



COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 13.11.2001
SEC(2001) 1747

2001

REGULAR REPORT

ON

ESTONIA'S

PROGRESS TOWARDS ACCESSION

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Table of contents

A. Introduction.....	6
a) Preface	6
b) Relations between the European Union and Estonia.....	8
Recent developments under the Association Agreement (including bilateral trade).....	8
Accession Partnership / National Programme for the Adoption of the Acquis	9
Community aid	9
Twinning	13
Negotiations / screening.....	14
B. Criteria for membership.....	15
1. Political criteria	15
Introduction.....	15
Recent developments.....	16
1.1. Democracy and the rule of law	16
The parliament.....	16
The executive	16
The judicial system.....	17
Anti-corruption measures.....	19
1.2. Human rights and the protection of minorities	19
Civil and political rights	20
Economic, social and cultural rights	21
Minority rights and the protection of minorities.....	21
1.3. General evaluation	23
2. Economic criteria	25
2.1. Introduction	25
2.2. Economic developments	25
2.3. Assessment in terms of the Copenhagen criteria.....	28
The existence of a functioning market economy	28
The capacity to cope with competitive pressure and market forces within the Union	31
2.4. General evaluation	33
3. Ability to assume the obligations of membership.....	34
Introduction.....	34
3.1. The chapters of the acquis	36
<i>Chapter 1: Free movement of goods.....</i>	<i>36</i>
Overall assessment	37
<i>Chapter 2: Free movement of persons</i>	<i>38</i>

Overall assessment	39
Chapter 3: Freedom to provide services.....	40
Overall assessment	40
Chapter 4: Free movement of capital	41
Overall assessment	42
Chapter 5: Company law.....	42
Overall assessment	43
Chapter 6: Competition policy.....	44
Overall assessment	44
Chapter 7: Agriculture.....	45
Overall assessment	50
Chapter 8: Fisheries.....	51
Overall assessment	53
Chapter 9: Transport policy.....	54
Overall assessment	55
Chapter 10: Taxation	56
Overall assessment	56
Chapter 11: Economic and monetary union.....	57
Overall assessment	57
Chapter 12: Statistics	57
Overall assessment	58
Chapter 13: Social policy and employment.....	59
Overall assessment	60
Chapter 14: Energy.....	61
Overall assessment	62
Chapter 15: Industrial policy.....	63
Overall assessment	64
Chapter 16: Small and medium-sized enterprises.....	65
Overall assessment	66
Chapter 17: Science and research.....	66
Overall assessment	66
Chapter 18: Education and training.....	67
Overall assessment	67
Chapter 19: Telecommunications and information technologies.....	67
Overall assessment	68
Chapter 20: Culture and audio-visual policy.....	69
Overall assessment	69
Chapter 21: Regional policy and co-ordination of structural instruments... 	70
Overall assessment	71

<i>Chapter 22: Environment</i>	72
Overall assessment	73
<i>Chapter 23: Consumers and health protection</i>	74
Overall assessment	75
<i>Chapter 24 - Co-operation in the field of justice and home affairs</i>	75
Overall assessment	76
<i>Chapter 25: Customs union</i>	79
Overall assessment	80
<i>Chapter 26: External relations</i>	81
Overall assessment	82
<i>Chapter 27: Common foreign and security policy</i>	83
Overall assessment	83
<i>Chapter 28: Financial control</i>	84
Overall assessment	84
<i>Chapter 29: Financial and budgetary provisions</i>	85
Overall assessment	85
3.2. Translation of the <i>acquis</i> into the national languages	86
3.3. General evaluation	87
C. Conclusion	90
D. Accession Partnership and National Programmes for the Adoption of the <i>Acquis</i>: Global assessment	94
1. Accession Partnership	94
Short-term priorities	94
Medium-term priorities	96
2. National Programme for the Adoption of the <i>Acquis</i>	98
Annexes	99
<i>Human Rights Conventions ratified by the Candidate Countries, September 2001</i>	100
<i>Statistical data</i>	101

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, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular Report. 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. This part gives special attention to nuclear safety standards, as underlined by the Cologne and Helsinki European Councils. 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 emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. 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 Gothenburg European Council 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 and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, 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, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of Estonia's economic performance.

The Report contains a separate section examining the extent to which Estonia has addressed the Accession Partnership priorities.

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 of each country in terms of its 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 negotiations¹, have served as additional sources. Council deliberations and European Parliament reports and resolutions² 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.

¹ As in previous years, the Report does not mention any commitments undertaken nor requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is Ms Gunilla Carlsson.

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 has helped ensure the smooth functioning of the various joint institutions.

The fourth meetings of the EU-Estonia Association Council and Association Committee took place in February 2001 and June 2001 respectively. In addition, the system of sub-committees continues to function as an efficient instrument for monitoring progress and holding technical discussions.

Since the last Regular Report, the Joint Parliamentary Committee, comprising representatives of the European and Estonian Parliaments, has met twice, in October 2000 and May 2001.

Trade between Estonia and the EC continues to grow. In 2000, Estonian exports to the EC accounted for 77% of total exports. Imports from the EC amounted to 85% of total imports. Estonia's main exports to the EC are machinery and equipment, wood and wood articles, and textiles. Estonia's main imports from the EC are machinery and equipment, vehicles, and base metals. Trade with Estonia represents around 0.3% of the EC's total external trade. The EC has a small positive trade balance with Estonia.

Regarding agricultural products, a new agreement on reciprocal concessions with Estonia entered into force in July 2000 on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement. As a consequence of this agreement, approximately 85% of traditional EC agricultural imports from Estonia are duty-free, while all EC exports of agricultural products to Estonia continue to be fully liberalised. A second round of bilateral negotiations for trade liberalisation is presently being prepared and would cover more sensitive sectors in which current trade is low, in particular due to the tariff protection on the EC side.

As regards trade liberalisation on processed agricultural products, an agreement was adopted by the Association Council in July 2001. It entered into force in September 2001 and reduces overall the level of EC tariffs on Estonian imports. An agreement has also been concluded at technical level on new trade concessions for fishery products. The formal Commission proposal on the Additional Protocol to the Europe Agreement is in the process of being adopted by the Council.

On the basis of a complaint by the European fertiliser manufacturers' organisation notified in October 2000, the Commission decided to impose provisional anti-dumping duties on imports of urea from Estonia in July 2001.

Bilateral negotiations with Estonia for a Protocol on European Conformity Assessment (PECA) have continued as Estonia has further aligned its legislation with the *acquis*.

Accession Partnership / National Programme for the Adoption of the Acquis

A revised Accession Partnership was adopted in December 1999 – its implementation is reviewed in Part D. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In April 2001, Estonia presented a revised National Programme for the Adoption of the Acquis (NPAA), in which it sets out the concrete steps to be taken in its accession preparations.

Community aid

There are three **pre-accession instruments** financed by the European Community to assist the applicant countries of Central and Eastern Europe in their pre-accession preparations: the **Phare** programme which provides both institution building and investment support for adoption and implementation of the *acquis* as well as support for economic and social cohesion; **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.

For the years 2000-2002 total financial assistance to Estonia amounts annually to around €30 million from Phare, €12.1 million from SAPARD, and around €35 million from ISPA.

The **Phare** programme has been providing support to the countries of Central and Eastern Europe since 1989, helping them through a period of fundamental economic and social transition 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 and Eastern Europe with support for institution building (around one third of the Phare allocation), investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis* (equally around one third of the allocation), and investment in economic and social cohesion (the remaining one-third of the Phare allocation). This support comprises co-financing for technical assistance, “twinning” and investment-support projects, to help these countries in their efforts to adopt the *acquis* and strengthen the 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 (investment or grant schemes) with a regional or thematic focus.

The Phare programme allocated Estonia €190 million during the period 1992-1999 and €33.5³ million in 2000. The **2001 Phare Programme** for Estonia consists of an allocation of €26.3 million for the National Programme, concentrated on the following priorities:

- Administrative capacity – development of a market regulation system for agriculture, support for accelerating accession to the EU, and assistance to the tax administration (€4.2m)

³ This includes an allocation of €3 million to Cross-Border Co-operation (CBC) Programmes.

- Internal market – development of conformity assessment infrastructure in the field of metrology (€2.5m)
- Employment and social affairs – promotion of social dialogue between employers and workers organisations (€0.5m)
- Justice and home affairs – preparation for the implementation of the Schengen Information System, support to reform the court system, development of a national criminal investigation system (€2.9m)
- Agriculture – strengthening of the food inspection system, development of veterinary education and standards, investment in an animal waste rendering system (€6.9m)
- Environment – nature conservation i.e. establishing a Natura 2000 network in line with the Habitats directive (€0.8m)
- Economic and social cohesion – implementation of business support measures, support for the preparation of structural funds administration, support to improve youth employment, human resources development in West Estonia (€6.0m).

An additional €3 million has been allocated for cross-border co-operation programmes.

Estonia also participates in and benefits from Phare funded multi-country and horizontal programmes, such as TAIEX and the Small and Medium-sized Enterprises Facility.

Furthermore, Estonia participates in the following Community programmes: Socrates II, Leonardo da Vinci II, Youth, and the Fifth Framework Programme for Research and Technological Development. An amount of € 2.6m was allocated from the Phare 2001 programme to assist in participation costs. Participation in other programmes is pending. Following ratification and entry into force of the agreement, the formal participation of Estonia in the European Environment Agency will start in January 2002. In order to streamline Community legal procedures and thereby facilitate the future participation of Estonia in Community programmes, a decision has been adopted by the EU-Estonia Association Council establishing the general principles for such participation.

Overall, the impact of Phare has been positive. Effective transfer of know-how, equipment and financial resources has taken place in a number of important fields such as Agriculture, Environment, Justice and Home Affairs, Social Affairs and Vocational Training. Phare support in Agriculture has supported preparations for accession in the fields of phytosanitary control, fisheries and agriculture support-system administration. In the field of the environment Phare support has been provided in connection with the water framework directive, the air framework directive, for investments in water and wastewater treatment, and dealing with a radioactive tailings pond. Economic and Social Cohesion programmes targeting human resources development, tourism development, and business support have been prepared. Phare support in the field of JHA has supported training of judges and the police, improved forensic investigation, and enhanced the administrative capacity of the court system. Occupational health and safety, development of labour market services, and promotion of social dialogue are among the Phare-supported activities in the field of Social Affairs.

In Estonia, Phare has for example been playing a particularly important role in:

- **Language training for ethnic minorities:** Phare support has long been used to provide extensive Estonian language training programmes for non-Estonian speakers, with the aim of improving social integration and increasing employment opportunities. Building upon previous projects, the new €3.1m Phare project has already supplied vocational schools with updated teaching materials and allowed children to participate in language immersion summer camps.
- **Strengthening police criminalistics and forensic science in Estonia:** In the fight against national and international crime, a €2.5m Phare funded project is helping to develop forensic research capacity for criminal investigation. This is being achieved by equipping police laboratories with modern forensic technology and training of laboratory staff, police investigators, prosecutors and judges.
- **Supporting the occupational health sector:** In order to ensure a healthier working environment in Estonia, a €0.6m Phare project started in August 2000, aiming at reducing the rate of work-related illnesses and accidents.
- **Developing and implementing national drug strategies and programmes:** In the fight against drugs, a €0.4m Phare project is supporting the development of a national drugs strategy, preparing Estonia for future participation in the European Monitoring Centre for Drugs and Drug Addiction, and also developing treatment and rehabilitation programmes.
- **Improving the agricultural information system:** Thanks to a Phare contribution of €0.6m, the Ministry of Agriculture now has improved information tools at its disposal for the purpose of agricultural policy-making, and agricultural support-scheme management.

The Phare Review for 2000 confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The Review foresees the possibility that management of the Phare funds 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 continue with an increased role for Delegations, further streamlining of procedures and, lastly, increasing emphasis on raising the verifiable and quantifiable impact of Phare projects in institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Commission approved the **SAPARD** Programme for Agriculture and Rural Development for Estonia in November 2000. The following strategic objectives were identified for the period 2000 to 2006:

- To improve the efficiency of agricultural production, bringing it into compliance with market requirements
- To ensure the development of a competitive and efficient food processing industry
- To provide conditions for sustainable rural development
- To contribute to the socio-economic and infrastructure development of rural areas.

The *Multi-annual Financing Agreement* was signed in January 2001 and came into force in May 2001. This agreement lays down the Community management and control rules for SAPARD for the whole programming period (2000-2006) and includes the principle of full decentralisation of programme management to an agency established under the responsibility of Estonia. The *Annual Financing Agreement* between the Commission and Estonia for the 2000 allocation of €12.1m was signed in March 2001. Finally, in June 2001, the Commission approved the accreditation of the Estonian SAPARD Agency to manage four types of support measures – investment in agricultural holdings, processing and marketing of agricultural and fish products, development and diversification of economic activities and development of rural infrastructure.

For the implementation of SAPARD in Estonia, the National fund (NF) under the Ministry of Finance is responsible for the general management of funds. The Agricultural Registers' and Information Board (ARIB) in Tartu will act as the SAPARD agency in accordance with the Multi-annual Agreement. The Ministry of Agriculture is the Managing Authority, responsible for general programme management and implementation. Finally, a Monitoring Committee will consider and give an opinion on the criteria for project selection and discuss monitoring indicators.

In September 2001, Estonia became the first country to make a payment to a beneficiary farmer under the SAPARD programme.

As concerns the **ISPA** programme, the Estonian national ISPA strategies for transport and the environment were submitted to the Commission and approved by the management committee towards the end of 2000 (these are due to be revised at the end of 2001). On the basis of these strategic documents, five projects were approved, four in the environmental sector and one in the transport sector, to which a total of €35.7m was committed. An additional €5.7m is expected to be committed during 2001 for two environmental projects and one transport project. For example,

- In the environment sector, ISPA is funding the improvement of water management and wastewater treatment in Tartu, Viljandi, Narva and Parnu.
- In transport, ISPA is funding improvements to the Via Baltica road corridor from Parnu to Tallinn and from Tallinn to Narva.

The 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 being 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.

However, some of the ISPA funds will also be used to assist Estonia to develop its administrative capacity to implement projects under an Extended Decentralised Implementation System (EDIS). The objective of this is to further decentralise management responsibilities to the Estonian administration. This will also help Estonia to prepare for future management of the structural and cohesion funds.

The National Fund located within the Estonian Ministry of Finance remains the central entity through which Phare, ISPA and SAPARD funds are 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 three instruments. The Joint Monitoring Committee (representatives include the Commission and Estonian Ministry of Finance) meets each 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 and training.

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*.

A total of 372 twinning projects, primarily in the fields of agriculture, environment, public finance, justice and home affairs and preparation for the management of Structural Funds, have been funded by the Community between 1998-2000. These represent the principal priority sectors that have been identified in the Accession Partnerships. But other important sectors of the *acquis* have also been addressed through twinning, for example, social policy, fight against drugs, transport, and telecommunications.

Thanks to the strong support and response from EU Member States, 103 twinning partnerships, funded by Phare 1998 and involving all candidate countries and almost all Member States, are coming to an end or have been concluded. Under Phare 1999 a further 124 projects are being implemented and the programming exercise for Phare 2000 includes a further 145 twinning projects. The 2001 programming exercise foresees 131 twinning projects in all Phare beneficiary countries as well as Cyprus and Malta. Furthermore, the candidate countries are being offered the possibility of drawing on Member States' expertise through "Twinning Light" (projects of up to 6 month's duration), to address subjects of limited scope, which emerge during the negotiation process as requiring adaptation. It is estimated that around 250 twinning projects are operational throughout the candidate countries at any one time.

For Estonia, 21 twinning projects have been approved since 1998 and are at various stages of implementation. Seven new twinning projects are foreseen for 2001, covering agriculture market regulation systems, assistance to the tax administration, promotion of social dialogue, preparation of the Schengen Information System, strengthening the food inspection system, nature conservation and preparation for the structural funds. Two further projects are foreseen for 2001 which make use of the new "Twinning Light" mechanism. These cover support for accelerating EU accession and enhancing the capacity of the court system.

The total commitment from the Commission to twinning projects in Estonia amounts to approximately €18.1m, including the 2001 projects. This amount excludes the cost of investments which are made in parallel to the various projects.

Ten Member States (France, Germany, Finland, Sweden, Greece, Italy, Ireland, Denmark, Netherlands and the United Kingdom) are currently involved in Twinning with Estonia.

Negotiations / screening

The analytical examination of the *acquis* (screening) has taken place in the context of meetings of the Association Committee and the sub-committees.

Since the opening of accession negotiations, substantial discussions on the individual chapters of the *acquis* started and negotiations on all chapters (with the exception of chapter 30 - Institutions, and chapter 31 – Other) have been opened.

By the end of September 2001, the following 19 chapters had been provisionally closed: free movement of goods, free movement of services, free movement of capital, company law, fisheries, Economic and Monetary Union, statistics, social policy, industry, small and medium-sized enterprises, science and research, education and training, telecommunications and information technologies, culture and audiovisual, environment, consumers and health protection, external relations, common foreign and security policy and financial control.

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.”⁴

In its 2000 Regular Report on Estonia’s progress towards accession, the Commission concluded that:

“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.”

The section below aims to provide an assessment of developments in Estonia since the 2000 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 – Co-operation in the field of justice and home affairs*) of part *B.3.1* of this report.

⁴ These principles have been emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

Recent developments

There has been no major political change in Estonia since last year's regular report. There has not been any major shift in government policy and EU membership continues to be a key objective in Estonian foreign policy. In September 2001, Mr Arnold Ruutel was elected as the new President of Estonia. He was inaugurated on 8 October 2001, succeeding President Lennart Meri, who had been Estonia's only President since independence in 1991.

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 focuses on the most significant developments of the past year.

The parliament

The Estonian Parliament continues to function properly. Efforts by the current parliament to push through the adoption of EU-related legislation have allowed Estonia to tackle its own ambitious legislative timetable. This momentum needs to be continued.

The executive

Some progress has been made as regards the modernisation of the public administration and of the civil service. Overall, the civil service and administrative procedures are satisfactory, although transparency on personnel matters and coordination across the civil service remains problematic.

There are around 20,500 employees in the Estonian administration⁵, including ministries (11%), government agencies (81%) and county governments (4.5%) and constitutional institutions (3.5%)⁶. In addition, local governments employ around 4,000.

The status of public servants is defined by the Public Service Act. Furthermore, there is additional legislation for specific categories of public servants including diplomats, police, judiciary and the military.

As required by law, Estonia's civil servants generally continue to perform their tasks in an impartial and politically neutral way. However, the lack of transparency in recruitment and promotion is a threat to this impartiality. Remuneration levels also lack transparency since a significant proportion of pay is in the form of bonuses or allowances. This is because management and staffing is decentralised to each individual ministry or institution and therefore varies considerably in practice.

Estonia has a relatively lean public administration. In this context, the decline in staff turnover to a rate of around 12 % is a positive development and will help ensure that the level of administrative capacity in particular parts of the administration can be better maintained and

⁵ Data as at 31 December 2000.

⁶ Chancelleries of Parliament, President and State, Supreme Court, State Audit Office, Legal Chancellor.

further developed. However, co-ordination between different administrative bodies remains weak.

In order to further develop and improve the functioning of the Estonian civil service, a significant step was taken in April 2001, when the Estonian Government approved the Public Administration Reform Programme. The Office of Public Administration Reform (OPAR) coordinated the preparation of the programme. The reform programme is divided into 5 sub-strategies – (i) administrative reform of local governments and regional institutions, (ii) division of labour and cooperation between institutions, (iii) reform of the budgetary process and financial management, and development of internal control, (iv) development of a citizen-orientated public administration, and (v) civil service reform. This programme recognises that efforts are still needed to develop the recruitment and promotion systems, the salary system, and training and appraisal systems.

As regards new legislation, in January 2001 the government adopted a regulation on the introduction of performance management as part of its efforts to move to a more results-based system. Also in January 2001, the new Public Information Act entered into force. It aims to improve transparency of government through access to public information. It also reinforces the already widespread use of information technology within the Estonian administration by making web sites mandatory for all government agencies.

In April, the Government adopted strategic policy documents related to training across the civil service. Although a significant number of civil servants are now taking part in various training programmes including training in EU affairs, there is a need to improve and coordinate training standards across various public administration bodies.

Limited progress has been made as regards the reform and consolidation of local governments. Currently, Estonia is still organised into 15 counties and 247 municipalities, some of them very thinly populated. Consultations between central and local authorities started during 2000, with the main objective of reducing the number of municipalities to around 100. There is a need to ensure that this reform is completed, taking into account the need to develop the necessary capacity to implement and enforce the *acquis communautaire* at regional level. In doing so, care should be taken not to infringe upon the language rights of the Russian-speaking population, particularly in the case where a merger of local administrations would reduce the percentage of Russian speakers below 50% of the population and would therefore remove the legal option of using the Russian language for administrative purposes (*see below*).

The judicial system

Estonia has made progress in addressing the concerns raised in last year's Regular Report in this area. Reform of the Court system and training of judges has continued. In the area of penal law, a new Penal Code and Administrative Procedure Act were adopted in June 2001. Progress has been made in the reform of civil law, with the adoption of the Law on Contractual and Non-contractual Relations in September 2001.

The process of Court reform has continued, based upon the principles adopted by the government in September 2000. Estonia has a three-instance court system. There are now 22 courts of first instance: 3 city courts, 15 county courts and 4 administrative courts. The city and county courts deal with civil and criminal cases and since January 2001 also deal with

administrative offences such as traffic fines. A new administrative court was established in Jõhvi in January 2001. These courts now deal only with purely administrative matters concerning claims against acts of the public sector. There have been no significant changes as regards the 3 district courts of second instance and the Supreme Court, which also serves as the constitutional court.

All judges are appointed for life and the Constitution and legislation explicitly safeguard the independence of judges. However, there is a need to further reinforce the institutional independence of the courts particularly in the context of the ongoing court reform. , The close administration of the courts (with the exception of the Supreme Court) by the executive (Ministry of Justice), and the courts' limited financial autonomy, threaten judicial independence.

As in 2000, there are a total of 238 judicial posts, of which 10 remain vacant (compared to 14 in 2000). Responsibility for selection and training of judges remains with the Supreme Court. Although the number of candidates for judicial posts has increased, there remain problems in attracting highly qualified judges into Northeast Estonia. As regards the courts administration, the bailiff service has been privatised under the new Bailiffs Act that entered into force in April 2001. As a result the number of bailiffs has dropped by more than half from 167 to 80. Despite this significant reduction, early signs are that the new service is functioning satisfactorily and should benefit from a more professional, higher quality approach.

Overall there has been a further decrease in the backlog of cases. "Backlog" is defined as the proportion of criminal cases pending for more than one year and civil cases pending longer than two years. As regards criminal cases, these increased by 27 % in 2000 due in part to significant increases in hooliganism and traffic violations. At the same time, the backlog of cases decreased by 2% to 20% between the end of 1999 and the end of 2000. As regards civil cases, these decreased by 9% during 2000 and the backlog was reduced slightly to 5.5%. On average, judgements in civil cases take 5 months as opposed to 3 months in criminal cases. The number of purely administrative cases dropped by 36% in 2000, mainly due to a fall in the number of cases related to property restitution and privatisation. In order to make the court system more effective both the workload of judges and the backlogs need to be reduced further.

The quality of court decisions in the lowest-level courts appears to be improving, as evidenced by the increasing number of decisions upheld upon appeal. However, quality still needs to be improved further, in particular in the civil and administrative areas. There also needs to be a more effective enforcement of the law. In addition, in some sectors, judges impose very low sanctions which may reduce the effectiveness and enforcement of the law. In this context, efforts to improve the training of judges have been further developed within the framework of a training strategy adopted in February 2001. The Training Council upon which relevant stakeholders are represented will decide upon particular curricula.

The probation system was established in 1998 and currently supervises around 6000 persons. With a staff of only 175 officers, the ratio of clients to probation officers is relatively high, at 34 to 1. However, increased training of probation officers has appeared to improve the quality of service, indicated by a reduction in the percentage of probationers that failed to perform obligations imposed by the courts.

The new Bar Association Act adopted in March 2001 allows lawyers from EU member states to provide services in Estonia after accession. The number of members of the bar association has increased from 381 to 403 since the last Regular Report. The bar association guarantees legal representation in criminal cases, with the state sometimes meeting the costs. Legal assistance expenses are also sometimes met by the state in civil cases. However, there is a need to improve citizen's access to justice (*see civil and political rights*).

As regards the use of information technology, the Ministry of Justice carried out a strategic analysis of court information systems. On the basis of this, a two-year development project has been prepared and is currently being implemented.

Anti-corruption measures

As indicated in last year's Regular Report, corruption remains a relatively limited problem in Estonia. Overall, Estonia has made further progress as regards the fight against corruption.

The integrity of civil servants has long been a requirement of Estonian legislation. The legislative framework has been further strengthened by the new Penal Code which was adopted in June 2001 in line with EU standards in the field of anti-corruption, in particular as regards the criminal liability of legal persons and officials in respect of funds received by third parties. It will enter into force in March 2002.

