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**REGULAR REPORT**

**ON**

**ESTONIA'S**

**PROGRESS TOWARDS ACCESSION**

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## A. Introduction

### a) Preface

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

The Luxembourg European Council 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 in October 1999, a third in November 2000, and a fourth in November 2001.

In its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that, given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2002, the European Council concluded that “in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports.” The Commission has prepared this fifth series of Regular Reports with a view to the Brussels European Council in autumn 2002.

The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. 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. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period up to 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms referred to in the 2001 Regular Report have been carried out, and examines new initiatives. In addition, this Report provides global assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Estonia in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Estonia’s track record since the 1997 Opinion. As regards the economic criteria, the report also provides a dynamic, forward-looking evaluation of Estonia’s economic performance.

For each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report further includes a separate section examining the extent to which Estonia has addressed the Accession Partnership priorities. This section also assesses the progress Estonia has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

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 their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions<sup>1</sup> 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 those of non-governmental organisations.

## **b) Relations between the European Union and Estonia**

### *Recent developments under the Europe 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 fifth meetings of the Association Council and Association Committee took place in February 2002 and June 2002 respectively. In addition, the system of sub-committees continues to function as an efficient instrument for monitoring progress and holding technical discussions.

The Joint Parliamentary Committee, comprising representatives of the European and Estonian Parliaments, has met twice since the last Regular Report - in November 2001 and May 2002.

The Joint Consultative Committee between representatives of the Economic and Social Committee and Estonian representatives was established in 2002 and held its first meeting in July.

A Joint Consultative Committee between representatives of the Committee of the Regions and Estonian representatives was also established

As regards trade between Estonia and the EC, in 2001 Estonia's exports to the EC accounted for 69% of total exports (€ 3 billion). Imports from the EC accounted for 56% of total imports (€ 3 billion). 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 still has a small trade surplus with Estonia.

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<sup>1</sup> For the European Parliament the *rapporteur* is MEP Ms Gunilla Carlsson.

Under the agreement resulting from the first round of trade negotiations in the agriculture sector (adopted on an autonomous basis, pending the conclusion of an Additional Protocol to the Europe Agreement), approximately 92% of EC agricultural imports from Estonia are duty-free (average trade figures 1998-2000). All EC agricultural exports to Estonia are completely liberalised.

Negotiations on a further round of liberalisation, covering more sensitive sectors, were concluded in January 2002. The result of this further round, in force from July 2002, enhance the EC's existing agricultural trade preferences and promote the abolition or reduction of import duties either within tariff quotas or for unlimited quantities in sectors such as cereals, dairy, beef and sheep meat sectors. This further agreement also includes a commitment by the EC to remove export refunds for all sectors except sugar and rice. The Estonian authorities have in this context taken the commitment to set up a control system to ensure that only products exported without refunds from the EC to Estonia will enter the Estonian customs territory.

As regards the liberalisation of trade in processed agricultural products, a first agreement entered into force in September 2001 which reduced the overall level of EC tariffs on Estonian imports. Since then, discussions on the further liberalisation of trade in processed products have continued.

A new agreement on trade concessions for fishery products, concluded in November 2000, entered into force in February 2002, following the adoption of a new Protocol to the Europe Agreement. This agreement provides for gradual liberalisation, and will result in free trade in fish and fishery products between the EC and Estonia two years after its entry into force.

On the basis of a complaint made by the European fertiliser manufacturer's organisation notified in October 2000, the Commission decided to impose definitive anti-dumping duties on imports of urea from Estonia in January 2002.

In July 2002, the Commission and Estonia initialled a Protocol on European Conformity Assessment (PECA) covering four sectors (Low Voltage Directive (LVD), Electromagnetic Compatibility (EMC), lifts and toys) where Estonia has fully aligned its legislation with the *acquis*.

Definitive anti-dumping duties were applied in January 2002 to imports of urea from Estonia (among others).

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measures were partly confirmed in September 2002.

### *Accession Partnership*

A revised Accession Partnership was adopted in January 2002. Its implementation is reviewed in Part D of this Report.

### *Action Plan for reinforcing administrative and judicial capacity*

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Estonia jointly developed an Action Plan to strengthen Estonia's administrative and judicial capacity, on which a common understanding was reached in April 2002. The revised Accession Partnership adopted in January served as the point of departure for this exercise.

The purpose of this Action Plan is to jointly identify the next steps required for Estonia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Estonia with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Estonia, i.e. to ensure that Estonia's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

### *National Programme for the Adoption of the Acquis*

In May 2002 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 assistance*

Three **pre-accession instruments** have been financed by the European Community to assist the applicant countries of Central and Eastern Europe with their pre-accession preparations: the **Phare** programme; **SAPARD**, which provides aid for agricultural and rural development; and **ISPA**, which finances infrastructure projects in the fields of environment and transport. The support provided by these programmes is focused on the Accession Partnership priorities, which are intended to help the candidate countries meet the criteria for membership.

For the years 2000-2002, total financial assistance to Estonia amounts to around €32 million annually from Phare, €12.5 million from SAPARD, and between €21 and 37 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 established 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, investment to strengthen the regulatory infrastructure needed to ensure compliance with the *acquis*, and investment in economic and social cohesion. This support comprises co-financing for technical assistance, "twinning" and investment-support projects, to help these countries with their efforts to adopt the *acquis* and strengthen the institutions necessary for implementing and enforcing the *acquis*. Phare 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 and grant schemes) with a regional or thematic focus. In the context of the Action Plans for strengthening administrative and judicial capacity, particular emphasis is placed on the issue of institution building and associated investment intended to ensure compliance with the *acquis*. For 2002, the Commission has mobilised special financial assistance of up to €250 million to accompany negotiating countries' efforts, over and above the indicative annual allocations for each of the Phare countries, bringing total Community assistance for strengthening the administrative and judicial capacity of the negotiating countries in 2002 to around €1 billion.

The Phare programme allocated commitments of €190 million to Estonia during the 1992-1999 period, €33.5 million in 2000, and €29.3 million in 2001.<sup>2</sup> The **2002 Phare Programme** for Estonia consists of an allocation of € 21 million for the National Programme, complemented by € 9.4 million under the Phare 2002 supplementary institution building facility. The 2002 Phare programme focuses on the following priorities:

- Administrative capacity: reinforcing the administrative capacity of the Estonian Customs Board, integrating the Estonian Customs information system with the DG TAXUD computer systems, Phare project preparation, training and management facility (€7.4 million)
- Transport: setting up the licensing and supervision system for aviation personnel, strengthening the enforcement of maritime safety (€ 2.3 million)
- Trade / Internal market: enforcing EC intellectual and industrial property, implementing of Intrastat system, assistance to Ministry of Finance on competition, state aids and public procurement (€1.8 million)
- Social services: enhancing employment opportunities for people with disabilities, implementing the social security co-ordination rules, increasing the coverage and effectiveness of occupational health schemes (€1.4 million)
- Justice and Home Affairs: improving the effectiveness of criminal procedure (€0.4 million)
- Agriculture: developing of administrative capacity for monitoring and evaluating of agri-environment measures, strengthening the TSE control system, developing agricultural information management systems, minimising the number of rabies cases (€5.7 million)
- Fisheries: implementing the common fisheries policy (€0.5 million)
- Environment: developing the air quality management system, implementing the water Directives (€3.7 million)
- Economic and Social Cohesion: developing work-linked training programmes and networks in the north-east, south and island regions, special programme for

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<sup>2</sup> These figures include an allocation for Cross-Border Cooperation (CBC) Programmes of €3 million in 2000, and € 3 million in 2001.

strengthening civil society, completing preparations for management of the EC Structural Funds (€4.4 million)

An additional € 3 million has been allocated for Estonia in the frame of the Baltic cross-border co-operation programme.

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

Furthermore, Estonia participates in the following programmes.: Socrates, Leonardo, Youth, the fifth Framework Programme for Research and Development, Culture 2000, Media, Public Health, Gender Equality, Social Exclusion, Employment, LIFE III, the Multi-annual Programme for Enterprises and Entrepreneurship , EC energy programmes (SAVE, Altener), IDA, Fiscalis, Customs 2002, e-content, and the European Environment Agency (€2.9 million was allocated from the Phare 2002 national programme to part-finance participation costs).

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 and social affairs. In agriculture, Phare has supported preparations for Accession in the fields of phyto-sanitary controls, and projects for the implementation of the common agriculture and fisheries policies. In the environment sector, Phare support has been provided for implementation of the water directives and the air framework directive, for investments in water and waste water treatment, and for dealing with radioactive tailing ponds. Economic and Social Cohesion programmes targeting human resources development, tourism development and business support are currently on-going. Phare funding in the field of justice and home affairs is supporting training of the police and judges, improving forensic investigation and enhancing the administrative capacity of the court system. Occupational health schemes, labour market services and the promotion of social dialogue are currently being supported in the field of social affairs.

For example, in Estonia, Phare played a particularly important role in the following areas:

- **Expansion of the Kuressaare water and sewage network:** Phare support is being used to improve the degraded and incomplete water and waste water systems of the biggest town on the West Estonian island of Saaremaa, under the Small Municipalities Environmental Programme. The Phare contribution amounts to €2 million and the project will be completed by the end of 2002. Improved water and waste water systems in Kuressaare will also help reduce pollution of the Baltic Sea and are expected to have positive spill-over effects on the tourism sector in this island resort.
- **Implementation of environmental accession programme for air quality and water treatment:** The Phare contribution to this project was € 0.8 m. It was completed successfully through twinning carried out in cooperation with Sweden (water component) and Finland (air component). It resulted in investment in water projects in the fields of water supply and sewerage. In addition, investments in air quality helped to construct on-line ambient air quality monitoring stations and to procure other related equipment. The project results have contributed to Estonia's preparations for EU membership by addressing priority needs for the improvement of air quality and water treatment in Estonia.

- **Police training and educational system:** In support of the Estonian Government's Police Development Programme, Phare has provided €0.4 million to further improve police performance in tackling crime. The support is provided through a twinning project with Sweden and the Netherlands providing training for police officers pursuant to the police training strategy.
- **Strengthening of good governance and accountability in the public sector:** This ongoing project has already provided major support to help the Estonian Government to conduct internal control and audits in the public sector in line with EC requirements and international standards; with a Phare contribution of €1 million, support is not restricted to the financial management of EC funds but is also helping to improve the financial control and management of public funds generally throughout the public sector.
- **Institution Building for the Consumer Protection Board:** Twinning project with Sweden to improve the efficiency and effectiveness of the Consumer Protection Board by assisting it to evaluate and improve the current consumer protection strategy and programme is receiving €0.4 million in funding from Phare. The Board plays a key role in market surveillance and in informing and advising consumers.

The 2000 Phare Review confirmed the accession-driven approach and emphasised the importance of helping countries to prepare for the Structural Funds. The trends introduced in 1997 have continued, with an increased role for Commission Delegations, further streamlining of procedures and increasing emphasis on raising the verifiable and quantifiable impact of Phare projects on institution building, investment in compliance with the *acquis* and economic and social cohesion.

The Review also provided for the possibility of further decentralisation of Phare management, by waiving the requirement for *ex ante* approval by the Commission Delegations for tendering and contracting. For this to be possible, strict pre-conditions covering programme management, financial control and structures regarding public finance must be met. An extended decentralised implementation system (EDIS) should be put in place for each negotiating country at the latest by the time of accession. High-Level Working Groups are being established for each country to oversee this process, along with other key procedural steps in the run up to accession.

Improvements were noticed in Phare programming in 2002. However, continued and sustained efforts are required through better inter-ministerial co-ordination and sufficient administrative capacity to improve the design and readiness of future programmes.

As noted in the last Regular Report, the Commission approved the **SAPARD** Programme for Agriculture and Rural Development in Estonia in November 2000. The indicative allocation for SAPARD in Estonia for 2002 is €12.7 million, at 2002 prices (allocation 2001: €12.6 million at 2001 prices).

The operational programme is based on three priorities: improving the competitiveness of agriculture and the agri-food industry; rural regeneration and sustainable development; facilitating effective programme implementation.

The *Multi-annual Financing Agreement* (MAFA), which sets out the rules for implementing SAPARD has been in force since May 2001. The *Annual Financing Agreement* (AFA) between the Commission and Estonia for the 2000 allocation was

signed and entered into force in March 2001. The AFA 2001 was signed and entered into force in April 2002.

The following structures are responsible for in the implementation of SAPARD in Estonia. The National Fund (NF), located within the Ministry of Finance is responsible for the general management of funds and the information flow between the Commission and the Republic of Estonia. The Agricultural Registers and Information Board (ARIB) fulfils the tasks set out for the SAPARD agency in accordance with the multi-annual Agreement. The Ministry of Agriculture assumes the role of the Managing Authority with responsibility for general programme management and implementation.

As noted in the last Regular Report, in June 2001 the Commission provisionally conferred responsibility for the management of SAPARD, on a fully decentralised basis, on the Agricultural Registers and Information Board and approved the implementation of four out of eight measures included in the programme, covering 91% of the amount available for Estonia.

SAPARD payments to Estonia in 2001 amounted to €3.3 million, of which €3 million were payments on account.

A Monitoring Committee has been established by the Managing Authority and has met three times.

The **ISPA** programming framework is governed by the national strategy papers, which the Estonian authorities drew up in 2000 for transport and environment. These papers were subsequently revised in October 2001. In the case of transport infrastructure, the emphasis is on upgrading the main trans-European networks, i.e. Corridor I (Tallinn-Pärnu – Ikla road) and the connecting links between Corridor I and Corridor IX. Priorities in the road sector include upgrading the Via Baltica and Tallinn-Narva road. Due to the privatisation of the main railway links and the infrastructure, the Commission has not yet had occasion to support (fund) rail projects in Estonia, with the exception of one measure for technical assistance. In the environmental field, the main priorities concern inadequate water and waste water treatment systems. The water systems need to be upgraded to reduce leakage, improve quality and increase the consumer connection rate.

For the years 2000 and 2001, the full (mid-range) allocation for Estonia has been committed, i.e. €58.1 million (€28.2 million in 2000 and €29.9 million in 2001). The allocation for 2002 is between €21.2 million and €37.1 million.

Five environmental projects were approved in 2001: three projects (including two technical assistance measures) regarding drinking water and waste water in Tartu and Pärnu, with a total ISPA contribution of €12.9 million, and two projects for solid waste collection in Tallinn (€8.3 million) and Pärnu (€5.5 million). Two transport projects were approved in 2001: the Via Baltica Phase II road project (€21 million) and a technical assistance project for the reconstruction of Vao-Maardu on the Tallinn-Narva road (€0.4 million). Projects for 2002 are currently in preparation.

As regards the decentralisation process, the Commission has approved a technical assistance package (with ISPA financing of €0.4 million) to prepare the Estonian authorities for EDIS (extended decentralisation) for ISPA which should be in place by the end of 2002.



The implementation of the ISPA projects has suffered delays caused by the poor quality of tender documents. Preparation for tendering and contracting proceeded during 2001 for all approved projects. A contract has been signed for one project in the transport sector.

### *Twinning*

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building further, through the launch of the Action Plans for strengthening administrative and judicial capacity.

The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of the Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999, a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

For Estonia, 28 twinning projects and 8 twinning light projects have been approved between 1998 and 2001 and are at various stages of implementation.

11 new twinning projects are planned for 2002, covering maritime safety, intellectual property, implementation of the Intrastat system, enhancing employment opportunities for people with disabilities, social security co-ordination, occupational health, monitoring and evaluation of agri-environment measures, implementation of the Common fisheries

policy, water management, improving the effectiveness of criminal procedure and preparation for the structural funds. 8 further projects are foreseen for 2002 which make use of the new "Twinning light" mechanism. These cover support for competition, state aids, public procurement, strengthening TSE control, eradication of rabies, development of agricultural information system management, development of an air quality management system and preparation for the structural funds.

### *Negotiations*

Since the opening of accession negotiations, substantive discussions on the individual chapters of the *acquis* have started and negotiations on all the chapters (except Chapter 31 – Other) have been launched.

By the end of September 2002, negotiations on the following 28 chapters had been provisionally closed: free movement of goods, free movement of persons, free movement of services, free movement of capital, company law, competition, fisheries, transport policy, taxation, economic and monetary union, statistics, social policy and employment, industry, small and medium-sized enterprises, science and research, education and training, telecommunications and information technologies, culture and audiovisual policy, environment, consumers and health protection, justice and home affairs, customs union, external relations, common foreign and security policy, financial control and institutions.

## **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.”<sup>3</sup>

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

*“Estonia’s political institutions function properly and in conditions of stability. They respect the limits on their competencies and cooperate with each other. Elections in 1992 and 1995 were free and fair, and in the latter case led to an alternation of power. The Opposition plays a normal part in the operation of the institutions. Efforts to improve the operation of the judicial system and to intensify the fight against corruption need to be sustained.*

*There are no major problems over respect for fundamental rights. But Estonia needs to take measures to accelerate naturalisation procedures to enable the Russian-speaking non-citizens to become better integrated into Estonian society.*

*Estonia presents the characteristics of a democracy, with stable institutions guaranteeing the rule of law and human rights.”*

In its 2001 Regular Report, the Commission found that:

*“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*

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<sup>3</sup> In the meantime, through the entry into force of the Treaty of Amsterdam in May 1999, the political criteria defined at Copenhagen have been essentially enshrined as a constitutional principle in the Treaty on European Union. Article 6(1) of the consolidated Treaty on European Union reads: "The Union is founded on the principles of liberty, democracy, respect for human rights and fundamental freedoms and the rule of law." Accordingly, Article 49 of the consolidated Treaty stipulates that "Any European State which respects the principles set out in Article 6(1) may apply to become a member of the Union." More recently, these principles were emphasised in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

*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.”*

The section below provides an assessment of developments in Estonia, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding Estonia's ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Estonia's ability to implement the *acquis* in the field of justice and home affairs can be found in the relevant section (*Chapter 24 – Cooperation in the field of justice and home affairs*) of part *B.3.1.* of this Report.

### *Recent developments*

In early January 2002, the centre-right coalition government resigned. This coalition, made up of the Pro-Patria, Moderate and Reform Parties, had been in power since March 1999. The resignation was related to the Reform Party's withdrawal from the coalition at the Tallinn City Council (Tallinn makes up 1/3 of Estonia's total population) and the formation of a new coalition in Tallinn between the Reform Party and the opposition Centre Party.

The current government took office in late January 2002. It is a centrist coalition, formed by the Reform Party (centre-right) and the Centre Party (centre-left). The new coalition government has not taken any radical new policy directions and EU membership continues to be a key objective in Estonian foreign policy.

As reported in last year's Regular Report, in September 2001 Mr Arnold Rüütel was elected as the President of Estonia. He was inaugurated in October 2001.

## 1.1. Democracy and the rule of law

Estonia has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments of the past year.

### *The parliament*

The Estonian Parliament continues to function properly. The Parliament has continued to tackle its own legislative timetable of EU-related legislation. However, the rate of alignment will need to be maintained or even increased in order to meet the timetable objectives.

In November 2001, the Parliament removed language requirements for candidates standing in local and parliamentary elections. This has brought Estonian legislation into line with international standards (*see section below on human rights and the protection of minorities*).

In January 2002, the Parliament adopted the State Audit Act (*see Chapter 28 – Financial control*). This formalised the reporting relationship between the State Audit Office and the Finance Committee of the Parliament.

### *The executive*

Overall, the functioning of the Estonian civil service and its administrative procedures continue to be satisfactory. However, transparency on personnel matters and coordination across the civil service remains problematic. An amended Public Service Act, aimed at addressing these and other related issues, is pending in the Parliament.

The status of public servants is defined by the Public Service Act, which has been in force since 1996. There is also legislation for specific categories of public servants including diplomats, the police, the judiciary and the military. A Code of Ethics is included in the Anti-Corruption Act (*see section below on anti-corruption measures*). Estonia's civil servants are required to perform their tasks in an impartial and politically neutral way. The objectives of the planned new Public Service Act would include further strengthening the separation between politics and the impartial civil service.

There are around 20 166 employees in the Estonian administration<sup>4</sup> (a fall of 2% from last year's total of 20 500). Of these, 91.5% work for ministries and government agencies, 4.5% for county governments and 4.0% for constitutional institutions<sup>5</sup>. In addition, local government authorities employ around 4 000–5 000 people. Whether these staffing levels are sufficient varies from one public body to another (*see assessment for each chapter under part B.3.1. of this Report*). Certainly, in some areas, there is a need to increase the human resources available. This is evidenced by the fact that there are currently 23 062 official posts in central government, of which 13% are unfilled.

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<sup>4</sup> Data as at 31 December 2001.

<sup>5</sup> Chancelleries of Parliament, President and State, Supreme Court, State Audit Office, Legal Chancellor.

Staff turnover remains at a relatively high rate of around 12-14% although, around one third of this can be attributed to promotion or rotation to other public agencies. The Estonian civil service is relatively young, with the majority of staff aged under 40 and one third aged under 30. The opportunity of a relatively high level of responsibility at a young age coupled with relatively good rates of pay compared to the private sector is attractive, particularly to younger staff. However, weaknesses that were highlighted in the 2001 Regular Report still need to be addressed. Lack of transparency in recruitment and promotion is a threat to the impartiality of civil servants. 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.

A merger of the Ministry of Economic Affairs with the Ministry of Transport & Communications, whereby the Economy Ministry will take over most of the functions of the Transport & Communications Ministry, is laid down in the government's coalition agreement. The merger proposal is currently being discussed in Parliament. In addition, the coalition agreement also contains plans for the reorganisation of the Ministry of Education into a Ministry of Education & Science. These structural changes have not yet been implemented in practice. Apart from these planned reorganisations, the central government has reached a high degree of stability.

The capacity and procedures of the Estonian civil service appear to be developing in line with European standards. Nevertheless, shortcomings exist. In the last Regular Report it was pointed out that, in order to further develop and improve the functioning of the Estonian civil service, in April 2001 the Estonian Government had approved the Public Administration Reform Programme coordinated by the Office of Public Administration Reform (OPAR). Despite the good intentions behind this programme, it is unclear whether adequate financial resources have been committed to implement it. Most importantly, there is still an urgent need to address the weakness of centralised monitoring, coordination and control, which results in uneven civil service performance. It is therefore crucial that the planned Public Service Act should ensure that the issue of improved coordination is properly addressed.

Following on from the strategic policy document adopted in April 2001, in February 2002 the Estonian Government approved civil service training priorities drawn up by the State Chancellery in cooperation with several ministries. These are based upon the priorities set out in the Public Administration Reform Programme – reform of administrative law, electronic procedures for providing public services, strategic management and training in EU subjects. Actual implementation of training programmes is the responsibility of each individual public body, which must devote 2-4% of its budget to training activities. The new priorities, coupled with initiatives such as the establishment of the “training managers club”, should help to further improve the coordination of training standards across various public administration bodies. In addition, it should be noted that substantial EU-related training continued during the past year within the framework of the strategy established by the European Integration Office.

Estonia is organised into 15 counties and 247 municipalities, some of them very thinly populated. However, the proposed reform and consolidation of local governments has come to a virtual standstill. The lack of political agreement means that reform is now proceeding only on a voluntary basis. Certain financial incentives have been made available for this purpose, but so far only 11 municipalities have indicated a willingness

to merge. Actual mergers can only take place after the results of the local elections in October 2002. This is likely to reduce the number of municipalities to around 240, which is very far from achieving the original objective of reducing the number of municipalities to around 100. In any case, there remains a need to ensure the necessary administrative capacity to implement and enforce the *acquis communautaire* at regional level. The issue of the language rights of the Russian-speaking population, which was raised in previous Reports in this context, would not seem to be an acute problem under present conditions. Nevertheless, it is important that this issue is taken fully into account when implementing any reform.

### *The judicial system*

Estonia has continued to make 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. The new Courts Act that was adopted in June 2002 and entered into force in July 2002 has brought about a number of positive changes in terms of improving the independence and administration of the judiciary. In the area of penal law, the new Penal Code entered into force in September 2002. In civil law, the Law on Contractual and Non-Contractual Relations, adopted in September 2001, entered into force in July 2002. A new Code of Criminal Procedure is pending.

Court reform has continued, based upon the principles adopted by the government in September 2000. Estonia maintains a three-instance court system. There are presently 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. There are 3 district courts of second instance, and a Supreme Court which also serves as the constitutional court. The new Courts Act provides for mergers between the Ida-Viru county court and the Kohtla-Järve city court and between the Hiiu and Lääne courts. After this merger, there will be 20 courts of first instance in Estonia. The mergers are due to take place in January 2003.

All judges are appointed for life and the Constitution and legislation explicitly safeguard the independence of judges. The new Courts Act, which was adopted in June 2002, is a positive step forward in reinforcing the institutional independence of the courts.

The administration of the courts (with the exception of the Supreme Court) is now shared between the Court Administration Advisory Council and the Ministry of Justice. The Council consists of the Chief Justice of the Supreme Court, five additional judges, a representative of the Bar Association, the Chief Public Prosecutor and the Legal Chancellor. The approval of the Council is required for certain decisions, such as territorial jurisdiction and appointment of judges. However, it has only advisory powers as regards the courts' annual budget, candidates for the Supreme Court and judicial organisation. The primary responsibility for district and regional budgets is still with the Ministry of Justice. The judges that sit on the Council are elected by the "Judges' Assembly" which is made up of all judges and meets once per year (the first meeting was held in September 2002). Thus it would appear that judges in Estonia have the opportunity to take an active role in the debate over the development of judicial reform.

In October 2001, 5 new judicial posts were created, bringing the total to 243. Of these, 7 remain vacant (compared to 10 out of 238 in 2001). The problem of filling posts in

Northeast Estonia which was highlighted in previous Reports now seems to have been largely overcome.

The selection procedure for new judges could be made more transparent, in particular by standardising the oral examination. Also, although the new Courts Act provides for the evaluation of judges' performance, steps will still be necessary to ensure that this is carried out in a sufficiently standardised fashion.

Further efforts have been made within the framework of the training strategy adopted in February 2001 to improve the training of judges. In line with the new Courts Act, responsibility for drawing up training programmes was transferred from the Ministry of Justice to the Estonian Law Centre (an NGO) in July 2002. The Training Council, in which the relevant stakeholders are represented, approves all training programmes for judges and prosecutors. Both comprehensive training for jurists trained in the Soviet period and specific supplementary training (for recent legal developments including EC law) is offered to judges and prosecutors. It is important to ensure that adequate resources continue to be made available for these training programmes.

The new Courts Act has increased the role of the court managers by giving them more responsibility to prepare court sessions and deal with day-to-day operations. This is positive in that it should relieve judges of a number of managerial tasks. This is important since, overall, the backlog of pending court cases remains relatively high. "Backlog" is defined as the proportion of criminal cases pending for more than one year and civil cases pending for more than two years.

The number of criminal cases stabilised in 2001 after a sharp increase in 2000. The average time to reach a judgement has slightly increased, but remains between 3 and 4 months. The backlog of cases has also increased (this may be partly due to new statistics software, which may have identified "dormant" cases that were not reported previously). In addition, the workload may increase yet further as a result of the entry into force of the new Penal Code, which provides for the review and possible revision of criminal sentences.

As regards civil cases, the number of cases filed continues to decrease, at least in part due to a reduction in property-related cases which is in turn due to progress on land reform (*see section B.2- Economic criteria*). On average, judgements in civil cases are resolved slightly faster and now take 4-5 months. The backlog of active cases appears to have decreased, but this will not be entirely clear until an audit and closure of "dormant" cases has been completed. Nevertheless, for both criminal and civil cases, particularly the latter, efforts need to be made to reduce the backlogs. Adoption and implementation of the planned new Civil Procedure Code, could be a further important measure to improve the management of civil cases.

The percentage of decisions upheld on appeal relating to criminal cases (in the lowest-level courts) increased slightly to 65% (from 62%). However, the percentage of decisions upheld upon appeal in civil cases decreased to 42% (from 46%). This indicates that there is scope for further improving the quality of judicial decisions, particularly in civil cases.

Of continuing concern is the fact that, in some sectors, judges impose very low penalties which may reduce the effectiveness and undermine the enforcement of the law.



The recently privatised bailiff service (the Bailiffs Act entered into force in March 2001) appears to be functioning well. Despite a significant decrease in the number of bailiffs to 75 (which, however, is countered by the fact that bailiffs use assistants), the number of cases completed and amount of money owed that is collected has increased rapidly and appears to be benefiting from a more professional approach. New recruits are now expected to have completed a period of academic study, to undertake preparatory bailiff training and to pass an exam. Individual bailiffs' pay is determined by their effectiveness. While these positive developments in the bailiff service represent a step forward, there remains room to improve enforcement, in particular that of civil judgements.

There are a total of 189 prosecutor posts, although 37 of these (20%) remain unfilled. This is of concern, particularly taking into account the fact that the Prosecutor's Office is likely to take on additional tasks during 2003 under the new Code of Criminal Procedure, which is pending.

The number of probationers being supervised has grown to around 7200 (from 6000 in 2001). The number of staff, however, has remained stable at 176 officers, whilst the ratio of clients to probation officers is relatively high at 40 to 1 (up from 34 to 1). The previous official limit of 30 to 1 was annulled by the new Penal Code, which, furthermore, also limits the use of custodial sentences, and is thus likely to further increase the number of probationers. The exact percentage of probationers failing to perform obligations imposed by the courts is unclear, but 4% of probationers were sentenced to prison in 2001 for violation of such obligations.

Although, in criminal cases, every person has the right to be defended by a lawyer, citizens' access to justice needs to be widened and improved (*see civil and political rights*). The provision of legal aid remains fragmented. A new Legal Services Act, which aims to address this problem, is pending in Parliament. The number of members of the Bar Association has increased from 403 to 415 since the last Report.

Court infrastructure and equipment is of a good standard and is being further upgraded. Half of the courts are located in new buildings. Court information systems are also being upgraded. In particular, since 1 January 2002, all court decisions are entered into an electronic register. In accordance with the Public Information Act which entered into force on 1 October 2001, all decisions are made publicly available on the Internet, except where there is a need to protect privacy or business confidentiality.

### *Anti-corruption measures*

According to surveys, corruption generally appears to remain a relatively limited problem in Estonia.

The Anti-Corruption Act in force since March 1999 forms the basis for the prevention and prosecution of corruption and includes a Code of Ethics for public officials. Also, as reported last year, the new Penal Code, which entered into force in September 2002, brings Estonian legislation further into line with EU standards in the field of the fight against corruption, in particular as regards the criminal liability of legal persons and officials in respect of funds received by associated third parties.

