation and the setting up of administrative structures related to standardisation and conformity assessment. Efforts need to be pursued to introduce a market surveillance system. Considerable progress has also been made in legislative alignment in *telecommunications* and the *audiovisual* sector. Overall, Estonia's legislation is already broadly in line with the *acquis* in the fields of *free movement of capital*, *free provision of financial services* and *company law*. However, efforts to strengthen the administrative capacity in these areas need to be pursued. Special attention should be paid to adequate enforcement of industrial and intellectual property rights, especially the fight against pirated and counterfeited goods. Although alignment of legislation has continued, further efforts need to be made as regards state aid control and mutual recognition of professional qualifications.

As far as *taxation* is concerned, some progress has been made in aligning VAT and excise duty legislation. Considerable efforts still need to be made in order to reinforce the tax administration. In this context, the withdrawal of the envisaged timetable for the gradual alignment of excise duties on fuel constitutes a step backwards in working towards this goal. In the area of *customs*, progress to complete the legal and administrative framework has been limited. Estonia urgently needs to adopt a timetable for the progressive and effective implementation of tariffs and tariff related measures. Substantial efforts still need to be made to enhance the administrative and operational capacity to implement the *acquis*.

In the area of *transport* Estonia has continued progress in completing the legislative framework. Progress made this year in strengthening the implementation of maritime safety standards needs to be continued. In the field of *energy*, progress in alignment of the legislation has been limited.

Concerning *agriculture*, substantial progress has been made as regards the introduction of a legal framework and in setting up administrative structures for the future implementation of the Common Agricultural Policy. However, efforts need to be continued to introduce quality and marketing standards for the different products and market intervention systems in line with the *acquis*. Alignment in the *veterinary and phytosanitary* sectors has continued. Efforts in these fields need to be speeded up. In the *fisheries* sector, Estonia has made some progress in aligning its legislation on fisheries by introducing the legal framework to develop a market policy, implement measures related to resources management, inspection and control and structural aid. Considerable efforts

still need to be made, in particular to strengthen administrative structures and to adopt and implement the existing legislation.

Although progress has been uneven, Estonia has taken steps in most *social policy* areas. Efforts should continue, focusing on the implementation and enforcement of the current framework legislation as well as on strengthening enforcement bodies.

In the area of *regional policy*, progress has been limited. Although steps have been taken to set up the necessary instruments in this area, a number of difficulties still remain, and efforts to complete the legal and administrative framework to apply the EC regional and cohesion policy need to be continued. Furthermore, Estonia has made considerable progress in introducing legislation and setting up the necessary administrative structures in the field of *financial control*. Still, internal financial control remains weak and these efforts need to be continue.

Estonia has speeded up the implementation of the existing framework legislation in most *environment* areas. Furthermore, progress needs to be continued in building the necessary capacity to implement and enforce this legislation, it particular at the local level. Estonia still needs to further develop the plans for financing environmental investments.

Since last year's regular report, Estonia has made further progress in the alignment of legislation in the field of *justice and home affairs*. Efforts need to be continued, in particular as regards asylum, the fight against organised crime, including drug trafficking, the fight against corruption in the police and customs administration, modernisation of the police and upgrading surveillance equipment and infrastructures at the borders.

As regards *administrative capacity*, Estonia has taken steps to set up the necessary structures in most areas of the *acquis*. However, substantial efforts in this area are still needed to ensure that the existing structures are fully capable of enforcing and implementing the *acquis* correctly. In this context, ensuring that the relevant institutions have sufficient powers to undertake their tasks, that coordination between competent bodies is efficient and strengthening the training of staff should be the highest priorities.

Estonia has continued to address, although with some differences, aspects of all sectors indicated as short term priorities of the 1999 Accession Partnership. In particular, Estonia has met the priorities related to telecommunications, audiovisual, standardisation and conformity assessment, veterinary and phytosanitary sectors, transport, occupational health and safety, employment and employment services. Priorities related to public procurement, labour law, penal law, customs and market surveillance have not been met.