As reported previously, Estonia has ratified the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. In December 2000, Estonia ratified the Council of Europe Civil Law Convention on Corruption. It has signed but not however yet ratified the Criminal Law Convention on Corruption.

Estonia is participating in the Council of Europe group of states against corruption (GRECO). Jointly with Latvia and Lithuania, Estonia also participates in the Baltic Anti-corruption initiative, which is supported by the OECD secretariat, and focuses on legislative improvements, capacity-building and community involvement in order to better tackle corruption.

Efforts to fight corruption need to be continued. The capacity to enforce compliance with anti-corruption legislation needs to be strengthened, in particular at local government level. Efforts also need to be continued as regards the fight against small-scale corruption in the police and customs administrations and in the context of organised crime (*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 the previous Regular Report, Estonia continues to respect human rights and freedoms. The following section concentrates on the major developments since the last Regular Report.

Estonia has ratified most of the major international conventions in the field of human rights (*see annex*). Estonia has not signed the UN Convention relating to the Status of Stateless Persons.

In November 2000, Estonia signed Additional Protocol no.12 to the European Convention for the Protection of Human Rights and Fundamental Freedoms which prohibits discrimination on

any grounds. No developments can be reported as regards the transposition of EC anti-discrimination legislation (*see Chapter 13 – Social Policy*).

On basis of the Legal Chancellor Act that took effect in June 1999, Estonia established a dual role for the Legal Chancellor. Firstly, the *Legal Chancellor* has the power to ensure legislative compliance with the Constitution by the state and secondly plays the role of *Ombudsman* to deal with specific complaints by citizens regarding the work of the state or state officials. The institution is particularly important in Estonia as regards the protection of minorities (*see below*).

As highlighted in the last Regular Report, the post of Legal Chancellor was vacant during the second half of 2000. However, in February 2001, the Estonian Parliament appointed the new Legal Chancellor for a 7-year term. Staff has also increased to 26 persons, including 18 lawyers, and a press officer in order to make the institution more widely known and transparent. As a result the number of petitions submitted has increased. In this context Estonia should ensure that sufficient resources are made available in order to properly address the concerns of citizens. Country-wide, the principal issues for complaint relate to rights of prison detainees, property reform, and the activities of the police services.

Civil and political rights

Additional steps have been taken to further improve the protection of civil and political rights, although some issues continue to merit attention.

Degrading treatment by the police appears to be a relatively small problem in Estonia although a limited number of specific cases regarding police conduct have been passed to the Legal Chancellor for consideration.

As regards *pre-trial conditions*, progress has been made to shorten the duration of pre-trial imprisonment, which stands now at around 3½ months. However, ill-treatment and use of punishment cells in some cases remain issues of concern.

In terms of *prison conditions*, the current prison population is around 4,750 persons. Progress has been made in reforming the prison system in line with the 3-year development plan adopted in March 2000. In December 2000, the Imprisonment Act came into force. It includes the introduction of new prison classification, greater focus on re-socialisation and prisoners' rights and improved training and career system for staff. However, continued efforts are required to improve prison conditions, and more specifically, address issues of overcrowding and ill-treatment of prisoners. A significant proportion of petitions to the Legal Chancellor relates to the rights of prison detainees. Efforts to improve the training and pay of prison officers also need to be made.

In terms of the provision of *legal aid*, Estonia needs to continue to improve citizens' access to justice by widening the availability of legal aid. This includes clarifying its scope and improving the quality and accessibility of legal services.

As regards the *rights of refugees/asylum legislation*, Estonian legislation needs to be brought into line with EU standards. Estonia needs to further develop the capacity of the Citizen and Migration Board, Border Guard and Judiciary in order to deal effectively with asylum claims and reduce the length of the procedures.

Concerning discrimination on the basis of *sexual orientation*, the new Penal code adopted by Parliament in June 2001 harmonises the age of consent for heterosexual and homosexual relations.

The principals of *freedom of religion* and *freedom of expression* are enshrined in the Estonian constitution and no particular problems have been reported in this respect.

Economic, social and cultural rights

Further positive developments have taken place in this area.

In terms of *equal opportunities*, the Estonian legislative framework ensures equal rights and opportunities for women. However, continued efforts are needed to ensure that these are implemented in practice. As an indication of women's participation in political life, there are 18 women and 83 men, out of a total of 101 members of Parliament (*see also Chapter 13 – Social policy and employment*).

In the area of *child protection*, in February 2001, Estonia signed the Hague Convention on the Civil Aspects of International Child Abduction. Also in February 2001, Estonia ratified the European Convention on Recognition and Enforcement of Decisions concerning the Custody of Children and on Restoration of Custody of Children.

The Revised European Social Charter that was ratified in May 2000 and entered into force in November 2000. As reported last year, Estonia has not ratified those articles of the Revised European Social Charter which relate to the rights to a decent salary, social protection for the elderly, dignified treatment at work, protection against poverty and social deprivation, and shelter. Also, Estonia has not undertaken to be bound by the Additional Protocol providing for a system of collective complaints.

Minority rights and the protection of minorities

Estonia's population has declined to 1,370,100⁷. Of this number, 80% are now citizens of Estonia, 7% citizens of other countries (mainly Russia) and 13 % (178,000) are stateless . In terms of ethnic origin, 25.6% (350,800) of the total population are of Russian origin.

The naturalisation procedure

The naturalisation procedure is regulated by *the Law on Citizenship* which is generally in line with international standards. Since the Citizenship Law entered into force in 1992, around 115,000 non-Estonians have been granted Estonian citizenship. In the first 7 months of 2001, 2,034 persons received citizenship, as compared to 3,637 between August 1999 and October 2000. More than half of these were minors, 338 of whom received citizenship on the basis of amendments to the Law on Citizenship introduced for the naturalisation of Estonian-born children of non-citizens legally resident in Estonia.

The rate of naturalisation had been decreasing significantly over the past few years. Last year it was reported that a new integrated language certification system had been adopted, rationalising

⁷ Based on preliminary results from the Census that will be completed during 2001.

the previous system under the responsibility of the National Examination and Qualification Centre. Whilst these changes should also help to increase the speed of naturalisation, it is important that those people who have previously passed language tests for the purposes of naturalisation under the old system should not have to retake the tests.

In this context, it is also important for Estonia to continue to reduce unnecessary technical barriers and make sufficient resources available to the Citizenship and Migration Board in order to ensure an efficient naturalisation process.

Residence permits and special passports for non-citizens

Currently, around 226,000 non-Estonians have been granted permanent residence permits and 46,500 have been granted temporary residence permits. Around 165,000 aliens' passports have been issued. Around 30,000-40,000 residents are estimated to be illegal. From December 2000 to August 2001, the Citizenship and Migration Board received 4,847 applications for temporary residence. More than half of these applications have been made on the basis of international treaties and these include applications from illegal residents seeking to legalise their residency.

According to the *Aliens Act*, the immigration quota is limited to 0.05% of the population of permanent residents in Estonia. However according to decisions of the Estonian Supreme Court in May/June 2000, to refuse residence permits to spouses and children of Estonian citizens and permanent residents on the basis of the quota is unconstitutional. As a result, the Citizenship and Migration Board granted 865 residence permits in 2000, thus exceeding the official quota of 610. However, efforts need to continue to ensure that the issue of reunification of families is properly resolved. In 2001, the immigration quota has been set at 684. By May 2001, 466 resident permits had already been granted.

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 used in the courts and in the administration in those areas where Russian-speakers represent a majority of the local population. Non-Estonians with permanent residence permits are allowed to vote in local elections but 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.

As reported last year, in March 2000 the Estonian government adopted the state integration programme covering the period until 2007. Implementation of the programme is underway by the Non-Estonian Integration Foundation under the responsibility of the Minister for Ethnic Affairs. The budget for the period 2000-03 amounts to €14.5 m (225m EEK), of which approximately half is funded by the state and half from foreign assistance (including the Phare programme).

According to the Government Report on the implementation of the integration programme that was presented in May 2001, the objectives of the first year of the programme were met satisfactorily. Particular emphasis in 2000 was placed upon education (increasing Estonian-language teaching in Russian secondary schools) and teaching of the Estonian language to adults.

In June 2001 a representative office of the Legal Chancellor was opened in Narva in north-east Estonia. An additional office has been opened in Jõhvi and a third is planned for Sillamäe. This is a positive development and should ensure that the specific concerns of non-Estonians in the region (such as those related to naturalisation and language) can be better dealt with.

It is necessary for the Estonian government to continue to devote adequate resources and give proper attention to the implementation of all elements of the integration programme. This includes, in particular, the need to ensure a high level of awareness and involvement in integration process across all sections of the Estonian population.

Language policy

As was positively noted 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, in line with international standards.

Based on the government decree that had already been enacted in August 1999, employees in the public administration are required to have a minimum level of Estonian-language ability, proportional to the public interest of the post. This includes, for example, nurses, police and prison officials. Estonia should continue to ensure that those already employed in the public service, particularly in the predominantly Russian speaking areas, should be given proper support to meet the language requirements.

Following this, Estonia adopted implementing legislation (by Government decree) in May 2001 setting out specific requirements of Estonian-language proficiency for people working in the private sector. This entered into force on 1 October 2001. Estonia should ensure that in the implementation of this regulation the principles of proportionality and justified public interest are properly respected.

As reported last year, under the Estonian 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.

As regards the use of the Estonian language in local public administration, under Estonian law it is legally possible for municipalities to make a request to use Russian as their administrative language in parallel to Estonian if more than 50% of the local population are Russian speakers. So far, this option has not been used. However, in practice, a number of municipalities use Russian as a working language.

1.3. General evaluation⁸

In its 1997 Opinion, the Commission concluded that Estonia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for

⁸ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

and protection of minorities. Over the past year, further efforts have been made in this direction. Estonia continues to fulfil the Copenhagen political criteria.

Progress has been made in the modernisation of the public administration by moving to a more results based system and improving public access to information. Efforts have continued to modernise the legal system and improve the functioning of the judiciary through training, court reorganisation and development of I.T. systems. There is however a need to continue the implementation of the public administration reform programme, in particular to improve transparency in personnel matters and coordination across different bodies. As regards the judicial system, Estonia needs to continue to improve the efficiency in dealing with court cases whilst at the same time improving the quality and enforcement of court decisions. There is also a need to further improve citizen's access to justice, in particular by widening the availability of legal aid.

Estonia has continued to make progress with the implementation of concrete measures for the integration of non-citizens. An important positive development is the strengthening of the administrative capacity of the Legal Chancellor's office, including the establishment of branch offices in the north-eastern part of the country. Estonia should maintain the momentum of the integration process. This includes ensuring the efficiency of the naturalisation process, providing access to language training, and raising awareness of the issue across the entire spectrum of Estonian society. Estonia should ensure that the implementation of language legislation respects the principles of justified public interest and proportionality, Estonia's international obligations and the Europe agreement.

Estonia continues to address both the short and medium-term priorities set out in the 1999 Accession Partnership. Specifically, Estonia is implementing concrete measures for the integration of non-citizens including the provision of language training for non-Estonian speakers. Looking forward, meeting these priority objectives requires sustained efforts over time and continued investment of financial resources in order to build upon the positive work that has already been achieved.

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”.

In its 2000 Regular Report, the Commission found that:

“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.”

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

Gross domestic product experienced high growth of 6.9% in 2000 after contracting in 1999. GDP growth was primarily driven by domestic demand as private consumption expanded after a decline in 1999. Imports and exports grew rapidly. The current account deficit expanded in 2000, but it is more than covered by foreign direct investment. Inflation increased from 3.1% in 1999 to 3.9% in 2000 mainly as the result of higher fuel prices. Estonian public finances have rapidly been brought into order in the aftermath of the recession and the general government deficit fell from 4.1% of GDP in 1999 to 0.7% in 2000. Estonia has maintained the currency board.

Main economic trends							
Estonia		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	4.0	10.4	5.0	-0.7	6.9	5.8 Q1
Inflation rate ⁹							
- annual average	per cent	19.8	9.3	8.8	3.1	3.9	6.0 ¹⁰ September
- December-on-December	per cent	13.0	10.9	5.2	3.7	5.0	5.7 September ¹¹
Unemployment rate, end-year							
- ILO definition	per cent	10.0	9.7	9.9	12.3	13.7	12.4 P Q2
General government budget balance	per cent of GDP	-1.6	2.0	-0.4	-4.1	-0.7	:
Current account balance	per cent of GDP	-8.9	-12.2	-9.3	-5.7	-6.7	:
	million ECU/euro	-307	-499	-432	-277	-365	-164 ¹² Jan-June
Foreign debt							
- debt export ratio	per cent	15.9	32.3	38.4	62.8	49.7	:
- gross foreign debt	million ECU/euro	367	1,031	1,428	2,365	2,587	:
Foreign direct investment inflow							
- balance of payments data	per cent of GDP	3.4	5.8	11.1	5.8	8.0	:
	million ECU/euro	116	236	516	284	435	287 ¹³ Jan-June

Structural reforms have continued. Privatisation is well advanced as most state-owned enterprises have been sold. Privatisation of a large part of the railway system has now been completed and further progress has been made with respect to Narva Power. There has been slow progress in land privatisation, mostly due to slow administration of the process. The pension system is being further reformed with the modification of the mandatory pay-as-you-go pension and the proposal for the introduction of a mandatory funded system. No progress has been made with respect to health care reform. A law unifying all financial sector supervision under one authority has been adopted.

⁹ PROXY HICP since 1996 (see methodological notes).

¹⁰ Moving 12month average rate of change, national CPI

¹¹ National CPI

¹² Source: Website of National Bank

Main Indicators of Economic Structure in 2000		
Population (average)	thousand	1,437
GDP per head ¹⁴	PPS	8,500
	Per cent of EU average	38
Share of agriculture ¹⁵ in:		
- gross value added	per cent	6.3
- employment	per cent	7.4
Investment-to-GDP ratio ¹⁶	per cent	23.4
Gross foreign debt/GDP ¹⁷	per cent	47.4
Exports of goods & services/GDP	per cent	95.4
Stock of foreign direct investment	Million Euro	2,844
	Euro per head ¹⁸	1,980

Estonia has been catching up with the EU. The average per capita income in purchasing power standards was in 2000 at a low 38% of the EU level, but has increased from about 30% in 1994. Regional disparities are substantial. In 4 out of 5 regions of Estonia, average per capita incomes are with 56 - 69% of the national average considerably below the national average; per capita income in Northern Estonia, which includes the capital, Tallinn, amounts to 163% of the national average. The employment rate was 60.6% in 2000. Unemployment was rising and has reached 13.7%. 44% of the unemployed are long-term unemployed, slightly down from 1999. Unemployment rates for men were three percentage points higher than for women at 14.7% against 11.6% and for young people (<25 years) at 23.7% much higher than for older. The economic activity rate was relatively high (almost 60% in 2000). Unemployment is lowest in Northern Estonia (82% of the national average), but is also below average in three of the other four regions. Only in the Northeast is unemployment higher, at nearly 80% over the national average.

¹³ Source: Website of National Bank

¹⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁵ Agriculture, hunting, forestry and fishing.

¹⁶ Data refer to Gross fixed capital formation as % of GDP.

¹⁷ Estimated.

¹⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

2.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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.

There is continued support for the government's medium-term economic reform programme. Most political parties back the government's prudent fiscal policies and reform efforts. There is consensus about the continued adherence to the currency board arrangement.

In May 2001 the Estonian authorities submitted their pre-accession economic programme. In this document, a medium-term economic outlook, budgetary planning and structural reform agenda are presented. The Estonian authorities plan to maintain a prudent budgetary policy. Slowly declining tax and spending ratios and further structural reforms are planned. In the course of the 1990s Estonia requested from the International Monetary Fund a series of stand-by arrangements as a precautionary measure. The last one expired on August 31 2001.

GDP growth accelerated to 6.9% in 2000 from the small contraction in 1999. Initially through rapidly rising exports and later on based on strong domestic demand, GDP grew rapidly. Both exports and imports expanded substantially and are around 100% of GDP in current prices each. The share of agriculture continues its declining trend to 6.3% of GDP. The share of services in GDP declined from about 69% in 1999 to 68% of GDP, primarily as a consequence of the somewhat swifter recovery of industrial output in 2000, from its decline in the 1999 recession. In 2001, the first half GDP grew by 5.4% relative to a year earlier, with investment especially expanding rapidly.

Unemployment increased to 13.7% in 2000 from 12.3% in 1999. This high level at the end of 2000 is due to a combination of continuing restructuring and effective segmentation of labour markets caused, among others, by the skills mismatch between the requirements of the newly created jobs and those of the unemployed and low regional mobility. As a result, the number of job vacancies has nearly doubled since early 2000. Nearly half the unemployment (44%) is long-term. However, at just under 60%, the economic activity rate has recovered somewhat.

Inflation rose mildly, from 3.1% in 1999 to 3.9% in 2000 (HICP inflation). Due to rising fuel prices and the low value of the Estonian crown and the euro relative to the US dollar, prices accelerated in the year 2000. In the course of 2001, inflation increased further to 5.7% due to both higher sheltered government administered prices (mostly related to housing) and market prices (fuel, beef).

Estonia maintained its currency board arrangement, without being challenged by foreign exchange markets. As the inflation rate in Estonia in 2000 slightly exceeded the euro area inflation rate, the Estonian currency marginally appreciated in real terms relative to the euro. Short-term interest rates rose over the year 2000, e.g. the 1-month TALIBOR rate rose from 4.3% to 5.8%, as did real interest rates. Only 10-year (and longer) interest rates fell in the course of 2000. In 2000, the quantity of money in circulation (broad monetary aggregate, M2) grew nearly 30% over the year in nominal terms and by 23% in real terms, primarily reflecting a recovery in the growth of credit and monetary aggregates from the slow down due to the 1999

recession. In the first half of 2001, average growth of M2 was even higher, although recently somewhat slowing down. Nevertheless, it is a development that needs to be monitored attentively as it may result in upward pressure on prices.

The budget has nearly been brought into equilibrium. The general government deficit according to the harmonised EU standards (ESA95) stood at 0.7% of GDP, down from 4.1% in 1999 while the primary deficit (deficit excluding interest payments) improved from 3.6% in 1999 to 0.3%. These improvements were due to a combination of falling expenditure, by more than 3 percentage points of GDP and increasing revenues on the basis of the strong recovery despite the elimination of taxation on retained earnings, and a public investment cut of 1% of GDP. With gross debt standing at 5.3% of GDP at the end of 2000, public finances are in good order.

The pension system is being gradually reformed to establish a 3-pillar model. Reforms of the first pillar (mandatory, pay-as-you-go pension) came into force in April 2000. The new law involves the gradual raising of the pension age for men and women to 63, the indexation of pensions and the eligibility for pension as a function of personal income tax contributions. The voluntary funded pension scheme (third pillar) has been in force since 1998. The law establishing the mandatory funded scheme (second pillar) has been adopted by parliament and will come into force in 2002. This law will apply to all people born in 1983 or later and to all others who have at any point voluntarily chosen to take part in it (they cannot then leave the system). For health care reforms, no new measures have been taken.

Amendments to the budget act are proposed that will enhance the control over both central and local public finances. For the first time in 2001, the State budget is being prepared according to the State Budget Act, in force since 1 January 2001. Further amendments for the State Budget Act were submitted to the Parliament in May 2001; they aim to increase the transparency of the budget process and the efficiency of fiscal policy. Compliance with international standards is important in the context of utilising the various EC assistance schemes. As a result of the amendments the picture regarding the expenditures, revenues, financing, financial assets and liabilities will be clearer than the current act allows.

The current account deficit widened to a considerable 6.7% of GDP in 2000 from 5.7% a year earlier. At the same time, the current account deficit remained substantially smaller than in 1996-98. While the deficit on the trade balance decreased and the surplus on the services account increased further, rapidly growing net income outflows led to a larger current account deficit. However, foreign direct investment at 8.0% of GDP in 2000, means that there has been no net build up of foreign debt. In the first half of 2001 the current account deficit as a percentage of GDP was somewhat lower than in 2000. Foreign direct investment over the first half of this year was higher than in 2000, but mostly due to a very high first quarter.

The macroeconomic policy mix has been suitably adjusted in the light of business cycle developments. The Estonian economy, having recovered from its 1999 recession, has experienced a mild increase in real interest rates and a minor real appreciation of its currency vis-à-vis the euro. Because of the currency board arrangement, however, these are market events rather than policy decisions. The key policy development over the last year is the major improvement of the budgetary position: because of prudent expenditure policies and the acceleration in GDP growth, the deficit has been cut by approximately 3.4% of GDP helping to contain aggregate demand.

Prices are largely liberalised and the share of administratively regulated prices has declined. The prices of electricity, gas, tobacco, central heating, public transport, water,

telephone, postal prices and some housing rents continue to be administered. In total, they account for 15.0% of the consumer price index (CPI) basket in 2001, down from 17.6% in 1999. Energy prices have been raised towards cost recovery levels and have thus become less distorted in the course of 2000. Most other administered prices are set on a cost recovery basis.

Estonia maintains a very liberal external trade and payments regime. On 1 January 2000, it introduced tariffs on various agricultural products for countries with which Estonia has no free-trade agreement as a first step towards adopting the common EU external customs duties (see chapters 25 & 26).

Land privatisation is making steady but slow progress. Privatisation is slow due to both the slow administrative processes to be completed and the lack of demand in some areas. As a result, the land market is only slowly emerging. The amount of land in private ownership went up from 1.4 million ha in 1999 to 1.6 million ha in 2000. The state owns 1.1 million ha (virtually constant from last year) and almost none of this land (mostly forest land and school and hospital sites) is slated to be privatised. The remaining 1.6 million ha. consists of land that still needs to be registered (1.1 million ha.), some of which will be subject to privatisation or restitution claims and some of which the state will claim (border and defence areas) and land (0.5 million ha.) that consists of swamps and wetlands that will not be registered at all.

Enterprise privatisation is well advanced. The railway privatisation has made a major step forward with the sale of 66% of the shares of Estonian Railway. As regards the oil-shale industry, privatisation of Narva Power plant (which represents most of the country's generation capacity and controls parts of the domestic oil shale industry) has been launched through the conclusion of an agreement to sell 49% to a private company. For Estonian Telecoms, 27% of shares will stay in state hands, as will the port of Tallinn, of which the equipment is all in private hands. In February 2001, the authorities decided to close down the Privatisation Agency. The Finance Ministry and local authorities will resume responsibility for the remaining privatisation issues. The private sector's share of GDP grew further from 84% in 1999 to 85% in 2000.

There are no significant barriers to entry left in Estonia, for domestic and foreign enterprises. In fact, foreign enterprises are not treated differently from domestic ones (e.g. in terms of administrative procedures or tax arrangements).

The bankruptcy laws are adequate, but there is a need to improve their implementation. The authorities are aware of this need.

Enterprise creation is substantial. At the end of 2000, there were nearly 25 000 companies in Estonia, up by 12% over the previous year. Employment in these enterprises grew by 0.5% over the year. The assets of companies grew by 15% and amounted to €11.3 billion at the end of 2000. This means that, on average, enterprises have become more highly capitalised but operate with a smaller workforce.

Access to finance continues to be difficult. Because of the lack of a smoothly functioning land market, access to finance for farmers is difficult, as they cannot offer appropriate collateral. Access to finance for start-ups and expanding firms is also difficult, because of a lack of credit history and collateral. There are venture capitalists in Estonia but few venture capital deals are concluded because of the high overhead costs relative to the size of the deals. The limits of domestic companies' access to finance reinforce the dependence of growth on foreign investors. For domestic entrepreneurial activity in the Tallinn area it is often hard to find financing to start up activities or to expand (especially for smaller companies) and for the

companies in the rest of the country it is even more difficult. Government efforts to improve the situation are being complemented by support from the EBRD and the EC (*see chapter 16*).

The legal system functions properly as contracts can be enforced and property rights are respected. The reform of the judiciary system has improved the functioning of the legal system further (see section B.1.1. *political criteria*).

The Estonian banking sector continues to be financially healthy and well developed. Seven banks were active at the end of 2000, including one branch of a foreign bank. Foreign owners own over 90% of Estonian banks. The banking sector is highly concentrated, as 3 banks own 95% of assets between them. There is scope for greater efficiency, as the spread between deposits and lending amounts to 5.2 percentage points, although it has already come down from the 1999 level. Overall, the financial position of the banking sector has improved. The share of non-performing loans fell from 1.7 to 1.0%. The capital adequacy ratio dropped somewhat because of a rapidly expanding loan portfolio, leading to a faster growth of risk-weight assets than net own funds, but remains well above the required 10% rate.