As regards international law, Estonia has, as reported previously, ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds

from Crime, as well as the Council of Europe Civil Law Convention on Corruption. It has also now ratified the Criminal Law Convention on Corruption (in December 2001), which entered into force in July 2002 (*see Chapter 24 - Co-operation in the field of justice and home affairs*).

Whilst the legislative framework is mostly in place, Estonia does not have a specific strategy to fight corruption. However, specific bodies do have individual anti-corruption strategies. Also, the National Strategy for Crime Prevention 2000-2003 contains a number of anti-corruption objectives.

In terms of the institutional framework, it is important to raise awareness of developments in anti-corruption legislation amongst all public officials. It is equally important to ensure that effective internal controls are in place across the public administration. In particular, there is a need to strengthen financial controls and financial accountability at local government level and in certain public agencies/foundations (*see Chapter 28 - Financial control*), including the Public Procurement Office and the Customs Board. The Estonian authorities should also consider putting in place appropriate mechanisms and adequate protection for whistleblowers who discover evidence of corruption.

Externally, the Security Police is the principal body charged with detecting and combating corruption. In addition, the State Audit Office is charged with the external audit of all public expenditure and revenues. Whilst the Office appears to be performing its role well at the central administration level, its limited competence to carry out checks at local level gives rise to greater potential for corruption. At the highest level, the Parliament Anti-Corruption Committee has an important role to play in combating corruption. The effectiveness of this Committee, however, appears limited and should be strengthened. This is particularly important in the area of financing of political parties, where there is a lack of transparency.

As regards enforcement of anti-corruption legislation, the penalties applied by the Courts appear to be relatively low. Penalties should be sufficiently high to avoid making corruption “profitable”. In 2001, out of 58 successful criminal prosecutions, 7 people were imprisoned. Training for judges and prosecutors is particularly important in this regard. Continuing efforts are also required to reduce small-scale corruption in the police and customs authorities and to fight organised crime.

At the international level, Estonia continues to participate in the Council of Europe Group of States against Corruption (GRECO). Estonia is a member of the Anti-Corruption Network hosted by the OECD. Jointly with Latvia and Lithuania, Estonia continues to participate in the Baltic Anti-Corruption Initiative (BACI), which is supported by the OECD secretariat.

As a member of GRECO, Estonia received an expert mission in April 2001. According to the evaluation report, Estonia has made considerable efforts in recent years to ensure that there is a reliable state system and administration. The institutional framework has reached an appropriate level, and the basic mechanisms to keep corruption under control are available. However, many of these institutions have not been proactive in detecting and prosecuting corruption and the system has relied largely on the Security Police. A lack of experience and knowledge of new legal provisions and procedures has remained a significant problem, despite an excellent information and publishing system. The report

further noted some tolerance regarding certain forms of bribery, the existence of “grey areas” and the existence of corruption in certain sectors without adequate control mechanisms. It added that the lack of experience was partly compensated by modern forms of public management and a social and economic control network strengthened by an active and mature civil society and administration. In conclusion, GRECO addressed twelve specific recommendations to Estonia, which it is strongly encouraged to follow up.

## **1.2. Human rights and the protection of minorities**

Estonia continues to respect human rights and freedoms. This was the conclusion of the 1997 Opinion and the subsequent Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

Estonia has ratified most of the major international conventions in the field of human rights (*see annex*). It has not yet signed the UN Convention relating to the Status of Stateless Persons. Estonia uses the term “persons with non-determined citizenship” rather than “stateless” to define those of its non-citizens who are able to acquire Russian or other types of citizenship. It thus appears that Estonia’s definition of stateless persons is too restrictive and should be broadened to include all permanent legal residents in Estonia who are neither citizens of Estonia nor of another State.

As previously reported, Estonia has signed but not yet ratified Additional Protocol No. 12 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, which prohibits discrimination on any grounds. The concept of non-discrimination is enshrined in the Constitution (Article 12). No developments can be reported as regards the transposition of EC anti-discrimination legislation (*see Chapter 13 – Social policy and employment*).

In May 2002, Estonia signed Additional Protocol No. 13 to the European Convention for the Protection of Human Rights and Fundamental Freedoms concerning the abolition of the death penalty in all circumstances.

Estonia has established a dual role for its Legal Chancellor under Article 139 of the Constitution. The *Legal Chancellor* has the power to ensure legislative compliance with the Constitution by the State; in addition, he also acts as *Ombudsman* to deal with specific complaints by citizens regarding the work of the State or State officials. This institution is particularly important in Estonia where the protection of minorities is concerned (*see below*).

The present Legal Chancellor was appointed by the Estonian Parliament for the period 2001-2007. In his role ensuring legislative compliance with the Constitution, the Legal Chancellor made 27 proposals during 2001. The number of petitions submitted by citizens increased from 1 533 in 2000 to 2 530 (written and oral complaints) in 2001. This can be partly attributed to the positive fact that the Legal Chancellor has become better-known. Although the increase in petitions is significant, the corresponding increase in staff resources appears sufficient to handle it. From 2001 to 2002, staff numbers increased from 26 to 38, including 28 lawyers. Though based in Tallinn, the Legal Chancellor has satellite offices in Narva, Jõhvi and Sillamäe in Northeast Estonia and in Tartu in the Southeast, and opened an office in Pärnu in the Southwest in June 2002. At

these satellite offices, a representative of the Legal Chancellor is available to receive people several times per week.

The principal subjects of complaint relate to land reform, rights of prisoners, police activity, and the functioning of the Citizenship and Migration Board. In addition to processing these complaints, the Legal Chancellor takes a proactive role in visiting State institutions and making recommendations for improvement.

On 31 December 2001, the OSCE mission to Estonia was closed, following the Chairman-in-Office's statement that Estonia had met the requirements laid down in the mission's mandate. These requirements concerned changes in language legislation and election laws, developing the Ombudsman function, implementation of the state integration programme, residency issues and the naturalisation process.

### *Civil and political rights*

Steps have been taken to further improve the protection of civil and political rights, although some issues continue to require attention. The Estonian authorities have not yet authorised the publication of the reports produced by the European Committee for the Prevention of Torture.

There are reports of verbal abuse and use of excessive physical force by police. Specific cases regarding *degrading treatment by the police* continue to be passed to the Legal Chancellor for consideration, a limited number of which have resulted in disciplinary proceedings.

As regards *pre-trial conditions*, the duration of pre-trial imprisonment has remained stable at around 3½ months. There are continued reports of ill-treatment in some cases, although punishment cells are no longer used.

In terms of *prison conditions*, the prison population has remained stable. Greater recourse to the probation system (*see section on judicial system above*) has kept the number of prisoners in check. Modernisation has continued. Concrete measures include increased educational programmes for prison detainees and renovation of some prison quarters. However, efforts need to continue to further improve prison conditions. The closure of Tallinn Central Prison, which is the only prison that does not meet international standards, is scheduled to take place at the end of 2002. At the same time, a new prison meeting international standards is scheduled to open in Tartu. Further efforts are needed to improve the training of prison officers.

As reported previously, although *legal aid* is currently provided in certain circumstances, Estonia needs to improve citizens' access to justice by widening the availability of, and standardising the conditions for, the provision of legal aid. This includes clarifying its scope and improving the quality and accessibility of legal services, including at the pre-trial stage. These issues should be specifically addressed through the new Legal Services Act, which is pending.

As regards the *rights of refugees/asylum legislation*, amendments to the Refugees Act passed in May 2002 which specify conditions in reception centres should enter into force in January 2003. However, as reported previously, Estonian legislation needs to be further amended in line with EU standards as regards asylum procedures. Further efforts

are needed to develop the capacity of both the Refugees Department of the Citizen and Migration Board, and the Border Guard, particularly the latter, in order to deal properly and efficiently with asylum seekers and to respect the fundamental principle of *non-refoulement*.

*Freedom of expression* is also enshrined in the Estonian Constitution and this right is generally respected in practice. However, libel remains a criminal offence.

As reported previously, concerning discrimination on the basis of *sexual orientation*, the new Penal Code adopted by Parliament in June 2001, which entered into force in September 2002, harmonises the age of consent for heterosexual and homosexual relations.

The principle of *freedom of religion* is enshrined in the Estonian Constitution and no particular problems have been reported in this respect. In April 2002, Estonian authorities officially registered the Estonian Orthodox Church of the Moscow Patriarchy, following a long-running legal dispute between the two sides.

### *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. The planned new Gender Equality Act, which is pending in Parliament, aims at reinforcing the legislative framework (*see also Chapter 13 – Social policy and employment*). However, as reported previously, continued efforts are needed to ensure that existing legislation is implemented in practice. As an indication of women's participation in political life, the total of 101 members of Parliament are made up of 17 women and 84 men. There are 4 women in government out of a total of 14 ministers.

In the area of *child protection*, the Hague Convention on the Civil Aspects of International Child Abduction was ratified in April 2001, and entered into force in July 2001.

Improvements are needed in the *treatment of disabled and mentally ill persons*. Specifically, the Estonian authorities should prevent arbitrary detention of persons without recourse to proper judicial proceedings and prevent degrading treatment of those in care. Further efforts are also needed to improve the capacity of the relevant Estonian authorities to assist persons with special needs and to facilitate their integration into normal life.

As reported previously, the Revised European Social Charter was ratified in May 2000 and entered into force in November 2000. However, no progress has been made since last year in ratifying those articles of the Revised European Social Charter which relate to the right to fair remuneration, the right of elderly persons to social protection, the right to dignity at work, the right to protection against poverty and social exclusion and the right to housing. Also, Estonia has not undertaken to be bound by the Additional Protocol providing for a system of collective complaints. Estonia is in the process of drafting its first national report on the application of the European Social Charter.

## *Minority rights and the protection of minorities*

Estonia's population is stable at around 1 370 100<sup>6</sup>. Of this number, 80% are citizens of Estonia, 7% (97 300) are citizens of other countries (mainly Russia) and 12.5 % (172 000) are stateless. In terms of ethnic origin, 25.6% (350 800) of the total population are of Russian origin.

As reported in previous years, Estonia is a party to the Framework Convention for the Protection of National Minorities. In June 2002, the Committee of Ministers of the Council of Europe concluded<sup>7</sup> that Estonia had made efforts to implement the Framework Convention and to improve intercultural dialogue in Estonia. In particular, Estonia had paid increasing attention to the integration of persons belonging to national minorities. The Committee added that protection of national minorities was not always addressed in an adequate manner in the legislative process and administrative practice, and that, despite certain recent improvements in the relevant legislation, there remained shortcomings with respect to the use of minority languages, for example on private signs visible to the public. The Committee indicated that further efforts were needed in order to promote the process of naturalisation, bearing in mind that the number of stateless persons remained high, and that, in the context of the ongoing reform of the educational system, it was essential that the provisions aimed at increasing knowledge of the Estonian language were coupled with improved guarantees that persons belonging to national minorities could receive instruction in or of their language.

### **The naturalisation procedure**

The naturalisation procedure regulated by the Law on Citizenship is generally in line with international standards but greater efforts should be made to address the particular conditions prevailing in Estonia.

The rate of naturalisation appears to have stabilised at a low level of around 2% (3000-4000 persons) of resident non-citizens per year. This low rate may be partly explained by the relatively limited motivation of non-citizens to take the naturalisation exams, because they consider that the effort required outweighs the potential benefits. It may also be partly due to the lack of support from or proactive measures by the Estonian authorities to encourage non-citizens to normalise their status, such as providing information on naturalisation in the language of the non-citizen, providing practical support to tackle the naturalisation tests, and also taking into account factors such as age in setting the level of the tests.

A positive step was taken in January 2002 to simplify the naturalisation of young graduates from upper secondary schools. It is now accepted that those who have passed the school exam in civics are exempted from the corresponding exam in the naturalisation procedure.

Since the Citizenship Law entered into force in 1992, around 117 000 non-Estonians have been granted Estonian citizenship. During 2001, 3 090 people were naturalised. In keeping with previous trends, more than half of these were minors, and more than one third passed the language and citizenship exams.

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<sup>6</sup> Based on the results of the 2001 Census.

<sup>7</sup> Resolution Res CMN (2002)8 of 13 June 2002.

It is important for Estonia to continue to increase the speed of procedures and make sufficient resources available to the Citizenship and Migration Board (CMB) to ensure an efficient naturalisation process. Furthermore, proactive measures to raise awareness and provide information in the language of the non-citizen are also important.

### **Residence permits and special passports for non-citizens**

The total number of people with residence permits is around 270 000, only a slight decline from last year. Around 216 000 non-Estonians have been granted permanent residence permits and 53 200 have been granted temporary residence permits.

Following investigations by the CMB, additional temporary residence permits have been issued to formerly illegal residents. It is now estimated that fewer than 10 000 residents are illegal, a much smaller number than previously thought.

Since 1994, non-citizen residents have been able to obtain travel documents or “aliens passports” for the purposes of foreign travel, study abroad, emigration, etc. Around 167 000 aliens’ passports have been issued.

As reported previously, the immigration quota is limited to 0.05% of the population of permanent residents in Estonia and was set at 665 in 2002. This quota does not apply to citizens of the EU, EFTA, the USA or Japan. The quota has also been effectively increased by decisions of the Estonian Supreme Court, which has ruled that it is unconstitutional to refuse residence permits to spouses and children of Estonian citizens and permanent residents on the basis of the quota. In June 2002, amendments were accordingly made to the Aliens Act to ensure that the reunification of families was not restricted by the quota.

In 2001, the Citizenship and Migration Board granted 1 150 residence permits, compared to the official immigration quota of 684 for that year. Of the permits granted, 551 were to persons from countries excluded from the quota and 26 were granted on the basis of family reunification.

### **Integration of minorities**

As reported in previous Reports, the rights of the Russian-speaking minority (with or without Estonian citizenship<sup>8</sup>) continue to be largely observed and safeguarded. In practice, 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 certain restrictions affecting the right to sit on the board of state-owned companies, to be employed in certain areas of the public administration or to belong to a political party. Whilst the citizenship requirement is justified in the first two cases, it seems to be an obstacle to integration in the latter one. Some restrictions also exist in the private sector for example in the case of bodyguards which require Estonian citizenship. This is not in line with European standards.

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<sup>8</sup> In a declaration contained in the instrument of Estonia's ratification of the Framework Convention for the Protection of National Minorities, it is specified that Estonia attaches a requirement of citizenship to the concept of "national minority". In practice, however, the Government takes a considerably more inclusive approach.

During 2001, a total of EEK 53.82 million (€ 3.4 million) was spent on the implementation of the state integration programme 2001-2007, of which almost half was funded from foreign assistance. The budget for 2002 is EEK 55 million (€3.5 million). Emphasis continues to be placed almost exclusively upon education in the Estonian language, e.g. increasing the proportion of teaching in Russian secondary schools carried out in Estonian or teaching Estonian to adults.

Implementation of the integration programme appears to have continued satisfactorily, managed by the Non-Estonian Integration Foundation under the responsibility of the Minister for Ethnic Affairs. On the basis of the experience gained from implementation of the programme so far, it will now be possible to evaluate the impact of the programme and give greater emphasis to different types of integration activities where necessary. In this process there is a continuing need to ensure the awareness, consultation and involvement of all sections of the Estonian population including civil society organisations actively involved in evolving the integration process, including at local level. In this context, the Estonian authorities should ensure that emphasis is placed on a multicultural model of integration as stated in the aims of the state integration programme.

There are now three representative offices of the Legal Chancellor in Northeast Estonia, in Narva, Jõhvi and Sillamäe. This should help ensure that the specific concerns of the significant proportion of non-Estonians in the region (such as those related to naturalisation and language) can be better dealt with.

### **Language policy**

The Estonian Language Law regulates the use of the Estonian language in the public and private sectors and is generally in line with international standards. Estonia should continue to ensure that the principles of proportionality and justified public interest are properly respected in the implementation of language legislation.

Employees in the public administration are required to have a minimum level of Estonian-language ability, proportionate to the public interest of the post. This includes, for example, nurses, police and prison officials. Also, as reported previously, secondary legislation sets out the specific requirements of Estonian-language proficiency for a limited range of people working in the private sector. This legislation entered into force in October 2001.

Following the introduction of the new integrated language certification system under the responsibility of the National Examination and Qualification Centre, the validity of old Estonian language proficiency certificates (necessary for employment in specific posts) was due to expire in July 2002. However, in April 2002, the Estonian government decided to extend the validity of old Estonian language proficiency certificates until January 2004 because of limited capacity to carry out all the necessary tests.

In some cases, the costs of language training and subsequent proficiency tests may be high for those on low incomes, although substantial support is being provided by the EU in this area. A positive step was taken by the Estonian authorities in October 2001, with amendments to the State Fees Act which allow individuals to take the Estonian language examination free of charge.



Estonia should continue to ensure that those already employed in the public service, particularly in the predominantly Russian-speaking areas, are given support to meet any language requirements.

The Language Inspectorate is responsible for the enforcement of language legislation.

In the public sector, the Inspectorate proceeds on the basis of its work plans. In this context, the Inspectorate has recently focused on checking the language competence of police officers in the Tallinn area. As a result, some officers were found to have almost no knowledge of Estonian and a recommendation was made to the Police Board that they be replaced. The situation is similar for a number of prison officers. The Inspectorate also has the possibility of imposing fines of up to EEK 600 on individuals. Normally these are only imposed after a warning and a grace period during which the individuals concerned are given an opportunity to attain the relevant language proficiency. During 2001, total fines imposed were EEK 17 700. Training of language inspectors is under way.

In the private sector, the Language Inspectorate acts mainly on the basis of complaints. Approximately two-thirds of complaints received by the Inspectorate concern the use of language in public places. Estonian legislation makes it an offence for signs addressed to the public not to be in the Estonian language. The Advisory Committee on the Framework Convention for the Protection of National Minorities has stressed that to the extent that the provision at issue prevents a person belonging to a national minority from displaying signs and other information of a private nature visible to the public, it is not compatible with Article 11 of the Framework Convention.

In November 2001, amendments to the Estonian Parliamentary and Local Elections Law were passed. These abolished the language requirements for candidates in parliamentary and local elections, in line with international standards, thus removing restrictions on the rights of voters to freely choose their candidates, in particular at local level.

In March 2002, the Parliament passed an amendment to the Basic School and Gymnasium Act, according to which full-time Russian-language education can continue beyond 2007 where the population so wishes. While the deadline of 2007 for switching at least 60% of the curriculum of upper-secondary schools into the Estonian language is maintained as a rule, exceptions can now be granted. This development is to be welcomed and strengthens the rights of the Russian-speaking minority. However, in order to have equal access to the Estonian labour market, it is essential for Russian-speakers to have a good command of the Estonian language. It is therefore important to ensure that Estonia has a sufficient number of qualified bilingual teachers in schools.

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 with Estonian if more than 50% of the local population are Russian-speakers. So far, this option has not been used. However, in practice, it is estimated that 10-12 municipalities use Russian as a working language. By European standards, the ceiling of 50% is relatively high.

### **1.3. General evaluation<sup>9</sup>**

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. This has been confirmed over the past year. Estonia continues to fulfil the Copenhagen political criteria.

Implementation of the public administration reform programme has continued, and the functioning of the Estonian civil service and its administrative procedures continue to be satisfactory. There remains a need to continue to improve transparency in personnel matters and coordination across different bodies.

Judicial modernisation has progressed well and the independence and administration of the judiciary have been enhanced. Improvements in the training of judges have continued and court information systems have been upgraded. Estonia should make efforts to fill vacant prosecutors posts. As noted last year, Estonia needs to continue to increase efficiency in dealing with court cases as well as the quality and enforcement of court decisions.

Estonia continues to respect human rights and freedoms.

Estonia has encouraged the further integration of non-citizens by removing language requirements for candidates in parliamentary and local elections and by supporting language learning and cultural exchanges through the state integration programme. Estonia should continue efforts to increase the rate of naturalisation and to facilitate the process. Estonia should ensure that the implementation of language legislation continues to respect the principles of justified public interest and proportionality, Estonia's international obligations and the Europe Agreement.

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<sup>9</sup> See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

## **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... Estonia should be able to make the progress necessary to cope with the competitive pressure and market forces within the Union in the medium term, provided in particular that the export base is broadened”.

In its 2001 Regular Report, the Commission found that:

“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”.

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

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

In the analysis below, the Commission has followed the methodology applied in the Opinion and the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since the Opinion was drafted.

### **2.2. Summary of economic developments since 1997**

*Following the abrupt slowdown in economic activity in 1999, caused by the Russian crisis, the recovery in Estonia resumed momentum in 2000-01. Growth, driven by strong investment—financed through strong FDI flows—private consumption and net exports, and supported by a solid productivity performance and sound macroeconomic policies, averaged 5.2% over 1997-2001. Such a strong performance in the midst of an economic slowdown in the EU and the United States during 2000-01 is noteworthy. Nonetheless, significant growth fluctuations, from almost 10% in 1997 to a negative 0.6% in 1999, led to sizeable swings in the government budget deficit and the current account. The general government balance averaged –0.5% of GDP in 1997-2001, but reached a deficit of 4% of GDP in 1999 as a result of the weak economic activity that year. Similarly, although the current account remained in deficit over the same period (-7.8% over 1997-2001), the large fluctuations in growth led to considerable variability in the external, particularly the trade, balance. Inflation, which had been moderately high in 1997, at some 9%, followed a downward trend until 1999, but edged up subsequently at 5.6% in 2001. Throughout this period Estonia maintained successfully a currency board arrangement and the real effective exchange rate, which had appreciated considerably in 1998 during the Russian crisis, remained relatively stable since 1999.*

Main Economic Trends								
Estonia		1997	1998	1999	2000	2001	Average	2002 latest
Real GDP growth rate	per cent	9.8	4.6	-0.6	7.1	5.0	5.2	3.2 Q1
Inflation rate	per cent	9.3	8.8	3.1	3.9	5.6	6.1	4.5 July <sup>b</sup>
- annual average								
- December-on-December	per cent	10.9	5.2	3.7	5.0	4.2	5.8	3.3 July
Unemployment rate	per cent	10.6	9.6	11.7	13.2	12.4	11.5	9.4 Q2
- LFS definition								
General government budget balance	per cent of GDP	2.0	-0.4	-4.0	-0.4	0.2	-0.5	
Current account balance	per cent of GDP	-12.1	-9.1	-5.7	-6.2	-6.1	-7.8	
	million ECU/€	-497	-429	-277	-348	-378 <sup>c</sup>	-386	-394 Jan.-June <sup>c</sup>
Gross foreign debt of the whole economy	per cent of exports of goods and services	32.3	41.2	36.3	28.1	:	:	
- debt export ratio	million ECU/€	1,031	1,534 <sup>a</sup>	1,367	1,465	:	:	
Foreign direct investment inflow	per cent of GDP	5.8	11.0	5.8	8.0	9.7	8.1	
- balance of payments data	million ECU/€	235	513	284	435	603	414	261 Jan.-June <sup>c</sup>

Sources: Eurostat. National sources. OECD external Debt Statistics

<sup>a</sup> series break as a result of some technical changes to the definition.

<sup>b</sup> Moving 12 months average rate of change.

<sup>c</sup> Source: Website of the National Bank.

*Structural reforms have continued at a strong pace, although progress has been uneven. The privatisation of public enterprises has been largely completed and there are no significant barriers to entry into markets for either domestic or foreign enterprises. The reform of the pension system has advanced considerably with the implementation of the 2<sup>nd</sup> pillar, which is envisaged to be completed during 2002, and an independent Financial Supervision Authority was established at the beginning of 2002. Nevertheless, progress has been rather slow in land reform, and the reform of the health system, while plans for privatisation in the energy sector have been cancelled.*

*In spite of the vigorous economic upturn in the EU during 1997-2000, and the strong negative impact of the Russian crisis on GDP growth in Estonia, convergence to EU per capita income levels has been significant. The average per capita income in purchasing power standards reached 42.3% of the EU average in 2001. This reflects good progress made in catching up to EU income levels. Nonetheless, in spite of the small size of the country, regional divergences remain acute, with per capita income in the Northeast and South of the country just below 40% of income in the North. Employment creation has also been lacklustre in some parts of the country reflecting, in part, the regional divergences in growth. Consequently, while the unemployment rate has declined, especially since 2000, regional and age differences remain sizeable; the average unemployment rate ranged from 17.5% in the Northeast to 10% in the Western part of the country, while the youth unemployment rate (i.e., for those between 15-24 years), of some 20%, was almost double the unemployment rate for the rest of the labour force. On the other hand, the female unemployment rate, which averaged 10.6%, was only slightly below the average male unemployment rate of 12.3%. The employment rate, of about 63% during 1997-2001, followed a similar pattern, edging down throughout the period but increasing somewhat in 2001.*

<b>Main Indicators of Economic Structure in 2001)</b>		
Population (average)	Thousand	1,364
GDP per head <sup>a</sup>	PPS	9,800
	per cent of EU average	42
Share of agriculture <sup>b</sup> in:		
- gross value added	per cent	5.8
- employment	per cent	7.1
Gross fixed capital formation/GDP	per cent	26.1
Gross foreign debt of the whole economy/GDP <sup>c</sup>	per cent	26.8
Exports of goods & services/GDP	Per cent	90.6
Stock of foreign direct investment	Million €	2,843 <sup>c</sup>
	€ per head <sup>a</sup>	2,084
Long term unemployment rate	per cent of labour force	5.8

<sup>a</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>b</sup> Agriculture, hunting, forestry and fishing.

<sup>c</sup> Data refer to 2000.

### **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.

*The ambitious plan to transform the economy and prepare for EU membership has enjoyed broad support from all political parties.* Despite changes in government, there has been strong and consistent support on the need to continue with prudent macroeconomic policies, including maintaining the currency board arrangement, and to embark on the institutional changes that are needed for EU accession. In August 2002 the Government cabinet approved the 2002 Pre-accession Economic Programme. This document, which was prepared by the Ministry in Finance in consultation with the Ministries of Economic Affairs, Environment, Social Affairs, and Education, was submitted in August 2000 to the EU Commission for evaluation. In the course of the 1990s Estonia requested a series of stand-by arrangements from the International Monetary Fund which the authorities regarded as precautionary. No funds were drawn and the last of these arrangements expired on 31 August 2001.

*Despite the slowdown in the EU and the United States, the Estonian economy continued to grow unabated during 2000-2001.* Notwithstanding the negative contribution from net exports, strong GDP growth was supported by robust private consumption, especially in 2000, and investment spending in 2001. As a result, real GDP grew at some 7% and 5% in 2000 and 2001 respectively. However, neither investment nor private consumption remained unaffected by the external developments during the 1997-2001 period, explaining the high volatility of GDP growth. Private consumption dipped during the Russian crisis while investment, which had been supported by strong FDI flows, declined by almost 15% in 1999 and remained almost flat the following year.

*The current account deficit, which amounted to 12.1% of GDP in 1997, declined gradually and stabilised at around 6% of GDP in 2001.* The current account deficits were matched by large surpluses in the financial account, as a result of strong FDI inflows—at some 8.1% of GDP during 1997-2001—which continued unabated throughout the period. Both the negative trade balance and increasing income outflows contributed to the large current account deficit, which averaged 7.5% over 1997-2001. The trade deficit ranged from 24.4% in 1997 to 14.3% of GDP in 2001, and income outflows—largely arising from profits of foreign-owned companies in Estonia—remained strong at 8.5% of GDP in 2001. These profits were recorded simultaneously as income outflows in the current account and, since most of these were re-invested in Estonia, as FDI inflows in the financial account.

*The unemployment rate which increased steadily during the 1990s, reaching 13.2% in 2000, has declined to close to 10% of the labour force in 2002.* The restructuring of the economy in the aftermath of the country's independence, and the resulting skill mismatch, appear to be the main factors behind the rise in unemployment from 10.6% in 1997 to 12.4% in 2001. A steady increase in the proportion of long-term unemployed,

and of discouraged workers, has further worsened the conditions in the labour market. The employment rate, which declined from 65% in 1997 to 60.6% in 2000, edged up to 61.1% in 2002 for the first time since the country's independence. This positive development in employment in 2001 contributed to a significant decline in the unemployment rate from 13.2 % in 2000 to 10.3% in the first half of 2002. The strong growth performance in 2000-01 and the active labour market policies, implemented by the authorities, have both contributed to this turnaround.

*Inflation was brought down to 3.1% by 1999 as a result of prudent policies and a credible monetary policy framework.* Since then the inflation rate has accelerated somewhat to 5.6% in 2001, or just below the 1997-2001 average of 6.1%. Higher energy and food prices, administered price hikes—which contributed, on average, nearly 2 percentage points during 1998-2001,—and more recently rising unit labour costs, were the main reasons behind the inflation pick-up. The acceleration of inflation in the services sector, to 7.6% in 2001, has been more pronounced, suggesting that pressures are building up on core inflation on account of higher unit labour costs.

*Estonia continues to maintain successfully the currency board arrangement and the credibility in the system remains high among market participants.* Interest rates in Estonia have, for the most part, followed those in the euro area while the recent changes in the monetary policy framework—specifically aimed at aligning Estonia's framework with monetary arrangements in the euro area—and the continuing fiscal consolidation led to a significant decline in the spread between the 3-month Euribor and Talibor rates from 500 basis points in 1997 to below 100 basis points by the end of 2001. Monetary conditions, as measured by the change in the real interest rate, tightened in 1998, but subsequently eased considerably. During 1997-2001 credit growth—driven partly by an accumulation of net foreign assets—remained exceptionally strong, at almost 30% per annum, and highly concentrated in financial intermediaries, specifically leasing companies in the automobile and real estate sector. Demand for credit was rather volatile during this period, partly as a result of changes in the policy setting, especially monetary conditions. Partly in response to tighter monetary and fiscal policies followed in 1998, which were aimed at curbing the unusually high growth in credit, which had reached 77% in 1997, credit growth eased considerably in 1998-99 to around 12%, although it picked up again in 2000-01. This recent acceleration in credit demand may be attributed to the easing of the reserve requirements by the Central Bank in 2001, and the record low real interest rates in Estonia.