Estonia has already started to address some of the medium-term Accession Partnership priorities.

C. Conclusion

Estonia continues to fulfil the Copenhagen political criteria. It has addressed most of the short-term priorities of the 1999 Accession Partnership in this area, including the introduction of amendments to the language law, the adoption of the State Integration Programme for non-Estonians, the reinforcement in the training of judges and the reduction in the number of judge vacancies. In addition, steps have been taken to improve the capacity of the Citizenship and Migration Board to handle residence and citizenship applications. Progress towards the modernisation of the public administration has been limited. Efforts should be made to introduce a comprehensive strategy in this area, aiming at addressing the current deficiencies. Measures which have so far been taken to improve the functioning of the judiciary need to be continued, in particular to reinforce the training of judges. Co-ordination between the different justice bodies needs to be reinforced and the reform of the penal and civil law systems needs to be accelerated.

As regards the integration of minorities, Estonia needs to ensure that the implementation of the Language Law takes place in accordance with international standards and the Europe Agreement. The capacities of the ombudsman, in particular as regards the protection of minorities need to be reinforced.

Estonia needs to continue efforts as regards the integration of non-citizens, reinforcing the capacity of the public administration, and improving the judicial system, in order to meet the medium-term priorities of the 1999 Accession Partnership in these areas.

Estonia is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union in the near term, provided that it stays with its present reform path.

It has made considerable progress in strengthening macroeconomic stability, restructuring the enterprise and financial sectors, and in implementing structural reforms in the utilities and energy sectors. The legal, institutional and regulatory framework is in place and enforcement is largely adequate. Enterprises have adapted to economic circumstances and have maintained their external competitiveness.

Nevertheless, the current account deficit remains high, and not enough progress in containing government expenditures has been made, especially in the pension and health-care reform area, in the control of local government expenditure and debt policy. Remaining structural reforms must be completed, particularly the oil-shale and land reforms.

Estonia must continue with fiscal adjustment, further fiscal consolidation and improved expenditure management, including the control of local government expenditure and debt policy. Measures must be taken to reinforce the regulatory framework of the financial sector, complete land privatisation and improve access to market-based credit for agriculture and small and medium-sized enterprises. Initiatives to improve the response of the labour market to economic growth, with a focus on improving education and training, need to be developed.

Overall, Estonia has continued alignment of legislation at a good pace in most areas of the *acquis*. Although some steps have been taken in order to set up administrative structures for most chapters, Estonia still needs to make considerable efforts in this area.

Concerning the *internal market*, considerable progress has been made as regards the adoption of framework legislation and the setting up of administrative structures related to standardisation and conformity assessment. Efforts need to be pursued to introduce a market surveillance system. Considerable progress has also been made in legislative alignment in *telecommunications* and the *audiovisual* sector. Overall, Estonia's legislation is already broadly in line with the *acquis* in the fields of *free movement of capital*, *free provision of financial services* and *company law*. However, efforts to strengthen the administrative capacity in these areas need to be pursued. Special attention should be paid to adequate enforcement of industrial and intellectual property rights, especially the fight against pirated and counterfeited goods. Although alignment of legislation has continued, further efforts need to be made as regards state aid control and mutual recognition of professional qualifications.

As far as *taxation* is concerned, some progress has been made in aligning VAT and excise duty legislation. Considerable efforts still need to be made in order to reinforce the tax administration. In this context, the withdrawal of the envisaged timetable for the gradual alignment of excise duties on fuel constitutes a step backwards in working towards this goal. In the area of *customs*, progress to complete the legal and administrative framework has been limited. Estonia urgently needs to adopt a timetable for the progressive and effective implementation of tariffs and tariff related measures. Substantial efforts still need to be made to enhance the administrative and operational capacity to implement the *acquis*.

In the area of *transport* Estonia has continued progress in completing the legislative framework. Progress made this year in strengthening the implementation of maritime safety standards needs to be continued. In the field of *energy*, progress in alignment of the legislation has been limited.