The non-bank financial sector continues to be less developed than the banking sector. Approximately 87% of the non-life insurance market belong to foreign-owned insurance companies. Total premiums increased by 15% over the year 2000 and now amount to a low 1.9% of GDP. Securities trading is slowly increasing. In January 2001, a united Baltic list comprising stocks of the largest companies listed on the Riga Stock Exchange, Tallinn Stock Exchange, and Lithuanian National Stock Exchange was established. In 2001, the Helsinki stock market bought the Estonian stock market, helping both Finnish, and Estonian investors to gain access to each other's capital markets and facilitating the integration of the Estonian stock market into the EU. While the Estonian stock market was liquid for a transition economy market, this merger is expected to improve the situation further.

Financial intermediation is low but steadily growing. During 2000, banking intermediation to the private sector grew from 36% to 41% of GDP. In 2000, the bond market's share of GDP stayed relatively constant at 4.5% of GDP. The stock market also kept a constant share at about 39% of GDP.

Banking and non-banking supervision has been strengthened. A unified financial sector supervision agency has been created. It operates under the central bank, but in co-operation with the Ministry of Finance. It will become responsible for overseeing all financial market institutions. This agency is due to start operations at the beginning of 2002.

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

The ability to fulfil this criterion depends on the existence of 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 before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

Estonia is a functioning market economy and macro-economic stability has been maintained. Estonia offers economic actors an attractive market-friendly environment. They can rely on working market institutions and solid track record of macro-economic stability based on currency stability, low inflation and sound public finances.

The Estonian educational system is improving. Graduation figures are rising, except in vocational education. The government has started reforms that will increase the quality of vocational education and training. For university education it has started reforms that involve a shortening of studies and a change in its financing. Because of high unemployment, the government has become concerned with the skill gap existing in the labour market between the demand and the supply of labour, affecting in particular the long-term unemployed. It has started to address this problem, but efforts need to be continued.

A new labour market act and a social protection of the unemployed act came into force on 1 October 2000. The former meant a reform of the organisations responsible for dealing with the unemployed. It establishes a proper division of tasks between the Ministry of Social Affairs' Labour offices, responsible for registration, the long-term unemployed, the young unemployed and disabled job seekers, and the Ministry of Education's Regional Training Offices, responsible for vocational advice to pupils and staff of vocational schools. The latter extends the duration of unemployment benefits and changes the registration of the unemployed.

The share of investment in GDP was 23.4% in 2000, slightly down from 1999. Foreign direct investment amounted to 8.1% of GDP in 2001, up from 5.9% in 1999. Accumulated per capita foreign direct investment rose to €2000.

The most significant sector in need of restructuring is the oil-shale industry. The main goals of the government are to achieve increased efficiency of production, reduced environmental damage, avoid adverse social problems and to do so within the framework of the acquis. The investment plan for Narva Power and its mining subsidiary Eesti Põlevkivi plans an upgrading and modernising of the equipment and technologies used.

The vast majority of enterprises in Estonia are small and medium-sized. In construction and wholesale and retail distribution, small and medium-sized enterprises (SMEs) dominate while in some other areas such as manufacturing and energy larger firms are more present. Small and medium-sized enterprises accounted for around half the total workforce, and for three-quarters of enterprise employment. Small and medium-sized enterprises are the main source of new jobs. The major obstacle to SME growth is the difficulty with access to finance. The problems with collateral, a lack of credit history and the relatively high fixed costs of monitoring loans hamper SME growth. The government supports SMEs by providing training facilities for the drafting of business plans. It is also currently preparing a comprehensive enterprise policy paper (see chapter 16).

In the course of 2000, State aid supervision was strengthened. State aid amounted to 1.48% of GDP in 1999, down from 1.62%, in 1998 (no report yet for 2000). Half of the state aid was for regional objectives and 30% for the transport sector. Aid for horizontal objectives added up to some 14% of the total.

Since 2000, re-invested profits have been free from corporate taxation. This encourages investment and stops an outflow of capital from the country, while it may create a distortion in the capital market.

The Estonian economy became even more open over the year 2000. Total trade grew from 160% of GDP to nearly 200% of GDP. Exports represented 96% of GDP and imports 100%.

The Estonian economy has integrated further into the EU economy (see also section A.b). In the year 2000 Estonia's exports to the EU increased by 60% (in euro), while exports to the rest of the world increased by 30%. The share of exports to the EU in total exports went up to 76.5% from 73% in 1999. Similarly, the share of foreign direct investments originating in the EU rose somewhat from 84.4% in 1999 to 86.8% in 2000. This further integration took place with a depreciating (CPI based) real effective exchange rate vis à vis the rest of the world, a reversal of the trend until late 1998. The effect of the depreciation is only of limited significance, however, given the importance of re-export of processed goods. Nevertheless, the depreciation could have added to the Estonian export surge.

The composition of exports is progressively shifting towards higher value-added goods, among other reasons because of increasing assembly activities. Over € 1 billion (in an economy with a GDP of € 5 billion) consisted of electrical machinery and equipment. These goods were predominantly exported to the EU. Wood and wood articles were the next most important export goods, followed by certain categories of equipment, textile, metals and paper. Estonia is a major exporter of fish and shellfish to countries outside the EU. A rising share (32% of exports of goods in 1999, 43% in 2000) consists of goods re-exported after processing. Because of this, Estonia imported 17% more electrical machinery and equipment, from both the EU and the rest of the world. The composition of Estonia's import and export portfolios is a combination of high and low technology products. The dependence on mobile telephone assembly may make the Estonian economy particularly vulnerable to the developments in this market.

2.4. General evaluation¹⁹

Estonia is a functioning market economy. Provided that it continues with and fully implements its reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Estonia has returned to high growth and made further progress in strengthening its macroeconomic performance and stability, restructuring the enterprise sector, and in implementing structural reforms in the utilities and energy sectors. The pension reform has been adopted. The legal, institutional and regulatory framework is in place and enforcement is largely adequate.

Nevertheless, the current account deficit remains high. The labour market is highly segmented leading to high unemployment combined with labour shortages. Initiatives to improve the response of the labour market to economic growth, with a focus on improving education, training and labour market mobility, need to be developed. The restructuring of the oil-shale industry has only just started and should be accelerated. Although partly hampered by lack of effective demand in rural areas, an acceleration of land registration would benefit the functioning of land markets. Estonia must continue to focus on fiscal policy, also in order to keep the current account deficit sustainable.

¹⁹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

3. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 Regular Report on Estonia's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2000 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 is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Estonia's administrative capacity to implement the *acquis* in its various aspects. Estonia's progress in translating the *acquis* into its official language is assessed in a separate section.

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 effectively incorporating Community legislation into national legislation, 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.

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Estonia's administrative capacity provided in the 2000 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 2000 Regular Report, the Commission concluded that:

"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 EU 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."

3.1. The chapters of the acquis

As indicated, the review of Bulgaria ability to assume the obligations of membership that is 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, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

Since the last Regular Report, Estonia has made some progress in a number of areas, including public procurement and standards.

In the area of **horizontal and procedural measures**, progress has been made over the last year in the implementation of *New and Global Approach principles*. As regards conformity assessment, the Product Conformity Attestation Act entered into force in January 2001, together with a number of implementing government regulations. As regards standardisation, at the end of June 2001, 81% (5537) of the CEN standards and 14% (514) of the CENELEC standards had been adopted, compared with 4670 for the two put together at the end of September 2000. 80% of the CEN and CENELEC standards have to be adopted as a condition for full membership of these organisations. The Estonian Accreditation Centre (EAC) was accepted as a full member of European Accreditation (EA) in June 2000 and in March 2001 EAC submitted its application for EA Multilateral Agreements (MLAs). As of end-May 2001, 47 testing and 4 calibration laboratories, 4 inspection bodies and 10 certification bodies had been accredited by EAC.

Some progress can be reported on the adoption of **sector specific legislation**. In the areas covered by *New Approach Directives*, legislation has entered into force during the reporting period in the fields of machinery safety, explosive substances, medical devices and toys.

As regards sectors covered by *Old Approach Directives*, progress can be reported with regard to the implementation of the *acquis* on chemicals, cosmetics and medicinal products.

With regard to the latter, an action plan for replacing existing market authorisations with new ones complying with the new transposed regulations has been drawn up.

In the field of firearms control, a new Weapons Act was adopted in June 2001 which aims to align Estonian legislation with the *acquis*.

As regards the issue of *food safety legislation (see also chapter 7 - Agriculture)*, in the reporting period legislation on foodstuffs for particular nutritional uses, food additives and labelling came into force, and legislation on food hygiene and contaminants has been adopted with a view to entry into force later this year.

As concerns the development of Estonia's administrative capacity for the implementation of horizontal and procedural measures and sector specific legislation, gradual improvement has continued during the period under consideration. The commission for designating conformity assessment bodies was formed in January 2001 and by June 2001 it had designated one conformity assessment body.

A standardisation commission was established in May 2001 for improvement of the capacity of government institutions for ordering, compiling and approving standards.

The national metrology institute, Metrocert Ltd, was reorganised in April 2001 in order to eliminate overlapping of activities between the Tallinn and Tartu branches and clarify responsibilities. The new organisation came into force in June 2001.

Since the last Regular Report, no new developments have taken place as regards the **non-harmonised sector**.

New **public procurement** legislation entered into force in April 2001, representing a step towards approximation of Estonian law with the *acquis*. An increase in the staff of the Public Procurement Office is foreseen by the law. However, no progress can be registered in this regard to date.

Overall assessment

Overall, Estonia is reasonably advanced with regard to legal harmonisation. The transposition of the horizontal directives is practically completed. Progress has been slow and some delays have taken place in harmonising legislation in a number of specific areas such as gas appliances, lifts and pressure equipment.

As to the administrative capacity in this domain, reasonably good preparations have taken place in Estonia with regard to the establishment of the necessary administrative structures. The implementing structures for standardisation and accreditation are in place and operate appropriately.

Progress towards full membership in the European standardisation bodies and towards EA MLAs is going ahead as planned and should be completed in 2002. Emphasis must be put on transposition of CENELEC standards.

The market surveillance infrastructure is very scattered. A national market surveillance strategy is being developed to co-ordinate this. It must be finalised and implemented as a matter of priority.

As regards transposition of the *acquis* on firearms, Estonia still has to communicate the transposition measures adopted earlier in year 2001.

Estonia needs to transpose the Cultural Goods Directive as soon as possible.

As regards the issue of *food safety legislation* (see also chapter 7 - Agriculture), transposition of legislation is quite advanced in Estonia. Estonia has transposed the main directives and regulations and has adopted a food law as framework legislation. Nevertheless, a number of problem areas remain. Among these are the health certificates for those packaging materials for which the conditions of use have been harmonised in Community legislation, the licences required for the importation of raw material for foodstuffs to Estonia and the licences for placing on the market foodstuffs for particular uses. These requirements will have to be abolished before **the Common Market is enlarged**. Moreover, some requirements in the field of additives and contaminants and contact materials remain to be transposed. Also, the *acquis* in relation to natural mineral waters has to be correctly transposed.

With regard to the non-harmonised area, Estonia needs to provide substantiated information to back up its declaration that it has completed an internal screening of its national legislation and that no provisions that would be in breach of Articles 28-30 of the EC Treaty have been identified. In the same field, Estonia is yet to take action to apply and enforce the principle of mutual recognition.

In the area of public procurement, the entry into force of the new law constitutes progress. The remaining shortcomings should be addressed as a priority, the most important among which are - the exclusion for contracts awarded to another contracting entity provided by the Services Directive needs to be properly implemented, the notion of the body governed by public law needs to be properly implemented, requirements for different notices need to be properly implemented, and contracting for health services by the Estonian Health Insurance Fund is totally excluded from the scope of application of the Act although it is covered by Annex IB of the Services Directive. As regards administrative capacity, the importance of the planned increases in resources of the Public Procurement Office are underlined by the fact that the new Public Procurement Act has accorded it the additional task of reviewing protests and of deciding about the cancellation of procurement tendering procedures. Hence, considerable strengthening of this structure should be envisaged.

Chapter 2: Free movement of persons

Since the last Regular Report, Estonia has made some progress in this area. Further alignment of legislation and the establishment of the required administrative structures, have continued to take place.

In the area of **mutual recognition of professional qualifications**, the Recognition of Foreign Professional Qualifications Act entered into force in January 2001, partially aligning Estonian legislation with the General System Directives. As regards some of the professions which are excluded from its field of application, the Bar Association Act transposing the Lawyers

Directives was adopted by Parliament in March 2001 and the Health Care Activities Organisation Act was passed by Parliament in May 2001. Furthermore, a system of competent authorities, which deals with professional recognition, was set up in January 2001.

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

Limited developments are to be reported in the area of **free movement of workers**. Preparation has continued to facilitate Estonia's participation in European Employment Services (EURES). The Labour Market Services Act, which regulates the provision of employment services, entered into force in January 2001.

No particular developments are to be reported as regards the future **co-ordination of social security systems**.

Overall assessment

While the overall situation in relation to free movement of persons is largely satisfactory, efforts will need to be maintained and institutional capacity strengthened in some areas.

As regards the implementation in Estonia of the *acquis* on recognition of diplomas and professional qualifications, the entry into force of the Recognition of Foreign Professional Qualifications Act is an important step forward. However, substantial work remains to be done on both the legislative framework and the implementing structures. Legislation on the professions regulated by EC Sectoral Directives and implementing decrees for the current framework legislation need to be adopted. Competent authorities need to be further developed and strengthened. With respect to professional qualifications obtained before harmonisation, Estonia should introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives.

It will need to be ensured that, by accession, there are no provisions in Estonian legislation which contradict community rules, in particular with respect to nationality, residence and language requirements.

There are no major outstanding issues in the fields of citizen's rights and free movement of workers. Efforts to allow Estonia's participation in the European Employment Service (EURES) need to be continued.

With a view to the future co-ordination of social security systems, Estonia still needs to continue to develop sufficient administrative structures, in particular to train the necessary staff. Estonia has continued to implement bilateral social security agreements with Finland, Sweden, Latvia, Lithuania, and Ukraine. Within the framework of these agreements, Estonia has granted a substantial number of pensions, including some involving the export of benefits. This practice has allowed Estonia to familiarise itself with the administrative procedures involved in this area. The Language Law and its implementing regulations foresee certain linguistic requirements in areas relating to this chapter; for example, there are certain professions and positions for which certain levels of language proficiency are required. It will be important to ensure that this legislation is implemented in full respect of the principle of proportionality.

Chapter 3: Freedom to provide services

Since last year's Regular Report, Estonia has made progress in a number of areas under this chapter, notably in the insurance sector and information society services.

In the field of **the right of establishment and the freedom to provide services** (other than financial services), in May 2001 the Estonian government established requirements of *proficiency in the Estonian language for people working in the private sector*, which entered into force in October 2001.

In the field of **financial services**, with regard to the *insurance sector*, progress can be reported with the entry into force of a new Motor Third Party Liability Insurance Law in June 2001. In the area of *Investment Services and Securities*, a new Securities Act, replacing the Act of 1993 was adopted in October 2001 and will enter into force in January 2002.

A new Financial Supervision Act which entered into force in June 2001 will create a joint Financial Supervision Authority which is due to commence its operations from 1 January 2002. The authority will enjoy budgetary and operational independence.

Concerning the **protection of personal data and the free movement of such data**, a Law was passed in December 2000 related to the ratification of Convention 108 of the Council of Europe on the Protection of Individuals with Regard to the Automatic Processing of Personal Data. However, the subsequent steps before the Council of Europe have not been taken and Estonia cannot yet be said to have ratified the Convention.

With regard to the **information society directives**, in December 2000 the Digital Signature Act entered into force.

Overall assessment

While preparations in Estonia are generally quite advanced in this field, some important gaps remain in the areas of banking, insurance, securities and data-protection.

In the *banking and securities* fields, issues which remain to be settled concern the inclusion of commodities and commodity derivatives in the existing capital adequacy regime, as well as provisions allowing for the recognition of contractual netting. An overall revision of capital adequacy standards has been announced for 2001. The monitoring of operational risk needs to be addressed in this context. As regards securities and investment services in particular, in order to implement the Securities Act adopted in October 2001 in practice, a large number of regulatory provisions will be needed to bring Estonian legislation in conformity with the *acquis*. This regards, in particular, requirements for capital adequacy of investment firms, reporting and information to be published by companies for stock-exchange listing. With regard to banking, specific attention should be paid to preparing the deposit guarantee scheme for the situation in which it will have to cover deposits of Estonian banks in other EU countries. In the *insurance* field, considerable progress is reported above. Nevertheless, some of the main objectives of the third generation of the life- and non-life-directives are not yet fully transposed (e.g. the complete abolition of prior approval of terms and conditions of contracts and tariff rates for obligatory insurance). Legal transposition is also required in the field of supplementary supervision of insurance undertakings in an insurance group, as well as in the field of annual accounts and

consolidated accounts of insurance undertakings. Furthermore, efforts are necessary to prepare a prudential framework for the future implementation of the principle of mutual recognition when it comes to cross-border insurance business within the EU.

As regards the *administrative capacity*, a joint Financial Supervision Authority is due to commence its operations from January 2002. This authority will have budgetary and operational independence (future expenses will be covered by supervisory fees). The members of its governing Council will be nominated by both the Government and the Bank of Estonia; the Council will nominate the Acting Board, which will comprise the present heads of the sectoral supervisory agencies. It should be pointed out that even ahead of the setting up of the joint authority, further definition of objectives and lines of responsibility for securities supervision is necessary. Securities supervision will need appropriate information-sharing arrangements and enhanced confidentiality protection.

In the area of *data protection*, further efforts are required as regards the adoption of amendments to the current Data Protection Law, the legal status and staffing situation of the State Data Inspectorate and, finally, the ratification of Convention 108 of the Council of Europe on the Protection of Individuals with Regard to the Automatic Processing of Personal Data. In the field of *information society services*, important parts of the relevant *acquis* have yet to be transposed, notably the directives on electronic commerce, conditional access and the transparency mechanism.

In the field of the *right of establishment and freedom to provide services*, no major problems can be reported, provided that the implementation of language legislation avoids unnecessary restrictions in this area. In this context, particular reference is made (as under chapter 2 above) to the requirements of *proficiency in the Estonian language for people working in the private sector* established by the Estonian government in May 2001, which entered into force in October 2001. Under the *acquis*, mandatory requirements can only be applied in very exceptional circumstances, on a case-by-case basis. The Estonian government must ensure that, in practice, the requirements are applied in full respect of the principle of proportionality and does not result in indirect discrimination against EU nationals.

Chapter 4: Free movement of capital

Progress towards meeting the requirements of the *acquis* has continued, although the introduction of a cross border transfer system has been delayed.

On **capital movements and payments**, Estonia made further progress in abolishing remaining restrictions on capital movements. The Law on the Protection of Marine and Freshwater Coasts, Shores and Banks (including possible pre-emption of sale of real estate within prohibited zones) was amended and brought into compliance with the *acquis*.

As regards **payment systems**, Decree no.2 of the President of the Bank of Estonia was adopted in May 2001 to partially transpose the Directive on cross-border transfers. The Law on Contractual and Non-contractual Relations, adopted in September 2001, introduced further alignment with the *acquis*. However, the introduction, under the responsibility of the Bank of Estonia, of 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, experienced delays.

In October 2000, the **Money Laundering** Prevention Act was amended, in particular to specify the tasks and obligations of the Money Laundering Information Office and the client identification requirements. Casinos and real estate undertakings were directly brought into the act as potential subjects of money laundering.

Overall assessment

Estonia is well advanced in the alignment with the *acquis* in this area. However, some pieces of legislation still need to be adopted and a few remaining restrictions should be lifted. To ensure effective implementation, introduction of the new payment system and of a body to handle customers complains is still needed.

There has been considerable alignment of legislation in the field of free movement of capital. However, some restrictions still remain. The acquisition of real estate by foreigners, investment in security services, ownership of sea-going vessels and the issuing of air operators' certificates should be aligned with the *acquis*.

Estonia still has to complete the alignment with the *acquis* on payment systems, notably the Settlement Finality Directive and designate the body responsible for handling customers' complaints and for the settlement of disputes between banks and customers for cross-border credit transfers.

The introduction of the new payment system (DNS), scheduled for the beginning of the year, has encountered delays. The establishment of the body to handle customers' complaints (arbitration of the Payment Systems Experts Council) will depend on the implementation of this payment system. For the time being, the body responsible for the settlement of out-of-court complaints remains the Chamber of Trade and Commerce, within the scope of its activity and competence.

The Central Bank of Estonia, on delegation from the Ministry of Finance, regulates and supervises credit and financial institutions, operates exchange control and oversees the payment system. The Central Bank and the Ministry of Finance are deemed to have appropriate competence and capacity to administer and to implement a regime of free capital movements.

The balance-of-payment statistics are produced by the Bank of Estonia in accordance with the guidelines set out in the fifth edition of the IMF Balance of Payments Manual (SDDS). The Balance of Payments Statistics Division within the Bank of Estonia has 9 employees.

Finally, as regards the fight against money laundering, the Financial and Intelligence Unit is functioning satisfactorily and staff numbers have recently been increased. The Money Laundering Prevention Act having been amended, Estonia should nevertheless continue to concentrate its efforts on ensuring close co-operation between the responsible bodies and adequate enforcement of anti-money laundering regulation. Compliance with the Recommendations of the Financial Action Task Force should be ensured.

Chapter 5: Company law

Since last year's Regular Report, Estonia has made good progress in this area, in particular as regards company law, accounting and the protection of intellectual property rights.

Regarding **company law**, amendments to the Commercial Code were adopted in June 2001, aligning legislation with the 1st Company Law Directive in ensuring accessibility to information contained in the Commercial register and providing for penalties in cases of refusal to disclose company particulars.

In the field of **industrial property rights**, the Patent Attorney Act entered into force in April 2001.

In the field of **intellectual property rights**, amendments to the Copyright Act, Rental Act and Consumer Protection Act were adopted by Parliament in May 2001, introducing stricter rules on licensing and rental procedures including the right to terminate a rental contract if the renter is involved in piracy. The amendments also introduce higher fines for some IPR-related offences. As regards the fight against piracy in the first half of 2001, the Estonian Customs Board found 81 cases of trademark infringement and the Consumer Protection Board found 29 cases. The number of seized pirated and counterfeit goods was 37240 by the Customs Board and 49 730 by the Police Board. The police registered 282 crimes against intellectual property rights.

No developments can be reported regarding the Regulation replacing the Brussels Convention and the Rome Convention on the law applicable to contractual obligations.

Overall assessment

Preparations in this field by Estonia are reasonably advanced. However, substantial efforts are still necessary in a number of areas.

Following the legislative developments during the reporting period, the situation in the area of *company law* is satisfactory. In the area of *accounting*, the re-organisation of the Accounting Standards Board has yet to be tackled. The amendments to the Accounting Act, approved by the Government in May 2001 and pending in Parliament, aim at establishing a basis for preparing consolidated reports in line with the guidelines of the International Accounting Standards Committee (IASC) and the EU directives. With regard to *auditing*, the Auditing Act needs to be further amended so as to clarify and establish governmental supervision of the self-regulatory institute of authorised auditors, which is crucial for ensuring public credibility of audits.

The overall situation as regards *intellectual property rights* seems to have improved over the last year, as witnessed by the progress made in the fight against piracy. Nevertheless, co-operation between different authorities, including local governments, needs to be further improved. Administrative capacity also needs to be reinforced – the police and, in particular, the courts need to implement the legislation more effectively. Another source of concern is the lack of statutory damages for infringement. In general, the level of fines imposed by judges is low and sometimes fails to offset the legal costs of commencing civil proceedings.

As regards *industrial property rights*, some progress has been made since the last regular report and legislation is largely in line with the *acquis*. Some further adjustments of the Estonian patent legislation will be necessary and new laws in the field of trademarks and designs have yet to be adopted. Despite Estonia's efforts to strengthen its administrative capacity, the efficient enforcement of rights should remain a priority for the Estonian authorities. Whereas progress

has been recorded in the fight against piracy, unfortunately this is not the case with regard to counterfeit goods.

No progress can be reported with regard to Estonia's reservation towards Article 12 of the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations in April 2000, as a result of which, foreign producers and performers have no broadcasting rights in Estonia.

Chapter 6: Competition policy

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

In the field of **anti-trust**, the new Competition Act, which entered into force in October 2001, introduced merger control and resulted in further alignment and improvement of the already largely compatible antitrust rules.

The enforcement record of the *Competition Board*, which is the national competition authority in Estonia, has further developed in the past year. In 2000, the Board issued 31 decisions and opinions in antitrust cases related to the telecommunications, energy and transport sectors, the milk market, competition issues in the motor-fuel, road construction, port services and taxi services market and surveillance of undertakings having special or exclusive rights. A new sphere of activity was the fixed telephony market, including the market for local calls, which were opened for competition from 1 January 2001 (*see Chapter 19, Telecommunications and information technologies*).

In the field of **state aid**, on the legislative side, the entry into force of the new Competition Act also resulted in further alignment and improvement of the State aid rules. In addition, during the reporting period Estonia adopted secondary legislation on State aid for research and development, rescue and restructuring of firms in difficulty, regional aid (regional aid map included), environmental aid and aid in the form of State guarantees. The state aid survey for 1999 was completed in February 2001 and follows the methodology and the presentation of the European Commission's survey on State aid in the EU.