*Reflecting in part the recovery of the economy from the 1999 downturn, the general government deficit fell from 4% in 1999 to close to balance by 2001, but the local authorities continued to be a drain on public finances.* As a result of the large swings in GDP growth, the general government balance, which averaged -0.5% during 1997-2001 (according to the harmonised EU standards of ESA95), fluctuated from a surplus of 2.0% of GDP in 1997 to deficit of 4.0% in 1999. Tax revenues continued to ebb, from 37% of GDP in 1997 to 33.2% in 2001, while current expenditure remained almost unchanged at around 35% of GDP. The automatic stabilisers were allowed to operate freely in the downswing (e.g., in 1999 when expenditures rose to almost 40% of GDP), but no sizeable budget surplus was achieved during the most recent upturn, in spite of better than expected revenue performance. Such asymmetric behaviour over the business cycle is inconsistent with the announced objective of balancing the budget over the medium term. In addition, the local government, which consists of some 247 local authorities, continued to account for a significant share of the general government deficit, thus

offsetting the small surplus of the central government in 2001. Current expenditure by local authorities increased by 1¼% of GDP, between 1997-2001, financed by an increase in government transfers of the order of 1.4% of GDP over the same period. Under the current rules, local authorities may borrow up to 65% of their total revenue, which translates to about 3.5% of GDP. Such a potential increase in the general government balance might be a liability to fiscal discipline and overall macroeconomic stability. Nevertheless, sound fiscal policies—particularly on the part of the central government—and sizeable privatisation receipts both contributed to a reduction of the government debt, which declined from 7% of GDP in 1997 to just under 5% in 2001.

*The accommodating monetary conditions since the Russian crisis, were appropriately supplemented by a broadly neutral fiscal policy.* Policies were particularly prudent during the 1999 downturn when the authorities reacted promptly, and effectively, to counter the negative macroeconomic spillovers from the Russian crisis. Subsequently, although monetary conditions remained broadly appropriate, fiscal policy turned somewhat expansionary as cyclical conditions improved appreciably in 2001-02.

*Price liberalisation, which began in 1989, was almost complete by the early 1990s.* The share of administratively regulated prices, which is small, has remained broadly unchanged since 1997 at about 28% of the consumer price index. The most important regulated price categories in the consumer price index are alcoholic beverages, tobacco, motor fuels and heating.

*The private sector's share is estimated to have risen to well over 80% of GDP.* Nevertheless, land reform has progressed at a slower pace due to administrative impediments, including the registration and restitution of land. By the end of 2001 about two thirds of the land had been registered and one third of registered land was still state-owned. Recent reforms, especially since the Land Reform Act was adopted in 1997, appear to be contributing to a significant improvement in the functioning of the land market. As a result, transactions have risen sharply over the past years and have reached levels comparable with EU Member States.

*The privatisation programme of the Estonian government is more or less complete.* The Estonian Privatisation Agency, which had the responsibility of pursuing the privatisation agenda, ceased to exist as an independent entity at the end of 2001. At present there are no more privatisation plans, with the exception of land, and the responsibility for any remaining issues has been transferred to the Ministry of Finance. The biggest state holdings are Estonian Energy Ltd and the Port of Tallinn although the state continues to have stakes in 56 enterprises. In January of 2002 the government decided to cancel plans to privatise the Narva power plant and to retain ownership of the main energy company.

*Estonia's domestic market remains open to both domestic and foreign enterprises and enterprise creation has been particularly strong since 1997.* By the end of 2001 there were nearly 27000 registered companies in Estonia. The bankruptcy legislation and procedures are working adequately, and are likely to be strengthened further with a new bankruptcy law which is expected to be adopted soon by the parliament. Nonetheless, access to finance, especially for small- and medium-sized enterprises, remains restricted both through the banking system, which requires a long and established credit history and appropriate collateral, and through the non-bank financial sector, including the stock market, which remains relatively undeveloped. The Government has put in place special programmes for supporting small- and medium-sized enterprises and it is envisaged that



these initiatives will bridge the financing gap for a number of enterprises. Although such programmes can contribute positively toward more enterprise creation, and investment, they should not be considered a substitute to the proper, and efficient, working of capital markets. In that respect tax policy can eliminate distortions that prevent the proper functioning of non-bank financial intermediation and can have a greater impact on the development of capital markets. One such distortion is the different tax treatment of income from bank deposits, and other income from sources other than bank deposits.

*The legal system functions properly and property rights are respected.* Nonetheless, land reform will contribute to a more efficient application of property rights in Estonia. In spite of this, confidence in the legal system in Estonia, both domestically and from abroad, is high, as evidenced by the steady inflow of foreign direct investment into the country. The ongoing reform of the judicial system, which aims at further improving the efficiency and independence of the judiciary, is welcome and is likely to strengthen further the legal system. (see section B.1.1. *political criteria*).

*The financial system in Estonia is characterised by a well-developed, and profitable, banking sector.* The banking system, which is highly concentrated, is in a strong financial position. Since 1997 the number of banks has fallen from 11 to 7, as a result of the efforts of the authorities to restructure the banking system following a number of banking crises in the 1990s. The banks are entirely in private hands and virtually all are foreign owned, while two of them control more than 80% of total assets. Profitability is high, although rather erratic over time, banks are highly capitalised (the capital adequacy ratio was 14.4% by end-2001), and the volume of non-performing loans, which is fully provisioned, remains low, at about 1¼% of all loans. However, the spread between lending and deposit rates has remained relatively high, at about 500 basis points, pointing to limited improvements in, inter alia, the efficiency of banking intermediation, and the absence of strong competition among the largest banks. Furthermore, the diversification of banks' asset portfolios remains limited, being heavily concentrated in real estate-related, including leasing, activities. Banking supervision is effective and has strengthened further with the recent establishment of a new Financial Supervision Authority (FSA).

*Nonetheless, financial markets remain relatively underdeveloped.* By the end of 2001 total credit had reached 41% of GDP compared with a stock market capitalisation of about 27% of GDP. The equity market is dominated by two large corporations which account for almost 90% of the stock market capitalisation. The bond market, which accounts for about 5% of GDP, also remains relatively underdeveloped. The recent merger of the Tallinn and Helsinki stock exchanges, and the introduction of the second pension pillar in 2002, should both contribute to a more efficient functioning, and deepening, of the capital markets.

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

The ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and

innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union before accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

*Since its independence Estonia has managed successfully to transform into a market economy and achieve macroeconomic stability.* New institutions, set up according to the highest international standards, and sound macroeconomic policies have been the foundations of this transformation.

*Strong investment growth, in both physical and human capital, has raised the economy's potential and increased its competitiveness.* Investment growth has been robust and the ratio of investment to GDP has remained relatively stable at around 26%. Foreign direct investment flows averaged 10% of GDP and have contributed significantly to this trend. Furthermore, the government investment programme, which accounts for 4% of GDP, is contributing heavily in terms of public infrastructure. Nonetheless, expenditure on research and development remains low by international standards, at 0.75% of GDP in 2001, although the Government plans to double this by 2006. Educational attainment is relatively high and the Government's National Education Strategy aims to raise standards even further. Education in Estonia is compulsory for children aged 7-16. Almost 85% of the population aged 25-64 have completed secondary education, while the percentage for 25-29 year-olds is almost 88%. Attainment of higher education is also very high, with 42% of 20-year-olds staying on in higher education, compared with 48% in the EU. Enrolments in vocational training remain low, however, especially given the demand for skilled workers in Estonia.

*Nonetheless, active labour market policies are needed to tackle the unemployment problem in the country.* The issue has become more pressing as the number of long-term unemployed increased steadily throughout the 1997-2001 period, suggesting that the majority those without a job do not have the necessary skills to reintegrate successfully into the labour market. To tackle the problem the Government has put in place a series of policies that are aimed at reintegrating these individuals into the labour market. The recent decline in the unemployment rate suggests these policies are finally paying off.

*The liberalisation of the energy sector and the restructuring of the hospital system remain the last outstanding undertakings of the Estonian authorities.* The oil-shale sector, which employs a large number of workers, poses serious environmental concerns, and efforts to achieve increased efficiency of production and reduced environmental damage, and to minimise the social impact of reforms in this sector are ongoing as part of the "Restructuring plan for the Estonian oil-shale sector for the period 2001-2006". Nonetheless, the electricity market remains largely closed—at both production and retail level—and the monopoly power of Eesti Energia is, effectively, strengthened by the price regulatory system and the Government's implicit support. Electricity prices have risen by more than 25% since 1997. Hence, further restructuring of the oil-shale sector should be pursued. Finally, an overhaul of the hospital system, which consists of an excessive number of hospital units from the pre-independence era, is ongoing. The Health Insurance Act, which has been approved by the parliament in June 2002, will provide the basis for this reform.

*Services, which now account for almost two thirds of output in Estonia, have gradually gained ground over agriculture.* Since 1997 the share of agriculture, in gross value added, dropped from 8% to 5.8% in 2001, despite a strong expansion in forestry. The

share of services increased from 62% to almost 66%, driven by strong growth in transport and communications services. In terms of employment, the evolution has been almost identical, with the share of employment in agriculture declining from about 10% in 1997 to 7.1% in 2001. In addition, the high-tech electronics industry has also become important for Estonia, especially in terms of exports, since it currently accounts for about one-third of total exports.

*Enterprise creation has proceeded rapidly, especially for small and medium-sized ventures, and the Government has put in place an ambitious plan aimed at improving the competitiveness of enterprises and promoting job creation.* The employment share of small firms (i.e., with less than 250 employees) in total enterprise employment is about 75%. One impediment to further growth of the private sector, particularly the development of larger enterprises, is the absence of a well-functioning capital market. The Enterprising Estonia Strategy, which was adopted in January 2002, outlines the policy of the Estonian Government, particularly toward small and medium-sized enterprises. Improving access to finance, for example through start-up aid and credit guarantees, is one of the important elements of the industrial policy.

*By and large, the state does not interfere to any significant degree in the working of the private sector in Estonia.* The legislation on competition and trade policy is broadly compatible with EU legislation. The state provides subsidies, amounting to 1% of GDP, in the agricultural and transport sectors, essentially to support non-viable routes to rural areas and a number of islands, schools, and limited financial assistance (through loans or loan guarantees) to small- and medium-sized enterprises. The state currently provides loan guarantees, equivalent to 1% of GDP, to support four large infrastructure projects, including the Estonian national television.

*Since independence Estonia has reoriented its trade towards the European Union.* The country maintains a highly open trade regime, and the ratio of total trade to GDP amounts to almost 140%. After independence, Finland replaced Russia as the country's main trading partner while trade links with Germany, Sweden, and other EU countries, were also enhanced. Accordingly, the share of exports (excluding re-exports) to the EU rose from about 62% in 1997 to almost 70% in 2001. Similarly, the share of imports from the EU, albeit slightly lower than 1997, remains high at about 55%. Machinery and equipment was the most significant export category, accounting for almost one-third of the total, followed by timber, paper and related products (about 16%). The EU, and more specifically Finland and Sweden, absorbs the bulk of the machinery and equipment goods from Estonia, which mainly consist of telecommunications equipment sold to mobile phone manufacturers. The high dependence of Estonia on these export markets led to a sharp decline in exports during 2001 related to the world-wide slump in the telecommunications sector. Imports from the EU are dominated by machinery and equipment (32% of the total imports from the EU), mainly from Finland and Sweden, followed by wood products (15% of the total imports from the EU).

*The real effective exchange rate has remained broadly stable since mid-1998.* Strong productivity gains averaging 5.5% over 1999-2001 and moderate wage increases have kept unit labour costs in check and contributed to a benign inflation environment. The appreciation of the dollar since 1999, which has offset, to some extent, the moderate increase in prices and wages, has also played a part in maintaining external competitiveness.

## **2.4. General evaluation<sup>10</sup>**

The 1997 Opinion already acknowledged the substantial reform efforts undertaken by the Estonian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, in particular the Russian crisis, economic performance has improved. Macroeconomic stability has been achieved, reforms have deepened while the Estonian authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Estonia is a functioning market economy. The continuation of its current reform path should enable Estonia to cope with competitive pressure and market forces within the Union.

Improvements can be made by the government and the private sector to the functioning of labour markets by taking a more active role to tackle the unemployment problem. Furthermore, the consolidation of the local authorities' finances should be taken up to reinforce the prudent stance of fiscal policy. In addition, the restructuring of the oil shale sector should be actively pursued.

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<sup>10</sup> See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

### 3. Ability to assume the obligations of membership

#### *Introduction*

This section addresses the question of Estonia's ability to assume the obligations of membership – that is, the legal and institutional framework, known as the *acquis*<sup>11</sup>, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 2001 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. Furthermore, it includes an evaluation of Estonia's track record since the 1997 Opinion. It also provides, for each of the negotiating chapters, a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted.

This section is structured in accordance with the list of 29 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.

In December 1995, the Madrid European Council remarked on the need to create the conditions for the gradual, harmonious integration of the candidate countries, 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 precondition for creating the mutual trust indispensable for future membership.

In June 2002, the Seville European Council repeated how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level. Building on the assessment of Estonia's administrative capacity provided in the 2001 Regular Report, the present Report seeks to add further depth and detail, focusing on the main administrative structures required for implementing the various aspects of the *acquis*.

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

*"Estonia has made considerable progress in transposing and implementing the acquis relating particularly to the single market. With further effort it should become able to participate fully in the single market in the medium term. Particular efforts, including investment, will be needed to apply the acquis fully in sectors such as environment. Strengthening of the administrative structure will be indispensable if Estonia is to have the structures to apply and enforce the acquis effectively."*

In the 2001 Regular Report, the Commission found that :

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<sup>11</sup> A description of the *acquis* for each chapter can be found in the Commission's 1997 Opinion on Estonia's application for EU membership.

*"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."*

### **3.1. The chapters of the *acquis***

As indicated, the following review of Estonia's ability to assume the obligations of membership has been structured in accordance with the list of 29 negotiating chapters. Accordingly, this section opens with an assessment of progress relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of progress on each of the chapters, covering all

aspects of the *acquis*, 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***

### *Progress since the last Regular Report*

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

In the area of **horizontal and procedural measures**, progress has been made over the last year in the implementation of the *New and Global Approach principles*. As regards conformity assessment, the amended Product Conformity Attestation Act entered into force in July 2002. The necessary regulations issued on the basis of the act have been adopted and have entered into force. As regards standardisation, the Technical Regulations, and Standards Act has been amended. The new version of the act is in force since April 2002. A market surveillance strategy for Estonia is being developed under the supervision of the Ministry of Economic Affairs.

Progress can be reported as regards the adoption of **sector-specific legislation**. In the areas covered by *New Approach Directives*, the new or revised acts related to the directives for low voltage, electromagnetic compatibility, lifts, cableway installations, pressure equipment, simple pressure vessels, and appliances burning gaseous fuel entered into force during the reporting period.

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

As regards the issue of *food safety and foodstuffs legislation* (see also Chapter 7 - Agriculture), the amendment act to the Food Act came into force in January 2002, transposing the requirements concerning treating of foodstuffs with ionising radiation.

With regard to the *acquis* on firearms and cultural goods, the Weapons Act entered into force in March 2002.

As regards 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. Estonia's standardisation institution has continued its programme of transposing European standards. At the end of June 2002, over 95% of the CEN standards and 23% of the CENELEC standards had been adopted. 80% of the CEN and CENELEC standards have to be adopted as one condition for full membership in these organisations. As of end June 2002, the Estonian Accreditation Centre had accredited 90 testing and 15 calibration laboratories, 11 inspection bodies and 15 certification bodies.

As regards the **non-harmonised area**, Estonia has performed an initial screening of legislation in force which did not yield any obstacles to the free movement of goods in the sense of Articles 28-30 of the EC Treaty. The screening remains, however, to be completed as the results of a more in-depth screening carried out by line-ministries are outstanding, including the conclusions in terms of necessary legislative amendments.



Since the last Regular Report, no further legislative developments have taken place as regards **public procurement**. In order to enhance administrative capacity, the Public Procurement Office has been restructured into two units: the procurement department and the information department. The number of staff of the Public Procurement Office was reduced to 22 from 25.

### *Overall assessment*

The transposition of the horizontal directives is practically completed. Estonia has continued, especially in the last years, to make steady progress in the transposition of EC legislation on industrial products into Estonian law (low voltage, electromagnetic compatibility, lifts and toys).

In spite of the advanced stage of transposition, alignment and fine-tuning still remains to be done in the following New Approach sectors: construction products, personal protective equipment, non-automatic weighing instruments, active implantable medical devices, explosives for civil use, medical devices, equipment and protective systems intended for use in potentially explosive atmospheres, machinery, vitro diagnostic medical devices and cableway installations. Fine tuning is also necessary in the following Old Approach sectors: chemicals, pharmaceuticals, cosmetics, legal metrology, glass, textiles and wood.

As regards the non-harmonised area, Estonia has performed an initial screening of legislation in force, which did not yield any obstacles to the free movement of goods in the sense of Articles 28-30 of the EC Treaty. It is important, however, that an in-depth screening is completed so as to ensure that all legislation that is not compatible with Articles 28 to 30 of the EC Treaty is amended by the date of accession. Estonia also needs to take action to apply and enforce the principle of mutual recognition. The wording of the mutual recognition principle is planned to be included in the Technical Regulations and Standard Acts. Specific clauses on mutual recognition will be included in all forthcoming relevant legislation in case there are requirements restricting trade justified on grounds set out in the Technical Regulations and Standards Act.

As for administrative capacity in this area, Estonia's standardisation and accreditation bodies have been in place for some years and continue to function appropriately. Efforts to adopt European standards and to fulfil the other remaining requirements for membership of CEN and CENELEC need to be strengthened, especially the CENELEC standards where only 23% have been adopted. The efforts to fulfil the conditions for a multilateral agreement with European Accreditation must be continued. There are functioning market surveillance institutions for the sectors but a general market surveillance strategy is missing. It is important to continue the infrastructure development especially in the market surveillance area.

As regards the area of food safety (*see also Chapter 7 – Agriculture*), transposition of legislation is well advanced in Estonia. The main directives and regulations have been transposed. Requirements for authorisations, certificates or other forms of control prior to marketing that run counter to the principles of food safety in the Community are still in place. Commitments on Estonian side to dismantle pre-market controls have now been clarified, however, and should be turned into decisive action without delay. Some reinforcement of administrative capacity is still needed. Co-ordination between institutes, training of inspectors and food operators, and preparing for implementation of new

legislation all need to remain at the centre of attention. Efforts to implement the principles of HACCP (Hazard Analysis and Critical Control Points) in retail and catering need to be intensified. This will also entail training food inspectors in correctly assessing the application of these principles. The national contact point still needs to be designated and further efforts (including possibly human resources) will be necessary to operate a fully-fledged rapid alert system for food and feed. As regards novel foods, Estonia is well advanced pending some efforts on laboratories equipment.

In the field of public procurement, transposition is advanced, even if some provisions of the Public Procurement Act need further fine-tuning. The restructured Public Procurement Office seems to be in a position to ensure effective application of EC public procurement law. Following the staff reduction of the past year, training of the remaining staff is one of the highest priorities of the Ministry of Economic Affairs.

### *Conclusion*

In its 1997 Opinion on Estonia's application for membership of the European Union, the Commission concluded that the free movement of goods would not represent a serious obstacle to Estonia's accession provided that the on-going law-reform was continued and enforced, in particular as regards standardisation and conformity assessment". At the same time, attention was drawn to the importance of ensuring that national legislation did not hinder trade and it was considered that the process of approximation in the field of public procurement needed to be strengthened.

Since the Opinion, Estonia has continued, especially in the last years, to make steady progress in the transposition of EC legislation as well as developing an administrative capacity. Overall, Estonia is reasonably advanced with regard to transposition of the *acquis* on free movement of goods. Administrative capacity is at an advanced stage.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on completing the alignment of New Approach Directives and the adoption of European standards, the development of administrative capacity, as well as applying and enforcing the principle of mutual recognition.

## ***Chapter 2: Free movement of persons***

### *Progress since the last Regular Report*

The current reporting period has seen further alignment with Community provisions. Preparations for the establishment of the required administrative structures have continued.

In the area of **mutual recognition of professional qualifications**, the Bar Association Act, the Health Services Organisation Act and the Veterinary Activities Organisation Act amendment entered into force in 2002.

In the field of **citizens' rights**, the Local Government Council Elections Act was passed by the Parliament in March 2002. The provisions concerning European Union citizens will enter into force upon accession.

In the area of **free movement of workers**, amendments to the Aliens Act were adopted in June 2002 to achieve compliance with the *acquis* on residence rights and free movement.

Preparatory work has continued to facilitate Estonia's participation in the European Employment Services system (EURES).

Estonia has continued to strengthen bilateral relations with a view to the future **co-ordination of social security** matters and to develop institutional capacity through the application of bilateral social security agreements with Finland and Sweden.

### *Overall assessment*

As regards the implementation in Estonia of the *acquis* on mutual recognition of diplomas and professional qualifications, the Recognition of Foreign Professional Qualifications Act is already largely aligned with the *acquis*. 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 needs to introduce measures to ensure that all its professionals can, as of accession, meet the requirements laid down by the directives. A major effort is needed in the short term to improve considerably training for doctors, dentists, pharmacists, nurses, midwives and also for veterinary surgeons.

Specific legislation is needed to enable midwives to work autonomously. Legislation covering lawyers and architects has yet to be adopted. By accession, it has to be ensured that all Estonia's legislation is aligned with Community rules, in particular with respect to nationality, residence and language requirements.

Legislation needs to be monitored to ensure it distinguishes between academic and professional recognition and includes simpler procedures to allow for the provision of services.

The work for finalisation of the legislation on voting rights, in particular relating to the European Parliament elections, should continue.

As a result of recent amendments to the Aliens Act, greater compliance with the *acquis* on residence rights and free movement of workers has been achieved. It is important to ensure that implementation of language legislation avoids unnecessary restrictions in this area. In this context, particular reference is made to the requirements of proficiency in the Estonian language for people working in the private sector, which entered into force in October 2001. Under the *acquis*, mandatory requirements can only be applied in very exceptional circumstances, case-by-case. Requirements cannot be imposed horizontally; each case has to be justified. Estonia should ensure that the implementation of language legislation respects the principles of justified public interest, proportionality and non-discrimination, Estonia's international obligations and the Europe Agreement. Efforts to

allow Estonia's participation in the European Employment Services system (EURES) need to be continued, in particular with regard to language training.

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. Within the framework of the bilateral social security agreements with Finland and Sweden, 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.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that the *acquis* in the area of free movement of persons did not in general present major problems in terms of accession in the medium term. As regards mutual recognition of professional qualifications, the preparation of the necessary legislative and enforcement measures would need to be intensified in order for it to be in place in the mid-term perspective.

Since the Opinion, Estonia has made progress in aligning with the *acquis* in this area, and has further strengthened the relevant institutions, including with regard to the future co-ordination of social security systems. The process of bringing Estonia's legislation and structures in relation to the free movement of persons into line with the *acquis* has developed satisfactorily, although further efforts are required.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia has agreed to a transitional arrangement in respect of the free movement of workers put forward by the EU. Restrictions on the movement of workers from Estonia to the EU will apply for a minimum two-year period as of the date of accession and may remain in force for a maximum of seven years. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on the adoption of outstanding legislation with respect to mutual recognition, on bringing curricula and training into line, in particular for nurses and vets, and on further strengthening institutional capacity.

## ***Chapter 3: Freedom to provide services***

### *Progress since the last Regular Report*

Since last year's Regular Report, Estonia has made progress in a number of areas under this chapter, notably in banking, securities and data protection.

In the field of **the right of establishment and the freedom to provide services** (other than financial services), Estonia has carried out a preliminary screening of its legislation, which did not yield any obstacles to the freedom to provide services and the right of establishment within the meaning of Articles 43 and 49 of the EC Treaty. The screening remains, however, to be completed by a more in-depth screening carried out by line-ministries.

In the field of **financial services**, the Act amending the Credit Institutions Act entered into force in January 2002. With it, Estonia's legislation is materially harmonised with the current *acquis* in the area of banking services. The new capital adequacy framework based on the Credit Institutions Act amendments entered into force from July 2002.

In the *insurance* sector, the Law of Obligations entered into force in July 2002. The act harmonised the provisions of the insurance directives regulating insurance contracts.

In the area of *Investment Services and Securities*, a new Securities Act replacing the Act of 1993 entered into force in January 2002. The act regulates the public issue of securities, the activities of investment firms in provision of investment services and the functioning of securities markets and securities settlement systems as well as the conduct of supervision over the securities market and its participants.

A new Financial Supervision Act, which entered into force in June 2001, created a joint Financial Supervision Authority, which commenced its operations as of January 2002.

In the area of **protection of personal data**, in November 2001 Estonia ratified Convention 108 of the Council of Europe.

Concerning **information society regulations**, there were no notable developments.

### *Overall assessment*

In the field of the right of establishment and freedom to provide services, natural or legal persons from EU Member States may freely set up companies in Estonia and/or acquire up to 100% of existing companies. Estonia will have to ensure that its language law and implementing decree, requiring Estonian language skills for employees of companies, does not create, even potentially or indirectly, trade obstacles for EU service providers. Estonia has declared that its system is based on proportionality and non-discrimination.

Estonia had already adopted the main measures concerning EC banking legislation with the 1999 Banking Law and complementary regulations and the 1998 Law on Deposit Guarantee. The remaining minor gaps have been filled with the adoption of the Credit Institutions Amendment Act on 13 December 2001.

In the insurance field, alignment is still needed with regard to the motor third party liability and life and non-life directives.

With regard to *investment services and securities*, there is still some way to go in correcting substantial weaknesses, notably in respect of the investment services and insider dealing directives, such as the absence of provisions on the exercise of freedoms by firms from other Member States and proper enforcement and supervision of Estonian firms

As regards *administrative capacity*, the joint Financial Supervision Authority, which commenced its operations from January 2002, is functioning well. This authority has budgetary and operational independence. The overall standard of supervision in the financial services sector in Estonia appears to be satisfactory.

In the area of *data protection*, further efforts are required as regards the adoption of amendments to the current Data Protection Law, and the legal status and staffing situation

of the State Data Inspectorate. The Estonian Data Protection Act of 1996 is not fully in line with EC directives. In particular there is a need to put in place all the elements to guarantee the independence of the data protection supervisory authority. Even those amendments to the Act which are currently being prepared would only bring about partial progress in that respect and still fail to fulfil the main criteria of independence, given that the competence to appoint and dismiss the head of the supervisory body would remain a Government responsibility. The Data Protection Inspectorate needs to be strengthened.

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.

### *Conclusion*

In its 1997 Opinion, the Commission concluded in the area of freedom to provide services that the financial services sector in Estonia was rather well developed and that although the approximation process seemed rather slow, the field of free movement of services was not expected to present any major obstacles to accession in the medium term.

Since the Opinion, Estonia has made steady progress in most areas of the chapter, both in terms of legislation and in bolstering the administrative and regulatory infrastructure required to supervise the financial services sector. Estonia's alignment process is now well advanced, but further legislative alignment is still needed with regard to some aspects of the *acquis*. Overall, Estonia is reasonably advanced with regard to alignment with the *acquis* in the area of freedom to provide services.

The negotiations on this chapter have been provisionally closed. Estonia has been granted a transitional period until 31 December 2007 for the deposit and investor guarantee schemes in order to reach the minimum compensation amount of € 20 000 required by the EC directives. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on completing alignment and concluding the establishment of a fully independent data protection authority.

## ***Chapter 4: Free movement of capital***

### *Progress since the last Regular Report*

Further progress towards meeting the requirements of the *acquis* has been achieved, notably through the introduction of a cross-border transfer system.

On **capital movements and payments**, no new developments can be reported. Most of the restrictions that could be removed before accession have already been removed.

As regards **payment systems**, following the Law on Obligations Act, adopted in September 2001, which will enter into force in July 2003, and the Securities Market Act, adopted in October 2001, which entered into force in January 2002, the Estonian legislation is largely aligned with the *acquis* in the field of payment and settlement

systems. Enforcement of the Law on Obligations Act will be regulated by the Law on Obligations Act Implementation Act adopted in June 2002, which entered into force in July 2002.

The new interbank payment and settlement system based on two subsystems – the Real Time Gross Settlement (RTGS) system and the Designated Time Net Settlement (DNS) system - has been in operation since January 2002.

The function of the out-of-court arbitration body to settle disputes between participants of the payment systems is performed by members of the Council of Payment System Experts. The out-of-court arbitration function will be extended to cover complaints related to payment and settlement services between commercial banks and their customers from 2003.

For consistent and integrated monitoring of the financial sector, the Bank of Estonia has established the Financial Stability Department, which became operational from January 2002. The new department will also cover functions related to the payment and settlement systems.

As regards **money laundering**, no major new developments can be reported since last year, although Estonian legislation is already largely aligned with the *acquis* on money laundering. Estonia has made progress in complying with the recommendations of the Financial Action Task Force and has submitted the relevant self-evaluations and progress reports.

### *Overall assessment*

In the field of capital movements, liberalisation in line with the *acquis* is now almost complete. The main remaining restrictions relate to the acquisition of real estate by non-residents, foreign direct investment in security services, air transport and ownership of sea-going vessels. These issues still need to be addressed, although those in the area of transport will await accession.

Following the adoption of the relevant legislation and the introduction of the new interbank payment and settlement system, Estonia has considerably improved the alignment with the *acquis* in this area. Necessary infrastructure in relation to payment and securities settlement is now in place. Estonia needs to complete alignment of the legislation and to establish an out of court redress scheme to deal with the settlement of complaints between the banks and their customers

On money laundering, further improvements are required in order to align Estonian legislation with the *acquis*. Estonia should also continue to comply with the recommendations of the Financial Action Task Force.

Concerning the supervision of the gambling sector, in the context of the prevention of money laundering Estonia should proceed with the preparation, adoption and implementation of a more detailed regulation for the supervision of gambling and lotteries.

The capacity of the financial intelligence unit (FIU) requires further strengthening in terms of additional staff and equipment. Training activities for the FIU, Economic Police, Prosecutors, Customs Officials, Bank Managers and employees need to be pursued.

## *Conclusion*

In its 1997 Opinion, the Commission concluded that the field of free movement of capital would not present any major obstacles for accession in the medium term.

Since the Opinion, Estonia has achieved good progress, especially through the introduction last year of a cross-border transfer system. Estonian legislation is largely aligned with the *acquis*, except in the sectors still remaining restricted, and administrative capacity is in place.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts should now focus on aligning the remaining restrictions concerning the acquisition of real estate by foreigners, investment in security services, prepare for the necessary amendments upon accession in the area of ownership of sea-going vessels and issuing of air operators' certificates, fully aligning its legislation with the updated EC money laundering *acquis* and complying with the recommendations of the Financial Action Task Force.

## ***Chapter 5: Company law***

### *Progress since the last Regular Report*

Since last year's Regular Report, Estonia has made some progress, in particular in accounting and intellectual property right enforcement.

Regarding **company law** as such, there are no particular developments to report.

As regards accounting, the Act on authorised public accountants, adopted in February 2002, is largely in line with the *acquis*, although a few shortcomings have been identified.