Concerning *agriculture*, substantial progress has been made as regards the introduction of a legal framework and in setting up administrative structures for the future implementation of the Common Agricultural Policy. However, efforts need to be continued to introduce quality and marketing standards for the different products and market intervention systems in line with the *acquis*. Alignment in the *veterinary and phytosanitary* sectors has continued. Efforts in these fields need to be speeded up. In the *fisheries* sector, Estonia has made some progress in aligning its legislation on fisheries by introducing the legal framework to develop a market policy, implement measures related to resources management, inspection and control and structural aid. Considerable efforts still need to be made, in particular to strengthen administrative structures and to adopt and implement the existing legislation.

Although progress has been uneven, Estonia has taken steps in most *social policy* areas. Efforts should continue, focusing on the implementation and enforcement of the current framework legislation as well as on strengthening enforcement bodies.

In the area of *regional policy*, progress has been limited. Although steps have been taken to set up the necessary instruments in this area, a number of difficulties still remain, and efforts to complete the legal and administrative framework to apply the EC regional and cohesion policy need to be continued. Furthermore, Estonia has made considerable

progress in introducing legislation and setting up the necessary administrative structures in the field of *financial control*. Still, internal financial control remains weak and these efforts need to be continue.

Estonia has speeded up the implementation of the existing framework legislation in most *environment* areas. Furthermore, progress needs to be continued in building the necessary capacity to implement and enforce this legislation, it particular at the local level. Estonia still needs to further develop the plans for financing environmental investments.

Since last year's regular report, Estonia has made further progress in the alignment of legislation in the field of *justice and home affairs*. Efforts need to be continued, in particular as regards asylum, the fight against organised crime, including drug trafficking, the fight against corruption in the police and customs administration, modernisation of the police and upgrading surveillance equipment and infrastructures at the borders.

As regards *administrative capacity*, Estonia has taken steps to set up the necessary structures in most areas of the *acquis*. However, substantial efforts in this area are still needed to ensure that the existing structures are fully capable of enforcing and implementing the *acquis* correctly. In this context, ensuring that the relevant institutions have sufficient powers to undertake their tasks, that coordination between competent bodies is efficient and strengthening the training of staff should be the highest priorities.

Estonia has continued to address, although with some differences, aspects of all sectors indicated as short term priorities of the 1999 Accession Partnership. In particular, Estonia has met the priorities related to telecommunications, audiovisual, standardisation and conformity assessment, veterinary and phytosanitary sectors, transport, occupational health and safety, employment and employment services. Priorities related to public procurement, labour law, penal law, customs and market surveillance have not been met.

Estonia has already started to address some of the medium-term Accession Partnership priorities.

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

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 Regular Report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

1. Accession Partnership

Short-term priorities

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in *italics*.²⁰

- **Political criteria:** Estonia has introduced *amendments to the language law in order to align it further with international standards and the Europe Agreement*. Furthermore, it has adopted the State Integration Programme for non-Estonians, covering a wide range of *concrete measures intended to promote integration of non-citizens, including language training*. Therefore, **this priority has been met to a large extent**.
- **Economic reform:** Estonia still needs to finalise the *restructuring plan for the oil-shale sector*. Although registration of agricultural land has continued, the process of *land reform* continues to be slow. Estonia has *established a medium-term economic strategy and agreed on a joint assessment with the European Commission*. Furthermore, it has also introduced legislation as regards the first pillar of the *pension reform*. However, further measures need to be taken in order to complete the pension reform programme. Therefore, **this priority has been only partially met**.
- **Internal Market:**

Estonia has made progress and continued legislative alignment in the fields of *free movement of goods, competition, taxation, telecommunications and audiovisuals*.