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, six people work in this division. The enforcement record in the field of state aid, has started to develop. In 2000, the state aid monitoring authority issued decisions and/or opinions on 28 cases or state aid programmes.

Overall assessment

As regards anti-trust, Estonia's legislation is broadly in line with the *acquis* provisions although some further alignment is still necessary, especially in view of the new *acquis* on vertical restraints and horizontal co-operation agreements. As regards state aids, the existing provisions cover most of and are largely in line with the *acquis*.

The Competition Board is a fully independent authority and has sufficient resources and expertise in place. The Competition Board has broad powers to enforce competition rules. Currently, the Board employs 42 civil servants, including 13 lawyers. The most important

challenge for the Competition Board is to continue to ensure the effective application and enforcement of the anti-trust rules. A more deterrent sanctioning policy is needed.

The State aid monitoring authority has broad powers to enforce the state aid rules and sufficient staff in place. To further improve the application of the rules, the notification procedure needs to be more formally enforced. In the area of state aid, the most important challenge is now for the state aid monitoring authority to continue 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.

Chapter 7: Agriculture

In the area of agriculture Estonia has made steady progress since the last Regular Report, both in terms of legislative alignment and the strengthening of administrative capacity. Progress has been more limited in the veterinary area.

Agriculture in Estonia accounted for 6.3% of gross value added in 2000, as opposed to 6.7% in 1999²⁰. Employment in agriculture has declined considerably over recent years, accounting for 7.4% of total employment²¹.

In 2000, cereals production increased substantially compared to 1999, due to a larger area under production and far higher yields. In the dairy sector, milk production decreased slightly, despite higher average yield per cow. Beef and veal production also decreased. Production of pigmeat, by far the most important meat product, was stable, as was poultry production²².

Following the reciprocal concessions on agricultural products negotiated in 1999 under the Europe Agreement and applied from July 2000, Estonia's agricultural exports to the EC have been considerably liberalised (*see section A.b. – Relations between the European Union and Estonia*). In 2000, EC imports²³ of agricultural products originating in Estonia increased strongly by 37% to €46.9 million. EC exports to Estonia increased by 19% to €279.1 million. The trade balance in favour of the Community amounted to €32.2 million compared to €199.4 million in 1999. The most important product group in terms of EC imports from Estonia is dairy products (54%), with an increase of 67% compared to 1999. As far as EC exports to Estonia are concerned, the most important sectors are beverages (14%), sugars and confectionery (8%), coffee, tea and spices (7%) and meat (7%).

Estonia has taken further steps in developing its agricultural policy. An Agriculture and Rural Development Council has been established for co-ordination of implementation of the *Rural Development and Agricultural Market Regulation Act* with economic and social partners. The Council's role is to consider the allocation of amounts for the organisation of agricultural markets, types and amounts of national supports for agricultural producers and amounts allocated from the state budget for favourable loans for agricultural producers; to analyse the

²⁰ The source for all agricultural statistics is EUROSTAT unless otherwise specified.

²¹ Eurostat 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.

²² Source: *Prospects for Agricultural Markets 2000-2008*, European Commission, July 2001.

²³ Source of trade figures: Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI / A.2 Analyses quantitatives, prévisions, statistiques, études, 2001, p. 10-57 et 86-89).

payment and use of support; and to make proposals on these issues. In addition to the Council, the Act foresees direct negotiations with representatives of agricultural producers on the concrete amounts of support.

In 2001, a total sum equivalent to €44 million was allocated from the state budget to agriculture (including rural development). The share of state support for agriculture and rural development in the state budget is 1.2%. (*See below for details of expenditure on support schemes*).

In the area of land reform, progress is still slow. By September 2001, 2.8 million hectares had been registered in the cadastre (since 1992), compared to 2.5 million hectares in September 2000. Land registration will be complete when approximately 3.8 million hectares of the 4.3 million hectare total area of Estonia is registered (the remaining land is, for example, submerged land or wetlands not suitable for any kind of use). In an attempt to speed up the identification of land ready for privatisation the Land Board has contracted a private company to produce the necessary data. On the basis of this data the Land Board publicises the availability of the land for privatisation.

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 particular, the Agricultural Registers and Information Board (ARIB) has been accredited as the SAPARD Agency (*see Section A.I.b Relations between the European Union and Estonia*). As far as preparations to establish the Integrated Administration and Control System (IACS) in Estonia are concerned, there has been development of IT systems, with the building up of databases. In addition, the co-operation between the Land Board and the Ministry of Agriculture in relation to digital mapping has in general developed positively. Procedures for digitalisation of aerial photographs have been elaborated and pilot digitalisation of land parcels has begun, along with staff training. However, there have been significant delays following the failure to procure orthophotos in 2001. So far, only one county out of 15 has been digitalised.

The *Organic Farming Act* was passed by the *Riigikogu* and entered into force in May 2001. The new act includes the pre-conditions for post-accession enforcement of an EC-compatible inspection system and export of organically produced or processed products. The most significant change from the former act on organic agriculture is the shift from a private inspection system to state inspection.

There have also been further preparations for Estonia's participation in the *Farm Accountancy Data Network (FADN)*. The Regulation of the Minister of Agriculture of January 2001 on economic statistical data provides for the development and implementation of the FADN. In addition, in July 2001 an agricultural census was carried out, the first since Estonia regained independence. The data from the census will be important for establishing samples for FADN.

Common Market Organisations

Since last year's Regular Report, Estonia has made further progress in introducing a legal framework and administrative structures for the establishment of Common Market Organisations.

The Rural Development and Agricultural Market Regulation Act entered into force in November 2000. It establishes national measures for the balanced development of the market for agricultural produce, cost-effective production of agricultural products and development of other economic activities in the rural areas. It provides the legal basis for secondary legislation passed between December 2000 and September 2001 establishing several national support schemes: advisory support, field liming support, an interest rate subsidy, school milk support, milking cow support, agricultural crop growing support, insurance support, interest rate support, agri-environmental support, ewe and goat breeding support, support for beef production and organic farming support.

Of the total €44 million allocated for agriculture and rural development in the state budget, €23 million is foreseen for supporting agricultural producers. The application of concrete support schemes in a particular year is fixed annually through the state budget. ARIB is responsible for the administration of all support measures under the responsibility of the Ministry of Agriculture. By June 2001 the Board's total staffing level had increased to 134 officials, compared to 114 at the end of 2000.

In 2001 the following forms of *development support* are being paid: agricultural insurance support, advisory support, liming support for agricultural land, co-operative economic activity support for agricultural producers (with a budget for 2001 of just under €0.2 million), and market development support. The following forms of *income support* are also being applied in 2001: milking cow support; support for beef production; ewe and goat breeding support; support for producing cereals and legumes, rape, turnip rape, and seed flax and fibre flax; certified seed production support; organic farming support and support for transfer from traditional to organic farming. No *market price support* is being paid in 2001.

In the area of *specialised crops* progress has been made with the entry into force of the Horticultural Products Act in January 2001. On the basis of this regulation secondary legislation on sampling and control, and on quality standards for fresh fruits and vegetables, flowers and bulbs has been introduced. Under the act, the Plant Production Inspectorate has now become responsible for quality control of fruit and vegetable wholesalers, as well as for the control of imports and exports of fruit and vegetables. The Act also provides for the establishment and approval of producer organisations, and their activities, support and role in the market.

Rural development and forestry

The most significant progress made in this area has been the establishment and accreditation of ARIB as the SAPARD agency. In addition, a pilot agri-environmental programme has been carried out in two regions during 2001. This will be financed by the state budget. Measures supported include rearing Estonian breed horses, restoration and maintenance of stone fences, maintenance of arable land overgrown with bushes and construction of ponds and wetlands. Staffing of the agri-environment bureau in the agriculture department has been increased by two additional positions.

Veterinary and phytosanitary issues, including food safety

Since last year's Regular Report some limited progress has been made in transposing and implementing the *acquis* in the **veterinary** sector. There has been some strengthening of administrative structures.

A new Animal Protection Act entered into force in July 2001, although some provisions will enter into force at a later date. The act provides the legal basis for implementing rules on animal welfare. In June a regulation on the requirements for keeping animals before slaughtering was introduced. In July 2001 a regulation was adopted on requirements for religious slaughtering of animals. A regulation was also introduced in July on the list of establishments to be approved or registered for keeping animals and on the procedures for so doing. A new regulation on the list of prohibited biostimulants, hormone preparations and other substances intended for the growth and productivity of animals was adopted in the same month. There has also been some progress in harmonising certain restrictions in the field of *animal nutrition*. Implementing regulations based on the existing Feedingstuffs Act were amended in January, March and May 2001.

The capacity of administrative structures has improved during the past year. The Veterinary and Food Board seems to have sufficient administrative capacity to implement the *acquis* in this field.

Estonia has made progress in preparing the internal market control system and is now technically ready to introduce the EC's animal movement system (ANIMO) in the near future.

The Veterinary and Food Board is responsible for enforcing legislation as regards animal health, animal welfare and public health. (It is also now responsible for control of food of both animal and non-animal origin – see *section on Food Safety below*). 183 veterinarians work permanently at the 15 District Veterinary Centres, 15 members of staff work at the central office of the Veterinary Border Inspectorate, while 118 veterinarians are employed at the 14 veterinary border posts. In addition, the Board draws upon the services of 206 contracted authorised veterinarians who monitor animal health and are supervised by the District Centres.

The Veterinary Border Inspectorate is responsible for inspecting imports and exports. Work is under way to upgrade the Border Inspection Posts (BIPs) Estonia wishes to maintain after accession, so that they meet the requirements of the *acquis*.

The biggest concern in the veterinary sector is the rendering of animal waste. None of the existing animal rendering establishments meet EC standards. A project to construct a rendering plant for high risk animal waste – which has, until now been lacking - has now been launched.

In the context of the Geographical BSE Risk Assessment, Estonia has been classified in group III.

In the **phytosanitary sector**, some good progress has been made, with the adoption of a large amount of implementing legislation based on the Plant Protection Act that entered into force in September 2000. In the area of *plant health (harmful organisms)* 9 regulations have been adopted on the basis of the act. They cover sampling methods, border inspection posts, plant passports, importation, special requirements on plant health, the plant health register and the list of harmful organisms. In the *pesticides* sector 5 regulations have been adopted on the basis of the same act. They cover registration, safe use, package and labelling, and sampling.

In the *seed and plant propagating material* sector a regulation was adopted in January 2001 which amended the requirements for official testing and variety listing of hybrid varieties.

There has been some strengthening of the administrative structures for phytosanitary issues. In the Plant Protection Inspectorate (PPI) the former departments of Plant Protection Products

and Plant Health have been merged into one Plant Protection Department. Two specialists have been recruited for the Plant Health Bureau and one for the Plant Protection Products Bureau. The PPI seems to be coping well with the increasing number of tasks deriving from recently harmonised legislation.

Plant passports were introduced on schedule in January 2001. Until EU accession they will only be for use within Estonia. The plant health register of plant producers and importers has been established and the right to use plant passports is conditional upon registration. So far, only a limited number of producers and importers have been registered.

The Estonian Control Centre of Plant Production is the competent authority for laboratory and field testing of production, with five phytosanitary laboratories. The Estonian Seed Testing Laboratory has been officially accredited by the International Seed Testing Association. All other laboratories are accredited nationally. The facilities of the Plant Health Laboratory have been renovated and its ability to perform analyses of harmful organisms has improved. Four new members of staff have been recruited.

The Inspection Department of the PPI has taken over the functions of the former Border Inspection Services, and is now responsible for technical control, the performance of inspectors and the availability of information. There are 116 inspectors responsible for regular health inspections in the 14 Regional Bureaus. Of these, 37 inspectors mainly serve the 9 Border Inspection Posts.

As regards **food safety** (*see also chapter 1 - Free movement of goods*), Estonia produced a Food Safety Strategy in April 2001. The strategy describes the institutions involved in the process of ensuring food safety from legislative and implementation standpoints, and their tasks, their co-operation and planned developments for the future.

There has been some streamlining of the institutions responsible for inspections related to food safety, since in November 2000 the Veterinary and Food Board took over the control of non-animal food production and wholesale from the National Health Inspectorate. There are 27 inspectors taking care of this new task, checking approximately 800 production sites and wholesale facilities.

The upgrading of food processing establishments has been slow, particularly in the meat processing sector. Estonia has established a detailed action plan to tackle this problem.

Estonia has introduced certain measures to prevent and control BSE, including a regulation on rules for separation and elimination of specified risk material. Routine testing has also been developed.

Co-operation between the Veterinary and Food Board, the Plant Protection Inspectorate, the Ministry of Agriculture and the Customs Board seems to be working well, with an inter-institutional agreement between the Customs Board, the Veterinary and Food Board and the Plant Protection Inspectorate having been concluded in April this year.

Overall assessment

Overall, Estonia has made good preparations in both implementing legislation and developing the required administrative capacity in the area of agriculture. In particular, the reorganisation of the Ministry of Agriculture carried out in 2000 and the strengthening of ARIB has proved to be effective. However, considerable efforts still need to be made, particularly in the veterinary field.

In terms of preparations to apply the Common Agricultural Policy, significant steps have been taken, particularly in terms of the adoption of primary and secondary legislation. However, market intervention systems in line with the *acquis* are not yet established and attention should be focused on launching the pilot intervention schemes planned for early 2002. Producers still face problems in marketing their products, a problem that may be partly alleviated through a better structure of producer co-operatives, as will be encouraged through the support schemes for producer organisations launched and being developed.

In the area of **horizontal measures** further attention needs to be paid to the development of the intervention agency and to the preparation of IACS (particularly the land parcel system). In this area the adoption of the Organic Farming Act has been an important step forward in aligning Estonian legislation with the *acquis*, particularly in terms of control.

In the *animal products* sector the preparations for carcass classification need to be continued.

Significant progress has been made in building up the administrative capacity for implementing **rural development** policies as a result of the accreditation of ARIB as the SAPARD agency.

Regrettably, the slow progress in *land reform* is still a strain on the development of the agricultural sector in Estonia as well as on the adequate identification of land for CAP purposes. This is particularly the case given that the biggest restitution problems occur in Harjumaa and central Estonia, the country's main agricultural areas. The principal problem in registering land is a lack of administrative capacity at the municipal level. More effective ways of pushing the process forward need to be found.

Concerning the **veterinary field**, while legislation adopted so far represents important progress, Estonia needs to speed up the process of transposition and implementation of the *acquis* in this field.

In the area of *veterinary control in the internal market*, the actual introduction of ANIMO and of the internal computerised system linking veterinary authorities inside the country still need to be completed. Although the system for identification of bovine animals covers more than 90% of the animals, more progress is needed since only 33% of cattle are registered in compliance with EC requirements. Controls at the future external border of the EU are not yet in full compliance with the *acquis*.

As far as *control of animal diseases and animal health* is concerned, the technical equipment for implementing the Animal Disease Notification System (ADNS) is in place. Full contingency plans still need to be prepared and a national reference laboratory established.

Further progress needs to be made in the field of *animal waste treatment*. The capacity of the existing rendering system is insufficient: currently, only 30% of animal waste is processed. Progress towards setting up a rendering plant covering the whole of the country must be kept

up. In addition, plans for the logistics and funding of the collection system for animal residues and carcasses must be developed.

There has been progress in the area of *animal welfare*. However, the situation in this field is still far from complying with the requirements of the *acquis*.

In the **phytosanitary sector**, progress has been made in transposing and implementing legislation, but this process is not yet complete. Further harmonisation is needed, particularly in the area of seed and propagating material. In the area of plant health it needs to be clarified which producers will be exempted from the requirement to use plant passports. The changes that have been made to the administrative structures are a good start and should be continued. In particular, further staff training is needed at the Plant Production Inspectorate, and laboratory capacity should be further improved.

With regard to **food safety**, there have been positive developments in terms of administrative structures. Further transposition and implementation of legislation is required.

The process of bringing food processing establishments into line with EC requirements is far from being completed. No meat processing plants have yet met EC requirements and there is a significant problem of overcapacity of the meat processing sector for domestic consumption. Raising quality standards to internationally accepted levels is still a significant challenge for Estonia.

Chapter 8: Fisheries

Since the last Regular Report, the process of legislative alignment with the *acquis* has continued and significant changes to the administrative structures have been implemented.

Following the recommendations of a high level inter-ministerial expert commission established in November 2000, the Government redistributed responsibilities for fisheries policy between the Ministries of Environment and Agriculture. The Ministry of Environment maintains responsibility for resource conservation policy, inspection, management and co-ordination of fisheries research, and structural policy with regard to the fishing fleet (including the Multi-Annual Guidance Programme and the Fishing Vessel Register). In April 2001 the statutes of the Ministry of Environment were amended and its Fisheries department renamed the Fishery Resources Department. The Ministry of Agriculture has become responsible for market policy, structural policy and structural aid. In April 2001 its Strategy Unit was reorganised into the Fishery Economics Department, with responsibility for analysing and co-ordinating development objectives in aquaculture, fishery harbours, processing and marketing of fish and fishery products, and the preparation and implementation of relevant development plans and national measures.

As far as **resource management, inspection and control** are concerned, further amendments to the Fishery Act entered into force in February 2001, introducing additional reporting requirements. A Regulation of the Minister of the Environment introducing data requirements for Vessel Monitoring System has been enforced as of July 2001. The requirement to carry on board a device enabling automatic data transmission for all Estonian fishing vessels outside Estonian waters was introduced in the November 2000 amendments to the Fishing Act.

Staffing at the Fishery Resources Department of the Ministry of Environment has improved to some extent during the year, with the re-focused department now consisting of 13 experts.

The International Baltic Sea Fisheries Commission (IBSFC) pilot project on surveillance and inspection in the Baltic provided some training for 10 inspectors in March-April 2001. The Environmental Inspectorate's technical equipment has been modernised with the addition of three new scooters.

Progress has been achieved in setting up a Vessel Monitoring System (VMS) in line with the requirements of the *acquis*. The software and hardware of the Fishing Monitoring Centre established at the Environmental Inspectorate has been operational as of January 2001, and by April, 31 vessels had been equipped with VMS terminals. As of the middle of September 2001 all vessels must be equipped with such devices. Assistance from the Environmental Investments Centre has been granted to 22 fishing vessels in order to compensate them for the cost of installing satellite-tracking devices.

In April 2001 the software for the Fisheries Information System (FIS), also based at the Environmental Inspectorate, was upgraded. However, the system's proper functioning is not yet fully assured. The gaps in the system's ability to comply with EC reporting requirements have been identified and a working group was established in April 2001 to elaborate a development plan for the system.

In the area of **structural actions**, no new legislation has been adopted, but some progress has taken place in developing administrative capacity.

The new Fishery Economics department within the Ministry of Agriculture comprises 7 experts.

The Fishing Vessel Register (FVR) remains the responsibility of the Environmental Inspectorate, which reports to the Minister of the Environment. However, payments under the Ministry of Environment's Guidance Programme for the fishing fleet will be made by the Ministry of Agriculture. Although legislative progress has been delayed, progress in developing the FVR has generally been positive on a practical level. The software has been installed and all vessels over 12 metres have been entered into the database. At the beginning of July 2001 there were 171 vessels over 12 metres in the register. There are also 537 fishing boats from 7 to 12 metres that have been provisionally entered into the FVR. Vessels over 24 metres (101 in total in the Register) have been measured according to the EC requirements, but vessels between 12 and 24 metres will need to be re-measured.

The preparation of a revised sectoral plan for fisheries, in the form of a provisional operational programme, was completed under the responsibility of the Ministry of the Environment in May 2001. However, it is unclear whether the staff resources allocated for implementing structural development programmes are sufficient, and considerable effort will be required to ensure that there is effective co-ordination of the sector strategy between both ministries.

In the area of **market policy**, as of July Fishery Producers Organisations can be supported under the Rural Development and Agricultural Market Regulation Act. Some progress has also taken place in developing administrative capacity. The new Department of Fishery Economics within the Ministry of Agriculture has been put in charge of fisheries market policy. The Veterinary and Food Board is now responsible for control of compliance with common

marketing standards. A conference on marketing standards was held in July, in co-operation with the Estonian Fishermen Association and other non-governmental organisations.

No progress can be reported nor was required in the field of **State aid to the fishery sector**.

No new **international fisheries agreements** have been concluded since the last Regular Report.

Overall assessment

Estonia's fisheries policy is partly aligned to the *acquis* in this area. Significant further work will be necessary. There have been considerable changes to responsibility for implementing fisheries policy within the administration and these will require careful consolidation.

The Government's decision to change the institutional set-up at the level of central government, and in particular to transfer part of the responsibility for fisheries to the Ministry of Agriculture, is bearing fruit. However, further attention should be paid to ensuring effective co-operation between the two fisheries departments, as well as the co-operation of the Environmental Inspectorate and the Environmental Services with the two departments. This will be particularly important for structural policies, and for the development of the FVR and the FIS. In the case of the FIS, co-operation on data management currently appears to be unsatisfactory, with no one body having a complete overview of catches, landings, etc., for inland and coastal fisheries. It is also very important that Estonia's plans for staff training and recruitment should be fulfilled, as there is still a shortage of officials, in particular at the Department of Fishery Resources.

Estonia's inspection capacity also needs to be reinforced. While the level of fisheries control has recently somewhat improved, the precision of the inspectors, their use of established inspection methods and techniques, as well as the comprehensiveness of the monitoring of landings still leave considerable room for improvement. There is also a need to reinforce the technical means for inspection and control. Since some of the inspection vessels previously in use have been transferred to the Border Guard, the shortage of suitable equipment for sea-borne inspections has become more evident. In addition, the utilisation for control purposes of the information gathered and registered about catches, landings and sales remains very modest and should be improved. Significant progress has been made in establishing a satellite monitoring system in line with the requirements of the *acquis*. Efforts must now focus on the completion of the installation of devices on all vessels and the effective operation of the Fish Monitoring Centre.

As regards structural policy, Estonia still needs to establish the legislative framework required for planning and co-ordinating the EC structural actions. The credibility of a guidance programme for fleet capacity (MAGP) relies upon the completion of the FVR.

As far as market policy is concerned, further progress is still required. In particular, regulations on producer organisations and marketing standards (including size categories) corresponding to EC requirements do not yet exist. The creation of producer organisations will be a useful tool in order to ensure the implementation of market policy in Estonia.

The situation as far as State aid to the fisheries sector is concerned is satisfactory.

Estonia is a member of the regional fisheries organisations, i.e. the North-West Atlantic Fisheries Organisation and IBSFC, and is a co-operative non-contracting party to the North Eastern Atlantic Fisheries Commission. It has bilateral fisheries agreements with the European Community, the USA and the Russian Federation.

Chapter 9: Transport policy

During the last year, Estonia has continued to align with the *acquis* in this area, achieving good progress in the field of road transport, in strengthening administrative capacity, and as regards maritime safety.

As regards **Trans-European Transport Networks**, Estonia prepared a Development Plan for Transport Corridor I for 2001-2005 as a basis for the co-financing of road projects.

In the **land transport** sector, progress was achieved in the field of *road transport*. The Public Transport Act entered into force in October 2001, harmonising the legislation regarding state aids and public service obligations. Provisions of the Act will be gradually introduced up to 1 January 2003. In line with the same Act, licenses for public transport were issued to municipalities and counties. The Road Transport Act (entered into force on 1 October 2001) introduces combined transport into Estonian legislation. The Act further regulates national and international transport of passengers and goods. Based on the Public Transport Act and the Road Transport Act, secondary legislation has been adopted since September 2000 in the social field (including qualifications and training of professional drivers/hauliers) and as regards transport of dangerous goods.

The Traffic Act, aiming at increased traffic safety, was adopted in December 2000. It also provides the basis for a number of items of secondary legislation, which have been adopted since, including traffic rules and surveillance, driving times, rest periods and the installation and control of recording equipment, road worthiness tests, type approval, drivers' licences and installation of speed limitation devices.

The Heavy Goods Vehicles Tax Act was adopted in October 2000, harmonising Estonian legislation with the relevant *acquis*. The Act will enter into force in January 2003.

Regarding *administrative capacity*, Estonia has made efforts in the training of staff on issues concerning haulier's professional competence and road inspections for example. Efforts are bearing fruit particularly in the field of international road transport authorisations and the National Motor Vehicle Registration Centre.

On *railways*, further secondary legislation was adopted based on the Railways Act (in force since May 1999), *inter alia*, regarding the rules for access to railway infrastructure and the rules on the incomes and expenditures of railway undertakings. The process of privatisation of the Estonian Railways has been completed.

The restructuring of the Estonian National Railway Administration was approved by the Minister of Transport and Communications in February 2001, establishing three main departments: Market Regulation, Supervision and Development.

In the *inland waterways* sector, no new legislation has been adopted. It should however be noted that Estonia has a non-connected network of inland navigable waterways.

As concerns **air transport**, secondary legislation has been adopted regarding the issuing of licences, and the certification of services.