As regards auditing, there are no particular developments to report.

In the field of **industrial and intellectual property rights**, the capacity to detect pirate goods at the border has improved although the influx of counterfeit and pirated goods especially from Belarus, Ukraine and Turkey is still worrying. A co-operation agreement between customs and police authorities signed in September 2001 is a good signal but has yet to produce visible results. The Industrial Design Protection Act of 1997 was adapted to the requirements of the design Directive by virtue of an amending Act of December 2001. Furthermore, Estonia has now acceded to the European Patent Convention. This accession took effect in July 2002.

### *Overall assessment*

Following earlier legislative developments, the situation in the area of *company law* is satisfactory. Discrepancies still exist i.a. in respect of the 3<sup>rd</sup> Directive on mergers. Estonia has, however, drafted amendments to its company law which, if enacted as foreseen by the end of the year, would bring about full compliance with the *acquis*.



Estonia's legislation is to a large extent in line with the *acquis* on *accounting* and *auditing* law.

As far as administrative capacity is concerned in the area of auditing, amendments are under preparation to provide for government supervision of the self-regulatory Institute of authorised auditors.

In the field of industrial and intellectual property rights, legislation is largely aligned. However, further harmonisation is required on several provisions of the Community *acquis*, such as provisions on protection of technological measures, rights management information, exhaustion of distribution rights, the making available rights and resale rights. The necessary amendments, notably to the Law on Copyright, are planned for adoption in 2003. Some further adjustments of the Estonian patent legislation will be necessary and new laws in the field of trade-marks and designs have yet to be adopted.

The Estonian Government should complete the process of withdrawing its full reservation to Article 12 of the Rome Convention for the protection of performers, producers of phonograms and broadcasting organisations, so that foreign producers and performers have rights of communication to the public within the meaning of that Article.

The overall situation in the area of protection of intellectual and industrial property rights has improved. However, enforcement of copyright legislation and the fight against piracy and counterfeiting remains a source of serious concern and must therefore continue to be high on the agenda. Figures provided by the private sector indicate that pirated music in Estonia remains at 60%, pirated software at 53% and pirated videos at 60% (estimated). Problems are related to the performance of customs, police and judiciary. Co-operation among enforcement bodies and in particular between the police and local government, responsible for issuing sales licences, needs to be improved. Ex officio actions as an important tool to step up effective enforcement need to be increased. An added problem is that industry often complains vociferously, but is in actual fact not very willing to take up practical cases and duly contribute to the follow-up.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that a considerable amount of legislative work was still necessary in the fields of intellectual and industrial property. As far as company law was concerned, there did not appear to be any major problem with Estonia's implementing the *acquis*. In accounting, actions to achieve full conformity seemed realisable whilst in auditing, the information provided at the time did not allow a sufficient basis for assessment.

Since the Opinion, Estonia has made steady progress in aligning company law, and has also aligned its laws on trademarks and patents with the *acquis*. Estonia has achieved a high level of alignment with the *acquis* in the area of company law, and transposition in the field of industrial and intellectual property rights is continuing at a steady pace. Furthermore, gradual progress has been made with strengthening administrative capacity, which has now reached an acceptable level.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements and has agreed to the EU proposal relating to

industrial property rights for pharmaceuticals products and Community Trademark. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on ensuring full alignment with the *acquis* along the lines set out above, intensifying measures to combat piracy and counterfeiting, and further improving co-ordination between enforcement bodies (customs, police, judiciary).

## ***Chapter 6: Competition policy***

### *Progress since the last Regular Report*

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

In the **anti-trust** field, the new Competition Act, which introduced merger control as from October 2001, has been followed by secondary legislation in the form of guidelines on merger procedure, as well as block exemptions in the field of vertical restraints and horizontal co-operation agreements. In June 2001, a new Penal Code and a Penal Code Implementation Act were adopted (entry into force on 1 September 2002), *inter alia* providing for legal persons' criminal liability for competition offences and, originally, giving the right to conduct criminal investigation to the police authorities. However, in September 2002 Estonia amended the Code of Criminal Procedure, the Penal Code and the Competition Act, whereby it will instead be the Competition Board that is given authorisation to conduct pre-trial investigation in competition offences specified in the Penal Code.

The *Competition Board* has continued to build on its enforcement record over the past year. In 2001, it took 33 anti-trust decisions (compared to 31 in 2000), of which 4 were prohibitions (1 with fines). The decisions included 9 cases of abuse of dominant position, 8 cases of restrictive agreements, 8 merger cases (merger control was introduced in October) and 7 sectoral investigations. Staff remained at around 40 and training activities continued.

In the field of **state aid**, the new Competition Act, which strengthened state aid control as from October 2001, has been followed by implementing legislation relating to aid to the shipbuilding/repair sector. Estonia's annual state aid report for 2000 was presented to the European Commission in May 2002. In January 2002, the Association Council adopted the state aid implementing rules under the Europe Agreement.

The Competition and State Aid Division in the Ministry of Finance has been further strengthened and now has a staff of 7. Training activities have continued. In 2001, there were 58 decisions/opinions taken in state aid cases.

### *Overall assessment*

As regards anti-trust, the Competition Act of 2001 contains the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. The Competition Board functions well with a continued high level of training. However, in view of the recent changes that criminalise parts of the competition regime, it will be particularly important for Estonia to ensure that the Competition Board

is given the necessary powers and resources to continue to effectively enforce the competition rules. In view of the planned modernisation and decentralisation of the application of EC anti-trust rules, efforts to further strengthen the enforcement record need to continue, giving priority to cases concerning the most serious distortions of competition, and more deterrent sanctions. Increased awareness raising of the rules is important, especially among the business community, as is training of the judiciary.

As regards state aid, the overall assessment is positive. The Competition Act of 2001 contains the main principles of state aid control, although Estonia still needs to complete its implementing legislation in three of the sectors regarded as sensitive (steel, cars and synthetic fibres). A regional aid map with maximum aid intensities of 40% for northern Estonia and 50% for the rest of the country (as justified by GDP figures) is being applied, pending joint adoption in the Association Committee. As regards transparency, state aid reports have been submitted for the years up until 2000, which closely follow the methodology and the presentation of the European Commission's survey on state aid in the EU and are of good quality. The Competition and State Aid Division within the Ministry of Finance functions well. It has a proven track record of enforcement. Increased awareness raising of the rules is important, especially among aid grantors, the business community and the judiciary.

### *Conclusion*

In its 1997 Opinion, the Commission concluded in the area of competition that significant progress had been made in approximation in the area of anti-trust. However, considerable efforts would be necessary to fulfil the requirements as regards state aid monitoring in the medium term.

Since the Opinion, Estonia has made steady progress in adopting anti-trust legislation, developing the Competition Board's administrative capacity and establishing an enforcement record. Steady progress has also been made in adopting state aid legislation and increasing the transparency of the system, as well as in developing administrative capacity in the Competition and State Aid Division of the Ministry of Finance and establishing an enforcement record. Overall, on legislative alignment, administrative capacities and enforcement record Estonia is reasonably advanced.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments taken and the requirements for sufficient legislative alignment, administrative capacity and enforcement record, arising from the negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on ensuring that it continues to update its alignment as the *acquis* in this area evolves and, most importantly, on continuing to develop a track record of proper application and enforcement of both anti-trust and state aid legislation.

## ***Chapter 7: Agriculture***

### *Progress since the last Regular Report*

Since the last Regular Report, Estonia has continued to make steady progress in the area of agriculture, both with aligning legislation and with strengthening administrative capacity.

Agriculture in Estonia accounted for 5.8% of gross value added in 2001, compared with 6.1% in 2000<sup>12</sup>. Employment in agriculture has declined considerably over recent years, and now accounts for 7.1% of total employment<sup>13</sup>.

In 2001, overall agricultural trade<sup>14</sup> between Estonia and the EC increased significantly, largely due to the “double-zero-agreement” to liberalise trade in agriculture. EC imports of agricultural products originating in Estonia increased by 38 % to € 65 million. EC exports to Estonia increased by 11 % to € 314 million. The trade balance in favour of the Community amounted to € 249 million compared to € 235 million in 2000. Dairy products dominated EC imports. Beverages, sugar and sugar confectionery, meat and raw furkins were the main export goods from the EC.

The agriculture budget for 2002 is 2.5% of the total state budget for 2002, and is 20% higher than in 2001. Land reform has advanced steadily. Land registered in the cadastre now totals 3.01 million ha, compared to 2.8 million ha in September 2001. By now, approximately 77% of all land that can potentially be registered (3.8 million ha) has been entered into the books. Registration and ownership questions for almost all highly productive agricultural land have been settled and thus no longer hamper agricultural development.

At the end of 2001, two foundations, the Agricultural and Rural Life Crediting Foundation and the Rural Development Foundation were merged under the name Rural Development Foundation. The aim of the Foundation is to provide support, in particular to SMEs and start-up enterprises, and to improve their access to national support schemes and to SAPARD. The new Foundation has an independent statute and offers investment loans for the purchase of agricultural land, loan guarantees and general investment loans.

In order to improve the level of advice and general information available to farmers, the Ministry of Agriculture established a system of county advisory centres in April 2002.

### **Horizontal issues**

Since last year's Regular Report, Estonia has made further progress in preparations for implementation of the *European Agricultural Guidance and Guarantee Fund (EAGGF)*. The Agricultural Registers and Information Board (ARIB) will be the single paying

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<sup>12</sup> The source for all agricultural statistics is EUROSTAT unless otherwise specified.

<sup>13</sup> 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.

<sup>14</sup> Source of trade figures: WTO definition of agricultural products, figures from EUROSTAT COMEXT (see U.E. 12/15: Commerce des produits agricoles 1998-2000, 1 Partie D.G. AGRI / G.2 Analyses quantitatives, prévisions, statistiques, études, 2001, pp. 10-57 et 86-89.)

agency for the Common Agricultural Policy and Rural Development. Preparations are underway to be able to manage national support schemes according to EAGGF rules.

ARIB is also responsible for the development, operation and implementation of the *Integrated Administration and Control System (IACS)* in Estonia. The Ministry of Agriculture has drawn up an overall development scheme for IACS and in April 2002 a general feasibility study and gap analysis was carried out. Estonia has opted for the methodology of physical blocks to build its land parcel identification system. By June 2002 it had aerial photographs covering half of its territory.

Regarding *trade mechanisms*, the authorities for export refunds and taxes, import and export licences and for controls and checking have been designated.

As regards *quality policy*, no new developments are to be reported.

Following from the *Organic Farming Act*, several new regulations have been adopted concerning e.g. organic animal and plant production, certification, a farm register, approval procedures and organic labelling. A current project aimed at enhancing the organic control system provides for training of staff of the authority concerned.

As regards the *Farm Accountancy Data Network (FADN)*, no new developments are to be reported.

### **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. In particular, a working group, with representatives of the authorities involved, was formed in December 2001 for co-ordinating the implementation of the market regulation measures. A working plan was drawn up and the authorities involved have been determined. Although basic legislation for public and private storage has been laid down in the Rural Development and Agricultural Market Regulation Act, national market price support was not applied over the past year. However, preparations are underway for establishing an intervention unit within ARIB. The agricultural support schemes applied in Estonia include a total of 16 national schemes, approximately half of which concern national direct payments. The total budget for these schemes increased to €21 million in 2002, from €18 million in 2001.

In the areas of *arable crops* and *sugar* no particular new developments are to be reported.

In the area of *specialised crops* a Government Regulation on horticultural products was adopted in July 2002.

As regards *animal products*, standards for eggs and poultry similar to those in the EC were introduced in December 2001.

### **Rural development and forestry**

ARIB, the accredited SAPARD Agency, has been implementing the SAPARD programme during 2001-02 (*see Section A.b. – Relations between the European Union and Estonia*). In addition, *agri-environmental measures* have been applied in pilot areas, financed from the central government budget. The level of support available for these

measures (and for organic farming) has approximately quadrupled since 2001, although there was low absorption initially. Preparations for the Rural Development Plan in the framework of the EAGGF Guarantee Section have started and measures are being selected. The Ministry of Agriculture is the competent authority and ARIB will be the paying agency. Drafting of the Single Programming Document for the Structural Funds, including the EAGGF Guidance Section, is also under way (*see Chapter 21 - Regional policy and co-ordination of structural instruments*).

### **Veterinary and phytosanitary issues, including food safety**

Since last year's Regular Report, additional progress has been made in transposing and implementing the *acquis* in the **veterinary** and **phytosanitary** sectors, with the effect that most of the transposition is now completed.

Since the previous Report, regulations of the Government and the Minister of Agriculture have been adopted covering *public health* issues, *animal welfare* (transport and slaughtering), registration of dealers and artificial insemination. The last remaining regulation concerning public health hygiene rules was adopted in December 2001.

The capacity of administrative structures was again reinforced during the past year mainly by considerable staff training. From September 2001 to May 2002, for example, a total of 23 training sessions were carried out mainly for specialist staff of the Veterinary and Food Board. Laboratory staff numbers have also been increased.

Work is underway to upgrade the Border Inspection Posts which Estonia wishes to maintain after accession to the standards required by the *acquis*. This work is progressing slowly even though Estonia has set an internal deadline for its completion by 1 January 2003.

Estonia has begun testing cattle for BSE, but the number tested is not yet in line with the *acquis*. Another concern in Estonia was the lack of an animal waste disposal system. The setting up of a rendering system has started. However, the implementation timetable raises some concerns.

Estonia is also implementing a national plan for upgrading food establishments to meet EC requirements. All establishments that propose to operate after 1 January 2003 have been inspected by the competent authority and plans to correct any deficiencies have been drawn up.

In the **phytosanitary** sector, a new feedingstuffs act was adopted in January 2002 and entered into force in July. This allowed the scope of the Act to be extended to farmers producing feedingstuffs for use on their own farms and enabled implementing legislation to be adopted (a Government Regulation and 13 Regulations of the Ministry of Agriculture) in June 2002. A complete renovation of the Residues and Contaminants Laboratory of the Control Centre of Plant Production commenced in May 2002 and renovation of the Cereals and Plant Materials Laboratory and Agrochemical Laboratory was completed.

Sampling for various harmful organisms continued. In particular, no cases of fireblight were detected, though potato ring rot was observed in some lots of ware potatoes. These programmes will continue and will be expanded to cover other harmful organisms of concern such as potato wart disease and tomato spotted wilt virus.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), given the progress already made, there is little to report in terms of transposition. As mentioned above, considerable emphasis has been placed on professional training and on the improvement of laboratory capacity and facilities. A new virology department was established at the Veterinary and Food Laboratory in August 2002.

The upgrading of food-processing establishments has been progressing well, particularly in the meat and dairy sectors. Estonia has established a detailed action plan, which envisages all food-processing establishments being compliant with the *acquis* by 1 January 2003 at the latest.

BSE testing measures are being implemented with around 700 tests carried out in the period from January to April 2002. These numbers are due to increase considerably. Further work is required to meet EC standards regarding animal waste processing, and work on building a new central processing facility is progressing with the new processing plant scheduled to be operational in mid 2003.

### *Overall assessment*

In the area of **horizontal measures**, significant steps have already been taken. However, further attention will, in particular, have to be paid to the transformation of ARIB from the SAPARD Agency into the single paying agency for EAGGF Guidance and Guarantee funds. In addition, for IACS the Animal Register needs to be upgraded in order to ensure a higher degree of traceability, through the integration of animal movement data and holding data, and with a view to creating an interface with the veterinary services. The Field Register needs to be connected to digitised mapping and interfaces with other components have to be created. The production and digitisation of orthophotos needs to be completed for half the territory. In addition to the basic data sources, the different applications to manage support systems still need to be created for e.g. area subsidies, animal subsidies, agri-environmental measures and other rural development measures. Accounting and risk analysis and control software also need to be developed, as well as interfaces to the general Structural Funds Management and Financial Information System. Implementation by the date of accession will depend on the further development of systems and the availability of budget and staff. It will also require smooth co-operation between ARIB and the Land Board. In the field of trade mechanisms, development is at a rather preparatory stage. Operational structures, written procedures and control requirements as well as information technology equipment and staff reinforcement need to be completed.

The evaluation of management capacity and training levels of staff at ARIB is generally positive. However, ARIB faces an important challenge during 2002-2003 regarding the build-up of capacity for the management of the market regulation systems, the completion of IACS and the transfer of SAPARD and national schemes to EAGGF-type schemes. Successful completion of this process by accession will depend on the possibility of completing the necessary staff recruitment and on sufficient capacity for project management and procurement management within ARIB and the Ministry. It is therefore important that adequate funding from the national budget be made available, in particular for the build-up of IACS and the market regulation systems.

In the area of preparations for the implementation of the **Common Market Organisations**, some important steps have been taken. However, preparations for, in

particular, implementing the price support measures and trade mechanisms must now be energetically pursued. Capacity for the management of market regulation systems must be built up in both ARIB and the Ministry of Agriculture. In a number of sectors, in particular arable crops and dairy cows, national support is being granted, mainly through income support, providing a degree of experience in applying such schemes. Preparations are also underway for introducing a national milk quota system (but are still at a relatively early stage) and for introducing a SEUROP-classification system for pigs, bovines and sheep, which will in both cases further align the situation before accession with the CAP.

Estonia is well advanced in building up administrative capacity for implementing **rural development** policies. It has made a good start on preparations for future rural development measures.

Concerning the **veterinary field**, the legislation adopted so far means that most important legislation has already been transposed. However, Estonia still needs to fine tune its transposed legislation in order to correct any duplications or gaps.

Estonia is well advanced with plans for upgrading food establishments and is on track to be compliant in this sector as scheduled. Estonian legislation and standards are scheduled to be in line with the *acquis* by 1 January 2003. The situation in the area of animal welfare is less satisfactory in that the transposition of secondary legislation and its implementation is still ongoing. The rate of progress in bringing border inspection posts into full compliance needs to be improved. At present, apart from Luhamaa, a road crossing with the Russia Federation, all construction work at the border inspection posts is still at the planning stage. It will require careful attention by the Estonian authorities to ensure that the planned posts are ready by the date of accession. Co-operation between the Veterinary Services and the customs services is adequate but could be considerably improved.

In the **phytosanitary sector**, important steps have been made in transposing and implementing legislation and all framework laws have been adopted. However, this process is not yet complete: further amendments are needed, particularly with regard to the Plant Protection Act and some aspects of implementing legislation. Although the capacity of the Plant Protection Inspectorate has been increased, there is still a lack of suitable specialist staff in certain key areas and laboratory capacity should continue to be improved.

As regards **food safety** (*see also Chapter 1 - Free movement of goods*), as is mentioned above, Estonia is well advanced, particularly regarding the upgrading of food establishments, although the fish sector seems less advanced. The ongoing developments regarding the construction of an animal waste treatment facility and the increase in testing for BSE are welcome but will need to be followed carefully by the Estonian authorities to ensure that plans are realised on schedule.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that substantial efforts to align with the *acquis* were still necessary, although progress had been made in adopting the measures mentioned in the Commission's White Paper of 1995 on the Internal Market. The Commission added that particular efforts were needed in the following areas: the



implementation and enforcement of veterinary and phytosanitary requirements and upgrading establishments to meet EC standards; strengthening administrative structures to ensure the necessary capacity to implement and enforce CAP policy instruments, including the import arrangements; and further restructuring of the agri-food sector to improve its competitive capacity. The Commission further pointed out that since only a limited number of the mechanisms of the Common Agricultural Policy existed at that point in time, fundamental reform of policy would be needed, and a substantial effort would be necessary to prepare for accession in the medium term.

Since the Opinion, Estonia has made considerable progress towards alignment with the EC agricultural *acquis*, in particular over the past two years, and, more recently, has progressed with developing the necessary administrative capacity to implement the *acquis* in this area. Overall, legislation in this area is now largely aligned and Estonia has made good preparations in developing the required administrative capacity, but further significant efforts will be required.

Negotiations on this chapter continue, although all negotiation issues in the veterinary and phytosanitary fields have been clarified. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on: ensuring close cross-departmental co-operation, availability of competent staff and efficient project management (within both the Ministry of Agriculture and beneficiary institutions, such as the Agricultural Registers and Information Board) in particular for the paying agency, the Integrated Administration and Control System, Common Market Organisations price support measures, trade mechanisms and the milk quota system; further reinforcing the administrative capacity to implement and enforce the Common Agricultural Policy *acquis*, in particular in the veterinary field and that of food safety; completing legislative alignment; and ensuring that establishments are duly upgraded to meet Community standards.

## ***Chapter 8: Fisheries***

### *Progress since the last Regular Report*

Since the last Regular Report, some progress can be noted.

As regards resource management, inspection and control, the Fishing Act Amendment Act adopted in April 2002 introduced the requirement for pre-notification of landings, to be implemented from January 2003.

The Act also redefined the concept of “fishing vessel” so that it is harmonised with the definition in the *acquis*. It also established the Fishing Vessel Register (FVR) as a state register, requiring the registration of all fishing vessels and provision of certain information on technical parameters and data relating to fishing activities. Implementing legislation on the register entered into force in March 2002.

Regulations of the Ministry of Environment on Data Requirements for the Vessel Monitoring System (VMS) entered into force in January 2002.

The Environmental Inspectorate is responsible for supervision of Estonian fishing vessels. In 2001, 3 218 on-ship inspections were carried out, as compared with 2 184 in 2000.

At the end of 2001 the Environmental Inspectorate elaborated a development plan for 2002-2004, and in line with this there have been some changes to the structure of departments in the Inspectorate's main office, including the creation of a new unit to process control and enforcement information and coordinate the flow of data. Between January and June 2002 additional legal training was provided to 50 inspectors. Training has also been provided under the International Baltic Sea Fisheries Commission (IBSFC) project to improve supervision activities in the Baltic and unify control methods and procedures.

Administrative responsibility for the Fisheries Information System (FIS) is being transferred from the Environmental Inspectorate to the Fisheries Resources Department within the Ministry of Environment. A joint working group of the Ministry of Environment and the Ministry of Agriculture has been established for the development of the FIS. In February 2002 the Environmental Investments Centre approved a grant of just under €64 000 for the upgrading of the system. The FVR has been linked with the FIS, enabling monitoring of the use of fishing licences via the Internet.

In the field of **structural actions**, there are no new developments to report.

As regards **market policy**, there has been no substantial progress since mid-2001 regarding the preparation and transposition of legislation for producer organisations and market policy. A working group has been convened in the Ministry of Agriculture to work out a plan for the further development of the Fisheries Market Policy Information System.

As regards **state aid to the fisheries sector**, there are no new developments to report.

As regards **international fisheries agreements**, in June 2002 a regulation on the enforcement of North-East Atlantic Fisheries Commission (NEAFC) rules was adopted, and in July a regulation on the enforcement of North-West Atlantic Fisheries Organisation (NAFO) fishing rules.

### *Overall assessment*

Administrative capacity for fisheries needs to be strengthened. Responsibility for fisheries policy is divided between the Ministry of Environment (resource policy and fishing fleet) and the Ministry of Agriculture (structural policy, market policy). A clear conceptual overview of the steps needed to prepare for accession appears to be lacking. The experience on fisheries presently available in the Economics Department of the Ministry of Agriculture requires reinforcement. Further attention should be paid to ensuring practical co-operation and co-ordination among the different authorities involved. A clear understanding of technical requirements, administrative responsibilities and the timetable for the remaining transposition is needed. This is essential to allow for progress both in aligning the national legislative framework with the *acquis* and within regard to structural programming related to the Community Financial Instrument for Fisheries Guidance (FIFG).

As regards resource management, inspection and control, there have been some improvements in inspection. However, the system to track vessels, catches and sales remains unsatisfactory. The system of pre-notification of landings is still in the process of being developed and progress is needed in the preparation and transposition of legislation for first sales notes and licensing of first buyers. Many catch declarations are currently missing and logbooks are of limited value since they are not digital. The Fishing Rules establishing certain requirements for fishing need to be harmonised.

The Fisheries Information System (FIS) needs serious improvement and remains largely incomplete. The various forms of data collection have not yet been brought into line with EC rules. Moreover, the Ministry of Agriculture, the Veterinary and Food Board and the Environmental Services in the counties currently have no access to the system. Although the Ministry of Environment has a development plan for the FIS, there is no target date for completion of the system. It also needs to be determined how the FIS will be connected with the Environmental Register, the overall database-in-the-making of the Ministry of Environment, and whether the Fisheries Market Policy Information System will become part of the FIS.

As regards structural actions, the current Strategy Paper for the Fishing Fleet does not foresee measures for the reduction of the fleet. This needs to be addressed. The credibility of a guidance programme for fleet capacity relies heavily upon completion of the Fishing Vessel Register (FVR).

On vessel registration, under the Fishing Act Amendment Act, the re-measurement of vessels below 24 meters is scheduled to take place by 1 August 2003, after which the vessels will be re-entered into the FVR. In order to meet this deadline, it is important that the relevant rules are adopted well in time.

As regards market policy, Estonia still needs to create the legal framework for setting up fisheries producer organisations. Legislation also needs to be adopted to regulate the market quality of fish products. Once this legislation is adopted the Veterinary and Food Board would become responsible for checking the quality of fresh fish on trawlers and in harbours, alongside its current responsibility for control of the quality of fish processing in factories. Given the substantial increase in workload this would imply, adequate resources would need to be allocated.

Discussions on the introduction of procedures for the identification of the first sale of fish have not been finalised. Estonia needs to introduce the registration of first buyers of fish and to determine urgently whether or not this will be a licensing system. This needs to be done before an effective system to trace fish and fish products can be established. Establishing such a system is a key factor in the ability of the authorities to trace the origin of food safety problems.

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

Estonia is a member of two regional fisheries organisations: the North-West Atlantic Fisheries Organisation (NAFO) and the International Baltic Sea Fisheries Commission (IBSFC), and is a cooperative non-contracting party to the North-East Atlantic Fisheries Commission (NEAFC). It has bilateral fisheries agreements with the European Community (although no annual arrangement for 2002 was agreed), the USA and the Russian Federation.

## *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia's entry into the Common Fisheries Policy did not appear to pose any major problems but that the process of modernisation and *acquis* implementation would require significant efforts.

Since the Opinion, Estonia has progressed, though not consistently so. In particular, progress has been slow in adopting the necessary legislation. There has been a significant reorganisation of the administrative responsibilities for fisheries policy. All the main policy areas in the fisheries sector still require considerable attention and close coordination between the different responsible authorities in Estonia in order to comply with the *acquis* upon accession.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is partially meeting the the commitments it has made in the accession negotiations in this field. Delays have occurred in implementing market policy, the establishment of an effective catches management and monitoring system, including the Fisheries Information System, and the full operation and compliance of the Fishing Vessel Register. These issues need to be urgently addressed.

In order to be ready for membership, Estonia needs to give urgent attention to: upgrading the present Fisheries Information System so that it also satisfies the requirements of market and structural policy; coordinating the necessary legal transposition within the timetables set; setting up inter-institutional cooperation and management mechanisms for the Common Fisheries Policy; and coordinating resource policy, structural policy and the enforcement of requirements for the fishing industry. Estonia has begun to take steps to improve the co-ordination of the fisheries administration but these efforts need to be substantially stepped up. The full implementation of the measures in the Action Plan would help to ensure that the current gaps in preparations are filled.

## ***Chapter 9: Transport policy***

### *Progress since the last Regular Report*

During the past year, Estonia has continued to align its legislation with the *acquis* and made further progress, particularly in the field of air and maritime transport, as well as on strengthening administrative capacity in the railway and aviation sectors.

As regards investments in **Trans-European Transport Networks**, a first road rehabilitation project on the "Via Baltica" started in April 2002. About 120 km are planned to be refurbished by the end of October 2002. For railway infrastructure projects, the Estonian Railway Administration was accredited in December 2001 as the new implementing agency.

In the **land transport** sector, further progress has been made in the field of *road transport* in adopting secondary legislation. In particular, regulations aligning with EC rules on roadworthiness tests, the transport of dangerous goods, the licensing of road transport operators and the registration documents for vehicles were adopted by the government at the end of 2001. As to administrative capacity, no significant developments can be reported.

On *railways*, the Estonian National Railway Administration, the regulatory body supervising the railway sector, has been strengthened and has now 32 employees in three departments (supervision, market regulation, development). As to legislative alignment, no significant developments can be reported. However the opening of the Estonian railway market has continued, and several new licenses have been issued to freight and passenger operators.

On *inland waterways* transport the Parliament adopted in December 2001 the Maritime Safety Act which will enter into force in January 2003. Secondary legislation is scheduled to be adopted thus aligning Estonian legislation with the relevant EC rules.

As regards **air transport**, Estonia had already aligned its legislation with a substantial part of the aviation *acquis*. More secondary legislation amending the Aviation Act was approved in October 2001, including the important establishment of an Air Transport Accidents Investigation Department independent from the Estonian Civil Aviation Administration. The department is part of the Ministry of Transport and deals with the investigation of flight safety violations and aviation accidents. The Estonian Civil Aviation Administration (CAA) has been further reorganised and strengthened.

As regards **maritime transport**, the Maritime Safety Act adopted by Parliament in December 2001 will implement important parts of the *acquis* such as the level of maritime safety and the responsibilities of a ship owner. Construction works for a Vessel Traffic System for the ports in Tallinn and Muuga have started. Estonia acceded to the International Convention on Facilitation of International Maritime Traffic in December 2001.

The detention rate of vessels flying the Estonian flag has increased for the second year running. According to 2001 statistics under the Paris Memorandum of Understanding, the percentage of Estonian flag vessels detained following Port State control was 7.9%. This compares with an average for EU-flagged vessels of 3.1%. The detention rate of vessels flying the Estonian flag despite improving considerably from 14.9% in 1998 to 5.9% in 1999, rose to 6.6% in 2000 only to show this further increase to 7.9% in 2001.

### *Overall assessment*

As regards Trans-European Transport Networks, Estonia should continue with the further modernisation and development of both the priority transport infrastructure along transit corridor I, as well as the main transport infrastructure network. Special emphasis should be given to ensure the necessary administrative capacity (both in qualitative and quantitative aspects) to prepare for the significant investments that will be needed in road and rail infrastructure.

As regards road transport, Estonia is advanced in terms of legal alignment with the relevant *acquis*. Further efforts are still to be made in the implementation of social rules (admission to the occupation and checks of driving times and rest periods) in particular for domestic road transport operations. Administrative capacity should be strengthened.

On rail transport, Estonia has to enhance the transposition and implementation of the railway *acquis*. In particular, Estonia has to ensure the independence of the infrastructure manager. The functions of capacity allocation including the setting of timetables must be carried out by a body that is not providing rail transport itself. Moreover, Estonia has to

ensure that the National Railway Administration as the supervisory body should not take over responsibilities of the infrastructure manager. Estonia should also speed up the alignment with the new railway *acquis* notably regarding the infrastructure package and rail interoperability.