As regards *free movement of goods*, considerable progress has been made on the introduction of the legal framework of the *New Approach* as well as in the adoption of European standards. Progress has been limited as regards the development of a *market*

²⁰ For the detailed text of the short and medium term priorities established in the 1999 Accession Partnership please refer to doc 1999/855/EC (OJ 335 of 28.12.1999).

surveillance system. Amendments to the *public procurement law* covering the utilities sector and aligning the remedies system have not been adopted. In the field of *competition*, the setting-up of a *state-aid inventory* needs to be completed. As regards *free movement of services*, efforts need to be strengthened to reinforce the *supervision of the securities markets*.

As far as *taxation* and *customs* is concerned progress has been very limited. The administrative capacity of the customs administration needs to be reinforced, the *customs code* needs to be adopted and Estonia still needs to draw-up a timetable for the progressive and effective implementation of *tariffs and tariff-related measures*. In the field of taxation further alignment of legislation as regards the warehouse and registration system, still needs to be adopted.

Minor restrictions to the *free movement of capital* still remain.

Therefore, overall, **this priority has only been partially met.**

- **Agriculture:** Some progress has been made in the *phytosanitary* and *veterinary* sectors, in particular as regards measures related to the internal market, notably *veterinary control and inspection arrangements*. No progress has been made as regards common measures including animal waste treatment and animal welfare. Furthermore, the process of *upgrading food-processing establishments* in line with EC requirements is far from being completed. Therefore, **this priority has only been addressed to a limited extent.**
- **Transport:** Although efforts in this area need to be continued, improvements have been made as regards the implementation of *maritime safety standards*. Therefore, **this priority has been met to a large extent.**
- **Employment and social affairs:** Progress has been made in this area as regards the adoption of the *Employment Services Act*, the adoption of rules *implementing the Occupational Health and Safety Act* and the adoption of *national employment strategy*. Although bipartite *social dialogue* in Estonia still needs to be considerably developed, efforts made so far have resulted in concrete agreements in some sectors. However, progress has been limited as regards the adoption of the new *labour code*. Further efforts need to be made in order to enhance and develop enforcement structures, in particular as regards *occupational health and safety*. Therefore, **this priority has been partially met.**
- **Environment:** Estonia has continued progress as regards *legal transposition of framework legislation* in the areas of *water and waste management, air pollution* and *industrial related directives*. Limited progress has been made as regards *nature protection*. Estonia has adopted the relevant *Environmental Impact Assessment legislation* and now efforts need to be focused on its enforcement. In addition, Estonia needs to *develop further plans for financing investments* (directive specific), based on estimates of costs of alignment and realistic sources of public and private finance year-by-year. Therefore, **this priority has been partially met.**
- **Justice and Home Affairs:** Estonia has made some progress in this area. It has taken steps to create an *advanced integrated criminal investigation data system* and to *strengthen capacities to deal with money laundering*. It has also ratified the *1988 UN Convention on illicit drug trafficking* and the *European Convention on money*

laundering. It has signed the *European Criminal Law Convention on Corruption*, although its ratification needs to be accelerated. However, limited progress has taken place to complete the *reform of penal law*. Further efforts need to be made to ensure better *coordination among law enforcement bodies and the judiciary*. The *OECD Convention on bribery* has not been signed. Therefore, **this priority has been addressed to a certain extent but efforts need to be continued.**

- **Reinforcement of administrative and judicial capacity, including the management and control of European Community funds:** Estonia has *developed further its National and Rural Development Plans* and *adopted the legal, budgetary and administrative framework to programme and manage ISPA and SAPARD*. The *paying agency for SAPARD* has been established and preparations for accreditation are underway. Some progress has been made in order to complete the legislative framework for *internal and external financial control*. However, Estonia still needs to *adopt legislation and establish a plan in order to develop anti-fraud structures, to set-up internal audit/control units* in spending centres and adopt legislation introducing *functional independence for national internal controllers*. Progress has been made as regards *training of judges*, in particular on EC law. Vacancies within the judiciary have not been filled. Therefore, **this priority has only been partially met.**

Although efforts in this respect have been uneven in each different area, Estonia has continued to address aspects of all short term Accession Partnership priorities. Overall, progress has been the weakest in the areas of land reform, customs, , public procurement, agriculture and justice and home affairs. Alignment of legislation as regards free movement of goods, audiovisuals, competition, , taxation environment and financial control has continued at a good pace, with the exception of nature protection directives and market surveillance. However, enforcement and implementation of the legislation in these areas still deserves a lot of attention. As regards the political criteria, Estonia has met the relevant priorities. In this context, the amendment of the language law has been a considerable step forward.