In the field of *administrative capacity*, the ENCAA (Estonian National Civil Aviation Administration) has undergone structural changes. Since May 2001, the Operations Department and Airfields Department have been merged, with the aim to ensure flight safety in a more effective way.

As regards **maritime transport**, on 1 February 2001, the Government approved the Estonian shipping Policy 2000-2004, promoting the development of the entire maritime transport economy.

In the field of *administrative capacity*, it is to be noted that the Estonian National Maritime Administration took measures to increase the efficiency of ship controls. In December 2000, Estonia was added to the International Maritime Organisation's 'white list', by this approving the training of Estonian seafarers. Estonia became a co-operation member of the Paris Memorandum of Understanding (MoU) on port State control in May 2001. The Ship Control Department was divided into a Ship Supervision and ISM Audit Department (flag state control) and a Ship Control Department (port state control). According to 2000 statistics under the Paris Memorandum of Understanding, the percentage of Estonia flag vessels detained following port State control was 6.6 %, a slight increase compared to 1999 (5.9 %), however still a considerable improvement compared with 1998 (14.94 %). This compares to an average for EU-flagged vessels of 3.9 % in 2000.

Overall assessment

Estonia has advanced in aligning with the *acquis* in the areas of road transport, railways and air transport. However, some areas still require particular attention.

As regards the railways sector, the necessary organisation of the separation of accounts after the privatisation of Estonian Railways Ltd. and Southwest Railways Ltd still needs to be clarified. As regards the new railway *acquis*, the situation requires close monitoring, in view of the complexity and volume of the new legislation. In particular, Estonia needs an independent regulator, able to handle disputes between railway undertakings and the infrastructure manager. Alignment needs to be speeded up regarding the new railway *acquis* notably the infrastructure package and conventional rail interoperability. An independent body for allocation of infrastructure charging needs to be set up.

On road transport, Estonia has made considerable progress in aligning its legislation with the social and fiscal *acquis*. Further alignment as regards market access, road safety, rules on dangerous goods and taxation is needed. The European Agreement on International Occasional Carriage of Passengers by Bus (INTERBUS) has not yet been signed by Estonia.

As regards inland waterways, Estonia needs to further enhance its efforts to align with the *acquis*.

Regarding air transport, Estonia will have to continue its efforts to align its legislation. This includes completing the legislative process to set up the independent investigation body.

In the field of maritime safety, Estonia needs to adopt more stringent rules and enhance maritime safety. The decrease over the past years in detention rates for inspected ships is encouraging, but the current level is still above the average for EU-flagged vessels. Estonia should continue its efforts in this respect.

Chapter 10: Taxation

Since the last Regular Report Estonia has made some progress, especially in the area of excise duties.

In the area of **indirect taxation**, progress was made on VAT and excise duties legislation. On VAT, a new Act, that will in principle harmonise the Estonian VAT legislation with the 6th VAT Directive, was adopted by Parliament in June 2001, but it will only enter into force in 2002.

In the field of excise duties, a new Alcohol Excise Duty Act entered into force in January 2001 and introduced the tax warehouse system. In this area, the government, except for excise duties on mineral oils, applies a policy of gradual but steady rate increases and in 2000 and 2001 the adjustment towards the minimum rates required by the *acquis* has continued. On fuel, the Government stopped in mid-2000 the gradual increase of rates, due to the increased cost of motor fuel with a view to impose the full minimum rate only upon accession. Excises on fuel were extended since September 2000 to other products similar to fuel, its components and additives. This resulted in a significant increase of the income from duties on mineral oils by 87% in the first four months of 2001 compared to the same period in 2000. The combined rate for cigarettes was introduced in July 2001.

There are no specific developments to report in the fields of **direct taxation** or **administrative co-operation and mutual assistance**.

A Tax Fraud Investigation Centre (TAFIC) was established during the past year and the Tax Board was granted powers of surveillance and pre-trial investigation in April 2001. The purpose of TAFIC is to combat tax fraud and it is a separate agency under the Tax Board with four regional units and staff of 58 persons.

In November 2000, the Tax Board launched e-Tax Board, which is a package of internet-based services for individual and corporate taxpayers enabling them to file tax returns, submit refund applications, send questions as well as view their own tax returns, precepts, balances and account information via the Internet. During 2000, 12,000 personal income tax returns were filed electronically. These figures have tripled in 2001.

Overall assessment

Although Estonia has advanced significantly in the alignment of legislation to the *acquis*, a number of issues remain to be tackled. For instance, the new VAT Act has still to be implemented and the tax warehouse system to be introduced for tobacco products and mineral oils.

As regards the Income Tax Act, further amendments will be needed in order to align it with the principles of non-discrimination, freedom of establishment and free movement of capital in the

EU Treaties. This Act should also be fully compatible with the Parent/Subsidiaries directive and directive on mutual assistance.

It will be important to ensure that existing and future legislation complies with the principles of the Code of Conduct for Business Taxation.

As regards administrative capacity, improvements were achieved since a Tax Fraud Investigation Centre was established to tackle the significant problems of tax fraud.

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 before accession, 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, there are no major developments to report.

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. **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 occurred in practice.

Concerning the **independence of the Central Bank**, amendments to the *Bank of Estonia Act* that are underway include the transfer to the Governor of the Bank of Estonia of the ultimate responsibility for monetary policy. Problems that still exist concern the personal independence of the members of the Supervisory Board.

Chapter 12: Statistics

Estonia has continued its progress in this area over the past year on the basis of the Official Statistics Act adopted in June 2000.

As regards **statistical infrastructure**, the Official Statistics Act has improved compliance with EU standards in areas including statistical confidentiality and transparency, impartiality, reliability and data transmission. The Procedure for Data Protection by the Statistical Office was approved by Government Regulation on 29 January 2001.

Following the reorganisation of the statistical services and transfer of staff from the regional statistical offices to the central office, the Statistical Office has continued to adjust its internal structure and has worked out a Strategy Plan 2005, which outlines its mission and sets the main goals for the future.

Concerning **classifications**, the list of classifications to be used in conducting official statistical surveys was approved by the Government on 20 September 2000. In addition, the Government also approved on 3 April 2001 the Estonian Classification of Territorial Units for Statistics (NUTS). The full set of European Classifications, including the Classification of Units by Activities (CPA) and the List Of Products of the European Union (PRODCOM), is due to be implemented by 2002.

Concerning **demographic and social statistics**, further progress has been made. Following the April 2000 population census and the publication of preliminary results in September last year, full data processing is ongoing and will be compiled for publication in due course. The process of further approximation to European Standards in the areas of public health and health and safety at work statistics continues.

In the field of **macro-economic statistics**, a satisfactory level of compliance has already been reached, and no particular new developments are to be reported. Some fine-tuning in terms of data quality, exhaustiveness and adaptation to the European System of Accounts remains to be done.

For **business statistics**, a new questionnaire has been introduced in order to meet the requirements of the structural business surveys. Overall, considerable progress has been made.

As regards **external trade**, the Statistical Office of Estonia is preparing to implement INTRASTAT-(Intra Community Trade Statistics) on the day of accession. A pilot register of data providers has already been drawn up.

Regarding agricultural statistics, an agriculture census was carried out in the second half of July 2001. On the basis of the results of the census it is planned to establish a Farm Register. Further adaptation to EU-standards (e.g. sample size for agricultural surveys) is under way.

Overall assessment

Estonia is well advanced in the field of statistics. Co-operation with the Bank of Estonia is satisfactory.

However, in a number of areas, in particular macroeconomic statistics, fine-tuning is needed on methodology, quality and completeness of data to achieve full compliance with the *acquis*.

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. Statistics relating to the balance of payments and banking institutions are collected by the Statistics Department and the Banking Statistics and Analysis Department of the Bank of Estonia. As a result of the reorganisation of the Statistical Office and the adoption of a Strategic Plan until 2005, administrative capacities have been rationalised and improved. Further efforts

should concentrate on meeting the requirements of the relevant sectors and ensuring appropriate staffing in departments working on areas relevant for EU integration.

Chapter 13: Social policy and employment

Considerable progress has been made in this area since the last Regular Report.

In the area of **labour law**, Estonia has decided to implement the *acquis* by single independent legal acts, instead of the earlier planned Labour Code. Key legislation adopted during the reporting period includes the Working and Rest Time Act, adopted in January 2001 which should enter into force in January 2002, and the Holidays Act, adopted in April 2001, which will enter into force in January 2002. These Acts should align Estonian legislation with a number of EC labour directives. The Unemployment Insurance Act of June 2001 covers provisions on collective redundancies and insolvency of the employer.

In the field of **equal treatment for women and men**, some progress was made in transposing the relevant *acquis*. An amendment to the Wages Act adopted in May 2001 will introduce the principle of equal pay for work of equal value into Estonian legislation. The amendment will enter into force in January 2002. The Holidays Act contains provisions on paternal leave.

Legal approximation in the **health and safety** field continued during the reporting period. A number of regulations have been adopted in order to implement the Occupational Health and Safety Act, including those related to *Statutes of the Working Environment Council*, investigation and registration of occupational accidents and occupational diseases, safety requirements for the use of display screen equipment, requirements for the work of pregnant women, manual handling of loads, licensing for the provision of occupational health services, safety requirements for work on board of fishing vessels and the handling of hazardous chemicals.

As regards **public health**, in December 2000 the Minister of Social Affairs established advisory councils to organise implementation of the various National Health Programmes. The implementation of the following national public health programmes has continued in 2000 and 2001: Health programme for Children and Adolescents until 2005; Programme for the Prevention of Alcohol and Drug Abuse 1997-2007; National Programme for Prevention of Tuberculosis 1998-2003; National Research and Development Programme in Public Health 1999-2009; Programme for Prevention of HIV/AIDS and other sexually transmitted diseases until 2001; Reproductive Health Programme 2001-2009; Hypertension Prevention Programme 2001-2009; Cancer Prevention Programme 2001-2009. In addition, in January 2001, Estonia passed new legislation on the regulation of procedures for measuring tar and nicotine levels.

Estonia continues to promote **social dialogue** on a tripartite level, as well as on a bipartite level. Tripartite negotiations are actively held by the Government, the trade unions (Estonian Employees Unions Association (TALO) and the Estonian Central Union of Trade Unions) and the representatives of employers (the Estonian Confederation of Employers and Industry). The consultations have mainly focused on the minimum wage, income-tax minimum, unemployment benefits and social security reform.

The Joint Assessment of the **Employment Policy** Priorities of Estonia by the European Commission and the Estonian Ministry of Social Affairs was finalised, and represents an

important step in the preparations for accession. The document was signed in March 2001 in Tallinn. The document presents an agreed set of employment and labour market objectives necessary to advance the country's labour market transformation, to make progress in adapting the employment system so as to be able to implement the European Employment Strategy and to prepare for participation in the European Social Fund in view of accession to the European Union. Progress in the implementation of these policies will be assessed regularly. Labour market developments began to reflect the country's fast economic growth last year. The number of jobless people in the second quarter of 2001 was 87 000, giving an unemployment rate of 12.4%. This figure is 0.8 percentage points lower than one year earlier.

Further legislative progress was made with a view to preparations for administering support received through the **European Social Fund (ESF)**. Training and organisational efforts have also been increased. A decision on roles and responsibilities regarding the structural funds was taken at a Government meeting in April 2001. The overall responsibility regarding the implementation of structural funds lies with the Ministry of Finance. The same decision also approved the action plan for preparations for structural funds

In the field of **social protection**, Estonia has continued implementing its reforms. The draft Funded Pensions Act, introducing the second pillar of the new pension system, was adopted in September 2001 and entered into force in October 2001. The Government adopted a number of implementing regulations under the State Pension Insurance Act. Legislation was also introduced in the areas of unemployment insurance, family benefits and benefits for the disabled. *The Social Welfare Act* was amended to extend the right to social services, social benefits and other assistance to Estonian permanent residents, aliens lawfully staying in Estonia and refugees. The amendment, adopted in June 2001, will enter into force in January 2002.

The implementation of the National Programme for Disabled People has continued. The Social Benefits for Disabled Persons Act Amendment Act was adopted in December 2000 and entered into force in January 2001. The Act establishes new types of social benefits for disabled persons, compensating them for supplementary expenses resulting from their special needs and so facilitating their integration into the society. National social welfare programmes on "Implementation of Open Care", "Preventive Work in Social Sector", "Reorganisation of State Welfare Institutions" have been launched.

Overall assessment

Overall, Estonia is advanced in terms of legal transposition in most areas. However, Estonia needs to improve monitoring, implementation and enforcement.

Estonian labour law is largely in line with the relevant Community *acquis* as a result of recent legislative activity. However, work on legal approximation needs to continue in order to achieve full alignment. In particular, the draft Employment act should be adopted without further delays.

As concerns equality of treatment for women and men, despite some progress on equal pay and parental leave, Estonia will need to substantially increase its efforts to ensure a timely transposition of the remaining provisions.

As a result of intensive legal approximation activity in the health and safety field, especially in 2000-2001, the level of alignment has improved substantially. Estonia continues to design

strategies for eliminating or reducing hazards in working conditions and for promoting occupational health infrastructures and services. However, while work on transposition advanced well in 2000 and 2001, considerable work remains to be done with respect to the effective implementation of the *acquis* on health and safety. The capacity of the national labour inspectorate should continue to be strengthened.

Even though there has been progress in the field of public health, Estonia should continue its efforts, in particular as regards preparations for the implementation of Community tobacco legislation.

In the field of social dialogue, despite some encouraging signs, efforts are still needed to improve the efficiency of existing tripartite structures, and to encourage the development of autonomous, bipartite social dialogue.

Although some progress has been made with the general institutional preparation for European Social Fund (ESF), it is urgent to establish an ESF Unit within the Government, so as to implement ESF interventions in the context of the European Employment Strategy and the fight against exclusion. The various co-ordination fora, such as the ESF Task Force and the Human Resource Development Task Force, represent one step towards establishing a fully functional ESF Unit. Preparations for future participation in ESF should, therefore, continue.

In the field of social protection, current efforts to implement the reforms should be kept up.

The most recent developments in employment and unemployment have been encouraging. Continued rapid economic growth, if supported by committed implementation of agreed priorities in labour-market policy, can help consolidate and improve on these favourable developments.

Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on Art. 13 of the Treaty.

The combating of exclusion, as laid down in art 136 of the Treaty establishing the European Community, is part of the objective of EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at the EU level, and national action plans. The Gothenburg European Council in June 2001 invited countries to translate the Union's objectives of promoting social inclusion into their national policies.

Chapter 14: Energy

Estonia has made some progress in harmonising with the *acquis* in the energy field, The regulator, the Energy Market Inspectorate, has undergone some structural changes in order to cope with its increasing functions, but it is unclear if sufficient human resources are available. The long-expected oil-shale restructuring plan was finally presented.

Concerning **security of supply**, the Minimum Stocks of Liquid Fuel Act was approved by the Riigikogu (Parliament) in March 2001 and entered into force on 1 July 2001, laying down the rules for stock accumulation as well as the schedule leading up to full achievement of the 90 days' obligation. The accumulation process foresees 5 days of stocks by 2003, and a further 10 days per year until 2010.

The National Stockpiles Act Amendment Act was adopted by Parliament in February 2001. The Act provides for a shift of responsibility for obtaining, maintaining and reporting on the national stockpiles from the Ministry of Economic Affairs to the Ministry of Interior.

The oil-shale issue is closely related to the Estonian security of supply situation. The Restructuring Plan for the Estonian Oil Shale Sector 2001-2006 was approved by the Government in March 2001, and the accompanying National Employment Programme for Ida-Virumaa (the oil-shale mining region) in April 2001, enabling gradual and smooth restructuring. In accordance with the Restructuring Plan, it is envisaged to close one mine and to refurbish two of the other power generation units at the Narva oil shale power plant, keeping power generation capacity at Narva basically intact.

In relation to **competitiveness and the internal energy market**, amendments to the Energy Act were approved by the Riigikogu in April 2001, and entered into force in May 2001. The amendments aim to improve the functioning of the local electricity market as well as to facilitate the final harmonisation with the *acquis*. The amendments also aim to improve the situation in the liquid fuel market by addressing the significant quality problems relating to the sale of illegal fuel.

As regards Estonia's *electricity* sector, the privatisation process, has been finalised. In August an agreement on the main terms and conditions with an American company was signed on the transfer of 49% shares of Narva Elektriijaamad Ltd (Narva Power).

In the field of administrative capacity, the Energy Market Inspectorate has been reinforced at the management level.

As regards **energy efficiency**, the Energy Efficiency of Electrical Appliances Act entered into force in July 2001. A number of regulations were adopted in June 2001 on energy labelling and standard product descriptions. The Target Programme on Energy Conservation approved by the Government last year, in line with the relevant *acquis*, is being implemented by the Action Plan to the Energy Conservation Target Program, approved in March 2001. The Council on Renewable Energy Sources was constituted at the end of 2000, and assists the Minister on related issues. The implementation plan aims at the conservation of energy (i.e. lower consumption) in both the business sector and private households, as well as at promoting the use of environment-friendly fuels and increasing the efficiency of production, transport and distribution of energy.

As regards **nuclear energy**, Estonia does not operate any nuclear power plants.

Estonia has two radioactive waste storage facilities. One is situated at Paldiski, the site of the now decommissioned ex-Soviet training reactors. The spent fuel from the research reactors has been returned to Russia. The other waste storage facility, at Tammiku, has been closed and there are plans to transfer the waste to the Paldiski site.

Overall assessment

Estonia's efforts in the energy sector remain heavily influenced by its dominant local fuel, oil shale. Estonia should step up its efforts towards reaching 90 days of oil stocks. Furthermore, adequate administrative structures need to be developed. Considerable work is still required in order to complete the implementation of the *acquis*.

As regards the internal energy market, the privatisation process in the electricity sector linked to oil shale, once formally completed, is likely to cause contradictions with the market opening provisions of the Electricity Directive. This situation needs to be fully addressed. Likewise, the Gas Directive legislation needs to be further aligned. The remaining price distortion in the energy sector should be removed.

Even though legislative actions have been taken to improve the situation in the liquid fuel market, the share of illegal fuel is still high.

As regards administrative capacity, further efforts in this respect are required. In particular, the Energy Market Inspectorate, in its role as the independent regulator of the energy sector, needs to be strengthened.

As regards the issue of nuclear energy, the European Union has repeatedly emphasised the importance of a high level of nuclear safety in candidate countries. In June 2001, the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. In July, the Commission conveyed this report to the candidate countries. The report recommends all candidate countries to continue their national programmes regarding the safe management of spent fuel and radioactive waste, and regarding the safety of their research reactors.

Estonia will need to ensure compliance with Euratom requirements and procedures. In this respect, continued attention should be given to preparing the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material. It should be noted that Estonia has concluded a Full Scope Safeguards Agreement with the IAEA.

Chapter 15: Industrial policy²⁴

Since the 2000 Regular Report, Estonia has continued to make some progress in developing industrial policy measures.

Estonia is continuing to develop its **industrial policy**, although no comprehensive policy document has yet been adopted. The revised National Development Plan of April 2001, contains specific priorities for industry and business development for the period 2001-4.

In practice, the Ministry of Economic Affairs has continued to carry out industrial policy with relatively little intervention. However, several policies and projects have been introduced to encourage technological development, export activities, quality standards and public awareness of these policies.

Key activities in the field of industrial policy include the restructuring of the Estonian Innovation Fund foundation into the “Technology Agency” within Enterprise Estonia. The new structure started operations in January 2001 and is responsible for the implementation of government innovation policy. In addition, the “Knowledge-based Estonia” strategy of research and development was endorsed by the government in May 2001.

²⁴ Developments concerning industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see chapter 16 - *Small and medium-sized enterprises*).

The Estonian government has continued to promote foreign investment through the Estonian Investment Agency, which in turn forms part of the Enterprise Estonia foundation under the control of the Ministry of Economic Affairs. Estonia continues to attract a relatively high level of **foreign direct investment** (FDI) on a per capita basis, as a result of both the privatisation process and the generally favourable investment climate. As of 31 December 2000, the stock of foreign direct investment had reached €2.8 billion (EEK 44.5 billion). The foreign direct investment was in 2000 €435 million, compared to €284 million the year before. FDI has recently become particularly concentrated in the manufacturing and retail sectors.

Since last year's regular report, the **privatisation** of the industrial sector has progressed further. In April 2001, the Estonian Privatisation Agency agreed the sale of 66% of Estonian Railway Baltic Rail Service (BRS). In the energy sector, it was agreed in September 2001 that NRG Energy should buy 49% of the Narva power stations. This means that the privatisation of most medium-sized and large industrial enterprises has now been completed - the few bigger companies still to be privatised are Tartu airport, a broadcasting company, and the institute for scientific research in the area of construction. According to the Amendment Act of the Privatisation Act adopted by the Parliament in May 2001, the Estonian Privatisation Agency that is responsible for the privatisation process will be closed from 1 November 2001. The responsibility for the remaining privatisations will be transferred to the Ministry of Finance, the Ministry of Economic Affairs and the County Governments (*see Section B.1.2. - Economic criteria*).

As regards **industrial restructuring**, the biggest challenge remains the energy sector, where only limited progress has been made (see Chapter 14 - Energy).

Overall assessment

Overall, Estonia's policy towards industry is by and large in conformity with the principles of EC industrial policy, i.e. market-based, stable and predictable. Estonia's industrial policy principles continue to be based upon minimum state intervention and the creation of a favourable economic environment for private enterprises. However, Estonia still needs to develop a comprehensive industrial policy and better define and implement specific measures in this context. Estonia should continue its efforts and set up clear priorities taking into account the needs of the business community.

During the last couple of years foreign direct investment, particularly from EU member states, has continued to increase, and has diversified from early investments in the financial, transport and storage sectors to include areas such as manufacturing and retailing. This would suggest that the government's efforts are bearing fruit. The government has helped to modernise the supply side of the Estonian economy and has been an important stimulator of exports. However, much of the investment is concentrated in Tallinn, whilst the eastern part of Estonia has suffered from closure of non-competitive production and insufficient new investments. Unequal development requires due attention in Estonian industrial and regional policy (*see Section B.1.2. - Economic criteria*).

The basic institutional structure for implementing industrial policy is in place. The central body responsible for the formulation and co-ordination of industrial policy is the Ministry of Economic Affairs. However, co-operation between relevant government institutions and ministries should be enforced and enough resources should be allocated for implementation of policy documents

and plans. The Ministry of Economic Affairs has delegated many functions related to the promotion of entrepreneurship and investment to Enterprise Estonia. It should be ensured that this agency receives sufficient financial resources to carry out its tasks. Since the Privatisation agency will shortly be closed, the Estonian authorities (relevant ministries and county governments) will need to strengthen their administrative capacity to deal effectively with the privatisations that are still pending.

It should be noted that an important element of any industrial policy is the control of state aid and that the compatibility of support schemes with EC rules, including the current rules of state aid of the ECSC Treaty, which will have to be examined (*see Chapter 6 - Competition policy*).

Chapter 16: Small and medium-sized enterprises²⁵

Estonia has made some further progress in developing its SME policy and reforming the state support system for business promotion. Efforts to improve the business environment have continued.

As regards **SME policy development**, some progress was made with the adoption of the National Development Plan in March 2001 which includes policy priorities for the period 2001-4.

Access to finance remains one important obstacle to the development of Estonian SMEs. Some progress has been made in this area thanks to Estonian Government-supported schemes for SMEs through the KredEx Foundation and other initiatives. This foundation was established following a reorganisation of Estonia's **public business support foundations** under the control of the Ministry of Economic Affairs. Nine foundations under the administration of five ministries were reorganised into two new foundations named Enterprise Estonia and KredEx. KredEx offers various credit and export guarantee products to SMEs. Enterprise Estonia runs five agencies - Trade Promotion Agency, Tourist Board, Technology Agency, Regional Development Agency and Investment Agency. It implements Government policies in the areas of entrepreneurship, R&D, tourism, regional development, internationalisation of enterprises and foreign investments.

Estonia has made progress in the improvement of the **business environment**. In particular areas, Estonia has made efforts to reduce the administrative burden, to simplify the procedures and improve transparency through better use of information technology. There are several ongoing government projects which are helping to diminish the administrative burden on SMEs, including the electronic tax filing system of the National Tax Board, and the further development of governmental organisations' web-sites and databases, which are integrated through the common access point (E-state).

No new development can be reported as regards the **SME definition** applied by Estonia.

²⁵ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see chapter 15 - Industrial policy*).

Overall assessment

Estonia has advanced in developing a policy towards enterprise and in particular SMEs that is in line with the principles and objectives of EC enterprise policy. However, no specific SME policy document has been adopted and it is now important that the Government completes the Enterprise policy document that is underway and makes sufficient state budget funds available for the implementation of this policy.

Estonia's business environment continues to be relatively stable and favourable to entrepreneurship. Issues affecting the Estonian business environment are addressed through dialogue between the government and the business community. Continued efforts are needed, however, to develop this dialogue and more generally improve information to enterprises, as regards business legislation and support schemes. It is also important to continue to address the issues of company registration, access to finance and access to skilled labour, which can hinder the development of SMEs.