As regards inland waterways, Estonia has made some progress, but further alignment with the *acquis* is needed.

As regards air transport, Estonia is well advanced in aligning its legislation with the aviation *acquis* and in setting up the necessary institutional structures.

In the field of maritime safety, Estonia needs to enhance maritime safety and pursue its efforts to decrease the detention rates for inspected ships. It should further strengthen administrative capacity with regard to the monitoring of classification societies and improve its qualitative means to perform Port State Control duties to redress the safety performance of the Estonian fleet. Estonia should also ratify all relevant ILO Conventions.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia had made significant progress in adapting its transport legislation to the *acquis*. Provided efforts were made, and legislation was actually implemented, in road haulage (access to the sector, weights and dimensions), the maritime sector (safety) and, to a lesser extent, air transport, and provided financial transparency was improved in the rail sector, transport should not pose major difficulties as regards the adoption of the internal market *acquis*. The Commission added that it would also be necessary to make sure that the resources were available to lay the foundation for extension of the future Trans-European transport network to the acceding countries, and that Estonia's administrative structures should be reinforced, including the supervisory bodies, e.g. road safety.

Since the Opinion, Estonia has made steady progress in aligning legislation. Its legislation in the transport sector is now to a great extent in line with the *acquis* and only a limited amount of secondary legislation remains to be implemented. Estonia has also gradually reinforced its administrative capacity, but further strengthening is needed in some sectors.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia has agreed to a transitional arrangement put forward by the EU concerning the gradual reciprocal access to the cabotage market in the road haulage sector. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on the implementation of the social *acquis* in the road sector and the further legislative alignment in the rail sector, notably regarding the infrastructure and rail interoperability issues. Particular attention will need to be paid to the continuous improvement of the maritime safety record by considerably improving the flag state performance of the Estonian fleet.

## ***Chapter 10: Taxation***

### *Progress since the last Regular Report*

Since the last Regular Report, Estonia has made progress with aligning its VAT legislation with the *acquis*.

In the area of **indirect taxation**, the new VAT Act, that in principle harmonises the Estonian VAT legislation with the *acquis*, entered into force in January 2002. The new law has eliminated VAT exemptions on certain supplies of goods and services, replacing them with reduced rates. Regarding excise duties no progress can be recorded.

In the area of **direct taxation**, amendments to the Estonian Income Tax Act were adopted in October 2001. These amendments provide that profit distributions will be taxed regardless of whether the dividends are paid to resident or non-resident legal persons. The amendments will enter into force as of January 2003.

As regards **administrative co-operation and mutual assistance**, there is no legislative progress to report. However, Estonia made some progress concerning interconnectivity with EC IT systems, and a VAT Information Exchange System (VIES) platform was developed.

Some further steps have been taken to strengthen Estonia's tax administration, in particular as concerns the fight against tax fraud. The Tax Fraud Investigation Centre (TAFIC) has signed an agreement with the Security Police Board, which allows immediate exchange of operational information and more efficient co-operation during surveillance proceedings. In order to fight excise duty fraud concerning fuel stolen while transiting from Russia, the Customs Board has been granted access to the information system of the Estonian Railways Ltd. As concerns tax collection, in the framework of the e-Tax Board initiative, a new service has been established to receive pre-filled income tax returns over-the-counter in local tax offices.

### *Overall assessment*

With regard to indirect taxation, further alignment is required. As for VAT legislation, the provisions regarding the intra-community supplies of goods and services should be introduced and the application of zero-rate duties to electricity generated by wind and hydro-electricity should be abolished. In the field of excise, duty rates on mineral oils should be further increased in order to reach the EC minimum rates. In addition, as stated in last year's report, the tax warehouse system should be introduced also for the tobacco products and mineral oils.

As regards direct taxation Estonia needs to further align its legislation with the *acquis*, in particular it should eliminate the remaining incompatibility with the EC Treaty provisions on the free movement of capital. Furthermore, action will have to be taken to amend the legislation, if necessary, to eliminate potentially harmful tax measures, so as to comply with the Code of Conduct for Business Taxation to the same extent as current Member States.

As regards administrative capacity, efforts in this area should be continued and reinforced to correctly address tax fraud, in particular in the sector of mineral oils. Better co-

operation between such institutions as the Tax Board, the Customs Board and the Economic Police is also important in order to fight tax fraud. More staff is needed for fraud investigation.

In addition, the tax administration should be further modernised and strengthened, in particular in terms of audit procedures, by introducing computer-based auditing.

Concerning interconnectivity, Estonia should be in a position to meet its obligations in this area by accession. However further efforts are still needed. For instance, a Central Liaison Office should be established within the Tax Board as a separate structural unit.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that the *acquis* concerning direct taxation should present no significant difficulties, and that where indirect taxation was concerned, a considerable effort would be required if Estonia was to comply with the *acquis* on VAT and excise duties in the medium term. The Commission added that it should be possible for Estonia to start participating in mutual assistance as the tax administration developed its expertise in this respect.

Since the Opinion, Estonia has made significant progress in aligning its indirect tax legislation with the Community tax *acquis*, although some weaknesses remain to be addressed. However, the Commission Opinion's conclusion on direct taxation was made on the basis of the direct tax system and legislation in force in Estonia in 1997, and the entry into force of the new Estonian Income Tax Act in January 2000 has raised new concerns. Apart from direct taxation, the legislation is largely aligned, with only a few remaining amendments to be introduced, and Estonia is reasonably advanced as regards the necessary capacity to implement the *acquis* in this area.

Negotiations on this chapter have been provisionally closed. Estonia has been granted, for an indefinite period of time, the right to apply a VAT registration and exemption threshold of € 16 000 for small and medium-sized enterprises, a transitional period until 30 June 2007 for the continued application of the reduced VAT rate on heating sold to non-commercial bodies and on the sale of peat, fuel briquettes, coal and firewood to natural persons, and a transitional period until 31 December 2009 in order to reach the EC minimum excise duty levels on cigarettes and smoking tobacco. In addition, Estonia has been granted a transitional period to ensure full compliance of the Estonian direct tax legislation with the relevant *acquis* (until 31 December 2008). Estonia is generally meeting the commitments it has made in the context of the accession negotiations.

In order to complete preparations for membership, Estonia's efforts should now focus on completing transposition – except for areas where transitional arrangements were agreed - in the areas of direct and indirect taxation, including intra-Community transactions, and on pursuing the measures taken to modernise and reinforce the tax administration.

## ***Chapter 11: Economic and Monetary Union***

### *Progress since the last Regular Report*

A detailed assessment of the various aspects of Estonia's economic policy 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 the 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.

There are no known legal acts that would create **privileged access of the public sector to financial institutions**.

Concerning the **independence of the Central Bank**, amendments to the *Bank of Estonia Act* will have to ensure the full independence of all decision-making bodies with respect to ESCB-related tasks and ensure the complete personal independence of supervisory board members.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia's participation in the third stage of EMU as a non-participant in the Euro area would pose few problems in the medium term. Its central bank legislation was already fully compatible with EC rules in terms of explicit prohibition of budget deficit financing. The successful implementation of the currency board at that date and the relative development of the banking sector were encouraging indicators of the ability of Estonia to complete the restructuring of its financial sector in the next few years.

Since the Opinion, Estonia has made steady progress. The legislation is largely aligned with the *acquis* and the administrative capacity is in place.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it made in the accession negotiations.

In order to complete preparations for membership, Estonia's efforts should now focus on guaranteeing the full institutional and personal independence of the Central Bank and its members of the Supervisory Board by adopting amendments to the law on the Central Bank of the Republic of Estonia.

## ***Chapter 12: Statistics***

### *Progress since the last Regular Report*

Estonia has continued to make steady progress over the past year.

As regards **statistical infrastructure**, no substantial changes took place.

As regards **classifications**, in May 2002 the Government amended its Regulation on classification to bring the codes of the Estonian Territorial Units for Statistics (NUTS) into conformity with those of Eurostat. The full set of European Classifications, including the Classification of Products by Activities (CPA) and the List of Products of the European Community (PRODCOM), was implemented in January 2002.

Concerning **demographic and social statistics**, the final results of the Census of Population and Housing were published in autumn 2001.

The production of statistics at **regional** level is already very advanced. No significant changes took place since the last Report.

**Macro-economic statistics** are produced on the basis of the European System of Accounts (ESA-95) methodology at a very high level of compliance. Quarterly national accounts were further improved and are now available with seasonal adjustment. Estonia is a member of the European comparison programme, which supplies the data for the compilation of Purchasing Power Standards.

In the field of **business statistics** the Statistical Office introduced a comprehensive, unified business statistics questionnaire in 2001. It is accessible via the Internet, and respondents can also return it to the Office in electronic form. At the same time the quality of the business register has been improved.

Large parts of **environment statistics** have to be compiled on the basis of administrative data provided by other institutions. The Estonian Statistical Office has improved the information of the public through an active publication policy. Over the past year the Office has started to produce sustainability indicators.

As regards **transport statistics**, further progress has been made. In transport statistics data on national and international transport are coded by NUTS classification in line with the *acquis*. The data collection about transport of goods by road is also in line with the *acquis*. The quality of the motor vehicle register is improving as the re-registration of motor vehicles is continuing and should be completed by the end of 2002.

For **external trade**, work concentrated on the preparations for the INTRASTAT system, which monitors trade between Member States. External trade data are compiled for both general and special trade.

In **agricultural statistics**, Estonia conducted an agricultural census in 2001, which should greatly improve the quality of agricultural statistics in the near future, in particular through an update of the statistical farm register. Economic accounts for agriculture (EAA) are compiled together with the Ministry of Agriculture on the basis of the EAA-97 methodology.

### *Overall assessment*

As regards statistical infrastructure, the legal and institutional framework of the Estonian statistical system is now well established and complies with the *acquis* requirements.

The excessive deficit procedure should be brought in line with the situation of Member States, in particular through better reporting of local government debts. Substantial efforts are needed for preparing the implementation of INTRASTAT and for further improving the use of administrative sources for the production of statistics. Economic accounts for forestry on the basis of EC standards are still to be developed.

All **classifications** which are relevant for *acquis* implementation, are in force in Estonia. There is a regional sub-division of the country's territory, which corresponds to the NUTS and divides Estonia into 5 units at level 3.

Statistics at **regional** level are produced in a separate location outside the capital. The Office has invested continuously in regional data production and staff from the regional statistics section participate in training regularly. There is an ambitious system of regional data dissemination in place, which is accessible via the Internet and also provides thematic maps. Some indicators are also available at level 4 and 5.

The Statistical Office has adopted a culture of continued improvement, which is a very good basis for implementing the *acquis* that still remains to be implemented by accession. As a result the Office often follows new EC initiatives very early, e.g. statistical quality reporting or remote sensing in agriculture. However, whilst the staff of the Office is motivated and competent and participates in training activities regularly, staff turnover in some important departments remains comparatively high. Although there are no legal obstacles to the ESA having access to administrative data, there are still certain technical difficulties and problems of administrative co-operation which hinder the best possible use of administrative sources for statistical production.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia would need to make a sustained effort to comply with EU requirements.

Since the Opinion, Estonia has made impressive progress in all areas of statistics; in particular, a population and housing census and an agricultural census were conducted in the last two years. The legal, institutional framework and administrative capacity of the Estonian statistical system is now well established and complies with the *acquis* requirements.

The negotiations in this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on the excessive deficit procedure and calculating the local governments' debts; the preparation for the implementation of INTRASTAT; improving the use of administrative sources for the production of statistics; and developing economic accounts for forestry.

## ***Chapter 13: Social policy and employment***

### *Progress since the last Regular Report*

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

As regards **labour law**, no progress has been made in terms of alignment. However, in order to facilitate the effective enforcement of the *acquis* in this field, a one-year training programme for labour law judges was launched in early 2002.

In the field of **equal treatment** for women and men, no progress has been made in terms of alignment.

In the area of **health and safety at work**, new legislation entered into force with the aim of transposing the *acquis* on chemical, physical and biological agents, indicative limit values, banning of certain specified agents or certain work activities, vinyl chloride monomer, metallic lead, asbestos and carcinogens. Progress was also made in the areas of drilling, mineral-extracting industries and noise, in March and May 2002.

The National Labour Inspectorate was designated as the national focal point for the European Agency for Health and Safety at Work. The Inspectorate was also further upgraded technically, and staff received training.

In June 2002, Estonia adopted a 10-year **public health** action programme with the ultimate goal of increasing overall life expectancy. Work in the area of tobacco continues. In January 2002, new legislation on the regulation of tobacco advertising entered into force. A programme to re-organise and improve the blood supply system has been launched, and a new regional system established. The National Public Health and Medical Officers' Service organised a number of training courses for its staff on EC legislation, with special emphasis on legal approximation and law enforcement.

In the area of **social dialogue**, the relationship between the Government and the social partners was still marked by difficulties in implementing effective tripartite social dialogue within the various newly established structures. During the reference period, this lack of confidence was illustrated by controversies over the modification of the labour legislation and over the decision-making process used to set the national minimum wage for 2002. More recently, agreement was reached with social partners on increasing the national minimum wage for 2003. Autonomous sectoral social dialogue continues to be rather weak, with few collective agreements signed at sectoral level. At enterprise level, collective agreements are mainly to be found in large companies. In March 2002, the Government concluded a three-year agreement with the largest trade union confederation in the public sector which provides, *inter alia*, for the creation of a new forum for consultation in the public sector called the National Labour Council for Public Employees.

In terms of **employment policy**, the Joint Assessment of Employment priorities (JAP) was signed in March 2001. As part of the monitoring process of the Employment Policy Review, a progress report on the implementation of the priorities identified in the JAP was submitted by Estonia in May 2002. This report presents an important step in assessing the extent to which Estonia is progressing towards its objectives of labour market reform and adaptation of its employment system in order to prepare for future

participation in the European Employment Strategy after accession. The situation in the labour market improved further in the reference period. The unemployment rate continued to decrease in 2001, to 12.4%. The unemployment rate for men decreased to 11.8% whereas for women it increased to 13.1%. Long-term unemployment also continued to fall and stood at almost 47%.

Further progress was made in the preparations for implementation of European Social Fund (ESF) assistance. The Government's approval in April 2002 of the basic principles for preparing for implementation of the Structural Funds' assistance represented an important development in the context of future ESF-related implementation arrangements. The Ministry of Finance will assume responsibility as the Managing Authority for the Single Programming Document. In order to administer the ESF, the Preparatory Bureau for the future Paying Authority (ESF financial support calculation and payment) was set up within the Department of Finance and Budget of the Ministry of Social Affairs in July 2002. At the same time ESF managing procedures and schemes are being developed, instructions for the employees responsible for implementing the ESF and carrying out projects prepared, and study programmes for training necessary teachers elaborated. Training of the staff of the Local Employment Services is also taking place.

As a follow-up to the Gothenburg European Council, where the EU invited the candidate countries to translate the EU objectives into their national policies, the Commission and Estonia have initiated a joint co-operation exercise to prepare for future participation in the EU **social inclusion** process after accession. This exercise consists in joint identification of the social exclusion challenges and relevant policy responses. In this context, the Statistical Office of Estonia co-operates with Eurostat to produce data on poverty and social exclusion. Preliminary figures suggest that overall income disparities seem to be rather high, as is the poverty rate after social transfers at 17.4%.

As regards **anti-discrimination** legislation, no new developments have taken place since the last report. (*see also Section B.1.2. - Human rights and the protection of minorities*).

### *Overall assessment*

In the area of labour law work on legal approximation needs to continue in order to achieve full alignment. The Employment Contract Act, transposing a substantial part of the *acquis* in the field of labour law, will enter into force in the second half of 2002. However, Estonia also needs to transpose the Directives related to the involvement of workers in the European Company and to information and consultation of workers.

Regarding equal treatment for women and men, Estonian legislation is to a large extent in line with the *acquis*. However there is a need to clarify the terminology and definitions regarding gender equality, to explicitly prohibit direct and indirect discrimination, and to provide measures against indirect discrimination. Alignment should be completed through the adoption of a Gender Equality Act.

Regarding health and safety at work, transposition advanced well in 2001 and 2002 and alignment has been substantially achieved. However, Estonia still needs to finalise transposition of the Directives on workplaces, fishing vessels, display screen equipment, health and safety requirements at temporary and mobile construction sites, and medical treatment on board vessels. Considerable work remains to be done with respect to the

effective implementation of the *acquis* in this area. In this respect, particular attention should be paid to small and medium-sized enterprises.

With regard to public health, more progress is needed to improve the health status of the population, which continues to be lower than the EU average. Adequate resources for the health sector would also need to be ensured. The increase in the incidence of some communicable diseases also gives rise to concern. Further efforts have to be made to meet the requirements of the *acquis* on the quality and safety of blood and to adopt legislation on communicable diseases. Estonia intends to transpose the new Tobacco Directive in 2003. The surveillance system has the structural capacity to fulfil and implement EC requirements in the field of communicable disease surveillance and control as well in the area of data protection and management. New laboratory equipment and training in modern epidemiology and additional computerisation would improve the performance. The administrative capacity and implementing authorities are well established in Estonia.

Steps should be taken to actively promote sound developments in social dialogue. Autonomous social dialogue, especially at sectoral and enterprise level, should be promoted and its coverage improved, both in terms of enterprises and of percentage of the labour force covered by collective agreements. Social partners should make more use of their autonomy to conclude agreements among themselves. The registration and analysis of these agreements by the Government could also be improved. Strengthening the administrative capacity of both the social partners and the Government would help them to find ways of progressing towards more effective modes of operation. To this end, a programme should be implemented to help social partners build up their own research and negotiation capacities. On the tripartite level, ensuring due process within the existing tripartite structures would contribute to restoring confidence. In this context, particular attention should be paid to the statutes and procedures of these structures. Regarding employment, the Joint Assessment of the Employment Policy Priorities for Estonia (JAP), represented an important step in the preparations for accession. Progress in the implementation of these policies is assessed regularly and will be important to ensure effective monitoring of the phasing in of the priorities and commitments contained in the JAP. There is a need to focus employment policies at a more active and preventive strategy, to increase the incentives for inactive and unemployed people to active job search and take up jobs and continue the reform of vocational and education systems.

Preparations and resources for future participation in the European Social Fund should be strengthened especially seen in the context of the importance for Estonia to develop human resources, employment and fight against social exclusion.

A national integrated strategy on promoting social inclusion, taking into account the EU objectives, needs to be developed. As poverty and social exclusion are multi-dimensional by nature, it is important to promote an integrated approach mobilising various governmental bodies and all relevant stakeholders in the process. It is also crucial to improve and develop social statistics systems on poverty and social exclusion in line with the EU commonly agreed indicators on social inclusion.

As regards other areas of social protection, sustained efforts are required to implement the reforms that have been introduced, including the health care reform, which will help further improve the level and efficiency of social protection.

The strategic aims of the National Programme for People with Disabilities should be pursued further, in particular the goals of facilitating their social integration and fighting all forms of discrimination.

Further efforts are needed to ensure alignment with the *acquis* on anti-discrimination. Legislation transposing the anti-discrimination directives based on Article 13 of the EC Treaty will need to be introduced and implemented and the Equality Body required by the *acquis* has to be established.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that if Estonia pursued its efforts in the field of public health, social dialogue, health and safety, labour law and equal opportunities and continued to develop the structures to ensure effective implementation of legislation, it should be possible to take on the obligations of EU membership in the medium term.

Since the Opinion, Estonia has made good overall progress in aligning with the *acquis* in all areas, especially over the last two years. In particular, good progress has been made in the spheres of labour law, health and safety and the adoption of a public health programme. Overall, Estonia is approaching alignment with the *acquis* and the necessary administrative structures are in place.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts should now focus on completing transposition in the field of labour law, gender equality and anti-discrimination legislation, effectively implementing the *acquis* in the areas of public health and health and safety at work, and developing social dialogue in line with EU practice.

## ***Chapter 14: Energy***

### *Progress since the last Regular Report*

Since last year's Regular Report, some progress has been made in harmonising with the *acquis* in the energy field.

With regard to **security of supply**, no substantial progress can be reported, although preparations regarding the construction of a submarine power cable between Tallinn and Helsinki have advanced.

As regards **competitiveness and the internal energy market**, remaining price distortions were abolished in the electricity market in April 2002.

The Estonian electricity market is dominated by the state-owned Eesti Energia AS and its oil-shale based electricity generation. The Transmission System Operator is part of Eesti Energia with account and management unbundling. The plan to part-privatise its subsidiary, Narva Power Plants, was cancelled in January 2002. Nevertheless,

restructuring of the oil-shale industry has continued. One oil shale mine has been closed in 2001, and four more mines are planned to be closed in 2002. The new business plan for Narva Power Plants foresees a loan of around € 256 million to rehabilitate the plants.

The Energy Market Inspectorate (regulatory body) has a staff of 11 employees, working in two divisions (market survey and analysis). The budget of the regulator has been slightly increased. The Energy Act Amendment Act concerning the regulatory procedures of the Energy Market Inspectorate was adopted by the Parliament in February 2002 and entered into force in March 2002.

In the field of **energy efficiency and renewable energy** no progress can be reported.

Concerning **nuclear energy**, Estonia does not generate electricity from nuclear power sources, but has inherited several nuclear facilities which give rise to radiological concern. To cope with these issues, the Estonian Radiation Protection Centre (ERPC), which is the Estonian nuclear regulator, is developing specific regulations based on the Radiation Act promulgated in 1997. At the former training centre for operators of nuclear submarines in Paldiski, the radiological situation is progressively returning to normal. However, the issue of two concrete sarcophagi containing submarine reactor compartments still has to be resolved. In 2002, the Estonian authorities adopted a strategy for dismantling works after a safe storage period of at least 50 years. Consequently, Estonia needs to ensure the stability and tightness of both sarcophagi for this period of time. By July 2002, about 60% of package 1 of remediation works at the Sillamäe uranium tailing pond had been completed. Estonia has decided to discontinue dumping liquid waste from rare earth production at Sillamäe, by the end of 2002. From 2003 onwards, this waste is to be kept on-site in a dedicated storage facility. As regards the future of the disposal vault (Radon type) for institutional waste in Tammiku, Estonia has not yet taken a decision.

### *Overall assessment*

With regard to security of supply, Estonia should increase its preparations for the establishment of a common Baltic energy market and in building additional infrastructure linking the Baltic market to the EU market.

Considerable work is needed in order to effectively build up oil stocks, although the legal alignment is in place. Estonia will have to develop adequate administrative structures to monitor the building up of oil stocks and to ensure monthly reporting on oil stocks.

With the abolition of the remaining price distortions on the electricity market, progress has been made on the internal energy market. Further amendments to energy legislation are necessary to fully implement provisions of the internal market for electricity and gas. In this context, further market opening and legal unbundling, in particular for the transmission system operator, will be needed. It should be noted that the gas market is 70% open. Estonia should speed up the implementation of the gas directive. It should continue to make progress on the implementation of the electricity directive and give due attention to the functioning of the Baltic Electricity Market. Special attention should also be paid to the continued restructuring of the oil shale sector.

Regarding energy efficiency, the remaining secondary legislation implementing EC standards is needed. Secondary legislation under the Energy Efficiency of Equipment Act



on requirements for hot water boilers, household lamps, and ballasts for fluorescent lighting is being prepared. In addition, the planned establishment of an Energy Agency will be an important step to promote energy efficiency and renewable energy resources. Further efforts are also required to enhance the use of renewable energy resources and implement EU policy in this respect.

During the last year, the administrative capacity of the Energy Department of the Ministry of Economy has been strengthened as a result of changes in personnel. The Ministry is responsible for drafting the legislation and long-term development plans in the area; the main operator in the Estonian energy sector is the company Estonian Energy Ltd. (Eesti Energia AS). Eesti Energia AS is a 100% state-owned vertically integrated public limited company, engaged in power production, transmission, distribution and sales, as well as other power-related services. The Energy Market Inspectorate (EMI), the regulatory body in the energy area, remains relatively weak and the administrative capacity needs to be strengthened. There is a need to widen the responsibility and independence of the EMI.

In June 2001 the Council of the European Union took note of a Report on Nuclear Safety in the Context of Enlargement. Although Estonia does not generate electricity from nuclear power sources, the Report contains recommendations of relevance to Estonia with regard to other nuclear installations, including the safe management of radioactive waste.

During the first half of 2002 a special Peer Review on nuclear safety assessed the progress made by candidate countries in implementing all the recommendations. This exercise, conducted under the auspices of the Council, resulted in a Status Report published in June 2002, which concludes that Estonia has accepted and adequately addressed all the recommendations contained in the June 2001 Report on Nuclear Safety in the Context of Enlargement. .

Estonia will need to ensure compliance with Euratom requirements and procedures. In this respect, due attention must be given to preparing for the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or undertakings operating nuclear installations or storing nuclear material. This includes small holders like universities, hospitals and medical practices. It should be noted that Estonia has concluded a Full-Scope Safeguards Agreement with the IAEA.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that the nuclear waste situation of the former Soviet Paldiski naval sub-marine base should be followed closely. The Commission further pointed out that provided efforts were intensified, Estonia should not have major problems to approximate the then existing energy related *acquis* in the medium term. It also noted that of specific importance in the pre-accession period were the adjustment of monopolies, access to network, energy pricing, state interventions and restructuring of the oil shale sector, emergency preparedness (including the building up of mandatory oil stocks), energy efficiency and environmental norms. No major difficulties were foreseen regarding compliance with Euratom provisions.

Since the Opinion, Estonia has achieved progress in aligning with the EC energy *acquis*, in particular as regards the abolishment of price distortions and the opening of the gas

market. Some legal alignment has been achieved in the fields of the internal electricity and gas markets, energy efficiency and oil stocks. Only limited progress was made on restructuring the oil shale industry and on building up oil stocks. Overall, partial legislative and administrative alignment with the EC requirements has been achieved.

Negotiations on this chapter have been provisionally closed. Estonia has been granted transitional arrangements for the building-up of oil stocks (until 31 December 2009) and the implementation of the electricity Directive (until 31 December 2008). Estonia is generally meeting the commitments it has made in this field. Estonia should ensure that the transitional arrangement for market opening will not disturb the proper functioning of the Baltic Electricity Market.

In order to complete preparations for membership, Estonia's efforts now need to focus on the restructuring of the oil shale sector, on ensuring full and timely implementation of legislation in the area of the internal energy market (gas and electricity) and energy efficiency, in encouraging the development of renewable energy resources, and on strengthening the administrative capacity of the energy regulator. It needs to take measures for the progressive building up of oil stock levels.

## ***Chapter 15: Industrial policy***<sup>15</sup>

### *Progress since the last Regular Report*

Since the 2001 Regular Report, Estonia has made some progress with the development and implementation of industrial policy.

As regards **industrial strategy**, no major new developments can be reported. Estonia is still in the process of developing an industrial policy paper and associated action plan for 2003-2006. In this context, the Government is making efforts to integrate the business community and other stakeholders in the policy-making process.

The policy framework as it currently exists is therefore fragmented. As reported previously, the revised National Development Plan (of April 2001) contains specific priorities for industry and business development for the period 2001-2004. In January 2002 the document "Enterprising Estonia" was adopted containing proposals for a series of measures to support businesses. Within the framework of the Estonian Research and Development Strategy (adopted in May 2001), a survey has been conducted on innovative activities in the enterprise sector in the period 1998-2000, in line with EU methodology. Results from this should feed into new policy directions.

In practice, concrete industrial policy measures implemented by the Ministry of Economic Affairs have continued to be limited. However, several projects are being carried out to encourage technological development, export activities, and quality standards. These include a "Competence Centre Programme" aimed at enhancing co-operation between enterprises and research institutions. Also, the first National Quality Award "contest" is being carried out with the objective of increasing competitiveness of

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<sup>15</sup> 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*).

companies by acknowledging those companies that have achieved outstanding results and have introduced advanced organisational systems.

In 2002, Estonia witnessed further growth in both domestic and foreign investments. Estonia continues to benefit from relatively low corporate tax rates, a stable macroeconomic environment and liberal economic policy. In 2002 the real growth rate of fixed capital formation was 17% and the share of gross fixed capital formation in GDP reached 25.4%. The Estonian Investment Agency has continued to attract foreign investors primarily by providing relevant information and practical assistance to potential investors.

Since last year, there is little to report as regards **privatisation and restructuring**. The privatisation and restructuring process is, however, virtually complete in the industrial sector, with the exception of the energy industry. The Estonian Privatisation Agency was therefore closed on 1 November 2001.

The planned part-privatisation of the energy industry was halted in January 2002 and the Estonian Government decided to keep the power plants under state control. Nevertheless, the restructuring of the oil-shale industry has continued in line with the restructuring plan approved by the Government in March 2001 (*see also Section 2.2 - Economic Developments and Chapter 14 – Energy*).

### *Overall assessment*

There is still a need to complete the development of a comprehensive industrial policy and to define and implement specific measures in this framework. Estonia should continue its efforts and set clear priorities in collaboration with the business community, the financial sector and other relevant stakeholders.

Foreign direct investment, which comes primarily from EU member states, has continued to increase, particularly in the financial, transport and storage, manufacturing and retail sectors. The majority of the investment remains concentrated in Tallinn. Unequal development therefore continues to require attention in Estonian industrial and regional policy (*see Section B.1.2. - Economic criteria*).

As reported previously, the basic institutional structure for implementing industrial policy is in place. The central body responsible for the formulation and coordination of industrial policy remains the Ministry of Economic Affairs. The Ministry needs to continue to ensure that line ministries and other relevant institutions that are responsible for managing specific industrial branches also participate in the ongoing policy-making process. The Ministry of Economic Affairs has delegated most functions related to the promotion of entrepreneurship, technology, innovation and investment to Enterprise Estonia. The Estonian Privatisation Agency has been closed and any remaining privatisation is the responsibility of the Ministry of Finance, Ministry of Economic Affairs and County Governments.

Over the past years, Estonia has witnessed increasing activity by business associations and improvement in their dialogue with the Government. Business associations are represented both on the Council of Enterprise Estonia and also on the management councils of the various branches of Enterprise Estonia. Represented organisations include the Estonian Chamber of Commerce and Industry and the Estonian Small Business

Association. These business associations are continuing to develop further in terms of both membership and the scope of their activities.

It should be noted that an important element of any industrial policy is the control of state aid and the compatibility of support schemes with EC rules (*see Chapter 6 - Competition policy*).