Medium-term priorities

Only those medium-term priorities of the 1999 Accession Partnership where there has been some degree of progress are mentioned below.

- **Political criteria:** The State Integration Programme, adopted by the government, contains measures intended to reinforce language training programmes for non-Estonian speakers. Implementation of these measures has to be monitored.
- **Economic criteria:** Estonia has continued efforts to improve the conditions for the creation and the development of private enterprise, with particular attention to small and medium-sized enterprises.
- **Internal market:** Estonia has continued efforts to upgrade standardisation and conformity assessment structures and globally ensure proper implementing structures for all sectors.
- **Justice and home affairs:** Estonia has by and large aligned its visa policy with that of the European Union.

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

The latest edition of Estonia's National Programme for the Adoption of the *Acquis* (NPAA) was adopted by the Estonian government in December 1999. A translated version was presented to the Commission on 26 April 2000.

The Estonian document is well structured, clear and comprehensive and follows the same outline as last year's Regular Report. It covers all areas of the *acquis* although the level of quality and detail differs from one area to another, ranging from very detailed in the free movement of goods and phytosanitary sectors to much less detailed such as environment or agriculture. In addition, not all areas within a same sector are covered with the same level of detail. For example, references to the implementation of the internal energy market are an important omission. Overall, it has a clear coverage of the main policies in the short and medium-term.

As regards the timetables set by the NPAA, again unfortunately not all areas contain the same level of detail. Overall, most short-term objectives are realistic. However, as already pointed out in last year's report, 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 and position papers), although in some areas, such as agriculture, labour law, consumer and health protection, it is made clear that some delays have occurred as compared to the commitments made.

Overall, the NPAA is broadly consistent with the 1999 Accession Partnership and Regular Report.

Administrative capacity structures are also covered at different levels of thoroughness. Whereas in some areas they are sufficiently described others do not allow for an overview of the needs in this area.

Annexes

*Human Rights Conventions ratified by the Candidate Countries,
September 2000*

<i>Parties to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SV	TK
ECHR (European Convention on 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	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	X	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	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	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	X	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	X	O	O	X	O	O	X	O	X	X	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; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

Statistical data

	1995	1996	1997	1998	1999
Basic data	in 1000				
Population (average)	1.484	1.469	1.458	1.450	1.442
	in km²				
Total area	45.227	45.227	45.227	45.227	45.227
National accounts	1000 Mio Kroon				
Gross domestic product at current prices	40,7	52,4	64,3	73,3	75,4
	1000 Mio ECU/euro				
Gross domestic product at current prices	2,7	3,4	4,1	4,7	4,8
	in ECU /euro				
Gross domestic product per capita ²¹ at current prices	1.800	2.300	2.800	3.200	3.300
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	4,3	3,9	10,6	4,7	-1,1
	in Purchasing Power Standards				
Gross domestic product per capita ²² at current prices	5.608	6.124	7.079	7.518	7.682
	% of Gross Value Added²³				
Structure of production					
- Agriculture	7,9	7,5	6,9	6,3	5,7
- Industry (excluding construction)	23,1	22,2	21,5	21,2	19,9
- Construction	5,9	5,8	5,8	6,4	5,4
- Services	63,1	64,5	65,8	66,1	69,0
	as % of Gross Domestic Product				
Structure of expenditure					
- Final consumption expenditure	84,3	84,8	81,1	81,3	82,3
- household and NPISH	58,9	60,7	59,0	59,5	58,6
- general government	25,4	24,1	22,1	21,8	23,7
- Gross fixed capital formation	26,0	26,7	27,9	29,7	25,1
- Stock variation ²⁴	-2,3	0,0	2,5	-0,5	-1,7
- Exports of goods and services	72,4	67,1	78,1	79,9	76,9
- Imports of goods and services	80,4	78,6	89,6	90,4	82,6
Inflation rate	% change over the previous year				
Consumer price index ²⁵	29,0	19,8	9,5	9,3	4,6

²¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²² Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

²³ Including FISIM.