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of Economic Affairs. Through the reform of the public business support foundations, the business support system should become more efficient, coordinated and transparent. However, it is too early to assess the actual impact on SMEs.

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

Chapter 17: Science and research

Since the last Regular Report, Estonia has continued to be fully associated with the Fifth Framework Programme, as well as the Euratom Framework Programme.

As for other candidate countries associated with the Fifth Framework Programme, Estonia has been granted observer status with CREST (*Comité pour la Recherche Scientifique et Technique*).

Overall assessment

Though the financial and institutional framework for participation in the Fifth Framework Programme continues to function well, further reinforcement of research-related administration capabilities as well as strengthening of research-related infrastructure is necessary to enhance the successful participation of Estonia in the Fifth Framework Programme.

For the further development of the sector and for an effective integration of Estonia into the European Research Area (ERA), it is important to increase the gross domestic expenditure on research and technological development. Further concrete measures are required to stimulate business enterprise expenditure on research, possibly through the participation of private companies in the Innovation Foundation, and to favour fresh capital investment. Measures are needed to promote and enhance the rate of research and development, to further encourage research that supplies relevant technology to small and medium-sized enterprises, and to increase European co-operation in this field. Legislation to facilitate the creation of high-tech industries is necessary, in particular to attract foreign investment.

Chapter 18: Education and training

Some further progress was made in this field.

In the past year, Estonia has continued to participate in the **Community programmes** in this area (*see section A.b - Relations between the European Union and Estonia*). In the reference period, Estonia started to participate in the second generation of Community programmes Socrates and Leonardo as well as in the new Youth programme (which incorporates European Voluntary Service activities).

Regarding the **Directive concerning education of children of migrant workers**, the Ministry of Education has taken initial steps to ensure the effective implementation of the legislation through strengthened cooperation with and enhanced methodological assistance to local government authorities.

Estonia has further introduced the legal framework to diversify and reorganise the vocational education and training system. Also, the reorganisation of the school network has continued by merging the VET schools in Tallinn, Narva and Pärnu in 2000. 14 new VET programmes have been developed in the fields of business, construction, health, forestry, catering and personal service. In 2000, all school programmes were modular and 30% met the requirements of the relevant vocational standard.

As regards higher education, the development of a network of institutions of higher professional education (non-university higher education, with emphasis on professional preparation) continued. At the beginning of the 2000/2001 academic year, there were 12 institutions offering professional higher education.

Overall assessment

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning. Further steps need to be taken to fully implement the Directive concerning the education of children of migrant workers.

In the area of continuing vocational training, efforts to implement the reform, in particular in relation to qualification systems, vocational standards and curricula need to be continued. The supply of vocational training is still insufficient and Estonia should continue to develop additional VET programmes. 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.

On the whole, Estonia has achieved considerable progress so far, but efforts to further reform the sector and to substantially increase financial support need to be made.

Chapter 19: Telecommunications and information technologies

Since last year's Regular Report, Estonia achieved major progress both in terms of liberalisation of the telecommunications market and implementation of its regulatory framework.

Concerning the **liberalisation of the telecommunications market**, since 1 January 2001 the Estonian telecommunications market is fully open but, as far as local telephone calls are

concerned, the market did not open in the first months of 2001, due to very high interconnection fees of the enterprise having significant market power. The Government moved quickly to remedy this situation and the Parliament adopted an Amendment to the Telecommunications Act in February including interim measures to ensure that the *acquis* requirement of cost orientation would be put fully in practice from 1 January 2002.

As regards the **regulatory framework**, following the entry into force of the Telecommunications Act in April 2000, a number of implementing regulations have been adopted between September 2000 and June 2001.

In November 2000 the *Public Information Act* was adopted by the Parliament and it entered into force in January 2001. The purpose of the Act is to ensure the access of the general public to information intended for public use and to create opportunities to obtain such information from the Internet. At the same time the Act stipulates the establishment of public Internet access points in public libraries all over Estonia. All document registers of state institutions must also be made available over the Internet to offer a cheap tool for self-service and at the same time establish an environment where everybody can monitor the performance of public functions.

The Action Plan on Information Technologies for the years 2001-2002 was approved in February 2001, in accordance with the Estonian Information Policy of 1998 and the e-Europe+ Action Plan for candidate countries.

The action plan Tiger Leap Plus (development programme for ICT education in Estonian schools in 2001-2005) was approved by the Government. It is a continuation to the action plan Tiger Leap (programme for the computerisation of Estonian schools in 1996-2000).

In May 2001 the Parliament adopted the new Cable Distribution Act. With the new Act, the cable distribution market will be fully open. The purpose of this Act is to create conditions for active competition in the telecommunications sector in Estonia and to protect consumers from substandard cable distribution services.

As regards the **postal services**, the Postal Act was adopted in June 2001 by the Parliament and it will enter into force on 1 January 2002. Before the Postal Act, the postal sector was regulated by the Communications Act (adopted in 1991) which had become outdated and was too general. The Act is also applied to the provision of postal services to and from abroad and thereby the requirements of the Universal Postal Union, Universal Postal Convention and the EC Postal Directive are covered. The functions of the independent institution regulating the postal field will be applied to the National Communications Board (NCB) by expansion and application of its functions to the postal field.

Overall assessment

Estonia is at a considerably advanced level of alignment and development in the **telecommunications** sector.

After a monopolistic start in 1992, Estonian policy in this area has pressed forward unwaveringly towards implementation of the *acquis* and completion of early liberalisation. This was achieved on 1 January 2001 and the authorities are now dealing with the initial wave of dispute resolution that is typically associated with effective opening of a market. The initial signs

are encouraging. The National Communications Board is a full independent regulatory authority and has licensing powers. The NCB, which had a staff of 121 employees in June 2001, seems to be working well with its new responsibilities for numbering and will need to maintain staffing levels particularly for work on interconnection. The emphasis for the future must be on making a success of the implementation.

Much progress has been made in the telecommunications sector over the last few years and the infrastructure's size and degree of modernisation is a good achievement, particularly in the penetration of mobile and Internet services. Prices have been rebalanced to a considerable extent and the arrival of competition is reinforcing the process.

A credible policy to secure the availability of an affordable universal service remains to be devised. The ministry will have to move quickly to complete implementation of local loop unbundling, which has already been added to the acquis and also the EU new regulatory framework for telecommunications as it is adopted around the end of this year.

As for the **postal services**, Estonia has established a good basis and should be capable to adopt the relevant Community legislation in a timely way. However, it should be ensured that the legal basis for the NCB to act as the independent regulatory body for the Postal Services is in line with the Postal Directive.

Chapter 20: Culture and audio-visual policy

No further developments are to be reported since last year's Regular Report in the **cultural** or **audio-visual** sectors, where Estonia has largely completed its alignment.

Overall assessment

The overall situation in this area is largely satisfactory and since the adoption in May 2000 of amendments to the Broadcasting Act of 1999, Estonian legislation is largely in line with the Television without Frontiers Directive.

Estonia has signed and ratified the Council of Europe Convention on Transfrontier Television and its Protocol.

The Ministry of Culture and the National Communications Board are responsible for enforcement and supervision of legislation in the audio-visual sector, the latter body dealing with technical aspects. In addition, there is a Broadcasting Council which is responsible for aspects of the supervision of the public service broadcaster. The Broadcasting Council consists of 9 persons, appointed by the Parliament.

Adequate co-ordination of the various structures involved in the enforcement and supervision of audio-visual legislation will be crucial. This is particularly important in the light of the adjustments to structures and responsibilities resulting from the amendments made to the Broadcasting Act. Should it be shown that the recently established Media and Copyright Department of the Ministry of Culture needs strengthening then adequate resources should be made available.

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

Since the last Regular Report, Estonia has made some progress in preparing for the implementation of structural policies.

As far as **territorial organisation** is concerned, a Government Regulation on the establishment of a provisional NUTS classification for Estonia was approved in April 2001. This proposal, which has in meantime been agreed with the Commission (EUROSTAT) involves a change in the definition of the regions corresponding NUTS level III, the other levels remaining unchanged.

With regard to the **legislative and institutional framework**, the main progress has been the adoption by the Government in April 2001 of a Decision on the basic principles for preparation to implement the European Structural Funds and the Cohesion Fund Support, and an Action Plan for preparing the implementation of the European Structural Funds and the Cohesion Fund support in 2001 – 2003. The Ministry of Finance has been designated as the ministry with overall responsibility for programming and as the future managing authority for the objective 1 Single Programming Document (SPD). It has also been designated as paying authority for the European Regional Development Fund (ERDF), the European Social Fund (ESF) and (provisionally) for the Financial Instrument for Fisheries Guidance (FIFG) as well as for the Cohesion Fund. The Ministry of Agriculture has been designated as future paying authority for the European Agricultural Guidance and Guarantee Fund (EAGGF), Guidance section. Apart from the line ministries with a specific responsibility for the Cohesion Fund, line Ministries and other implementing bodies, under the overall responsibility of the managing authority, will be involved in the implementation of individual measures or priorities co-financed by the Structural Funds in their respective areas of competence.

Furthermore, the State Regional Policy Council was established in December 2000. It is chaired by the Minister without portfolio responsible for Regional Affairs. Its members are representatives of all Ministries, 2 elected County Governors, and representatives of the Association of Cities, the Association of Rural Municipalities, the Union of Associations of Local Governments and the Office of European Integration. Its tasks include monitoring the effectiveness of regional development measures and organising the evaluation of their impact.

With regard to **programming**, the *National Development Plan* (NDP) of 1999, which introduced the concept of target regions, has been revised. The revised (NDP) does not yet match with the requirements of a Single Programming Document (SPD) for the Structural Funds. The preparation of the SPD, partially building upon the elements of the NDP, has just started. In June 2001, the Ministry of Finance set Guidelines for SPD drafting, including instructions/tasks for Ministries. The Department of Macroeconomic Policy of the Ministry of Finance co-ordinates the overall drafting of the SPD and will create an inter-ministerial working group for this purpose.

In order to ensure the application of the **partnership principle**, a supervisory board for the SPD preparation has been set up by the Regional Policy Council.

With regard to **monitoring and evaluation**, no new developments are to be reported since the last Regular Report.

Concerning **financial management and control**, some progress has been achieved by Estonia regarding control of the structural action expenditure.

Overall assessment

While Estonia has advanced in designing the necessary structures for the implementation of the Structural Funds after accession, considerable efforts are still required in terms of programming and in order to develop the administrative capacity required for managing the Structural Funds and Cohesion Fund.

As a matter of priority, the administrative capacity of the future managing and paying authorities needs to be strengthened in order that they will effectively be able to take on the responsibility for the efficiency and correctness of the management and implementation of Structural Funds. Furthermore, the role of the line ministries, agencies and other bodies acting under the responsibility of the future managing and paying authorities needs to be clarified. As regards the European Social Fund, Estonia is developing the necessary structures and operational arrangements to implement this Fund effectively. Further efforts are required to improve both administrative capacity and the mechanism for co-ordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process.

Substantial progress is also needed at the level of technical preparation of projects (project pipeline) to be co-financed by the Structural Fund and Cohesion Fund.

Furthermore, Estonia will need to substantially improve its capacity for integrated development programming. To that end, efficient and effective inter-ministerial co-operation and partnership will need to be established and ensured through the whole process of preparing the draft SPD.

Significant further work on ensuring compliance with the acquis requirements for monitoring and evaluation is still necessary, in particular as regards the ex-ante evaluation of the draft SPD. The timely availability and functioning of an effective monitoring and evaluation system will be of crucial importance for the effective and efficient implementation of the Structural Funds programmes.

In relation to financial management and control, Estonia needs to ensure that the necessary legislative framework is in place for the co-financing of Structural and Cohesion Funds, including provisions for transfer of funds during its implementation. Appropriate systems and procedures for financial management and control need to be established, in particular in relation to the structure of the managing and paying authorities, in order to fulfil the specific requirements of the Structural Funds regulations.

As to regional statistics, further efforts are necessary to bring them up to the level required for regional policy planning and programming, in particular ex-ante evaluation. Estonia still need to improve the system for the collection and processing of relevant statistical information for the purpose of ex-ante evaluation.

Chapter 22: Environment

Since the last Regular Report, Estonia has continued to make progress towards achieving full and effective alignment with most areas of the environmental *acquis*. Nevertheless, important outstanding issues remain, primarily in the areas of waste and water management.

With regard to the **integration of the environment into other policies**, Estonia continued 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”.

In the field of **horizontal legislation**, the Act on Accession to the Transboundary Environmental Impact Assessment Convention (Espoo) was passed by the Riigikogu in November 2000. In addition, 6 ministerial regulations on the basis of the Environmental Impact Assessment and Auditing Act have been adopted. The Act of ratification of the UN/ECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters was passed by the Riigikogu in June 2001. In January 2001, the Public Information Act entered into force, which contains several provisions for granting access to the public concerning environmental matters. The draft Environmental Registers Act was approved by the Government in 2001. The Environmental Register will be a state register merging currently operating state registers, environmental permits and other environmental information, and will be available for public use.

As regards **air quality**, the Act on the Accession to the Protocol to the Convention on Long-range Transboundary Air Pollution on the Financing of the Co-operative Programme for Monitoring and Evaluation of the Long-range Transmission of Air Pollutants in Europe (EMEP) was adopted in December 2000. Several ministerial regulations were amended in 2000 and 2001 as part of the Air Accession Twinning Project. In 2000, the National Programme on Air Protection 2000 was implemented, which aims to reduce the negative environmental impact of energy and air protection. The National Programme for Phasing out Substances that Deplete the Ozone Layer is being implemented. As a result, a special administrative unit, the Ozone Bureau, has been set up. The main objective of the programme is to fulfil the country's obligations under the Montreal Protocol. Air quality assessments, including laboratory work, are carried out by the Estonian Environmental Research Centre. Preparations have almost been completed to implement the Air Quality Framework Directive. The measurement stations are installed and functioning in the areas that need this most.

In the area of **waste**, legislation has been improved. The Waste Act was amended twice. On the basis of this act, 2 ministerial regulations - one on restrictions and special requirements concerning materials used in the manufacture of packaging and one on specification of the list of waste metals - were adopted. Furthermore, regulations on the basis of the Packaging Act and Packaging Excise Duty Act amendment Act were adopted.

In the field of **water quality**, the Water Act Amendment Act was passed in December 2000, introducing the catchment-based approach into water legislation. Additionally, based on the Act, four governmental regulations were adopted in 2000 and 2001. The act was prepared in order to harmonise Estonian legislation with the EC Water Framework Directive. With respect to implementation of the Bathing Water Directive, the relevant Estonian legislation entered into force in April 2001. The construction of treatment plants for drinking water and wastewater has

continued. The water monitoring programmes are under reorganisation. Efforts to meet microbiological parameters for drinking water need to be strengthened.

In the field of **nature protection**, the Protected Natural Objects Act Amendment Act was adopted in May 2001. This Act regulates the exchange and possession of land in the protected areas between the state and owners/buyers of land. The National Programme “Estonian NATURA 2000 for 2000-2007” was adopted in 2000 and implementation continues in 2001. Additional staff have been hired to achieve compliance with EU nature conservation policy, including the implementation of the Natura 2000 network in Estonia.

As regards **industrial pollution control and risk management**, the Preparedness for Emergency Situations Act was adopted in November 2000.

In the field of **genetically modified organisms and chemicals**, several Ministerial regulations on chemicals were adopted and/or amended in 2000 and 2001. Development of the Chemicals Notification Centre continues. Regulation No 72 of the Minister of Social Affairs on “Restrictions on the handling of chemicals hazardous to the public and to nature” was approved in November 2000 and entered into force in July 2001. Amendments of the Release into the Environment of Genetically Modified Organisms Act were adopted in February 2001, adding new sections concerning punishment of legal persons.

As regards **noise**, no progress can be noted.

In the field of **radiation protection** (*see also chapter 14 - Energy*), a number of provisions concerning radiation protection have been in force since January 2001 under the Preparedness for Emergency Situations Act and the EIA and Environmental Auditing Act.

The enforcement record of the Environmental Inspectorate is only slowly improving. Legislation has been amended in order to enable the EEI to punish offenders in the waste and water sectors, and now legal persons can also be punished. The Environmental Monitoring Programme was revised and renewed in autumn 2000. The programme has 13 sub-programmes which in turn contain 82 sub-programmes.

Overall assessment

Some advancement has been made in most areas in relation to both transposition and implementation of EC environmental legislation in Estonian law. However, priority needs to be given to the complete transposition of the *acquis*, in particular as regards water quality and waste management. Regarding air quality assessments, more time is needed for the definition of zones and types of assessments in order to complete the implementation of the Air Quality Framework Directive. Administrative capacity and enforcement of all environmental legislation needs to be improved.

In the area of waste, Estonia has some progress in alignment with the *acquis*. However, Estonia should accelerate the implementation of the *acquis* in this area, in particular as regards landfill of waste (establish waste management plans and find sustainable solutions to the handling of wastes from extraction, incineration and refining of oil shale). Furthermore, Estonia should also accelerate the implementation of the *acquis* regarding discharge of dangerous substances in the aquatic environment (establish pollution reduction programmes) and nitrate pollution from

agricultural sources. Efforts to meet microbiological parameters for drinking water need to be strengthened.

Estonia should continue to integrate environmental protection requirements into the definition and implementation of all other sectoral policies with a view to promoting sustainable development.

As regards administrative capacity, the Ministry of Environment employs some 134 persons. About 289 persons are working in 15 County Environmental Departments which are regional departments of the Ministry of the Environment. The Estonian Environmental Inspectorate (EEI) is responsible for supervising the implementation of legal acts and regulations in the whole environmental area, including fisheries and forestry. The only two other bodies with supervisory competencies in the environmental sector are the Estonian Radiation Centre (for radiation issues) and the Estonian Land Board (for matters concerning land use). The EEI has seven regional departments. Currently, the total number of staff in the Inspectorate is 230. The administrative capacity and co-ordination between bodies in the environmental sector on all levels (state, regional and local) needs to be strengthened, particularly at local level in the smaller municipalities.

Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental acquis.

Enforcement of environmental legislation needs to be improved and in particular address the gaps in the areas of air protection and chemicals.

Chapter 23: Consumers and health protection

During the reference period Estonia made considerable progress in terms of legal alignment, most notably with the adoption of the Law on Contractual and non-Contractual Relations in September 2001.

With regard to **safety related measures**, amendments to the Product Safety Act were adopted in November 2000 in order to further align legislation in this field. As far as **non-safety related measures** are concerned, an act amending the Advertising Act of 1997 entered into force in May 2001, with a view to transposing the Directive on comparative advertising. The Tourism Act entered into force in March 2001. It partially transposes the Directive on package travel, package holidays and package tours.

With regard to the **market surveillance mechanism**, a new statute of the Consumer Protection Board was approved in May 2001. Between September 2000 and May 2001, the Consumer Protection Board inspected 2491 enterprises. Within the framework of TRAPEX (transitional rapid exchange of information system), the Board received 103 notifications on dangerous products and forwarded to the TRAPEX co-ordination center in Budapest 5 notifications concerning dangerous products discovered on the Estonian market. During the same period, it received 1293 consumer complaints and protected consumers' rights in the civil courts in 5 cases.

Overall assessment

Estonia has advanced well in aligning legislation with the *acquis*, most importantly through the adoption of the Law on Contractual and Non-contractual Relations which had been constantly delayed. The law is intended to cover the alignment of several Directives, including issues such as contracts negotiated away from business premises, unfair terms in consumer contracts, consumer credit, package travel, protection of consumers in respect of distance contracts, right to use immovable properties on a timeshare basis, sale of consumer goods and associated guarantees and liability for defective products.

There is a need to update the existing Consumer Protection Act and bring it into conformity with the Directive on injunctions for the protection of consumers' interests. The Directive on indication of the prices of products offered to consumers should also be transposed.

Although the Consumer Protection Board has been functioning successfully, it is important that it should be reinforced in order to cope with implementation issues related to the adoption of the Law on Contractual and Non-contractual Relations. Particular attention should be paid to co-ordination of the Board's activities with other bodies in charge of market surveillance, such as the Technical Inspectorate.

The Consumer Protection Board operates in the field of consumer information and education. Experts from the Board provide advice and information, through a free information telephone line, about various issues in the field of consumer protection: consumer rights, warranties, required labeling, etc. (7014 consultations were recorded in 2000).

Nevertheless, consumer and producer awareness still needs to be enhanced as to respective rights and responsibilities. In this respect, the activities of the consumer movement in Estonia, and in particular the Estonian Consumers' Union, should be further encouraged and supported.

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.

Regarding Personal **Data Protection**, Estonia has yet to finalise the ratification process for the 1981 Council of Europe Convention on the Protection of Individuals with regard to the Automatic Processing of Personal Data.

As far as **visa policy** is concerned, Estonia has been making substantive progress in terms of visa alignment, terminating existing visa-free regimes with a large number of countries, and preparing the imposition of visas with a number of countries as required by the *acquis*.

The Agreement between Estonia and Croatia on abolition of visa requirements entered into force in September 2000. Agreements on the Abolition of Visa Requirements were also concluded with Chile, Costa Rica, Hong-Kong, Macao and Israel.

Progress has been registered in alignment with, and implementation of, the *acquis* in the field of control of **external borders**, and as regards preparations for the **Schengen acquis**. The Schengen Action Plan was approved by the Government in July 2001. Although the implementation of the Border Agreement with Russia is dependent upon ratification by Russian

Parliament, in practice it is reportedly applied on the ground. A marking operation of the border with warning yellow signs by Estonian Border Guards has been undertaken to prevent accidental crossings. In June 2001, Government approved the purchase of Border Guard maritime surveillance radars, which is a major step forward.

As regards **migration**, legislation is in place for visa policy and fight against illegal immigration. In January 2001, the Parliament adopted amendments to the Aliens Act, Refugees Act, the Obligation to Leave and Prohibition on Entry and the Identity Documents Act. The readmission agreements with Croatia entered into force in April 2001.

As regards **asylum** issues, amendments to the Refugees Act have been adopted by Parliament in January 2001. The number of asylum seekers in Estonia remains very low.

In the field of **police co-operation and the fight against organised crime**, progress has been achieved both in terms of alignment of legislation, creation of the necessary administrative structures, training and international cooperation.

As far as the **fight against fraud and corruption** is concerned, the new Penal Code, adopted in June 2001 includes provisions on fraud aimed at harmonisation with the *acquis* (i.e. fraud by legal persons, fraud affecting EC financial interests). Estonia ratified the Civil law Convention on Corruption in December 2000.

As regards **drugs**, Estonia has been making progress, having ratified the relevant UN conventions in this area. In February 2001, Parliament passed a law increasing penalties for drug-related offences, as well as a law increasing penalty for driving a motor vehicle under the influence of alcohol, narcotic or psychotropic substances.

The newly adopted Penal Code includes provisions on **money laundering** which harmonise Estonia's legislation with the *acquis* (*see also Chapter 4 - "Free movement of capital"*). In January 2001, 5 new posts have been created in the Financial Intelligence Unit.

With regard to **customs cooperation**, no particular progress can be reported.

On **judicial co-operation**, progress should be noted with the ratification of the European Convention on the International Validity of Criminal Judgements in February 2001. As far as judicial co-operation in civil matters is concerned, Estonia ratified in February 2001 the European Convention on the Recognition and Enforcement of Decisions Concerning Custody of Children and on Restoration of Custody of Children, the Hague Convention on the Civil Aspects of International Child Abduction, and the European Convention on the Service Abroad of Documents relating to Administrative Matters.

Overall assessment

Overall preparations are reasonably advanced and are continuing as regards legislative alignment. Aspects related to implementation, administrative capacity and co-ordination still need to be further developed.

Regarding Personal **Data Protection**, Estonia needs to prepare and implement amendments to the Personal Data Protection Act and the Databases Act, in order to bring them in line with the *acquis*. There is also the need to improve the administrative capacity of the Data Protection

Inspectorate and to ensure its independence. The use of data protection by the police needs to be in line with the Council of Europe Recommendation on the use of personal data in the police sector.

No particular progress can be reported on the closing of gaps related to access and security of personal data from Member States' citizens, especially with a view to alignment with Europol and with Schengen *acquis*, as well as, for customs cooperation, on the existence of adequate data protection as required for full participation in the Customs Information System and Naples II.

Estonia has made significant progress in aligning its **visa policy** with the *acquis* but Estonia still needs to prepare for the application upon accession of the regulation on the uniform format for visa, in particular to improve identity checks and detection of attempts to misuse visas, and the regulation on the common visa lists. Alignment with the administrative provisions of the Common Consular Instructions that need to be applied upon accession is also required.

In the framework of the establishment of a Visa Register, which was introduced on a trial basis within the Citizenship and Migration Board at the beginning of September, Estonia needs to introduce the electronically-supported system for issuing visas in all its diplomatic missions, and connect the query system at border crossings to a central database of visa applicants. Visa offices throughout the country will also gradually have to be equipped with a similar system.