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia would be able to cope with integration into the EU in this area, provided that it continued its positive efforts in industrial restructuring and the adoption of EU industrial legislation, and also that foreign capital inflows continued.

Since the Opinion, Estonia has continued to make good progress in most areas, and Estonia's policy towards industry generally complies with the concepts and principles of EC industrial policy, despite the fact that it is fragmented. It is market-based, stable and predictable.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this field. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on completing the development of an integrated industrial policy and associated implementation measures, completing the restructuring of the oil-shale industry and, more generally, on continuing to enhance competitiveness in the enterprise sector so as to achieve full integration into the Single Market.

## ***Chapter 16: Small and medium-sized enterprises<sup>16</sup>***

### *Progress since the last Regular Report*

Since the last Regular Report, Estonia has made good progress with revising its SME policy and further developing the state support system for business promotion. Efforts to improve the business environment have continued.

As regards **SME policy**, in January 2002 the Government adopted the new "Enterprising Estonia" policy document that sets out Estonian enterprise policy until 2006. Its general objectives are to promote entrepreneurship, to create new jobs and to enhance the competitiveness of Estonian companies. The policy paper divides enterprise development into 5 principal themes – human resources, access to finance, development of business support infrastructure, dissemination of business information and reduction of administrative burdens.

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<sup>16</sup> Developments concerning SME policy should be seen in relation to overall enterprise policy, including industrial policy (*see Chapter 15 - Industrial policy*).

Within this strategic framework, Estonia has prepared an action plan for 2002. This includes an overview of measures carried out in 2001, and plans for 2002. It is envisaged that action plans will be developed on an annual basis.

In April 2002, Estonia endorsed the European Charter for Small Enterprises as the basis for its action to support and develop small enterprises. The European Charter, adopted by the European Council in June 2000, is the reference document in the field of enterprise policy within the socio-economic strategy set up at the Lisbon European Council. The reporting process on the implementation of the European Charter started in May 2002.

The implementation of SME policy is the responsibility of the Ministry of Economic Affairs. The Ministry controls Estonia's two public business support foundations "Enterprise Estonia" and the Credit and Export Guarantee Fund - "KredEx", which were created in 2001 through the consolidation of a number of public bodies.

Estonia has made further progress in improving the **business environment**. This includes reducing the administrative burden on companies by starting to review the complicated system of licensing for companies. Another key activity is supporting training activities, particularly in entrepreneurship and managerial skills, which have been identified as being in short supply. Sixteen associated regional business development centres have started offering information and help to entrepreneurs, mediating public business support measures and promoting entrepreneurship at county level. Thereby, the process of establishing one-stop shops for enterprises has progressed.

Enterprise Estonia and KredEx have continued their business support activities, including training of entrepreneurs, financing of start-ups, providing an Internet information portal, supporting technological and product development and export and tourism promotion. Loan guarantees are also offered and help to address the problem of access to capital for some entrepreneurs.

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

### *Overall assessment*

The central body responsible for the formulation and co-ordination of enterprise and SME policy is the Ministry of Economic Affairs. In this context, there is a need to ensure that co-ordination and co-operation with other relevant ministries (Social Affairs and Education) is stepped up in order to encourage business development.

With around 100 staff and a budget of EEK 420 m (€ 26.8m) in 2002, Enterprise Estonia is a well-established business support organisation that could nevertheless be further developed in order to use synergies between its different agencies more effectively and by improving staff skills. In particular there is a continuing need to improve information flow to the business community and to raise awareness of the business support services offered. It is also important that the Government continues to make sufficient state budget funds available for the effective implementation of the annual action plans.

Estonia's business environment continues to be relatively stable and favourable to entrepreneurship. Dialogue between the Government and the business community is developing well. The Ministry of Economic Affairs consults representatives of the business community through the established SME Advisory Council. Business interests

are also represented on the management boards of Enterprise Estonia. There is however, scope for further improvement in the provision of information to enterprises, especially in relation to EU-related legislative changes made by the Government. The issue is of particular importance for sole traders and micro-enterprises in Estonia which are not represented at government level and for which the legislative burden is proportionally greater.

There is also a continuing need to tackle the problems of access to finance and lack of entrepreneurship and managerial skills, which continue to hinder the initial establishment and development of SMEs.

The present definition of SMEs recommended by the European Commission is not officially recognised in Estonian law but it continues to be applied in practice.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that the basic structures for SMEs were in place in Estonia, but that it was necessary to further refine policy, to simplify legislation so as to make it more SME-friendly, to strengthen support infrastructure, to improve the tax environment and to develop SMEs' access to financing.

Since the Opinion, Estonia has made good progress in formulating SME policy and in improving the business environment. Estonia has adopted a comprehensive policy towards enterprise and in particular SMEs that is generally in line with the principles and objectives of EU enterprise policy.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on continuing effective delivery of business support measures, reducing or removing identified barriers as regards establishment and development of SMEs, and further improving dialogue and dissemination of information to the business community.

## ***Chapter 17: Science and research***

### *Progress since the last Regular Report*

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

The Estonian Research and Development Strategy 2002-2006 was approved by the Parliament in December 2001. On the basis of this strategy, annual Research, Development and Innovation (RD&I) action plans will be compiled defining specific programmes and measures for promoting RD&I according to the strategy objectives.

The gross domestic expenditure on research and technological development in 2001 has increased and it is planned to reach 1.5 % of GDP for RD&I by 2006. In the context of its SME Policy, the Government aims at further developing research and/or technological parks both in Tallinn and Tartu, as well as a network of regional innovation and/or

incubation centres. This is accompanied by risk capital and guarantee schemes to support technological transfer to SMEs. (See Chapter 16 – *Small and medium sized enterprises*)

During the reference period, Estonia continued to be associated with the Fifth **Framework Programme**. Estonia has expressed interest in being associated with the Sixth Framework Programme (2002-2006).

### *Overall assessment*

The framework for co-operation in the field of science and technology (including National Contact Points) is well established.

Estonia's participation in the Fifth Framework Programme in terms of successful applications is satisfactory. However, efforts should be made in terms of implementing capacity. In this regard, the reinforcement of the research-related administration capabilities as well as the strengthening of the research infrastructure is recommended.

To develop the sector further and effectively integrate Estonia into the European Research Area, it is important to increase gross domestic expenditure on research and technological development. Estonia has already started to take certain measures to achieve it.

Promoting science and research in Estonia will, in particular, require a further increase in business expenditure on research and development (BERD), i.e. spending on science and research activities by industry, small and medium-sized enterprises and the private business sector in general. In this context, participation of private companies in the Innovation Foundation should be encouraged. Furthermore, research activities in universities should be fostered and proper risk capital legislation must be introduced. Emigration of young and experienced specialists continues to hamper the development of this sector.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that no major problems would be expected in this field. Accession would be of mutual benefit.

Since the Opinion, Estonia has participated successfully in the successive Framework Programmes in this area.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on further reinforcement of research-related administrative capacity and infrastructure, as a key factor in ensuring Estonia's successful association with the relevant Communities' Framework Programmes.

## ***Chapter 18: Education and training***

### *Progress since the last Regular Report*

Some further progress has been made in this area over the past year.

During the reference period, Estonia continued to participate in the second generation of the Leonardo da Vinci, Socrates and Youth **Community programmes** (see section A.b – *Relations between the European Union and Estonia*).

Progress has continued as regards the implementation of the **Directive concerning education of children of migrant workers**. Under Estonian legislation, all pupils, including children of foreign nationals, are subject to compulsory education at primary and basic school levels. The only exception is the case of children of diplomatic representatives. The representation of the foreign country concerned is then responsible for their education. School-aged children attend general educational establishments free of charge. In order to meet the particular characteristics or needs of a pupil, educational institutions may apply individual curricula (involving day and distance learning, external studies, or home and individual study).

As regards the reform of the vocational education and training (VET) system, the reorganisation of the network of vocational schools has continued in 2002. This has involved both the municipalisation and decentralisation of schools following the amendment of the Vocational Educational Institutions Act, which had been passed in the Parliament in June 2001, and the allocation of speciality areas for the schools.

The Estonian National Qualifications System is being further developed. At the end of 2001, 181 vocational standards were approved. In the context of the higher education reform, legislative changes (amendments to the University Act and related legislation) for implementing the standardised two-tier (BA-MA) system were adopted by the Parliament in June 2002. Most of the universities will transfer to the new degree structure during the 2002-2003 academic year.

### *Overall assessment*

Participation in the relevant Community programmes is satisfactory and the established national agencies are operational.

Estonian legislation is aligned with the Directive concerning education of children of migrant workers. Its implementation should continue as planned.

On the whole, Estonia has achieved considerable progress on vocational education and training so far. In June 2001, a foundation, the Estonian Qualifications Authority, was established in order to co-ordinate and organise the work on the national qualifications system. However, efforts to further reform the sector and to substantially increase financial support still need to be made.

The involvement of social partners continues through their participation in the Vocational Councils or in the Accreditation Committees. Nevertheless, social partnership should be further improved, in particular through the planned establishment by autumn 2002 of the



Advisory Council, the role of which will be to review state-subsidised training provision and to coordinate common action in this field.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that no major problems should be expected in this field.

Since the Opinion, Estonia has participated successfully in successive programmes in this area. Legislation is aligned with the *acquis* in this area and administrative capacity is in place.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts should now focus on completing its vocational education and training reform, including through effective involvement of social partners.

## ***Chapter 19: Telecommunications and information technologies***

### *Progress since the last Regular Report*

Since last year's Regular Report, progress has been mainly made in postal services, as the other areas were already well advanced.

Following the **liberalisation of the telecommunications market**, since January 2001 the Estonian telecommunications market is now fully open. Interim measures introduced in February 2001 to remedy very high interconnection fees were scrapped at the end of 2001. The *acquis* requirements of cost orientation were put fully in practice from January 2002.

From September 2001 to May 2002, in accordance with the Telecommunications Act, 10 licences were granted to operate telecommunications networks, 2 licences for telephone networks, 2 licences for radio networks and 6 licences for switched broad-band networks.

In November 2001, as a result of a telecommunications market analysis, the National Communications Board (ENCB) declared Estonian Telephone Co. to be the enterprise with significant market power (SMP) on the telephony service, leased line service and interconnection service markets and EMT to be the enterprise with SMP on the mobile telephony market for the year 2002.

As regards the **regulatory framework**, amendments were made to existing regulations concerning the Estonian frequency allocation plan, requirements for usage of radio communications equipment, requirements for terminal equipment and requirements for operating the public telecommunications network and providing telecommunications services.

There were changes in the structure of the ENCB between September 2001 and May 2002 due to developments in the telecommunications market. A new office was created

responsible for implementing the cost accounting systems and for controlling compliance of undertakings' accounting systems. These aspects are important for the *acquis* on interconnection of networks and in ensuring universal service.

The Action Plan on Information Technologies for the years 2002-2003, approved by the Government in May 2001, in accordance with the Estonian Information Policy of 1998 and the e-Europe+ Action Plan for candidate countries, continued to be implemented. Also the number of public Internet access points in public libraries was increased (486 in May 2002) and in January 2002 the first ID cards allowing for digital signature were issued to Estonian citizens.

As regards **postal services**, the Postal Act, adopted in June 2001, entered into force in January 2002. According to the Act, a licence for the provision of the universal postal service shall be issued only to an operator providing the postal service with uniform charges throughout the whole territory of Estonia. Implementing regulations were also adopted in time before the end of 2001. Several pieces of secondary legislation have been adopted. However, the new legislation still has certain shortcomings, notably as regards the licensing mechanism. The Estonian National Communications Board (ENCB) also exercises the functions of the independent institution regulating the postal field. The Postal Services Department was established at the beginning of 2002 within ENCB.

### *Overall assessment*

Estonia had already achieved liberalisation of the telecommunications market and implementation of its regulatory framework. However, the law should provide for carrier pre-selection and for all the elements of universal service as required by the *acquis*.

Penetration in mobile services has reached 54%. There are three GSM operators but UMTS licences have yet to be issued. Fixed network penetration reached 38% and is now falling slowly. Network modernisation still has some way to go but price rebalancing is well advanced.

The ENCB is a fully independent regulatory authority and has licensing powers. It operates under the administrative authority of the Ministry of Transport and Communications with 135 employees in September 2002. The present staff of the ENCB is sufficient to carry out the functions related to interconnection.

Despite effective progress concerning availability of an affordable universal service, a credible policy in this area remains to be devised. Moreover, the Ministry will have to start quickly with the implementation of the updated EC regulatory framework for telecommunications, which was adopted in February 2002.

Given that the Ministry of Transport and Communications (MTC) exercises the administrative authority over ENCB, conflicts of interest could arise. In fact, Eesti Post, the universal service incumbent, is a limited company belonging to the State and the MTC represents the full State shareholder's interest. Hence, Estonia should ensure that ENCB is in a position to act as the independent regulatory body for the postal services and that the legal basis in this regard is in line with the relevant *acquis*.

## *Conclusion*

In its 1997 Opinion, the Commission concluded that because of the positive approach to telecommunications liberalisation combined with the excellence of efforts at national level in the national education sector, Estonia could expect to realise the potentialities of the Information Society earlier than the average CEEC and no later than many EU member states. It was also noted that Estonia had moved quickly to liberalise the telecommunications field and had a good chance of complying with the *acquis communautaire* in the medium term provided that the current efforts to transpose laws were continued and measures to liberalise were reinforced. Greater competitiveness of the public operator was needed if the sector was to attract investment and face up to competition.

Since the Opinion, Estonia has made considerable progress, the legislation is largely aligned with the *acquis* and the administrative capacity is in place.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia should continue to ensure market access and availability of general service, as well as an effective implementation of the new Postal Act.

## ***Chapter 20: Culture and audio-visual policy***

### *Progress since the last Regular Report*

No particular developments can be reported since last year's Regular Report in the cultural and audio-visual sectors, where Estonia has largely completed its alignment.

There are no major developments to report in the **audio-visual** sector, where Estonia had already largely completed its alignment.

A Memorandum of Understanding providing for Estonia's participation in the Media Plus and Media training Community programmes was signed in July 2002, taking effect from January 2002.

In the field of **culture**, Estonia has been participating in the Culture 2000 programme since 2001.

### *Overall assessment*

Following the adoption in April 2000 of a Law amending the Broadcasting Act of 1999, Estonian legislation is largely aligned with the *acquis* on audio visual policy.

The Broadcasting Council is the highest authority in public radio and television broadcasting. It is composed of five members of the Estonian Parliament, on the basis of the principle of political balance, and of four other members also appointed by the Parliament, selected from among recognised specialists in related fields. The

Broadcasting Council is responsible for supervising the performance of public broadcasting functions.

There are two bodies, the Media and Copyright Department and the Broadcasting License Committee, both within the Ministry of Culture, which are responsible for the application and enforcement of audio-visual legislation. In addition, supervisory functions regarding technical aspects are carried out by the National Communications Board. Adequate co-ordination of the various structures involved continues to be crucial.

Estonia has been party to the Council of Europe Convention on Transfrontier Television and its amending Protocol.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that provided that the necessary legislative measures were pursued in line with the timetable foreseen and were accompanied by the necessary structural adaptations of the industry, Estonia should be able to meet EC requirements in the audio-visual sector in the medium term.

Since the Opinion, Estonia has become well advanced in this domain, in particular as regards legislative alignment, following the adoption in May 2000 of a Law amending the Broadcasting Act of 1999. Estonian legislation is largely aligned with the *acquis* on audio-visual policy. The necessary administrative structures are in place, although co-ordination between the relevant bodies should be ensured.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts should now focus on ensuring effective implementation of the legislation, in particular through the coordination of the relevant regulatory bodies.

## ***Chapter 21: Regional policy and coordination of structural instruments***

### *Progress since the last Regular Report*

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

Concerning **territorial organisation**, the provisional NUTS classification has been agreed with the Commission. The classification designates the whole country as one single unit corresponding to NUTS level II, and five regions corresponding to NUTS level III.

The territorial reform, which was initiated last year, to reduce radically the amount of local governments has not been successful. The reform has proceeded on a voluntary basis, which will probably result in a decrease of the amount of the local governments by 6 of the existing 247 by the end of this year.

There have been no particular developments since the last Regular Report regarding the **legislative framework**.

With regard to **institutional structures**, Estonia has revised the Government decision on management structure of the Structural Funds in February 2002 which designates the following structures for the implementation of the Structural Funds and the Cohesion Fund: the Ministry of Finance (Foreign Financing Department) has been appointed as the Managing Authority for the Single Programming Document as well as for the Cohesion Fund; the Ministry of Finance (National Fund Department) as the Paying Authority for ERDF; the Ministry of Social Affairs (Finance and Budget Department) as the Paying authority for ESF and Agricultural Registers; and the Information Board as the Paying authority for EAGGF, guidance and FIFG. Moreover, Estonia has appointed the intermediate bodies for the individual Structural Funds as well as for the Cohesion Fund in the Government Decisions of February and April 2002. The first level of intermediate bodies consists of the line ministries and the second of the following institutions: The Centre for Environmental Investments, Enterprise Estonia, the Estonian Labour Market Board, the Foundation Vocational Education and Training as well as Agricultural Register and the Information Board. The Government decision of April 2002 also includes information on tasks to be delegated to the intermediate bodies by the managing authority.

With regard to **programming**, Estonia started the preparation of the Single Programming Document in October 2001. Two inter-ministerial working groups have been established for the programming. Under the **partnership principle**, the Estonian authorities submitted the preliminary draft of the SPD to the partners for comments in spring 2002 and further consultations are included in the SPD timetable.

With regard to **monitoring and evaluation**, the evaluation and monitoring unit has been established at the Ministry of Finance and the ex-ante evaluation work of the SPD has started.

With regard to **financial management and control**, internal audit units have been established and staffed in all major spending centres of the central Government which are responsible for the implementation of the Fund.

As regards **statistics**, the compilation of regional data for analysis, evaluation and monitoring has continued. All adequate statistical data can be collected at NUTS II and III levels.

### *Overall assessment*

Estonia has already organised its territory into units corresponding to the NUTS classification and has adopted the framework legislation needed to implement the acquis covered by this chapter.

Estonia is reasonably advanced as regards the setting up of institutional structures. It has designated the main bodies responsible for the implementation of the Structural and Cohesion Funds. However, the decisions to be taken to determine the final implementation structures, to designate the immediate bodies and define their tasks need to be closely monitored, given that the April 2002 decision on the tasks to be delegated will need to be revised. Steps must be taken to ensure effective inter-ministerial

coordination. Estonia will also have to increase its efforts to bring the administrative capacity of the Managing and Paying Authorities, intermediate bodies and other relevant bodies up to the level required. Particular attention should be given to the institutions which are nominated as the second level intermediate bodies and the European Social Fund paying authority. Estonia should also continue to work towards developing the necessary structures and coordination mechanisms to manage financial assistance from the European Social Fund in the context of the European Employment Strategy and inclusion process.

With regard to programming, Estonia's decision to opt for a Single Programming Document and to start the programming work are important steps forward. However, Estonia still needs to further improve and strengthen its programming capacity and focus more on preparing integrated and coherent development strategy. To that end, there will need to be efficient and effective inter-ministerial cooperation and partnership throughout the whole process of preparing the draft Single Programming Document. Further progress must also be made with the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline). Project selection and decision-making should be managed within a framework that ensures transparency, efficiency and reliability in the implementation of programmes.

Work on ensuring compliance with the *acquis* requirements for monitoring and evaluation must continue, in particular as regards the ex-ante evaluation of the draft Single Programming Document. To ensure effective and efficient implementation of the Structural Funds programmes, it is crucial that an effective monitoring system should be operational upon accession.

Estonia is generally well advanced in the field of financial management and control. It is finalising the specific procedures for financial control, auditing, certification of expenses and correction of irregularities specifically applicable to the Structural and Cohesion Funds. However, the appropriate systems and procedures for financial management and control still need to be strengthened, in particular as regards the structure of the managing and paying authorities. Internal audit units have been established and staffed in all major spending centres of the central Government which are responsible for the implementation of the Funds. Common guidelines for the internal audit have been drawn up. The Financial Control Department at the Ministry of Finance gives methodological guidance and co-ordinates these services. However, these units still need to be strengthened and the training of internal auditors should be a priority in this respect. Estonia has introduced multi-annual planning of budgetary expenditure. Its budgetary legislation also contains sufficient flexibility to transfer allocation between funds and priorities.

As far as statistics are concerned, more needs to be done to bring them up to the level required for programming, monitoring and evaluation, in particular as regards ex-ante evaluation.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia's progress in establishing a regional development policy was limited and that a policy addressing regional disparities should be introduced, within the framework of its national development policy. The Commission added that, given Estonia's administrative capacity and necessary political support, structures to manage integrated EC structural actions could be established.

Estonia should therefore, in the medium term, be ready to apply the Community rules and channel funds from the EC structural policies.

Since the Opinion, Estonia has made steady progress in legislative terms, and, more recently, has moved forward with developing the necessary administrative capacity. Overall, Estonia has adopted the framework legislation and is reasonably advanced in setting up necessary administrative structures.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it has made in the accession negotiations in this domain.

In order to complete preparations for membership, Estonia's efforts should now focus on completing the programming document in accordance with the timetable agreed, clearly defining the final implementation structures and further reinforcing their administrative capacity, strengthening inter-ministerial cooperation and partnership, and further reinforcing systems and procedures for effective monitoring, financial management and control.

## ***Chapter 22: Environment***

### *Progress since the last Regular Report*

Since the last Regular Report, Estonia has made good legislative progress through the adoption of important framework laws. Some progress has also been made in developing administrative capacity.

With regard to the **integration of the environment into other policies**, continued efforts have been made to implement the National Environmental Action Plan (NEAP) and the Baltic Sea Agenda 21 (for example, joint actions for city cooperation and sustainable development issues, increasing consumer awareness of sustainable development). The NEAP is also ensuring integration of environmental protection requirements into the EU approximation process.

In the field of **horizontal legislation**, an agreement between Estonia and Finland on Environmental Impact Assessment in a Transboundary Context was signed in February 2002. The new Environmental Register Act was adopted in June 2002. The Kyoto Protocol was adopted by Parliament in September 2002.

As regards **air quality**, three regulations concerning emission levels in relation to non-road mobile machinery and in the production and processing of cellulose, cement and timber were approved by Government in June-July 2002.

In the area of **waste management**, six regulations on the basis of the Waste Act and the Packaging Act have been adopted, thereby aligning Estonian legislation with the *acquis* regarding asbestos waste, waste reporting, national packaging information system, shipment of waste and the procedure for issuing permits for shipment of waste, and the EC waste catalogue. A regulation on determining and defining hazardous waste was approved by Government in August 2002.

In the field of **water quality**, an amendment of the 2000 Water Act established, with effect from April 2002, the special requirements for discharges of dangerous substances and water permits. Two regulations were issued in June 2002 on the basis of this act aimed at completing alignment on drinking water quality. A regulation partially transposing the *acquis* on the protection of water against nitrate pollution originating from agricultural sources entered into force in February 2002. Further regulations concerning the water protection requirements for oil products terminals, the procedure for certifying persons taking water samples for purposes of carrying out water surveys, and water sampling methods were approved in December 2001 and January and May 2002 respectively. A drinking water implementation plan targeted at meeting the EC limit values for microbiological parameters and for ensuring compliance with the monitoring requirements was prepared in 2001-2002. The plan will be implemented in the years 2002-2004

In the field of **nature protection**, the Protected Natural Objects Act was amended in December 2001, thereby further aligning with the Habitats directive. EC hunting requirements (except for the requirements concerning the hunting of large carnivores - bears) have been transposed by the new Hunting Act, which was passed by the Parliament in April 2002. Establishment of the Natura 2000 network is ongoing according to the National Programme "Estonian NATURA 2000 for 2000-2007."

As regards **industrial pollution control and risk management**, the Integrated Pollution Prevention and Control Act entered into force in May 2002. On the basis of this Act, a regulation establishing the standard format of public notice on submitting and receiving an application for an integrated permit was approved in June 2002.

In the field of **genetically modified organisms and chemicals**, the Contained Use of Genetically Modified Micro-organisms Act was passed in the Parliament in November 2001 and three secondary legislative acts pursuant to this act were approved in January 2002. This was a major step forward towards achieving full alignment with the *acquis*.

With regard to **noise**, further legislative alignment has been achieved with the approval of the Regulation on Environmental Noise and Measurement Methods in April 2002.

As regards **nuclear safety and radiation protection** (*see also Chapter 14 - Energy*), no progress can be reported.

Estonia has carried out a range of actions to develop its **administrative capacity** in the field of the environment. In relation to the carrying out of environmental impact assessment (EIA), an additional 38 experts have been licensed on top of the existing 49. 104 EIAs have been carried out since the last Regular Report, plus the first transboundary EIA. An internet-based information system for environmental permits has been launched and the establishment of the uniform state environment register has been prepared. The budget of the Estonian State Environmental Monitoring Programme of 2001 was EEK 12 million (€ 0.8 million) and has been increased by 140% for 2002. The Environmental Inspectorate has been strengthened by the supplementary legal training of 50 inspectors.

### *Overall assessment*

While Estonia has achieved considerable alignment with the *acquis*, delays have occurred with the adoption of important framework Acts (Air, Radiation Protection). Moreover, to



complete transposition, parliamentary Acts are still outstanding as regards Waste, Nature protection, Biocides and Chemicals; implementing regulations still have to be issued in particular as regards waste (end-of life vehicles, waste incineration, and packaging waste and landfill), noise, industrial pollution and chemicals. In addition, close attention should be paid to the implementation of the *acquis* on nitrate pollution from agricultural sources (identification of vulnerable zones), industrial pollution (issuing of integrated permits) as well as chemicals and genetically modified organisms (strengthening of administrative capacity). In this context there is a need to strengthen the capacity of the Ministry of Environment to prepare legislation. Regarding environmental investments, considerable investments need to be secured, also in the medium-term, to ensure the implementation of the environment *acquis*.

The principle of integration requires continuous attention, both at national and at Community level. Estonia needs to continue integrating environmental protection requirements into the definition and implementation of all other sectoral policies so as to promote sustainable development.

Estonia's administrative capacity to implement the EC environmental *acquis* still requires close attention. The internal structure of the Ministry of Environment is complicated, the foreseen change in the structure of the Ministry of Environment in order to increase the planning capacity and the legislative quality therefore needs to be implemented. Local and municipal authorities need to be further strengthened. While co-ordination between the Country Environmental Departments (CED) and the local authorities in Narva/Virumaa appears to work very well, the coordination between the Environmental Inspectorates, the CEDs and the local authorities in smaller, rural municipalities is problematic. Moreover, the environmentally sound management of oil shale ashes and semi-coke requires further strengthening of administrative capacity. The CEDs are responsible for issuing permits for new landfills and closing existing ones. There are, however, overlaps with local municipalities as far as the siting of landfills is concerned, where the latter have the final right for decision. While the Environmental Inspectorate has a role in analysing relevant legislation, its role in the Integrated Pollution Prevention and Control permit procedure could be strengthened in order to facilitate inspection on the basis of the permit.

As regards monitoring, the role of self-monitoring procedure should be strengthened in the area of IPPC by giving the operators more responsibility for emission monitoring. Also, the monitoring duties of the authorities and operators should be made easier to carry out.

As regards enforcement, non-compliance with environmental standards is subject to fees and fines. However there is a need to continue training judges in order to ensure that enforcement measures are fully effective.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that, given the prevailing trends in innovative policy reform and relatively high investment levels, and with a major effort towards development of legislation enforcement procedures, full transposition of the environmental *acquis* and substantial progress in effective compliance could be expected in the medium term. It added that effective compliance with a number of pieces of legislation requiring a sustained high level of investment and considerable administrative

effort (e.g. urban waste water treatment, drinking water, aspects of waste management and air pollution legislation) could be achieved only in the long term.

Since the Opinion, Estonia has achieved considerable progress in aligning with the EC environmental *acquis*. Some progress has also been made in developing administrative capacity.

Negotiations on this chapter have been provisionally closed. Estonia has been granted transitional arrangements with regard to volatile organic compound emissions from storage and distribution of petrol (until 31 December 2006), landfilling of oil shale ash (until 16 July 2009), urban waste water treatment (until 31 December 2010) and drinking water (until 31 December 2013). Estonia is meeting the majority of the commitments it has made in the context of the accession negotiations. However, delays have occurred in the areas of air quality (revision of the legislation and completion of transposition, in particular of the limit values set in the daughter directives to the Air Framework Directive and Ozone requirements) and Radiation Protection. These issues need to be urgently addressed.

In order to complete preparations for membership, Estonia's efforts need to focus on finalising transposition (air quality, nature protection and radiation protection) and strengthening overall administrative capacity.

## ***Chapter 23: Consumers and health protection***

### *Progress since the last Regular Report*

During the reference period considerable progress was made in this sector in terms of legal alignment.

The most important development was the long-awaited entry into force of the Law of Obligations in July 2002, regulating both **safety and non safety related** areas such as liability for defective products, contracts negotiated away from business premises, distance contracts, unfair terms in consumer contracts, consumer credit, contracts on timeshare basis, package travel and package tours, sale of consumer goods and associated guarantees.

With regard to **market surveillance**, the Consumer Protection Board (CPB) signed a co-operation agreement with the Energy Market Inspectorate in January 2002, thus increasing the number of co-operation agreements between the CPB and other market surveillance bodies.

The Consumer Protection Board also operates in the field of consumer information and education. Experts of the Board provide advice and information, through a free telephone information service, about different issues in the field of consumer protection: consumer rights, warranties, required labelling, etc. (7873 consultations were registered in 2001, up from 7014 in 2000). Between September 2001 and April 2002, the Consumer Protection Board inspected 2866 enterprises.

In the framework of TRAPEX (transitional rapid exchange of information system), the Board received 61 notifications on dangerous products between September 2001 and May 2002 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 1220 consumer complaints.

Government support to the Estonian Consumers' Union amounts to 200 000 EEK (€13 000) in 2002. On the basis of a cooperation agreement signed with the Ministry of Economic Affairs in April 2002, the Estonian Consumers' Union will use these funds to carry out some specific projects which include providing better information to consumers on consumer-related issues and a strengthening of the Union's membership and administrative capacity.

### *Overall assessment*

With the entry into force of the Law on Obligations, considerable progress has been achieved in alignment of legislation with the *acquis*, with the exception of the revision of the Consumer Protection Act (in force since 1993). This is in the process of being prepared, with the aim of updating the existing Consumer Protection Act and bringing it into conformity with the *acquis* on injunctions for the protection of consumers' interests and on indication of the prices of products offered to consumers.