²⁴ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

²⁵ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

Balance of payments	In Mio ECU/euro				
	-Current account	-121	-315	-497	-429
-Trade balance	-508	-804	-996	-998	-827
<i>Exports of goods</i>	1.296	1.429	2.028	2.399	2.303
<i>Imports of goods</i>	1.804	2.234	3.024	3.397	3.130
-Net services	289	409	524	511	552
-Net income	2	2	-128	-74	-114
-Net current transfers	96	79	103	132	92
<i>-of which: government transfers</i>	77	66	85	99	77
- FDI (net) inflows	154	119	235	513	284

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	0,0	-1,6	2,6	-0,2	-4,6

Financial indicators	% of Gross Domestic Product				
	Gross foreign debt of the whole economy	9,39	10,69	25,18	29,00
	as % of exports				
Gross foreign debt of the whole economy	12,97	15,94	32,24	36,30	29.9 E
Monetary aggregates	In 1000 Mio ECU/euro				
- M1	0,7	0,8	1,0	0,9	1,2
- M2	0,9	1,2	1,6	1,7	2,1
Total credit	0,3	0,6	1,1	1,6	1,9
Average short-term interest rates	% per annum				
- Lending rate	19,0	14,9	11,8	15,1	11,1
- Deposit rate	8,7	6,1	6,2	8,1	4,2
ECU exchange rates	(1ECU/euro=..Estonian Kroon)				
- Average of period	14,99	15,28	15,72	15,75	15,65
- End of period	15,07	15,57	15,81	15,65	15,65
	1992=100				
- Effective exchange rate index	278,3	278,1	270,2	294,0	344,4
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	496	564	746	753	941
- Reserve assets (excluding gold)	494	562	744	751	938

External trade	Mio ECU/euro				
	Trade balance	-560,5	-893,9	-1.230,5	-1.269,4
Exports	1.270,3	1.393,1	1.882,6	2.236,2	2.203,0
Imports	1.830,9	2.287,0	3.113,1	3.505,6	3.223,0
	previous year=100				
Terms of trade	:	:	:	:	:
	as % of total				
Exports with EC-15	56,7	56,8	62,4	66,7	72,7
Imports with EC-15	67,4	68,2	68,5	67,7	65,0

Demography	per 1000 of population					
	Natural growth rate	-4,9	-3,9	-4,1	-5,0	-4,1
Net migration rate (including corrections)	-5,4	-5,7	-1,6	-0,7	-0,3	
	per 1000 live-births					
	Infant mortality rate	14,8	10,4	10,1	9,3	9,5
Life expectancy :	at birth					
	Males:	61,7	64,5	64,7	64,4	:
	Females:	74,3	75,5	76	75,5	:

Labour market (ILO methodology)²⁶	% of labour force					
	Economic activity rate	61,5	61	61,2	60,5	59,2
Unemployment rate, total	9,7	10,0	9,7	9,9	11,7	
Unemployment rate of persons < 25 years	14,1	16,0	14,4	15,7	21,2	
Unemployment rate of persons >= 25 years	9,1	9,1	9,0	9,0	10,4	
Average employment by NACE branches	in % of total					
	- Agriculture and forestry	10,5	10,1	9,4	9,1	8,8
	- Industry (excluding construction)	28,7	27,7	26,2	25,9	25,3
	- Construction	5,5	5,7	7,3	7,3	6,5
	- Services	55,3	56,5	57,1	57,7	59,4

Infrastructure	in km per 1000 km²				
	Railway network	23	23	23	22,5
Length of motorways ²⁷	km				
		64	66	68	74

Industry and agriculture	previous year=100				
	Industrial production volume indices	101,9	102,9	114,6	104,1
Gross agricultural production volume indices	100,2	93,7	98,5	95	91,8

Standard of living	per 1000 inhabitants				
	Number of cars	260,0	278	294	312
Telephone subscribers	279	300	323	345	358
Number of Internet connections ²⁸	:	:	10,9	15,5	18,3

P=provisional figures E= estimates

²⁶ Data for 1999 are for the second quarter.