As regards **external borders** and preparations for **Schengen**, border management is functioning satisfactorily. However, a national border management strategy still needs to be developed. Further investment in equipment and manpower is needed, in particular at the southeastern border with Russia.

Border Guards are an effective and motivated corps, and their number has been increased. Efforts have been undertaken as far as training is concerned. There is a need to modernise equipment, transportation and infrastructure and to guarantee that there are no reductions in mobile sea, air and land border patrols. Sea border surveillance requires urgent action. Co-operation, mutual assistance and exchange of information and data should be fostered between Border Guard, Customs, Police and Citizen and Migration Board. In particular, co-operation between Border Guards and the Customs is of utmost importance in the fight against smuggling. Last but not least, improvement of living and working conditions of Border Guards is important.

Major border crossings are equipped with technical devices for the detection of falsified and counterfeit documents. This will help prepare Estonia for future participation in the envisaged False and Authentic Documents (FADO) system.

Progress in the field of **migration** is still required, including alignment with the *acquis* on legal migration and addressing certain weaknesses in the fight against illegal migration. Estonia should ratify outstanding readmission agreements and sign further agreements with Member States, candidate countries and third countries like Belarus, Russia and Ukraine as well as with remote countries of origin.

As regards implementation, there is still room for improvement especially in preventing "readmitted" third-country nationals who are ordered to leave Estonia's territory from again trying to enter the country illegally. In term of administrative capacity, priority should be given to online connection to national databases.

As regards **asylum** issues, the Refugees Act is broadly in line with the *acquis* but there is still a restrictive interpretation of the concept of third safe country and manifestly unfounded applications. Administrative procedures for asylum seekers have been improved, but further progress is still needed as regards overall implementation and administrative capacity. For asylum granted at the border, the role of Border Guard needs special attention, and their qualifications as regards refugees and asylum matters should be improved. Measures for the integration of refugees should be improved, including on conditions for family reunification and for access to permanent residence permit.

The asylum application rate in Estonia is low. The first asylum application was submitted in July 1997 and the total number of applications that have been submitted in Estonia since then stands at 51. In total 4 persons have been granted asylum, 5 persons have received temporary residence permits on humanitarian grounds and several cases are pending in the first or second instance.

Efforts in the field of **police co-operation and the fight against organised crime** should be largely based on crime prevention. The implementation of reforms for strengthening of police, which started in 1999 with the aim of fighting crime in an effective, modern and multidisciplinary manner, should be pursued.

Internal co-operation between law enforcement agencies should be enhanced to strengthen the capacities to fight organised crime and promote joint approaches. More progress is required, possibly through specialised training, to address economic crime and intellectual property rights, drug-related crime and modern crime analysis and intelligence. In particular, greater emphasis should be given to intelligence, both as an investigative tool and for strategic planning; in this regard a National Intelligence Model could be developed for implementation throughout the Police.

International co-operation although sufficiently developed with neighbouring states, at regional Baltic level and with various Western partners, could be further extended through bilateral agreements. For Europol, Estonia meets the pre-requirements for the conclusion of a co-operation agreement. Finally, the Criminal Procedure Code should facilitate the launching of criminal cases in co-operation with foreign partners.

Regarding the **fight against fraud and corruption**, adequate measures to fight fraud should be developed and implemented in order to ensure, after accession, a level of protection of the European Communities' financial interests comparable to that of Member States at present. The adoption of the new Penal Code in June 2001 is an important step forward through, in particular, the inclusion of criminal liability of legal persons.

In order to ensure the protection of the financial interests of the European Communities, Estonia should complete alignment of its legislation with the *acquis*, and first and foremost with the 1995 Convention on the Protection of the Financial Interests of the European Communities and its protocols (*see Chapter 28, Financial control*).

As regards **drugs**, Estonia is largely a transit country, however an increasing amount of drugs is being diverted for consumption within the country. There is also an increase in drug-related criminality.

Since January 2001, a number of changes have been introduced in drugs-related work of the Police, including an increase in the number of drug officers and the creation of specialised drugs investigation teams within each Prefecture. Administrative capacity and the co-ordination among bodies involved in its implementation should be strengthened.

Estonia should give particular importance to the further development and effective implementation of the National Drug Strategies, including both drugs demand reduction and drug supply reduction. In this context, it is necessary to further develop the National Drug Focal Point for Estonia to be able to play a full role in the Reitox network of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA).

As regards **money laundering**, the enforcement of current legislation needs to continue. There is still need to widen the international co-operation and conclude bilateral agreements. Improvement of administrative capacity is also needed, including increase of staff in the Financial Intelligence Unit and modernisation of electronic data base system.

As regards **customs co-operation**, Estonia should ensure that its legislation allows for modern investigative techniques and special cross-border operations such as cross-border surveillance and controlled deliveries for customs purposes as a step in the preparation to become a Party to the Naples II Convention on Mutual Assistance and Cooperation between Customs Administrations upon accession. Preparation for participation in the CIS Convention on the Use of Information Technology for Customs Purposes has also to be envisaged. Also the use of Memoranda of Understanding with the business sector to counter, in particular, drug related crimes should be extended. The development of risk analysis techniques should continue, as should the improvement of co-operation between customs and other law enforcement agencies and the training for customs officials, including customs investigators (*see also Chapter 25 - "Custom Union"*).

As far as **judicial co-operation** is concerned, Estonia should pursue alignment with the *acquis*, in particular by taking the necessary steps to ensure implementation of recently adopted Community instruments in the area of judicial co-operation in civil matters.

All the **human rights** legal instruments, which are part of the Justice and Home Affairs *acquis* have been ratified by Estonia, with the exception of the 1981 Council of Europe Convention on the protection of individuals with regard to automatic processing of personal data (see above).

Chapter 25: Customs union

Estonia has made some progress in the field of customs since the last Regular Report.

As regards the **EC Customs Code and its implementing provisions**, the Parliament adopted the new Customs Code in October 2001 that is to enter into force in July 2002. The new code aims at aligning custom legislation with the EC Customs Code in all areas, including free zones (3 free zones exist at the moment in Estonia).

Estonia has applied a limited number of customs duties since 1 January 2000. In January 2001 Estonia was granted the observer status at the Common Transit Convention working group meetings.

New provisions on transit entered into force in May 2001. They cover the status of consignor/consignee, the use of flat-rate guarantees and the use of simplified procedures for rail transit. A significant step towards accession to the Convention on a Common Transit Procedure was the entry into force of the Common Baltic Transit Agreement in January 2001.

Regarding the **customs *acquis* outside the Customs Code**, the "Act on Prohibition of Import and Export of Goods Infringing Intellectual Property Rights" was adopted in June 2001. It entered into force in September 2001.

As far as the **administrative and operational capacity** to implement the *acquis* is concerned, some progress can be noted. With the purpose of increasing the control capacity at future EU external borders and as a result of relocating existing human resources, the number of officials in both the Control Division and the Investigation Division was increased from seven to eleven. In 2000, 61% of customs employees (818 customs officials out of 1,357) received training by participating in one or more training events.

Regarding computerisation, the ASYCUDA system (a computerised customs system) has been operating satisfactorily. No progress can be reported on the other customs IT systems, notably concerning the establishment of an Estonia integrated tariff and on the computerisation of customs procedures. Progress has also been made as regards providing information via Internet to the public and economic operators in view of trade facilitation (pilot project for Electronic Data Interchange – EDI implemented). In May 2001, the Master Tariff Project started to be implemented. The Estonian New Computerised Transit System (ENCTS Project) was initiated by the Customs Board in March 2001. The aim of this project is to develop a national computerised transit system compatible with the EC computerised transit system.

Steps have been taken to prepare the transfer of the administration of excise duties on alcohol from the tax authorities to the customs authorities. The new amended Alcohol Excise Act came into force at the beginning of this year, it specifies that excise duties on alcohol shall be collected through the system of excise warehouses (*see Chapter 10, Taxation*).

In relation to border management by the Customs authorities at the future EU external border with Russia no new developments can be reported.

Actions are also being undertaken in Estonia to strengthen the co-operation between customs and police at the borders. A quadripartite agreement between the Customs authorities, the Police, the Border Guard and the Security Police, to be completed by bilateral co-operation agreements, was launched on Customs Board's initiative in the end of the year 2000. It is foreseen to cover both exchange of information and practical co-operation at the central and operational level. In 2001, a trilateral co-operation agreement was concluded between the Customs authorities, the Veterinary and Food Control, and the Phytosanitary Control Administrations.

Overall assessment

Estonia has advanced with the adoption of the new Customs Code. However, overall Estonia is far from having reached a satisfactory state of preparation. Moreover, because of the non-application of the tariff and tariff-related measures until January 2000 (and from this date, there is only partial application), there is only partial compliance in the tariff-related legislation. The

slow progress of Estonia as regards the adoption of tariff and tariff-related measures is a cause of concern. The transit provisions will also have to be fully implemented.

As regards administrative and operational capacity to implement the *acquis*, Estonia should continue its efforts, notably as regards the establishment of customs laboratories, the improvement of border management and the fight against irregularities and corruption within the customs administration. Estonia should pay particular attention to the development of IT systems allowing computerised data exchange between the EC and Estonia. In this respect, it must be emphasized that functioning EC-compatible IT systems should be put in place at least one year before accession to the EU in order to allow a sufficient period of time for the test requirements and to guarantee interconnectivity in due time with the EC customs computerised systems.

Estonia authorities should launch a joint effort, involving i.a. the Customs Board, the Energy Market Inspectorate and Estonian Railway, to address the problems related to the illegal market in fuel.

Estonia should continue its efforts to tackle the problem of waiting times at the borders, and the fight against customs fraud, and to improve co-operation with other enforcement bodies by completing and implementing the quadripartite agreement.

Chapter 26: External relations

Since the previous Regular Report Estonia has continued to align with the *acquis* with regard to the common commercial policy and to co-ordinate positions and policies within the World Trade Organisation, in particular in the preparation of a new trade round.

As regards the **common commercial policy**, upon accession Estonia will be required to align its tariffs with those of the EC. Estonia has only applied tariffs on agricultural products at 15.2% and fishery products at 3.2% with an average rate of 3.2% on all products. By comparison EC tariffs²⁶ currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

Estonia became a signatory to the WTO plurilateral agreement on Civil Aircraft on 11 May 2001. It is already a signatory to the WTO plurilateral agreement on Information Technology. Negotiations on Estonia's accession to the WTO Government Procurement Agreement (GPA) are continuing and in the meantime, Estonia is an observer to the GPA.

Concerning **bilateral agreements with third countries**, Estonia has finalised "Most Favoured Nation" agreements with Russia and Belarus, which once ratified will lead to the elimination of the practice of "double tariffs". In early 2001, provisional Free Trade Agreements with Poland and Hungary entered into force following their ratification. Negotiations are on-going to establish Free Trade Agreements with Romania and Bulgaria.

Cooperation among the Baltic States in implementing gradual liberalisation and regional integration policies is developing and a Baltic Common Economic Area is being introduced. The Baltic Free Trade Agreement covers industrial and agricultural goods, and negotiations on the liberalisation of the services market are proceeding.

²⁶ WTO bound tariffs after full implementation of all concessions including, where possible, estimated ad valorem equivalents of specific and compound tariffs.

As regards the fields of **development policy** and **humanitarian aid**, co-operation and assistance, Estonia's budget for 2001 amounts to €0.47m (EEK 7m) which represents 0.01% of GDP. For the implementation of development cooperation initiatives, the Estonian government has made efforts to increase the involvement of non-governmental organisations. Projects have been particularly targeted at Ukraine, Georgia, Uzbekistan and Kyrgyzstan.

Overall assessment

Where alignment with the Community *acquis* on commercial policy is necessary, Estonia is advanced in its preparations, with the important exception of the EC external tariff, where full alignment is necessary at the date of Estonia's accession to the EU.

In the field of Export Credits, the Estonian system is in the process of alignment with the OECD arrangement. On the subject of medium and long term export credits, further efforts are necessary to align with the *acquis*.

Further alignment to the new EC Regulation on Dual-Use Goods is necessary.

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 is a party to the Information Technology Agreement (ITA) and the plurilateral Agreement on Trade in Civil Aircraft. Estonia still needs to join the plurilateral Agreement on Government Procurement.

Further coordination is needed to ensure the alignment of Estonia's GATS commitments with the EC's commitments and MFN exemptions. With regard to the WTO Agreement for Textiles and Clothing (ATC), Estonia has co-operated with the EC in the process of third stage notification drawing from products already integrated by the EC in order to avoid further discrepancies between integration schedules under the ATC. Progress will continue to be monitored.

Estonia has concluded FTAs with Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Ukraine, Turkey, and EFTA (Norway, Switzerland, Liechtenstein). In this area further progress is necessary in aligning with EC international trade obligations. Any international agreement which is incompatible with the obligations of membership will have to be re-negotiated or renounced prior to accession. Estonia should continue to keep the Union fully informed about existing trade agreements or negotiations aimed at the conclusion of any new trade agreements with a third country. This applies also to Bilateral Investment Treaties concluded with third countries.

Estonia's alignment with and future participation in the common commercial policy is administered by the Ministry of Economic Affairs. The administrative infrastructure which needs to be in place as regards customs services is addressed under *chapter 25 - Customs union*.

Development and humanitarian aid are administered by the Ministry of Foreign Affairs. For the purpose of Estonia's future financial contribution to the European Development Fund, Estonia's

management of its national budget organisation and management of flow of funds to the EC budget is addressed under *chapter 29 – Financial and budgetary provisions*.

Chapter 27: Common foreign and security policy

Since the previous Regular Report, Estonia has continued to align its foreign policy with that of the European Union and has participated constructively in the framework of the Common Foreign and Security Policy.

The regular **political dialogue** established by the Association Agreement with Estonia is proceeding smoothly and Estonia continues to orient its foreign and security policy towards the Union. It 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 European Security and Defence Policy (ESDP) 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). At the Capabilities Commitment Conference in November 2000, Estonia announced its initial contribution for European crisis management (which includes the Estonian component of the Baltic Battalion, a military police group, and 3 warships). Estonia is also interested in the development of the EU's civilian crisis management capability.

As regards alignment with **EU statements and declarations**, Estonia has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **joint actions and common positions, including negative measures**. Since October 2000, it has associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia. The Estonian National Security Concept was approved by the Parliament in March 2001, thus defining the main foundations and goals of Estonia's security policy. The Estonian Military Defence Strategy was approved by the Government in February 2001.

Following the Kosovo crisis, Estonia has contributed to international peace support operations in Bosnia-Herzegovina (SFOR) with 93 troops deployed in August 2001, and Kosovo (KFOR) with 21 troops (which may be increased up to 50). In May 2001, the Parliament decided to extend Estonia's participation in both operations until May 2003. One Estonian serviceman also serves in the UNTSO peacekeeping operation in Lebanon.

Overall assessment

Estonia's alignment with the *acquis* in the CFSP area is overall satisfactory. As the *acquis* in the field of foreign policy and security develops further, 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-neighbourly relations with Russia remains a key element of Estonia's foreign policy. The border agreement with Russia is still awaiting ratification by Russia.

On the practical level, the Estonian-Russian border is demarcated, and the present border control system is functioning effectively.

Estonia has aligned itself to the content and the principles contained in the EU Code of Conduct on Arms Exports, but more efforts are necessary to ensure implementation of its criteria, notably through introducing appropriate amendments to the Weapons Law regarding stockpile management, marking and record keeping.

Further approximation of Estonian legislation and implementation of CFSP-relevant legislation regarding consular issues and sanctions/negative measures should be completed as planned.

A separate CFSP unit is set up within the Political Department of the Ministry of Foreign Affairs and the post of European correspondent is a full-time one. The Ministry is connected to the Associated Correspondents' Network information system, through which the EU communicates within the CFSP with the associated partners.

Chapter 28: Financial control

During the period covered by this Regular Report Estonia has continued to make progress in this area.

In the development of its **Public Internal Financial Control** system, the Financial Control Department (FCD) in the Ministry of Finance has continued to draw up the internal audit guidelines and manuals for financial management and control in order to ensure consistency and coordination across public bodies. At the same time, further internal audit units have been established. As at 1 June 2001, all ministries, as well as key agencies, had established such units.

As regards **external audit**, cooperation between the State Audit Office (SAO) and the FCD has improved, particularly as regards the exchange of audit plans in order to avoid overlaps. The SAO has been involved in the drafting of an internal audit manual and the exchange of approved audit reports also contributes to an efficient auditing by both institutions.

Some progress has been achieved by Estonia regarding **control of structural action expenditure**. With regard to EC pre-accession funding, progress has been achieved in the area of control and audit of SAPARD funds which resulted in Commission approval in June 2001 for the accreditation of the SAPARD Paying Agency.

Progress has furthermore been made as regards **protection of EC financial interests**. The Penal Code which was adopted in June 2001 aims to align Estonian legislation with the Convention on the Protection of the Communities' Financial Interests. It also makes defrauding the Community budget a criminal offence.

Overall assessment

Preparations are ongoing in the area of Public Internal Financial Control, and further efforts are required in order to complete the implementation of sound financial control systems. In particular, the FCD should ensure harmonisation of financial management and control systems and enhance the methodology on *ex ante* financial control, income, commitments, tender and

contract procedures, disbursements and recovery of unduly paid sums. Estonia needs to complete the establishment of functionally independent internal audit units in all budget-spending centres in both the central and local administrations. Suitable staffing and training must also be ensured.

Regarding external audit, closer cooperation with internal audit units should help to improve both the efficiency and quality of the work. However, procedures still need to be put in place by the Parliament to properly deal with and follow up on SAO audit findings.

With regard to the control of structural action expenditure, continued efforts need to be made in order to enhance Estonia's capacity for the management of pre-accession funding and future structural funds, in particular through the further development of clear public internal financial control rules, procedures and audit trails. There is also a need to reinforce Estonia's administrative capacity in relevant spending centres.

With a view to ensuring adequate protection of EC financial interests, Estonia still needs to put in place the necessary legislation to allow the competent EC bodies to carry out on-the-spot checks and to develop adequate administrative capacity to implement the *acquis*. This includes the need to develop the capacity of Estonian law-enforcement bodies and the judiciary to properly deal with cases where EC financial interests are at stake. Estonia has designated an institution responsible for coordinating investigations into cases of fraud and irregularities affecting the Communities' financial interests and acting as a single contact point in relations with OLAF.

Chapter 29: Financial and budgetary provisions

Estonia has made some progress over the reporting period. Starting from the beginning of 2001 the State budget procedure has been completed on the basis of the new requirements of the State Budget Act. Thus, the composition of the State budget of 2002 will follow the new principles.

Substantial progress has been achieved as regards State accounting compared to last year following the reorganisation of the Ministry of Finance and the creation of a post of Deputy Secretary General responsible for budgetary taxation and customs policy. A new IT Master Plan for improving State budget preparation, execution and analysis, has meanwhile been launched.

Overall assessment

Whilst Estonia's preparations have continued in this area, further efforts will be required, in particular with regard to EC's own resources.

As regards the **national budget and EC co-financed measures**, the present State Budget Act, in force since January 2000, is broadly in line with standards generally applicable in the Community. This and related legislation should guarantee Estonia's ability to take part in the common budgetary process without any obstacles after accession, as well as the transparency of the budgetary funds in the State budget and the control of the usage of funds. In this context, particular attention will have to be paid to the development of evaluation and monitoring procedures for programmes and projects, especially those set to receive Community funding.

An essential document to the budget process is the budget strategy approved by the Government in May 2000, which will constitute the basis for the preparation of the state budget until 2004 and will be adjusted every pending fiscal year.

For the calculation of the contribution into the **own resources** of the European Union and the corresponding auditing, a special task force is planned to be created, involving the experts from the fields of budget, taxes, customs and finance audit. However, the slow progress of Estonia as regards the adoption of tariff and tariff-related measures is a cause of concern (*see Chapter 25 - Customs union*), as this may impact on the effective capacity of the Estonian Customs to acquire the necessary experience in the field of revenue collection of the EC's own resources.

As regards **administrative infrastructure**, there has been improvement. Further efforts should be made in order to complete the necessary preparations in terms of calculation of the contribution into the EC's own resources and completing the budget process IT Master Plan.

In relation to the control of future EC own resources, Estonia should continue its efforts to set up effective instruments to combat fraud relating to VAT and customs duties so that the protection of the financial interests of the EC can be assured.

In addition to the need for central co-ordination for the proper collection, monitoring and payment and control of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this report such as Agriculture, Customs, Regional Policy, Financial Control and Taxation.

The capacity to calculate in a reliable, accurate and transparent way the level of customs duties and VAT collected by Estonia and to calculate Estonia GNP needs to be improved to allow calculations to be made in a harmonised and controllable way. Adequate administrative capacity to duly collect and transfer in a timely manner all Own Resources to the Community budget, building on the Own Resources Unit established in the Ministry of Finance, will need to be established prior to accession, as well as the ability to accurately and regularly report to the Commission on the situation with regard to each of the types of own resources.

Appropriate administrative steps should be taken by Estonia to ensure adequate co-ordination between the various authorities involved in the application of the system of Own Resources.

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

Applicant countries are required to translate the various legal texts constituting the *acquis* into their national languages by the time of their accession. Primary and secondary legislation alone represents 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 and Eastern 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 *acquis* into Estonian and of 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 81 employees, 65 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 the primary legislation of the *acquis*. As of September 2001, the ELTC and ministries had revised 28 760 Official Journal pages of secondary legislation (compared to 11 385 pages in 2000). Without prejudice to the outcome of the accession negotiations, considerable further efforts are still required in this area.

Due attention must also be given to the training of conference interpreters.

3.3. General evaluation²⁷

Overall, Estonia has continued to make good progress in both adopting and implementing the *acquis*. As regards the capacity to implement and effectively enforce the *acquis*, Estonia has most of the necessary institutions in place. These institutions need to be further strengthened and continued efforts are required in specific sectors to further develop administrative capacity.

Concerning the *internal market*, progress has been made in *free movement of goods* in aligning public procurement legislation and adopting standards although there is still a need to harmonise sectoral legislation. For *free movement of persons*, new legislation now ensures the mutual recognition of professional qualifications. In *competition policy* there has been further alignment of legislation which is now largely in line with the *acquis* in anti-trust and state aid. For *consumers and health protection*, good progress has been made in aligning legislation with the *acquis*. As regards *freedom to provide services*, *free movement of capital* and *company law* where it was reported last year that preparations were already advanced, there has been some further progress in the alignment with the *acquis*. Nevertheless, attention needs to continue to be given to the fight against piracy and control of counterfeit goods.

Concerning *agriculture* important steps have been taken in preparing for the Common Agricultural Policy, including the partial accreditation of the SAPARD agency. Progress has also been made in the phytosanitary sector. Considerable efforts still need to be made, particularly in the veterinary field. Raising food quality standards to EU levels is still a significant challenge. In *fisheries*, administrative structures have been reorganised and work has continued in setting up the Vessel Monitoring System. Further work is necessary, in particular to develop the Fishing Vessels Register, in the area of market policy, and to establish the legislative framework for EC structural aid. Inspection capacity needs to be reinforced.

In *transport* policy, Estonia has continued to make progress in both aligning and implementing legislation. The necessary separation of accounts and the role of the railways regulatory body

²⁷ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

need to be clarified. In *energy* limited progress has been made. Efforts need to be made in this area particularly as regards the electricity market. Estonia also needs to further develop administrative structures and strengthen the energy market regulator.

For *social policy and employment*, Estonia has made good progress in terms of legal transposition. Further work is required on implementation. There is also a need to actively promote social dialogue. The business environment continues to be favourable to *small and medium sized enterprise* development. In *regional policy* some progress has been made. However, Estonia needs to substantially step up preparations for its administrative capacity to implement EC regional policy after accession.

In *science and research* and *education and training*, Estonia continues to participate in relevant EC programmes. In *telecoms and IT* and *culture and audiovisual policy* alignment of legislation is largely complete.

In the *environment* sector, further progress has been made in relation to both alignment and implementation of environmental legislation. Estonia needs to continue these efforts and strengthen administrative capacity, particularly at local level. Also, enforcement of environmental legislation needs to be improved.

Estonia has made further progress in *justice and home affairs* including the adoption of the new Penal Code. Work needs to be continued to ensure implementation of legislation, to improve internal coordination and to extend cooperation with external organisations. Particular attention should be paid to strengthening capacity to fight organised crime including drug trafficking.

In *taxation*, progress has been made in aligning VAT and excise duty levels. This needs to be continued. In the field of the *customs union*, Estonia has introduced a new Customs Code. However, there is still a need to align and effectively implement tariff and tariff-related measures. Substantial efforts are still required to develop the administrative and operational capacity to implement the *acquis*. Estonia must ensure interconnectivity of both its tax and customs IT systems with those of the EC.

In *external relations*, Estonia has made good progress but needs to further align its legislation. In *common foreign and security policy*, Estonia has continued to align its foreign policy with that of the EU and has participated constructively in the framework of the CFSP.

In *financial control* further progress has been made in implementing internal financial controls which now has to be completed. There is also a need to introduce legislation on external financial control.

Looking across all sectors, it is important to reiterate Estonia's progress in terms of the development of its *administrative capacity*. Estonia has continued to take steps to improve implementation and effectively enforce the *acquis* which should be recognised as often being more difficult, more expensive and time consuming than the transposition of legislation. As highlighted above, positive steps taken include the establishment of the unified financial supervisory authority, accreditation of the SAPARD agency, reorganisation of the fisheries administration, merger of business support foundations and the establishment of financial control departments in ministries. Specific areas to which further attention should be paid include reorganisation of the market surveillance system and reinforcing the fight against piracy and

counterfeit goods, in preparations for the Common Agricultural Policy and in raising the quality of food. There is also a need for investment in compliance and enforcement in the environment sector, preparing for EC structural funds, improving coordination between law enforcement bodies, and in developing sufficient operational capacity to implement the customs *acquis*. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Estonia has continued to address aspects of all the short-term 1999 Accession Partnership priorities. Estonia is now tackling many aspects of the medium term priorities including those priorities in the internal market, agriculture, fisheries, transport, employment and social affairs, environment and justice and home affairs.

C. Conclusion²⁸

In its 1997 Opinion, the Commission concluded that Estonia fulfilled the political criteria. Since that time, the country has made considerable progress in further consolidating and deepening the stability of its institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities. Over the past year, further efforts have been made in this direction. Estonia continues to fulfil the Copenhagen political criteria.

Progress has been made in the modernisation of the public administration by moving to a more results based system and improving public access to information. Efforts have continued to modernise the legal system and improve the functioning of the judiciary through training, court reorganisation and development of I.T. systems. There is however a need to continue the implementation of the public administration reform programme, in particular to improve transparency in personnel matters and coordination across different bodies. As regards the judicial system, Estonia needs to continue to improve the efficiency in dealing with court cases whilst at the same time improving the quality and enforcement of court decisions. There is also a need to further improve citizen's access to justice, in particular by widening the availability of legal aid.

Estonia has continued to make progress with the implementation of concrete measures for the integration of non-citizens. An important positive development is the strengthening of the administrative capacity of the Legal Chancellor's office, including the establishment of branch offices in the north-eastern part of the country. Estonia should maintain the momentum of the integration process. This includes ensuring the efficiency of the naturalisation process, providing access to language training, and raising awareness of the issue across the entire spectrum of Estonian society. Estonia should ensure that the implementation of language legislation respects the principles of justified public interest and proportionality, Estonia's international obligations and the Europe agreement.

Estonia continues to address both the short and medium-term priorities set out in the 1999 Accession Partnership. Specifically, Estonia is implementing concrete measures for the integration of non-citizens including the provision of language training for non-Estonian speakers. Looking forward, meeting these priority objectives requires sustained efforts over time and continued investment of financial resources in order to build upon the positive work that has already been achieved.

Estonia is a functioning market economy. Provided that it continues with and fully implements its reform programme, it should be able to cope with the competitive pressure and market forces within the Union in the near term.

Estonia has returned to high growth and made further progress in strengthening its macroeconomic performance and stability, restructuring the enterprise sector, and in implementing structural reforms in the utilities and energy sectors. The pension reform has been adopted. The legal, institutional and regulatory framework is in place and enforcement is largely adequate.

²⁸ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

Nevertheless, the current account deficit remains high. The labour market is highly segmented leading to high unemployment combined with labour shortages. Initiatives to improve the response of the labour market to economic growth, with a focus on improving education, training and labour market mobility, need to be developed. The restructuring of the oil-shale industry has only just started and should be accelerated. Although partly hampered by lack of effective demand in rural areas, an acceleration of land registration would benefit the functioning of land markets. Estonia must continue to focus on fiscal policy, also in order to keep the current account deficit sustainable.

Overall, Estonia has continued to make good progress in both adopting and implementing the *acquis*. As regards the capacity to implement and effectively enforce the *acquis*, Estonia has most of the necessary institutions in place. These institutions need to be further strengthened and continued efforts are required in specific sectors to further develop administrative capacity.

Concerning the *internal market*, progress has been made in *free movement of goods* in aligning public procurement legislation and adopting standards although there is still a need to harmonise sectoral legislation. For *free movement of persons*, new legislation now ensures the mutual recognition of professional qualifications. In *competition policy* there has been further alignment of legislation which is now largely in line with the *acquis* in anti-trust and state aid. For *consumers and health protection*, good progress has been made in aligning legislation with the *acquis*. As regards *freedom to provide services*, *free movement of capital* and *company law* where it was reported last year that preparations were already advanced, there has been some further progress in the alignment with the *acquis*. Nevertheless, attention needs to continue to be given to the fight against piracy and control of counterfeit goods.

Concerning *agriculture* important steps have been taken in preparing for the Common Agricultural Policy, including the partial accreditation of the SAPARD agency. Progress has also been made in the phytosanitary sector. Considerable efforts still need to be made, particularly in the veterinary field. Raising food quality standards to EU levels is still a significant challenge. In *fisheries*, administrative structures have been reorganised and work has continued in setting up the Vessel Monitoring System. Further work is necessary, in particular to develop the Fishing Vessels Register, in the area of market policy, and to establish the legislative framework for EC structural aid. Inspection capacity needs to be reinforced.

In *transport* policy, Estonia has continued to make progress in both aligning and implementing legislation. The necessary separation of accounts and the role of the railways regulatory body need to be clarified. In *energy* limited progress has been made. Efforts need to be made in this area particularly as regards the electricity market. Estonia also needs to further develop administrative structures and strengthen the energy market regulator.

For *social policy and employment*, Estonia has made good progress in terms of legal transposition. Further work is required on implementation. There is also a need to actively promote social dialogue. The business environment continues to be favourable to *small and medium sized enterprise* development. In *regional policy* some progress has been made. However, Estonia needs to substantially step up preparations for its administrative capacity to implement EC regional policy after accession.

In *science and research* and *education and training*, Estonia continues to participate in relevant EC programmes. In *telecoms and IT* and *culture and audiovisual policy* alignment of legislation is largely complete.

In the *environment* sector, further progress has been made in relation to both alignment and implementation of environmental legislation. Estonia needs to continue these efforts and strengthen administrative capacity, particularly at local level. Also, enforcement of environmental legislation needs to be improved.

Estonia has made further progress in *justice and home affairs* including the adoption of the new Penal Code. Work needs to be continued to ensure implementation of legislation, to improve internal coordination and to extend cooperation with external organisations. Particular attention should be paid to strengthening capacity to fight organised crime including drug trafficking.

In *taxation*, progress has been made in aligning VAT and excise duty levels. This needs to be continued. In the field of the *customs union*, Estonia has introduced a new Customs Code. However, there is still a need to align and effectively implement tariff and tariff-related measures. Substantial efforts are still required to develop the administrative and operational capacity to implement the *acquis*. Estonia must ensure interconnectivity of both its tax and customs IT systems with those of the EC.

In *external relations*, Estonia has made good progress but needs to further align its legislation. In *common foreign and security policy*, Estonia has continued to align its foreign policy with that of the EU and has participated constructively in the framework of the CFSP.

In *financial control* further progress has been made in implementing internal financial controls which now has to be completed. There is also a need to introduce legislation on external financial control.

Looking across all sectors, it is important to reiterate Estonia's progress in terms of the development of its *administrative capacity*. Estonia has continued to take steps to improve implementation and effectively enforce the *acquis* which should be recognised as often being more difficult, more expensive and time consuming than the transposition of legislation. As highlighted above, positive steps taken include the establishment of the unified financial supervisory authority, accreditation of the SAPARD agency, reorganisation of the fisheries administration, merger of business support foundations and the establishment of financial control departments in ministries. Specific areas to which further attention should be paid include reorganisation of the market surveillance system and reinforcing the fight against piracy and counterfeit goods, in preparations for the Common Agricultural Policy and in raising the quality of food. There is also a need for investment in compliance and enforcement in the environment sector, preparing for EC structural funds, improving coordination between law enforcement bodies, and in developing sufficient operational capacity to implement the customs *acquis*. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Estonia has continued to address aspects of all the short-term 1999 Accession Partnership priorities. Estonia is now tackling many aspects of the medium term priorities including those

priorities in the internal market, agriculture, fisheries, transport, employment and social affairs, environment and justice and home affairs.

D. Accession Partnership and National Programmes 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

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*.²⁹

Short-term priorities

- **Political criteria:** Estonia continues to *implement concrete measures for the integration of non-citizens*. As reported in last year's Regular Report, **this priority continues to be met to a large extent**.
- **Economic reform:** Estonia has adopted a *restructuring plan for the oil-shale sector* and the privatisation process is ongoing. The *necessary legislation for pension reform* has now been adopted. The registration of agricultural land has continued, but the process of *land reform* continues to be slow. Therefore, **this priority has been met to a large extent**.

Internal Market

- Significant progress has been made. Amendments to the *public procurement law* have been adopted covering the utilities sector and aligning the remedies system. As regards *free movement of goods*, progress has been made in the adoption of European standards. Progress has also been made as regards the development of an *accreditation system* but further development of the *market surveillance system* is necessary. Minor restrictions to the *free movement of capital* still remain. As regards *free movement of services*, progress has been made to reinforce the *supervision of the securities markets* by establishing a unified financial services supervisory authority. In the field of *competition*, legislative alignment has continued but the setting-up of a *state-aid inventory* needs to be completed.

²⁹ 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).

Estonia has continued legislative alignment in the fields of *telecommunications*. In the field of taxation there has been further alignment of legislation as regards VAT and the *warehouse and registration system* has been introduced. As regards *audiovisual policy*, legislative alignment is broadly complete. Little progress has been made in the area of customs. Estonia still needs to adopt the *customs code* and a *timetable for the progressive and effective implementation of tariffs and tariff-related measures*. Estonia also needs to *continue the fight against fraud*. Therefore, overall, **this priority continues to be partially met.**

Agriculture

- Some progress has been made in the *phytosanitary* and *veterinary* sectors regarding *inspection arrangements*. However, the process of *upgrading food-processing establishments* in line with EC requirements is far from being completed. Therefore, **this priority has been partially met.**

Transport

- Although efforts in this area need to be continued as regards implementation of maritime safety standards, as reported last year, **this priority continues to be met to a large extent.**

Employment and social affairs

- Estonia successfully launched with the Commission a Joint Employment Policy Review, and the Joint Assessment of Employment Policy Priorities was signed by both sides in March 2001. Although Estonia decided to abandon the earlier planned *labour code in favour of single acts*, *transposition has progressed considerably*. The *Employment (Labour Market) Services Act* was adopted in June 2000. However, *bipartite social dialogue* in Estonia still needs to be developed. Also, further efforts need to be made in order to enhance and develop enforcement structures, in particular as regards *occupational health and safety*. Therefore, **these priorities have been met to a large extent.**

Environment

- Estonia has continued transposition and implementation of the *Environmental Impact Assessment* legislation and approximation of *water and waste management*, *air pollution nature protection* and *industrial related directives*. Estonia needs to focus its efforts on enforcement. In addition, Estonia needs to *develop further plans for financing investments*. Therefore, **this priority continues to be partially met.**

Justice and Home Affairs

- Estonia has made progress particularly in *reforming the penal law*. However, Estonia still needs to ratify certain international conventions. Further efforts also need to be made to ensure better *coordination among law enforcement bodies and the judiciary* and to *continue the fight against organised crime*. Therefore, **this priority continues to be partially met.**

Reinforcement of administrative and judicial capacity, including the management and control of European Community funds.

The accreditation of the *paying agency for SAPARD* has taken place and progress has been made in the *programming and management of ISPA*. Progress has also been made in *setting-up internal audit/control units* in spending centres. However, Estonia still needs to *adopt legislation and establish a plan in order to develop anti-fraud structures* and adopt legislation introducing *functional independence for national internal controllers*. Progress has been made as regards *training of judges* and in filing vacant *posts for judges*. Therefore, **this priority continues to be partially met.**

Medium-term priorities

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 continues to be monitored. Therefore, **this priority has been met to a large extent.**

Economic criteria

- Estonia has established *an annual fiscal surveillance procedure* in line with EU procedures. Estonia has continued efforts to *improve the conditions for the creation and the development of private enterprise*. Estonia has made limited progress in *restructuring of the oil-shale sector*. There is also a need to *complete pension and land reforms*. Therefore, **this priority has been partially met.**

Internal market

- *Industrial property rights* legislation is now largely in line with the *acquis*. Further alignment is necessary for *intellectual property rights*. As regards free movement of goods, Estonia has continued efforts to *upgrade standardisation and conformity assessment structures* and globally ensure proper implementation structures for all sectors. However there is a need to complete *alignment of sectoral legislation*. For free movement of persons, Estonia has made good progress on *mutual recognition of diplomas*. In competition, there has been further alignment of *state aid legislation*. More work is required to *ensure full enforcement* of competition and state aid rules. In taxation, Estonia has made progress in *reforming the fiscal administration* but needs to *complete alignment with the fiscal acquis*. As regards consumer protection, alignment has continued and progress has been made in strengthening *market surveillance authorities*. In customs, little progress has been made and Estonia still needs to ensure *effective implementation of tariffs* and *reinforce administrative and operational capacity*. Therefore, **this priority has been partially met.**

Agriculture

- Estonia has made some progress in reinforcing *Common Agricultural Policy management mechanisms and administrative structures*. However, there is still a need to *upgrade the food processing industry*. In the veterinary field, much remains to be done including completing the system of *animal identification*, to improve *animal waste treatment* and

to complete *inspection systems* at borders. Therefore, **this priority has been partially met.**

Fisheries

- Estonia has revised its fisheries plan and has made some progress in *establishing a fleet register in compliance with EU requirements* although this still needs to be completed. There has also been some improvement in the *capacity to implement* the common fisheries policy but *inspection capacity* needs to be improved. Therefore, **this priority has been partially met.**

Energy

- Estonia has only made limited progress in preparing for the *internal energy market* and *aligning oil stock requirements*. Therefore, **this priority has only been met to a limited extent.**

Transport

- Estonia has continued aligning legislation in *road transport, maritime transport and air transport*. However, further work is still necessary. Therefore, **this priority has been partially met.**

Employment and Social Affairs

- Estonia has made some progress in aligning legislation in the fields of *labour law, equal treatment, public health and occupational health and safety*. Efforts still need to be made as regards implementation. Therefore, **this priority has been partially met.**

Economic and Social Cohesion

- Estonia has revised its National Development Plan which represents the *national policy for economic and social cohesion*. However, only limited progress has been made in improving *administrative structures* and *interministerial coordination* in preparation for managing EC structural funds. Therefore, **this priority has been partially met.**

Environment

- Estonia has made some progress in *implementing legislation according to a predefined timetable* and now needs to *complete transposition*. Estonia has also continued to *integrate sustainable development principles* into other policies. However, there is still a need to *strengthen institutional capacity, particularly at local level*. Therefore, **this priority has been partially met.**

Justice and home affairs

- Estonia has made good progress in aligning its *visa policy* with that of the European Union. As regards *border and migration legislation*, further work is required. Although some progress has been made, *police cooperation with Europol* needs to be further strengthened. Therefore, **this priority has been partially met.**

Reinforcement of administrative and judicial capacity

- Estonia has made progress in continuing *to improve the functioning of the judicial system*. Estonia has also *strengthened public financial control systems and statistical capacities*. There is still a need to *improve the capacity of the public administration*, in particular to ensure *coordination between ministries*. Therefore, **this priority has been partially met**.

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 March 2001. A translated version was presented to the Commission in May 2001.

The Estonian document is well structured, clear and comprehensive and follows the same outline as last year's Regular Report. As regards its **scope**, it covers all areas of the *acquis* although the level of quality and detail differs from one area to another. For example, Chapters which could be expanded in scope include regional policy, trade, JHA, taxation, and customs. Some important areas of the *acquis* are omitted entirely such as data protection and intellectual property rights of foreign producers and performers and the fight against fraud. On the other hand chapters concerning industrial policy, free movement of goods, and other aspects of internal market measures are comprehensive in scope. Overall, the NPAA has a clear coverage of the main policies in the short and medium-term.

As regards the **timetables** set by the NPAA, again not all areas contain the same level of detail. However, overall, most short-term objectives are realistic. Also, as regards approximation and implementation legislation, tables include an indicative calendar for submission and of entry into force of legislation. This is a useful improvement from the previous NPAA that increases the credibility of the Estonian commitments and helps to make the NPAA a better planning tool.

In general, the NPAA is **coherent** with commitments of Estonia in other fora (screening, sub-committees and position papers), although commitments undertaken by Estonia in various frameworks concerning trade and implementation of EC Regulation on dual-use goods are not reflected in the NPAA. Overall, the NPAA is broadly consistent with the 1999 Accession Partnership and the 2000 Regular Report.

As regards **administrative capacity**, structures are also covered at different levels of thoroughness. However, the Estonian Authorities seem to have addressed the requirements in terms of administrative capacity deriving from the *acquis* in an appropriate way.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	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)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	X	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 7 (ne bis in idem)	X	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	X	O	O	X	O	X	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	X	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 the ICCPR (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
Optional Protocol to the CEDAW	O	O	X	O	X	O	O	O	O	O	X	O	O
CRC (Convention on the Rights 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= Slovak Republic; SV=Slovenia; T=Turkey

Statistical data

	1996	1997	1998	1999	2000
Basic data	in 1000				
Population (average)	1.469	1.458	1.450	1.442	1436.6 ³⁰
	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	52,4	64,0	73,5	76,3	85,4
	1000 Mio ECU/euro				
Gross domestic product at current prices	3,4	4,1	4,7	4,9	5,5
	in ECU /euro				
Gross domestic product per capita ³¹ at current prices	2.300	2.800	3.200	3.400	3.800
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	4,0	10,4	5,0	-0,7	6,9
	in Purchasing Power Standards				
Gross domestic product per capita ³² at current prices	6.100	7.000	7.600	7.800	8.500
Structure of production	% of Gross Value Added³³				
- Agriculture	8,4	7,9	7,2	6,7	6,3
- Industry (excluding construction)	23,8	23,0	22,6	21,1	22,3
- Construction	6,3	6,3	6,7	6,0	5,8
- Services	61,5	62,8	63,5	66,2	65,6
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	85,5	82,3	81,6	81,6	80,1
- household and NPISH	60,7	59,3	58,9	58,2	58,4
- general government	24,8	23,0	22,6	23,4	21,8
- Gross fixed capital formation	26,7	28,0	29,6	24,9	23,4
- Stock variation ³⁴	1,1	2,9	-0,3	-0,4	1,3
- Exports of goods and services	67,1	78,4	79,7	77,2	95,4
- Imports of goods and services	78,6	90,0	90,1	82,2	100,4
Inflation rate	% change over the previous year				
Consumer price index ³⁵	19,8	9,3	8,8	3,1	3,9
Balance of payments	In Mio ECU/euro				
-Current account	-307	-499	-432	-277	-365
-Trade balance	-785	-1.000	-1.005	-827	-863
<i>Exports of goods</i>	1.395	2.035	2.415	2.303	3.580
<i>Imports of goods</i>	2.181	3.036	3.420	3.130	4.442
-Net services	399	526	514	540	631
-Net income	2	-128	-74	-96	-239
-Net current transfers	77	104	133	106	105
<i>-of which: government transfers</i>	64	85	99	90	77
- FDI (net) inflows	116	236	516	284	435
Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-1,6	2,0	-0,4	-4,1	-0,7

³⁰ Revised figure for 2000 according to the 2000 population census: 1369.3 (see also methodological notes)

³¹ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³² Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³³ Including FISIM.

³⁴ These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.

³⁵ Changes in Methodology: PROXY HICP since 1996 (see methodological notes).

General government debt	:	6,8	6,1	6,8	5,3
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Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	10,7	25,3	30,6	48,5	47,4
	as % of exports				
Gross foreign debt of the whole economy	15,9	32,3	38,4	62,8	49,7
Monetary aggregates	1000 Mio ECU /euro				
- M1	0,8	1,0	0,9	1,2	1,4
- M2	1,2	1,6	1,7	2,1	2,6
- M3	:	:	:	:	:
Total credit	0,7	1,2	1,5	1,6	2,1
Average short-term interest rates	% per annum				
- Day-to day money rate	3,5	6,5	11,7	4,9	4,8
- Lending rate	14,9	11,8	14,3	9,9	8,9
- Deposit rate	5,9	6,2	8,1	4,1	3,7
ECU/EUR exchange rates	(1ECU/euro=..Estonian Kroon)				
- Average of period	15,276	15,715	15,753	15,647	15,647
- End of period	15,572	15,811	15,647	15,647	15,647
	1992=100				
- Effective exchange rate index	278,1	270,2	294,0	344,4	334,9
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	564	746	753	941	1.084
-Reserve assets (excluding gold)	562	744	751	938	1.082

External trade	Mio ECU/euro				
Trade balance	-894	-1.231	-1.268	-961	-1.174
Exports	1.393	1.883	2.237	2.263	3.443
Imports	2.287	3.114	3.505	3.224	4.617
	previous year=100				
Terms of trade	:	:	102,3	99,2	:
	as % of total				
Exports with EU-15	56,8	62,4	66,7	72,7	76,5
Imports with EU-15	68,3	68,5	67,8	65,1	62,6

Demography	per 1000 of population				
Natural growth rate	-3,9	-4,1	-5,0	-4,1	-3,7
Net migration rate (including corrections)	-5,4	-5,7	-0,7	-0,3	:
	per 1000 live-births				
Infant mortality rate	10,4	10,1	9,3	9,5	8,4
Life expectancy :	at birth				
Males:	64,5	64,7	64,4	65,4	:
Females:	75,5	76	75,5	76,1	:

Labour market (ILO methodology)	% of labour force				
Economic activity rate	61,0	61,2	60,5	59,5	59,7
Unemployment rate, total	10,0	9,7	9,9	12,3	13,7
Unemployment rate, males	10,7	10,1	10,8	13,6	14,6
Unemployment rate, females	9,2	9,2	8,9	11,0	12,7
Unemployment rate of persons < 25 years	16,0	14,4	15,7	19,8	23,9
Unemployment rate of persons >= 25 years	9,1	9,0	9,0	11,3	12,2
	as % of all unemployed				
Long-term unemployment rate	55,4	45,8	47,0	45,8	44,3
Average employment by NACE branches	in % of total				
- Agriculture and forestry	10,1	9,4	9,1	8,3	7,4
- Industry (excluding construction)	27,7	26,2	25,9	25,5	26,5
- Construction	5,7	7,3	7,3	6,8	7,0
- Services	56,5	57,1	57,7	59,4	59,1

Infrastructure	In km per 1000 km²				
Railway network	23,0	22,5	21,4	21,4	21,4
	km				
Length of motorways	66	68	74	87	93

Industry and agriculture	previous year=100				
Industrial production volume indices	102,9	114,6	104,1	96,6	113,3 P
Gross agricultural production volume indices	93,7	98,5	95,0	91,8	98,3

Standard of living	per 1000 inhabitants				
Number of cars	278,0	294	312	319	339
Main telephone lines	300,2	322,6	345,3	357,9	381,9
Number of subscriptions to cellular mobile services	47,5	103,7	172,3	269,9	407,8
Number of Internet subscriptions	:	:	:	:	:

P=provisional figures

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized 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. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1995 (rates from 1996).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series are available from 1997; the 1996 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates: ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other 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 that; external trade comprises goods crossing the free circulation area of the country plus goods that are imported for/exported after inward processing. Trade data exclude 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 are recorded using the commodity classification according to the Combined Nomenclature.

Exports are 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 are recorded on CIF basis in the same way as exports.

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

Demography

Population: Population figures as well as all per capita indicators and ratios, which are calculated on the basis of population data, do not yet take into account the results of the 2000 population and housing census. The Estonian Statistical Office is integrating the new population data into the production of other surveys as from 2001. However, the production of revised time series for the years 1990-2000, based on the results of the census, will not be completed before the end of 2002.

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). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

Labour force

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

- Labour force: employed and unemployed persons (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 are included and 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.

- 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.

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

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

Average employment by NACE branches (LFS).

The data refer to the Estonian Labour Force Survey (ELFS). The Statistical Office of Estonia conducted the first labour force survey at the beginning of 1995. In 1997-1999 the survey was conducted in the 2nd quarter. Starting from the year 2000 the survey is a continuous survey providing quarterly and annual results. Until the 2nd quarter of 2000 the questionnaire of the ELFS consisted 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, ELFS 99 the period 1998-1999 and ELFS 2000 1st and 2nd quarter the period 1999-2000. Since the 3rd quarter of 2000 the retrospective data are not collected. It is not necessary as the survey is conducted continuously. Data presented in tables for the years 1996-1999 are retrospectively collected annual average data. Since 2000 the data are annual average data collected on the basis of continuous survey.

For the year 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 cover only energy production (NACE Rev. 1 classes: 40101, 40301).

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

Standard of living

Number of cars. By the definition of the Vehicle Register, 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.