²⁷ Semi-motorways.

²⁸ Source: United Nations. From national source: number of ISDN-lines of Estonian Telephon Company per 1000 inhabitants: 1996:0; 1997: 6.2; 1998: 15.6.

Methodological Notes

Inflation

Consumer price inflation: EU Member States have designed a new consumer price index in order to comply with the obligations of the EC Treaty, 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 (CC). 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. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. The data in the table are these proxy HICPs. Reliable and comparable HICPs are expected to be available in CCs from January 2001 onwards.

Finance

Note on sources:

General government deficit / surplus: Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

Gross foreign debt: OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates: where possible, Eurostat's reporting form for Candidate Countries is used. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

Concerning exchange rates against the ECU (euro), European Commission data is used for ECU rates, European Central Bank data for euro rates.

Note on methodology:

General government deficit / surplus: 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.

Gross foreign debt: of the whole economy, and includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

Monetary aggregates: end-year stock data. M1 refers to notes and coins in circulation plus bank sight deposits. M2 refers to M1 plus savings deposits plus other short-term claims on banks. Total credit refers to 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.

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: ECU exchange rates are those that were officially notified to the European Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available. The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average). In the case of Estonia (1992 annual average).

Reserve assets: 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.

External trade

Imports and exports (current prices). The data is based upon the special trade system, according to which external trade comprises goods crossing the free circulation area of the country plus goods that are imported for/exported after inward processing. Trade data excludes trade in services as well as licenses, know-how and patents, direct transit trade, exports and imports at bank notes in circulation, monetary gold, goods for use by embassies and international organisations, supplies by duty and tax-free shops at ports and airport, temporary exportation (importation) with commitment of re-exportation (re-importation) in unchanged state, repair of foreign vessels, operational leasing, destruction of goods under customs supervision, permanent use of goods under customs supervision, goods that are imported and exported by private persons, personal luggage of travellers, supplies to Estonian vehicles abroad. Value of external trade turnover includes the invoice value of the goods and the additional costs (freight, insurance etc.). The term FOB means that all costs incurred in the course of transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays the additional costs.

Trade classification: Trade in goods is recorded using the commodity classification according to the Combined Nomenclature (CN).

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

Imports: recorded on CIF basis in the same way as exports.

Imports and exports with EC-15: data declared by the Republic of Estonia.

Demography

Net migration rate: crude rate of net migration (recalculated by EUROSTAT) for year X, is: {population (X+1) - population (X) - Deaths (X) + 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). Thus, figures are 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 underreporting or delay in reporting of migration.

Labour force

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

- Labour force: employed and unemployed persons (according to 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:

have no work,

are actively seeking a job and,

are ready to take up a job within a fortnight.

Persons on compulsory military service are excluded from the employed. 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 in labour force.

Rates derived from LFS (Labour Force Survey) observe the ILO definitions and recommendations mentioned below.

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, ELFS 98 the period 1997-1998 and ELFS 99 the period 1998-1999. Data presented in tables for the years 1995-1998 are retrospectively collected annual average data. Data for the year 1999 are reference week data referring to the 2nd quarter of 1999. For the years 1995-1996 data are about population aged 15-69, since 1997 on the 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 with up to 19 employees. Electricity, gas and water supply covers only energy production (NACE Rev. 1 classes : 40101, 40301).

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

Standard of living

Number of cars: by the definition of the Vehicle Register, a passenger car is a road motor vehicle, other than a motor cycle, with the gross vehicle weight of less than 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 connections), demography: National sources.

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