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 entry into force of the Law on Obligations. In order to develop an effective enforcement system it is necessary to continue support and commitment for strengthening the bodies in charge of enforcing consumer policy. The organisation and functioning of the market surveillance system should be improved. For instance, more resources should be devoted to checking the safety aspects of non-food products rather than reacting to complaints with regard to the quality of products and services. There is a need to increase the number of inspectors engaged in market surveillance activities and to improve the laboratory capability for testing the safety of non-food consumer products.

Awareness among the general public about the safety of non-food consumer products is limited. The main concerns of consumers tend to concentrate on the safety of food, the price and quality of services and the quality of products. Allowing consumer associations to make a greater contribution to the formulation of standards would help to enhance awareness about the safety of products.

There is one umbrella consumer organisation in Estonia, the Estonian Consumers Union, which groups together 10 legal entities/organisations in different regions of Estonia with limited membership. In general, good co-operative relations have been established between the Estonian Consumers Union and the government; a co-operation agreement has existed between the Union and the CPB since 1999. The role of consumer associations in promoting consumer interests should be made more effective.

### *Conclusion*

In its 1997 Opinion on Estonia's application for membership of the European Union, the Commission concluded in the area of consumer protection that, whilst reform of the Estonian legislation would need to be continued since existing laws complied only to a limited extent with the *acquis*, consumer policy was unlikely to cause major problems for Estonia in the medium term.

Since the Opinion, Estonia has made steady progress in transposing legislation, and gradual progress has been made with strengthening administrative capacity. Overall, Estonia is reasonably advanced with regard to alignment with the *acquis* on consumers and health protection.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, Estonia's efforts now need to focus on properly implementing the Law on Obligations and on ensuring appropriate resources for checking the safety aspects of non-food products as well as for market surveillance activities.

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

### ***Progress since the last Regular Report***

Since the 2001 Regular Report, further progress has been made in Estonia in the fields of data protection, border control, visas, migration, police co-operation and judicial co-operation. The new Penal Code entered into force in September 2002.

Estonia has made progress in further aligning its legal framework regarding **data protection** (see Chapter 3 - Freedom to provide services). Estonia ratified the Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data in November 2001, which entered into force in March 2002.

Estonia has made good progress in aligning its **visa policy** with that of the EU, including airport transit visas. In terms of administrative capacity, Estonia has set up an online national Visa Register. The Estonian Citizenship and Migration Board implemented the Visa Register in August 2001. In September 2001, the Visa Register was introduced at border checkpoints. Since November 2001 all visas in Estonian foreign representations are processed through the Visa Register. The online national Visa Register became fully operational in February 2002, and it will be able to function as part of the National Information System (N-SIS) containing Schengen-compatible data.

With regard to **external border control**, the Parliament ratified the Convention on Facilitation of International Maritime Traffic in December 2001. This will facilitate the introduction of simplified procedures for border crossings by crew members.

Although the implementation of the Border Agreement with the Russian Federation is still dependent upon ratification by the Russian Parliament, in practice it is reportedly applied on the ground and the border is demarcated.

In terms of administrative capacity, in December 2001, a bilateral protocol on co-operation was concluded between the Border Guard Board and Customs Board. The protocol regulates information exchange and sharing of responsibilities and co-ordinates activities for border control. The "Development Plan of the Border Guard Training System for 2002-2008" was approved by the Board of Border Guard in March 2002. The development plan involves the transformation of the Border Guard School, which is also being expanded, into a vocational educational institution.

Estonia is making progress in aligning itself with the **Schengen** / EU requirements and continuing to prepare for future participation in the Schengen Information System (SIS II) in line with its Schengen Action Plan of July 2001. In this context, several bilateral co-operation protocols between different government agencies have been concluded - between the Customs Board and the Security Police Board (October 2001); the Border Guard and the Customs Board (December 2001); the Tax Board and the Security Police Board (August 2001); the Police Board and the Customs Board (November 2001).

Estonia started to introduce new ID cards in January 2002, also for non-Estonian citizens. The ID card is an internal identification document and a device enabling the holder to give digital signatures. ID cards of resident aliens, in addition, contain data of residence and work permits. The new passports, introduced in February 2002, are machine-readable and are compliant with EU requirements in terms of increased security levels.

As regards **migration**, the Estonian Parliament adopted in June 2002 the Aliens Act Amendment Act concerning family reunification. The Amendment Act provides that aliens who apply for a residence permit on the basis of family reunification will receive their residence permits outside the annual immigration quota. In addition, the Amendment Act gives extended authority to officials of the Citizenship and Migration Board for checks on marriages of convenience. In order to ensure adequate administration in the field of migration, a separate Visa and Illegal Immigration Department of the Citizenship and Migration Board (16 civil servants) started working in February 2002 (*see also section B.1.2 - Human rights and protection of minorities*).

Estonia signed in March 2002 a readmission agreement with Hungary. The negotiations with Romania and Bulgaria are finished and readmission agreements have been submitted for approval to the respective governments. By June 2002 Estonia had signed readmission agreements with 33 countries.

Progress continued as far as **asylum** is concerned. The Parliament passed the amendments to the Refugees Act in May 2002. The Act specified the conditions of stay of asylum seekers in the reception centre and settlement of refugees in local government units. The Act will enter into force in January 2003. To ensure an efficient and fair asylum management system, a separate Refugees Department was formed from the Refugees and Illegal Immigration Department in February 2002. The Refugees Department has 5 posts, which are all filled. At present, the time for processing asylum applications for the majority of cases is between 18 and 30 months.

In the field of **police cooperation and the fight against organised crime**, Estonia has continued to make progress. The Forensic Examination Act entered into force in January 2002. The Act provides the legal status for forensic experts, state forensic institutions and officially certified experts, and a basis for establishing their respective rights and obligations. Estonia signed the Council of Europe Convention on Cybercrime in November 2001. Since 2002, an electronic registration system of crimes (POLIS) has been operational in all police institutions. This electronic registration system enables a quick and effective exchange of information between police units. A new public order special unit numbering 58 police officers was formed in March 2002. Its main function is to assist local police authorities in maintaining public order in their territory, in particular at public events, public meetings, football matches, prison disorders, etc.

In terms of international cooperation, the Co-operation Agreement between Estonia and Europol was signed in October 2001. Estonian Police participate in the task force for combating organised crime in the Baltic Sea Region, and other forms of operational cooperation with Europol as well as with neighboring countries, such as the Task Force of the Estonian and Finnish Police for combating drug crimes (FINESTO). A Co-operation Agreement between the Tallinn Police Prefecture and the Helsinki District Police was signed in December 2001.

Estonia has made further significant progress in the **fight against terrorist activities** by ratifying several international instruments in this area: the Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigation (October 2001), the International Convention Against the Taking of Hostages (November 2001), the UN International Convention for the Suppression of Terrorist Bombings (January 2002) and the UN Convention for the Suppression of the Financing of Terrorism (March 2002).

As regards the **fight against fraud and corruption** (*see Section B.1.1- Democracy and the rule of law*), Estonia ratified the Council of Europe Criminal Law Convention on Corruption in December 2001.

Progress has continued in the area of the fight against **drugs**, where the legislation is largely aligned with the *acquis* and the Alcohol and Drug Abuse Prevention Programme 1997-2007 continues to be implemented. Operational cooperation in this field is being reinforced between Police, Customs and Border Guards. In the field of demand reduction, Tartu was selected to establish a new treatment centre for drug addicts and Sillamäe as a location for a social rehabilitation centre. The Ministry of Social Affairs established the Estonian Drug Monitoring Centre (EDMC) in July 2001. The EDMC is also functioning as the Estonian National Focal Point in the European information network on drugs and drug addiction (Reitox) of the European Monitoring Centre for Drugs and Drug Addiction.

As regards the fight against **money laundering** (*see also Chapter 4 - Free movement of capital*), no further major progress can be reported since last year, although Estonian legislation is already largely aligned with the *acquis* on money laundering.

In the field of **customs cooperation**, an Investigation Department was established at the Estonian Customs Board (ECB) at the beginning of 2002, with the aim of carrying out pre-court investigation of customs related crimes and conducting surveillance operations aimed at the prevention and detection of customs fraud. The ECB has signed a number of co-operation agreements with other law enforcement agencies, including the Police, Border Guards and security police (*See also Chapter 25 – Customs Union*).

With regard to **judicial cooperation in criminal and civil matters**, Estonia has made further progress in the field of civil matters, with the ratification in June 2002 of the 1996 Hague Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Co-operation in respect of Parental Responsibility and Measures for the Protection of Children. With this Estonia has largely achieved alignment of its national legislation with the current *acquis* in the field of judicial cooperation in civil matters.

It also ratified in March 2002 the Additional Protocol to the European Agreement on the Transmission of Applications for Legal Aid. The Agreement is aimed at eliminating economic obstacles to the processing of applications for legal aid received from abroad

and enabling economically disadvantaged persons to protect their rights abroad more easily.

In March 2002, the Parliament adopted the International Private Law Act which takes into account the principles of the 1980 Rome Convention on the Law applicable to Contractual Obligations, open to accession by Member States of the EU. In July 2002, the Law of Obligations Act (adopted in September 2001), the General Principles of Civil Code Act and the International Private Law Act (both adopted in March 2002) entered into force.

Concerning cooperation in criminal matters, in December 2001 the Parliament adopted amendments to the Code of Criminal Procedure resulting from the Convention. The Parliament ratified in February 2002 the Convention on the Protection of the Environment through Criminal Law.

### *Overall assessment*

As regards **data protection**, progress has been made. However, Estonia should take the necessary steps to effectively implement the *acquis* on the use of personal data in the police information system. The Personal Data Protection Act and Databases Act should be further aligned with Recommendation No R (87) of the Committee of Ministers of the Council of Europe concerning the use of personal data in the police sector and the *acquis* in this area. The Statutes of the Data Protection Inspectorate should be aligned with the relevant provisions of the Schengen Convention. Finally, Estonia should ensure that the Data Protection Inspectorate is fully independent and has an effective supervisory role.

As regards **visa policy**, Estonia has made progress through the introduction of the new visa register. Estonia still needs to adopt the necessary provisions and ensure administrative capacity in order to guarantee effective implementation of the new visa regulation upon accession. In particular, it should complete the alignment with the lists of countries whose nationals are exempt from visa obligation when crossing the external borders of Member States, namely through the conclusion of visa-free agreements. Estonia should continue its efforts to align with the rules of the Common Consular Instructions and ensure proper functioning of the visa-issuing procedures, administrative management and organisation. All diplomatic and consular services should be provided with equipment to detect forged or falsified documents.

As regards **external border control**, border management is functioning satisfactorily. However, further alignment with the *acquis* is needed: in particular, amendments to the State Border Act and the new Border Guard Act still need to be adopted. Border control should be further reinforced by improving staffing levels, equipment, training and infrastructure, including the living conditions of Border Guards. Staffing levels in the Border Guards are a particular concern in the medium term and the targets of the Schengen Action Plan risk not being met in this regard. The establishment and implementation of a sea surveillance system, which has experienced some delays, should be accelerated. A proper border management plan should be devised with the aim of further developing border control capacities. To improve coordination between law enforcement agencies at the border, the foreseen agreement between Border Guards and the Police should be completed. Training of Border Guards should be reinforced regarding issues such as the application of refugees and asylum rules and specialised training for passport control and detection of falsified documents.

Estonia should continue its preparation for the full implementation of the **Schengen *acquis*** by updating the existing Schengen Action Plan. A detailed operational Schengen strategy covering all the areas involved should be devised. Estonia should start preparing for the implementation of the provisions of the Schengen *acquis* on police co-operation, in particular as regards cross-border hotpursuit and cross-border surveillance. The preparations for an operational National Information System containing Schengen-compatible data (N-SIS) should continue. Estonia should continue to develop inter-agency co-operation in this field.

As regards **migration**, some progress has been achieved in terms of alignment, but Estonia should still align its legislation with the Council recommendation concerning the adoption of a standard document for the expulsion of third country nationals. It should also align and implement legislation with regard to carrier liability. The legislation should be adequately implemented on entry and stay of third country nationals for the purposes of employment, self-employment and studies, on long-term residents and on unaccompanied minors. In order to increase the capacity to fight illegal immigration and employment, amendments to the Aliens Act should be adopted which will ensure that the Citizenship and Migration Board will be authorised to detect and fight illegal employment. Efforts should continue for the conclusion of readmission agreements with those third countries that represent a substantial risk of illegal immigration.

The **asylum** application rate in Estonia remains low. Some progress has been achieved in terms of alignment. However, the adoption of the Act amending the Refugee Act and the Alien Act has been pending in Parliament since autumn 2000. In particular, the legislation should be aligned with the Council Resolution on minimum guarantees for asylum procedures as regards the suspensive effect of appeal. The restrictive interpretation of the concept of safe third country and manifestly unfounded applications as well as the protracted appeal procedure for asylum requests should be addressed. The foreseen amendments could also provide for a one-stop principle in asylum procedures, while ensuring that the safeguards for asylum applicants are fully respected. Legislation should also be aligned with the criteria and mechanisms for determining the responsible Member State (Dublin Convention) including provisions on databases, fingerprinting and data protection. Preparation should continue for the implementation upon accession of the Regulation concerning the establishment of "Eurodac" for the comparison of fingerprints for the effective application of the Dublin Convention. As regards administrative capacity, adequate implementation of the asylum procedures should be ensured by Border Guards, namely concerning refusal of manifestly unfounded applications introduced at the border. The fundamental principle of *non-refoulement* should be ensured.

While some progress has been achieved in the field of **police cooperation and the fight against organised crime**, Estonia should align as soon as possible with the *acquis* and other international instruments on the fight against the misuse of the financial system, in particular for the purpose of money laundering and terrorism financing. It should also sign and ratify the Second Additional Protocol to the European Convention on Mutual Legal Assistance in Criminal Matters of November 2001 and start early preparations for the implementation upon accession of the EU Convention on Mutual Assistance in Criminal Matters and its Protocol. Estonia has signed but not yet ratified the 2000 UN Convention against Transnational Organised Crime. It has not signed the additional Protocols to the Convention.



In terms of implementation, the capacity of police forces should be further developed to combat more efficiently specific forms of organised crime such as trafficking in human beings, especially women and children, trafficking in drugs and new types of crime (financial crime, money laundering and "high-tech" crime). For this purpose, the preparation, on the basis of the "Police Priorities up to the year 2006", of dedicated long-term strategies, including allocation of resources and specific training, to tackle the various forms of organised crime, should be considered. The creation, as necessary, of specialised departments/forces to deal with specific crimes, such as the Information Technology Crime Division established in July 2002, should also be considered.

In terms of management, the reform of the police should continue to be implemented. In general, management practices should be reinforced and integrated.

Also, development of forms of operational cooperation, including information exchange, between all institutions working in the field of law enforcement, including the prosecutors and the judiciary, should continue by means such as the setting up of the New Register of Criminal Procedure and the innovative procedures provided for under the new Criminal Procedure Code. For the implementation of the new pre-trial investigation procedure, which should be brought under the responsibility of the Prosecutor's Office in 2003, the concrete organisation and the division of work between the Police and the Prosecutor's Office should be defined. Estonia should also develop national statistical instruments for measuring the crime rate.

Regarding the **fight against fraud and corruption**, Estonia needs to prepare for the ratification of the 1995 Convention on the Protection of the Financial Interests of the European Communities and to continue to align its legislation with the *acquis*. The new Penal Code should be amended to specifically foresee fraud affecting the financial interests of the EC. Also it should be properly implemented, in particular the provisions on fraud and passive and active corruption. Estonia should continue its efforts to ensure prevention through transparency and accountability standards.

The capacity to fight **drug** trafficking should be improved by considerably strengthening the administrative and operational capacities of the law enforcement agencies, especially the police and customs. The National Drugs Strategy should be adopted and implemented in line with the EU Drugs Strategy 2000-2004. Internal cooperation to fight drug-related crime should be pursued with a view to integration of resources. Co-operation with the Member States in this field should be further developed. Full use should be made of the possibilities for co-operation with Europol provided for in the Pre-Accession Pact on Organised Crime.

As regards **money laundering**, Estonia should proceed with the adoption of some amendments to the Money Laundering Prevention Act in order to align it with the *acquis*. The capacity of the Financial Intelligence Unit (FIU) should be reinforced in terms of staff and equipment. The Estonian Financial Supervisory Authority should be provided with the necessary means to ensure appropriate supervision of the financial sector. Training activities should be pursued for FIU, economic police, prosecutors, customs officials, bank managers and employees.

Estonia has achieved a high level of compatibility in its alignment with the *acquis* in the field of **customs cooperation**. Estonia should start timely preparation to implement upon accession the 1997 Convention on Mutual Assistance and Co-operation between Customs

Administrations (Naples II) and the 1995 Convention on the Use of Information Technology for Customs Purposes. The administrative capacity of customs should be improved through adequate staffing and equipment. A register for customs investigation should be developed in particular. Estonia should take appropriate measures to fight against fraud and corruption within the customs administration, including implementation of the Code of Ethics, and to ensure that cases of corruption are properly investigated by the Security Police Board and the Tax Board and disciplinary actions taken.

As far as **judicial cooperation in criminal and civil matters** is concerned, preparations are largely completed in terms of alignment. Estonia should adopt and implement the new Criminal Procedure Code and the new Civil Procedure Code. Estonia should take further measures to ensure implementation of the Community instruments in the area of judicial co-operation in civil matters, notably as regards mutual recognition and enforcement of judicial decisions. Direct contacts between competent judicial authorities should be made possible

With the ratification of the Convention for the Protection of Individuals with Regard to Automatic Processing of Personal Data, Estonia is now a party to all **human rights** instruments that are part of the justice and home affairs *acquis*.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia was starting from a very low base in terms of the justice and home affairs *acquis* (present and future). There were some encouraging signs of progress, notably in respect of border control, but Estonia would need to sustain a major effort if it was to meet the justice and home affairs *acquis* in the medium term.

Since the Opinion, progress has been slow at first, although significant progress has been made over the last two years, in particular in terms of legal alignment, whilst progress has been slower in developing an effective multi-agency operational approach in certain fields. Overall, legislative alignment is reasonably well advanced and continuing, whilst administrative structures are in place. Efforts should continue concerning the implementation of the new legislation, administrative capacity, management and inter-agency co-ordination.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on: finalising legislative alignment (migration, asylum, money laundering, and protection of the financial interests of the European Communities); further reinforcing the law enforcement agencies, with particular attention to the bodies in charge of border control and the fight against organised crime, illegal trafficking and corruption; and improving interagency cooperation.

## ***Chapter 25: Customs union***

### *Progress since the last Regular Report*

Estonia has continued to make progress in the customs field since the last Regular Report.

As regards alignment of Estonia's legislation with the **customs *acquis***, the new Customs Code and its implementing provisions, which removes the existing differences between Estonia's legislation and the *acquis*, entered into force in July 2002.

As far as **administrative and operational capacity** to implement the *acquis* is concerned, progress has been made. An Investigation Department was established at the Estonian Customs Board (ECB) at the beginning of 2002, with the aim to carry out pre-court investigation of customs related crimes and conduct surveillance operations aimed at prevention and detection of customs fraud.

In May 2002 Estonia's customs administration has selected a laboratory to perform customs analyses.

The ECB has signed a number of co-operation agreements with other state institutions and law enforcement agencies, including the Veterinary and Food Board and the Plant Production Inspectorate, Police, Border Guards and Security Police.

Some progress has been made concerning the supervision of fuel transit. The co-operation between the Estonian Railways and the ECB has improved. The number of cases of theft of fuel from transit trains coming from Russia is decreasing.

Regarding computerisation, work has also continued to develop EC-compatible customs IT systems further. Over the reporting period Estonia has been preparing actively for interoperability, especially through the Computerised Master Tariff Project, which aims at making the customs entry-processing system compatible with the EC's integrated tariff system.

### *Overall assessment*

With the entry into force of the new Customs Code, Estonia's customs legislation is largely aligned with the *acquis*. However, the current absence of duties on industrial products does not allow Estonian Customs to function in the same way as EU Member States. Such duties will be introduced only at the time of accession. Tariff classification, rules of origin, customs procedures with economic impact, valuation temporary admission and duty reliefs are major areas where expertise is lacking and where extensive training is needed. There is a lack of specialists in certain areas at the central level. All this has a significant impact on administrative capacity. Moreover, the full range of EC commercial policy measures and export refunds will not apply until accession, and these affect the context in which the provisions in areas such as non-preferential origin, inward and outward processing are applied.

As regards administrative capacity, the ECB should be reorganised, its management practices should be reinforced and resources should be reallocated, in order to enable it to carry out all its responsibilities by the time of accession. For this purpose the completion

and implementation of the foreseen change management plan for the ECB should be accelerated.

As regards computerisation, the ECB is preparing actively for interoperability. Problems remain for interfacing with the New Computerized Transit System, and between the computerised user tariff and customs entry-processing system, although these are being addressed. The ECB has established strategic plans aimed at achieving interconnectivity to the EC computerised customs systems. However, progress needs to be monitored regularly.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia would need to continue major efforts to draft customs legislation compatible to that of the EC and to align its organisation and staff to the duties that have to be carried out by a modern customs administration. If it did so it might be able to meet EU requirements in the medium term.

Since the Opinion, Estonia has achieved good progress in aligning with the *acquis* in this area although progress was slower as regards administrative capacity, in particular regarding the building up of skills of the whole customs administration as regards the implementation of customs procedures involving the collection or suspension of customs duties. Estonia's customs legislation is largely aligned with the *acquis* but its administrative capacity, while largely in place, still needs to be reorganised to enable it to carry out all its responsibilities by the time of accession

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to be ready for membership, Estonia's efforts should now focus on: the timely implementation of the planned computerised systems and achieving interoperability with EC information technology systems; further strengthening the administrative capacity by reorganising the Estonian Customs Board and reallocating resources; taking the necessary steps to prepare for the application of measures and provisions that will be introduced only at the time of accession, and combating fraud and economic crime, in close cooperation with other enforcement bodies. Estonia should continue and step up its preparations for implementation upon accession of customs procedures involving the collection or suspension of customs duties, as well as the reorganisation of Customs services.

## ***Chapter 26: External relations***

### *Progress since the last Regular Report*

Since the previous Regular Report Estonia has continued to align with the *acquis* on common commercial policy and has coordinated positions and policies within the World Trade Organisation (WTO) with the EU, in particular with regard the Doha Development Agenda negotiations.

As regards the **common commercial policy**, upon accession Estonia will be required to align its tariffs with those of the EC. Estonia's applied tariffs currently average 3.2%

(MFN) on all products, 14.9% on agricultural products, 3.0% on fishery products and 0% on industrial products. By comparison, EC tariffs currently stand at 6.3% on all products, 16.2% on agricultural products, 12.4% on fishery products and 3.6% on industrial products.

With regard to alignment with the *acquis* in the area of dual-use goods, no new developments can be reported. Estonia keeps the industry regularly informed of developments in this field and has developed bilateral contacts with EU Member States to exchange best practices on export control issues. Efforts are also ongoing to train customs officials.

Export credits may be provided by the KredEx foundation under the control of the Ministry of Economic Affairs (*see Chapter 16 – Small and Medium Sized Enterprises*). New government regulations for provision of such guarantees entered into force in October 2001.

An Anti-Dumping Act came into force in September 2002 in order to align with EC and WTO rules. A package of secondary legislation was adopted in August 2002 concerning registering imports, procedures for investigation of anti-dumping cases and functions of a new Anti-Dumping Council.

As regards **bilateral agreements with third countries**, Estonia concluded negotiations on a Free Trade Agreement with Bulgaria that was applied as from January 2002. An MFN agreement concluded with Belarus entered into force in April 2002. However, no new developments can be reported as regards the ratification by the Russian Federation of a similar agreement concluded at technical level. Negotiations are on-going to establish a Free Trade Agreement with Croatia and an MFN agreement with Armenia.

Agreements on further liberalisation of trade in agricultural products were reached with Slovenia, Hungary and the Slovak Republic.

With regard to **development policy**, and **humanitarian aid**, Estonia is making some progress in aligning policy principles with those of the EU and has participated actively in the Doha and Monterrey conferences.

Total expenditure has remained low and stable at 0.01% GDP which equates to EEK 7m (€ 0.47m) in 2001. In this respect, no progress has been made in aligning to the EU financial expenditure targets. Around one third of the expenditure was implemented with the cooperation of Non-Governmental Organisations.

Humanitarian aid continues to be focused on near neighbouring states i.e. Poland, Turkey, Georgia, Afghanistan. Development cooperation is focused on Ukraine, Uzbekistan, Kazakhstan and the Balkans. In this context, some cooperation projects are carried out jointly with UK and Canada. In addition, part of the budget is allocated for voluntary contributions to international organisations such as UNICEF, UNDP and UNHCR.

In September 2001 a development cooperation division was established in the Ministry of Foreign Affairs with a staff of 4 officials.

## *Overall assessment*

The EU and Estonia have established a framework for cooperation regarding WTO issues at both ministerial and departmental level. Estonia has been supportive of EU policies and positions within the WTO framework, in particular also during the preparation for and the launching of the Doha Development Agenda. This close cooperation should continue. Coordination is needed to ensure the alignment of Estonia's GATS commitments with the EC's commitments and MFN exemptions and steps have been defined to this extent.

Estonia is a signatory to the Information Technology Agreement (ITA) and the plurilateral Agreement on Trade in Civil Aircraft. Estonia is an observer to the WTO Government Procurement Agreement (GPA). With regard to the WTO Agreement on Trade in Textiles and Clothing (ATC), exchanges of information have taken place on Estonia's third stage of integration under the ATC, although some discrepancies remain.

As to medium and long term export credits, a good level of alignment to EC rules has been reached. Further alignment with the EC Regulation on dual-use goods is necessary. Full alignment to the *acquis*, in particular the general export authorisations, can only take place upon accession.

Estonia has concluded free trade agreements with Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic, Hungary, Bulgaria, Ukraine, Turkey, and EFTA (Norway, Switzerland, and Liechtenstein). Estonia should ensure that it keeps the Union fully informed both about existing trade agreements and about any negotiations aimed at the conclusion of new trade agreements with a third country.

Prior to accession, Estonia will need to renegotiate or renounce all international agreements concluded with third countries that are incompatible with its future obligations as an EU Member State. Decisive steps are needed, as a matter of urgency, to bring bilateral investment treaties in conformity with the Treaty obligations. Failure to do so will mean that the conflict between the bilateral investment treaties and Treaty obligations will need to be resolved in the Accession Treaty.

Estonia's alignment with and future participation in the common commercial policy is administered by the Ministry of Foreign Affairs. The administrative infrastructure which needs to be in place with respect to customs services is discussed in the chapter on customs union (*Chapter 25 – Customs union*).

Development and humanitarian aid are administered by the Ministry of Foreign Affairs. The Principles of Estonian Development Cooperation were adopted in January 1999.

## *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia was well placed to meet Community requirements in this field.

Since that time, Estonia has made gradual progress in its policy development and has achieved a generally good level of alignment with the *acquis*.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on completing the process of legislative alignment, on shaping its development policy and increasing its budgetary allocation in line with EU principles, on taking decisive steps, as a matter of urgency, towards the renegotiation or abrogation of its bilateral investment treaties in full conformity with its EU membership obligations, as well as on ensuring that the capacity exists to fully implement and enforce the EC acquis in this field upon accession.

## ***Chapter 27: Common foreign and security policy***

### *Progress since the last Regular Report*

Since the previous Regular Report, Estonia has continued to position its foreign and security policy in line with that of the European Union.

The regular **political dialogue** established by the Association Agreement with Estonia is proceeding smoothly and Estonia has played a constructive role within the framework of the Common Foreign and Security Policy (CFSP), including meetings at the level of Political Directors, European Correspondents and Working Groups.

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

As regards **alignment with EU statements and declarations**, Estonia has regularly aligned its positions with those of the Union and, when invited to do so, has associated itself with the Union's **common positions and joint actions**. Since November 2001, Estonia has associated itself with an EU joint action concerning the EU's contribution to combating the destabilising accumulation and spread of small arms and light weapons. It has also associated itself with eight EU common positions, including three on the Federal Republic of Yugoslavia.

Since the 2001 Regular Report, progress has been made with the adoption of the necessary legislative framework for effective participation in the CFSP. Estonia has continued to comply with **international sanctions and restrictive measures** imposed by the UN and the EU.

During the reporting period, Estonia played an active role in the Capabilities Commitment Conference in November 2001 and the EU +15 Defence Ministers' meeting in May 2002.

Relations with Russia have remained stable. A bilateral agreement on the opening of a shipping line on Lake Peipsi was concluded in March 2002.

From July 2002 until June 2003, Estonia holds the Chair of the Council of Ministers of the Council of the Baltic Sea States (CBSS).

As regards defence cooperation, Estonia has participated in a series of UN (Lebanon, Bosnia and Kosovo) and OSCE peacekeeping and observer operations. In this context, Estonia currently has 24 troops on peacekeeping duties in the Balkans. To further strengthen the convergence of Estonia's foreign policy with the EU's CFSP, the Estonian Ministry of Foreign Affairs has appointed interlocutors to the Policy and Security Committee in 2002. A Liaison Officer to the Military Committee has also been appointed.

Estonia is taking measures to implement the criteria of the EU Code of Conduct on Arms Exports. The amended Weapons Act entered into force in March 2002. The Ministries of Internal Affairs and Defence adopted regulations on stockpile management, record-keeping and marking of weapons in 2002.

Estonia signed the Rome Statute establishing the International Criminal Court in December 2001. It has passed new legislation against the financing of terrorism. It has aligned itself with the EU Plan of Action of September 2001, and with the relevant Common Positions on combating terrorism, and is in the process of acceding to the relevant international conventions relating to terrorism.

### *Overall assessment*

Estonia continues to participate in regional cooperation schemes, such as the trilateral defence cooperation with Latvia and Lithuania, notably in the joint battalion (BALTBAT). The main provisions of these agreements concern cooperation in peacekeeping missions and common undertakings (exercises and missions).

In terms of regional political dialogue, Estonia continues to participate actively in regional cooperation fora, such as the CBSS.

As regards administrative capacity to implement the provisions relating to the CFSP, the Estonian Ministry of Foreign Affairs is well-staffed. It has an administrative set-up compatible with EU CFSP structures including the posts of Political Director and European Correspondent. The Ministry of Foreign Affairs is connected to the Associated Correspondents' Network information system, through which the EU communicates with associated partners within the CFSP.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that Estonia was well placed to effectively fulfil its obligations in this field.

Since the Opinion, Estonia has made steady progress in aligning with the CFSP *acquis*; its alignment is in general satisfactory at this stage and administrative structures are in place.

The negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements in this area. Estonia is generally meeting the commitments it made in the accession negotiations in this domain.

In order to complete preparations for membership, Estonia's efforts now need to focus on ensuring that its foreign policy orientation remains in line with the Union's developing



foreign and security policy, adopting the legislation on economic sanctions and finalising the development of the necessary administrative structures. In particular, Estonia should ensure that its national policies and practice conform to the EU's common positions, should defend these positions in international fora, and should ensure that all sanctions and restrictive measures can be duly implemented.

## ***Chapter 28: Financial control***

### *Progress since the last Regular Report*

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

In the area of **Public Internal Financial Control (PIFC)**, some internal reorganisation has taken place in the structure of the Ministry of Finance. The Deputy Chancellor for Government Control is now responsible for the Treasury Department, the Financial Control Department (FCD) and the National Fund Department. The FCD is the central harmonising unit. The Ministry of Finance has approved manuals for internal audit and financial management and control. The overall number of internal auditors in the ministries, county governments and government agencies has increased, from around 100 in September 2001 to 150 in May 2002.

In the area of **external audit**, the State Audit Office Act was amended in March 2002, providing for the adequate functioning of the state audit institution in line with EC requirements and internationally accepted standards. The State Audit Office (SAO) has adopted INTOSAI (International Organisation of Supreme Audit Institutions) auditing standards and has made significant progress in adopting and implementing more modern methodologies for both financial and performance audit. It has also improved the methods it uses to plan and organise its activities.

In the area of **control over structural action expenditure**, the audits of EC pre-structural funds (ISPA, SAPARD and PHARE) have continued. In April 2002 the FCD completed the annual certification audit of the SAPARD Agency (*see section A.b – Relations between the EU and Estonia*). With respect to ISPA assistance, Estonia has introduced a management and control system to ensure proper implementation of the ISPA projects. The set up of this system is generally considered adequate. Estonia has already started the gap assessment exercise which is the first step leading to the extended decentralised implementation system (EDIS). (*see also Chapter 21- Regional policy and co-ordination of structural instruments*).

With the entry into force of the new Penal Code in September 2002 the **protection of the financial interests of the European Communities** against fraud and irregularities has been further strengthened. While the new Code provides for the possibility to conduct on-the-spot checks after accession, such checks should also be enabled during the pre-accession period. In August 2002, the Estonian authorities took the decision to make the FCD Estonia's anti-fraud co-ordinating service, responsible for the co-ordination of all legislative, administrative and operational activities related to the protection of the Communities' financial interests. (*As regards the Penal Code and fraud affecting the financial interests of the EC see also Chapter 24 – Cooperation in the fields of justice and home affairs*)

## *Overall assessment*

As regards **Financial Control**, the legal framework is in place in Estonia and seems to be in line with the *acquis*.

In the area of PIFC, the Financial Control Department (FCD) of the Ministry of Finance is responsible for giving methodological guidance, leading the development of manuals and monitoring their application. Internal audit facilities are in place in all major income and spending centres as well as some county governments (although further attention is needed for internal control at the county level). In terms of establishing implementation guidelines, good progress has been achieved. The Ministry of Finance has approved manuals for internal audit and financial management and control. The latter still needs to specify the separation of duties between the authorising officer and the financial controller. The FCD still needs to assess the practical functioning of the adopted internal control procedures. However, in general, appropriate internal control is considered to be in place in the public spending centres, particularly those dealing with EC funds. The concept of managerial accountability has to be further defined.

Internal audit at the municipal level is not monitored by the FCD as it falls under the rules of local self-government, although there is the possibility of co-operation agreements to bring municipalities into the scope of Government controls. Municipalities will need to enhance their internal control and audit system as final beneficiaries under the Structural and Cohesion Funds.

In terms of sustainable training facilities for PIFC, the situation in Estonia is considered adequate.

In the area of external audit, the operational and functional independence of the Office and its audit scope are satisfactory, as are the formal mechanisms introduced for parliamentary discussion of its recommendations. The audit manual of the SAO is still being prepared. Co-operation between the SAO and FCD is good. Continued progress in implementing INTOSAI standards is required.

With regard to the control of structural action expenditure, audit manuals are in place for ISPA and SAPARD and give general guidance. More specific manuals need to be developed for the future auditing of the Structural and Cohesion Funds, with a specific focus on the on-the-spot checks and annual audits required for the clearance of accounts. The development of checklists at the level of individual units or persons performing internal controls and audits is a priority for the FCD. As well as being a useful tool to improve fund management structures, this is also a requirement for EDIS and the accreditation of bodies involved in the future management of the Structural Funds. (See also *Chapter 21 - Regional policy and co-ordination of structural instruments*.) Estonia needs to reinforce and accelerate efforts leading to the extended decentralised implementation system before mid 2003 in order to allow EDIS accreditation to be achieved in the second semester of 2003. In June 2001 the Commission adopted a Decision provisionally conferring management authority for SAPARD, on a fully decentralised basis, to the SAPARD Agency. The Commission's guidelines concerning certification of Estonia's accounting procedures have been respected and judged satisfactory.

As regards the protection of the Communities' financial interests, designation of the Financial Control Department of the Ministry of Finance as the anti-fraud co-ordinating

service will help to ensure effective co-operation with OLAF and with other Estonian institutions and bodies involved in the protection of the Communities' financial interests.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that the field of financial control did not appear to present major obstacles for accession in the medium term, although considerable preparations would be required to establish the necessary management and control mechanisms for the satisfactory implementation of the Community policies.

Since the Opinion, significant steps forward have been taken. The legislation in the field of financial control appears to be largely in line with the *acquis*, while the necessary administrative structures are generally in place.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on in particular, completion of implementation of the Public Internal Financial Control system (especially at the local level), further implementation of internationally recognised auditing standards and sound management of Structural Funds upon accession, and the reinforcement of its legal framework and administrative capacity to prevent and combat fraud affecting the Communities' financial interests.

## ***Chapter 29: Financial and budgetary provisions***

### *Progress since the last Regular Report*

Estonia has made some good progress in this area since the last Regular Report.

Further progress has been achieved concerning the **national budget and EC co-financed measures**. The State Budget Amendment Act came into force in July 2002, improving the overview of revenues, expenditures, financing transactions, financial assets and duties. The budget strategy for 2003-2006 was approved by the Government in May 2002. The State Budget for 2003 has been prepared in line with the new Act, in particular reflecting financing transactions separately, and including the amounts of financial resources received as foreign aid or on the revenue side. The latter will help to guarantee the monitoring and comprehensiveness of the stipulated use of the foreign aid amounts projected for the fiscal year, including the activities co-financed by the EC.

The Ministry of Finance has started a wider reform of budgetary procedures and public expenditure management in order to make further improvements. The Rural Municipality and City Budgets Act entered into force in July 2002, improving the budgetary requirements for local governments. The budgetary reform also includes improving the regulation of evaluation and monitoring of the national programmes. An audit of the long-term planning of the State's finances and activities is also being carried out. Responsibility for successful execution of the budget reform lies with the State Budget Department of the Ministry of Finance, where a Development Division has been created for this purpose. The Division has been fully active since January 2002.

As regards the **own resources system**, some further progress can be noted. In particular, the new VAT Act, that in principle harmonises the Estonian VAT legislation with the *acquis*, entered into force in January 2002. In addition, the new Customs Code and its implementing provisions, which remove the existing differences between Estonia's legislation and the *acquis*, entered into force in July 2002.

The Ministry of Finance is responsible for implementing the *acquis* on financial and budgetary provisions, including preparations for the management of the own resources system. Some further progress can be noted in this area. Appropriate administrative steps have been taken to ensure adequate co-ordination between the various authorities involved in the application of the own resources system. A task force has been formed to co-ordinate the establishment of the necessary procedures, infrastructure and capabilities to fulfil the administrative conditions in the field of own resources. It outlines the principles of own resources administration and fixes the division of duties. Representatives of the Ministry of Finance (State Budget Department, Financial Control Department and Economic Analysis Department), and the National Tax Board, the National Customs Board and the State Statistical Office are members of this working group. Co-ordination with the Ministry of Agriculture for traditional own resources is ensured directly through the Customs Board.

Customs duties and VAT on imported goods are collected by the Customs Board, while other VAT is collected by the Tax Board. A working group is currently elaborating modifications in order to increase the precision of the model used to forecast the VAT base in line with EC requirements.

A common interface of electronic databases is under development, in order that Estonia can participate in the EC's integrated IT system.

As regards the administrative capacity necessary to co-ordinate financial relations with the EC, the number of employees of the Budget Department was increased in May 2002. In particular, one full-time official has been assigned to co-ordination of the administration of own resources.

### *Overall assessment*

The legal framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place. Regarding medium-term budget expenditure, all programming and monitoring mechanisms, including co-financing, have been established.

Overall administrative preparations on own resources are progressing well, but there is room for improvement.

As regards traditional own resources, the new Estonian customs code came into force only very recently, in July 2002. With regard to customs procedures, the Estonian customs legislation is now to a large extent in line with the Community provisions. However, action has to be taken to bring the Estonian customs tariffs in line with the Community requirements including for industrial products.

Also, Estonia needs to develop its reporting system on cases of fraud and irregularity and certain other reporting and accounting requirements (A and B accounts) still need to be set up in time for accession.

Concerning VAT, Estonia has made good progress on alignment, although a number of issues remain to be tackled. For the purpose of own resources, considerable efforts are required in order to be able to calculate the weighted average rate (WAR) in accordance with ESA95 and to determine the impact on the VAT base of any special arrangements agreed under the Taxation Chapter. Estonia should continue to participate in the VAT simulation exercise, which is the key tool for effectively testing Estonia's capacity regarding the VAT resource. Sustained efforts are also needed to improve the actual collection of VAT and to enforce VAT debts.

As regards the GNP resource, a satisfactory level of compliance has been reached. Estonian national accounts are generally in line with ESA95 methodology and are reasonably exhaustive. The GNP calculation is near to compliance with EU requirements. Some fine-tuning on methodology remains to be done, and on quality and completeness of data to achieve full compliance with the *acquis*.

With regard to administrative capacity, all the institutions necessary for applying the own resources system already exist but some organisational aspects and precise task descriptions still need to be defined. Also, sustained efforts will be required to reinforce administrative capacity in the context of the relevant policy areas described elsewhere in this report, in particular Taxation and Customs Union.

With regard to the control of future EC own resources, each government institution is required to draft its own ex-ante control procedure manual in line with the overall principles established for internal control. This includes ex-ante control and audit procedures for the collection of EC own resources.

### *Conclusion*

In its 1997 Opinion, the Commission concluded that, in order to ensure that own resources were established, monitored and made available in line with Community regulations, Estonia would have to overhaul its existing customs system. Furthermore, for the purposes of accurately calculating the GNP resource, considerable improvements would have to be made to the national accounts to ensure that they were reliable, homogeneous and complete. The Commission added that improving the statistics would also be essential for drawing up the VAT own resources base, which would mean bringing Estonia's VAT system fully into line with the Community directives.

Since the Opinion, Estonia has made considerable progress in these areas. The legal and administrative framework for budgetary management and for the transparency and efficiency of financial flows to and from the EC budget is largely in place.

Negotiations on this chapter continue. Estonia is generally meeting the commitments it has made in the accession negotiations in this field.

In order to complete preparations for membership, Estonia's efforts now need to focus on ensuring that technical and administrative capacity are sufficient to properly establish and make available the country's contribution to each of the own resources of the

Communities. In particular, Estonia needs to focus on: its calculations of the VAT base; in the area of GNP on the exhaustiveness of its national accounts and further implementation of the ESA95 methodology; and, in the area of traditional own resources, on implementing an aligned tariff structure. In addition, the co-ordinating task force will need to be transformed into a permanent unit dealing with the co-ordination of calculation and payment of own resources including reporting to the Commission.

### **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 texts, roughly estimated at 60 000-70 000 pages of the Official Journal. In the framework of the translation of the *acquis*, the Court of Justice has defined a set of key judgements to be translated as a priority (representing about 15 000 pages). To help the candidate countries in this process, assistance is being provided under the Phare programme. With the help of TAIEX, a dedicated database has been set up to act as a repository of all translated acts and as a tool through which candidate countries forward their translations to the Commission and the Council. The legal revisers of the Commission and the Council vet the submitted texts; they meet regularly and liaise with representatives of the centralised Translation Coordination Units in each country.

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. After the division (during 2001) of the Estonian Translation Unit into two separate units, the Translation Department now comprises three translation units. These are, the English Translation Unit in Tallinn, translating Estonian legislation into English, the Estonian Translation Unit in Tallinn, translating EC legislation into Estonian, and the Estonian Translation Unit in Tartu, translating the agricultural *acquis* into Estonian. Translation priorities are established in co-operation with the line ministries and approved by the Council of the Senior Civil Servants. As of 1 January 2002, the ELTC had 76 employees (81 in 2001), 61 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.

As at September 2002 38 500 pages of revised text were registered in the dedicated Commission database. According to the ELTC, all the primary legislation of the *acquis* has been translated and revised. As of May 2002, the ELTC and ministries had revised 40 054 Official Journal pages of secondary legislation (compared to 28 760 pages in 2001). Sustained further efforts are required in this area.

Continued attention needs to be paid to the training of conference interpreters.

### 3.3. General evaluation<sup>17</sup>

Since the Opinion, Estonia has made good progress in adopting the *acquis* and more recently, has also made progress in gradually building up the administrative capacity to implement and effectively enforce the *acquis*.

Over the past year, Estonia has made further advances in many areas including in the internal market, agriculture and justice and home affairs. However, the rate of progress in general has been slower than foreseen in Estonia's own planning as set out in its National Programme for the Adoption of the *Acquis*.

Overall, Estonia has now achieved a high degree of alignment with the *acquis* in the large majority of areas. It is also relatively advanced in having developed adequate administrative capacity to implement the *acquis* in a considerable number of fields. Estonia has most of the necessary institutions in place. Nevertheless, in some sectors, further efforts are required to strengthen the capabilities of these institutions. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Concerning the *internal market*, some progress has been made in *free movement of goods* in aligning both horizontal and sectoral specific legislation. Nevertheless, the market surveillance system including food safety should be improved. For *free movement of persons*, there has been further alignment on mutual recognition of professional qualifications, citizens' rights and free movement of workers although there is a need to ensure training of professionals is brought fully into line with EC standards. As regards *freedom to provide services, free movement of capital, company law, competition, and consumers and health protection* where preparations are relatively advanced, there has been some further alignment with the *acquis*. Areas where administrative capacity has been strengthened include the newly operating unified Financial Supervisory Authority and the introduction of a cross border payment system. Continued attention needs to be given to further developing the capacity of the Data Protection Inspectorate, the Public Procurement Office and the Financial Intelligence Unit (anti-money laundering). There is also a need to ensure the effective application of competition *acquis* and to improve law enforcement in the areas of piracy and counterfeit goods.

Concerning *agriculture*, preparations have continued for the Common Agricultural Policy and further alignment has been made in the veterinary and phytosanitary sectors. A new Rural Development Foundation has been established. Work needs to continue, to strengthen the future paying agency and the Ministry of Agriculture in developing CAP systems including the Integrated Administration and Control System, also to develop capacity in the veterinary field, strengthen the Plant Protection Inspectorate and border controls, and ensure that food quality standards are met. In *fisheries*, the pace of progress has been slow although some steps have been made in resource management, inspection and control. Urgent improvements are necessary, in particular in continuing to develop the fisheries information system, to develop and implement structural and market policy and improve administrative capacity and coordination between the Ministries of Agriculture and Environment. Drafting of market legislation is currently ongoing and several projects are under preparation for the analysis of producer organisations, fisheries

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<sup>17</sup> See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

databases and registers. Estonia has begun to take steps to improve the co-ordination of the fisheries administration but these efforts need to be substantially stepped up. The full implementation of the measures in the Action Plan would help to ensure that the current gaps in the preparations are filled.

In *transport* policy, Estonia has continued to make steady progress in both aligning and implementing legislation including the establishment of an independent Air Traffic Investigations Department. There is a need to complete alignment in the railway sector, implement the social *acquis* in the road sector and improve maritime safety. In *energy*, progress has been made in removing market price distortions, improving regulation and nuclear safety. Estonia should continue to align legislation, in particular as regards the internal electricity and gas markets, develop renewable energy sources and further strengthen the energy market regulator. More generally, in terms of *industrial policy*, Estonia should complete the process of industrial restructuring by focusing on the oil-shale sector. In *telecoms* and *culture and audiovisual policy* alignment of legislation is largely complete. Nevertheless, Estonia should ensure universal service.

For *social policy and employment*, Estonia has made some progress in aligning health and safety legislation. The National Labour Board has been upgraded and designated as the focal point for European Agency for Health and Safety at work. Further work is required in aligning labour law, equality legislation and to improve capacity to implement and enforce legislation in public health, health and safety at work. Social dialogue should be further developed. In *regional policy* steady progress has been made in preparation for the structural funds. However, Estonia still needs to greatly improve the capacity of authorities designated to programme and implement EC regional policy after accession including the development of sound financial controls.

In the *environment* sector, further progress has been made. Estonia needs to continue alignment, in particular in the areas of waste, nature, chemicals, air protection and radiation; to invest in infrastructure including waste and waste water treatment; and to strengthen administrative capacity, at both ministerial and local government level. Estonia also needs to continue to improve enforcement of environmental legislation.

Estonia has made further progress in the field of *justice and home affairs* in data protection, border control, visas, migration, police and judicial cooperation. New systems have been introduced - an online visa register and an online criminal register for the police services. Legislative alignment needs to be completed in particular in the fields of migration, asylum and money laundering. Attention should also be paid to implementing the Schengen Action Plan, reinforcing border controls and fighting organised crime.

In *taxation*, progress has been made in aligning VAT legislation. Estonia needs to continue alignment and strengthen the capacity of the tax board. In the field of the *customs union*, Estonia has made progress in alignment and IT development, and has established an investigation department at the Custom Board. Substantial efforts are urgently required to develop the administrative capacity to implement EC-compatible customs measures and relevant training of customs officials. Estonia must continue to develop and ensure the interconnectivity of its customs IT systems with those of the EC and is currently receiving significant support from the EC in this area. It should furthermore continue and step up its preparations for implementation upon accession of customs procedures involving the collection or suspension of customs duties, as well as the reorganisation of customs services.



In *financial control* good progress has been made in implementing internal financial control, in introducing legislation on external financial control and on protecting the financial interests of the EC. On *financial and budgetary procedures* good progress has been made in introducing new budgetary procedures. There is a need to reinforce capacity for own resources calculations.

In most areas Estonia is reasonably advanced in terms of developing the necessary administrative capacity to implement and enforce the *acquis*. However, as highlighted above, there are a number of areas where much has already been done but further efforts will also be needed to complete the work. In particular, these areas are free movement of persons, fisheries, agriculture, taxation, social policy and employment, energy, regional policy, environment, customs and justice and home affairs.

In the accession negotiations, 28 chapters have been provisionally closed. Estonia is generally meeting the commitments that it has made in the negotiations. However delays have occurred in adopting fisheries legislation, implementing a fisheries information system, ensuring the full operation and compliance of the Fishing Vessel Register, and in aligning legislation on air quality and radiation protection. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Estonia has achieved at this point in time and its track record in implementing the commitments that it has made in the negotiations, the Commission considers that Estonia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Estonia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

## C. Conclusion<sup>18</sup>

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. This has been confirmed over the past year. Estonia continues to fulfil the Copenhagen political criteria.

Implementation of the public administration reform programme has continued, and the functioning of the Estonian civil service and its administrative procedures continue to be satisfactory. There remains a need to continue to improve transparency in personnel matters and coordination across different bodies.

Judicial modernisation has progressed well and the independence and administration of the judiciary have been enhanced. Improvements in the training of judges have continued and court information systems have been upgraded. Estonia should make efforts to fill vacant prosecutors posts. As noted last year, Estonia needs to continue to increase efficiency in dealing with court cases as well as the quality and enforcement of court decisions.

Estonia continues to respect human rights and freedoms.

Estonia has encouraged the further integration of non-citizens by removing language requirements for candidates in parliamentary and local elections and by supporting language learning and cultural exchanges through the state integration programme. Estonia should continue efforts to increase the rate of naturalisation and to facilitate the process. Estonia should ensure that the implementation of language legislation continues to respect the principles of justified public interest and proportionality, Estonia's international obligations and the Europe Agreement.

The 1997 Opinion already acknowledged the substantial reform efforts undertaken by the Estonian authorities to transform their economy. Since the Opinion, and against a challenging international economic environment, in particular the Russian crisis, economic performance has improved. Macroeconomic stability has been achieved, reforms have deepened while the Estonian authorities' commitment to the economic requirements of EU accession has been sustained.

Hence, it is concluded that Estonia is a functioning market economy. The continuation of its current reform path should enable Estonia to cope with competitive pressure and market forces within the Union.

Improvements can be made by the government and the private sector to the functioning of labour markets by taking a more active role to tackle the unemployment problem. Furthermore, the consolidation of the local authorities' finances should be taken up to reinforce the prudent stance of fiscal policy. In addition, the restructuring of the oil shale sector should be actively pursued.

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<sup>18</sup> See "Towards the Enlarged Union: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2002) 700.

Since the Opinion, Estonia has made good progress in adopting the *acquis* and more recently, has also made progress in gradually building up the administrative capacity to implement and effectively enforce the *acquis*.

Over the past year, Estonia has made further advances in many areas including in the internal market, agriculture and justice and home affairs. However, the rate of progress in general has been slower than foreseen in Estonia's own planning as set out in its National Programme for the Adoption of the *Acquis*.

Overall, Estonia has now achieved a high degree of alignment with the *acquis* in the large majority of areas. It is also relatively advanced in having developed adequate administrative capacity to implement the *acquis* in a considerable number of fields. Estonia has most of the necessary institutions in place. Nevertheless, in some sectors, further efforts are required to strengthen the capabilities of these institutions. Detailed plans have been agreed, in particular in the negotiations and in the Action Plan, to cover the remaining gaps.

Concerning the *internal market*, some progress has been made in *free movement of goods* in aligning both horizontal and sectoral specific legislation. Nevertheless, the market surveillance system including food safety should be improved. For *free movement of persons*, there has been further alignment on mutual recognition of professional qualifications, citizens' rights and free movement of workers although there is a need to ensure training of professionals is brought fully into line with EC standards. As regards *freedom to provide services*, *free movement of capital*, *company law*, *competition*, and *consumers and health protection* where preparations are relatively advanced, there has been some further alignment with the *acquis*. Areas where administrative capacity has been strengthened include the newly operating unified Financial Supervisory Authority and the introduction of a cross border payment system. Continued attention needs to be given to further developing the capacity of the Data Protection Inspectorate, the Public Procurement Office and the Financial Intelligence Unit (anti-money laundering). There is also a need to ensure the effective application of competition *acquis* and to improve law enforcement in the areas of piracy and counterfeit goods.

Concerning *agriculture*, preparations have continued for the Common Agricultural Policy and further alignment has been made in the veterinary and phytosanitary sectors. A new Rural Development Foundation has been established. Work needs to continue, to strengthen the future paying agency and the Ministry of Agriculture in developing CAP systems including the Integrated Administration and Control System, also to develop capacity in the veterinary field, strengthen the Plant Protection Inspectorate and border controls, and ensure that food quality standards are met. In *fisheries*, the pace of progress has been slow although some steps have been made in resource management, inspection and control. Urgent improvements are necessary, in particular in continuing to develop the fisheries information system, to develop and implement structural and market policy and improve administrative capacity and coordination between the Ministries of Agriculture and Environment. Drafting of market legislation is currently ongoing and several projects are under preparation for the analysis of producer organisations, fisheries databases and registers. Estonia has begun to take steps to improve the co-ordination of the fisheries administration but these efforts need to be substantially stepped up. The full implementation of the measures in the Action Plan would help to ensure that the current gaps in the preparations are filled.

In *transport* policy, Estonia has continued to make steady progress in both aligning and implementing legislation including the establishment of an independent Air Traffic Investigations Department. There is a need to complete alignment in the railway sector, implement the social *acquis* in the road sector and improve maritime safety. In *energy*, progress has been made in removing market price distortions, improving regulation and nuclear safety. Estonia should continue to align legislation, in particular as regards the internal electricity and gas markets, develop renewable energy sources and further strengthen the energy market regulator. More generally, in terms of *industrial policy*, Estonia should complete the process of industrial restructuring by focusing on the oil-shale sector. In *telecoms* and *culture and audiovisual policy* alignment of legislation is largely complete. Nevertheless, Estonia should ensure universal service.

For *social policy and employment*, Estonia has made some progress in aligning health and safety legislation. The National Labour Board has been upgraded and designated as the focal point for European Agency for Health and Safety at work. Further work is required in aligning labour law, equality legislation and to improve capacity to implement and enforce legislation in public health, health and safety at work. Social dialogue should be further developed. In *regional policy* steady progress has been made in preparation for the structural funds. However, Estonia still needs to greatly improve the capacity of authorities designated to programme and implement EC regional policy after accession including the development of sound financial controls.

In the *environment* sector, further progress has been made. Estonia needs to continue alignment, in particular in the areas of waste, nature, chemicals, air protection and radiation; to invest in infrastructure including waste and waste water treatment; and to strengthen administrative capacity, at both ministerial and local government level. Estonia also needs to continue to improve enforcement of environmental legislation.

Estonia has made further progress in the field of *justice and home affairs* in data protection, border control, visas, migration, police and judicial cooperation. New systems have been introduced - an online visa register and an online criminal register for the police services. Legislative alignment needs to be completed in particular in the fields of migration, asylum and money laundering. Attention should also be paid to implementing the Schengen Action Plan, reinforcing border controls and fighting organised crime.

In *taxation*, progress has been made in aligning VAT legislation. Estonia needs to continue alignment and strengthen the capacity of the tax board. In the field of the *customs union*, Estonia has made progress in alignment and IT development, and has established an investigation department at the Custom Board. Substantial efforts are urgently required to develop the administrative capacity to implement EC-compatible customs measures and relevant training of customs officials. Estonia must continue to develop and ensure the interconnectivity of its customs IT systems with those of the EC and is currently receiving significant support from the EC in this area. It should furthermore continue and step up its preparations for implementation upon accession of customs procedures involving the collection or suspension of customs duties, as well as the reorganisation of customs services.

In *financial control* good progress has been made in implementing internal financial control, in introducing legislation on external financial control and on protecting the financial interests of the EC. On *financial and budgetary procedures* good progress has

been made in introducing new budgetary procedures. There is a need to reinforce capacity for own resources calculations.

In most areas Estonia is reasonably advanced in terms of developing the necessary administrative capacity to implement and enforce the *acquis*. However, as highlighted above, there are a number of areas where much has already been done but further efforts will also be needed to complete the work. In particular, these areas are free movement of persons, fisheries, agriculture, taxation, social policy and employment, energy, regional policy, environment, customs and justice and home affairs.

In the accession negotiations, 28 chapters have been provisionally closed. Estonia is generally meeting the commitments that it has made in the negotiations. However delays have occurred in adopting fisheries legislation, implementing a fisheries information system, ensuring the full operation and compliance of the Fishing Vessel Register, and in aligning legislation on air quality and radiation protection. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Estonia has achieved at this point in time and its track record in implementing the commitments that it has made in the negotiations, the Commission considers that Estonia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Estonia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.

## **D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment**

Estonia's progress and overall state of preparation in respect of the Copenhagen criteria has been examined and conclusions drawn above. The present section assesses the extent to which the priorities of the Accession Partnership have been met and the measures foreseen under the Action Plan implemented according to schedule. It should be noted that both the Accession Partnership and the Action Plan have a time perspective of two years covering 2002 and 2003, providing for another 15 months for priorities to be met. Furthermore, much has already been achieved based on previous Accession Partnerships. The present one focuses on remaining specific and well-circumscribed topics identified as requiring more work to prepare Estonia for membership. Therefore the analysis below only focuses on these specific topics and does not give an overall picture of the state of preparation of Estonia in each domain.

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.

The Accession Partnerships are revised on a regular basis, to take account of progress made, and to allow new priorities to be set. The Council adopted a revised Accession Partnership for Estonia in January 2002, based on a proposal from the Commission.

The revised Accession Partnership has served as the point of departure for the Commission and Estonia to develop jointly an Action Plan to strengthen Estonia's administrative and judicial capacity.

The purpose of the Action Plan is to identify jointly the next steps required for Estonia to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Estonia with targeted assistance in areas that are essential for the functioning of an enlarged Union.

Developing adequate administrative and judicial capacity for EU membership is a demanding and wide-ranging task, which requires detailed preparations in each and every domain covered by the Union's policies and legislation. In preparing individual Action Plans, the Commission has taken a comprehensive approach. All priorities from the revised Accession Partnerships which relate to the development of administrative and judicial capacity have been included in the Action Plans. Each of these priorities is treated separately in the Action Plans, and specific measures have been designed to address each of them.

In the following, progress in addressing each of these priorities is reported. For ease of reference and to avoid repetitions, wording from the *Accession Partnerships* is rendered in italics. As regards the measures foreseen by the Action Plan, implementation is checked against timetables and reported.

### *Political criteria*

Estonia has continued to *improve the efficiency and independence of the judiciary* with the adoption of the new Courts Act in June 2002. The *infrastructure and computerisation of courts* are being upgraded. However, there is a need to make further progress in *addressing backlogs of court cases* and in improving *citizens' access to justice*. Estonia needs to speed up the process of adopting the new Code of Criminal Procedure. Estonia has continued *the integration of non-citizens* through the implementation of the integration programme. Estonia needs to continue to ensure that *implementation of language legislation* is in line with international standards and respects the principles of justified public interest and proportionality. As foreseen in the Action Plan, training of judges, computerisation of courts, implementation of the integration programme and training of language inspectors is taking place on schedule. Preparation of new legal aid legislation is also ongoing.

Overall, the Accession Partnership priorities in this area have been partially met. The implementation of the measures under the Action Plan is on track.

### *Economic criteria*

Estonia has continued to *improve labour market responsiveness* by implementing active labour market policies. The unemployment rate has continued to decline. Estonia has continued its efforts to *improve conditions for private enterprises* and, in particular, adopted a new "Enterprise Estonia" strategy in January 2002. The implementation of the *restructuring plan for the oil-shale* sector is progressing slowly although part-privatisation of the industry has been cancelled. *Land reform* has also been progressing slowly with about two-thirds of land registered. As foreseen in the Action Plan, efforts to improve the vocational education system have progressed although enrolments remain low. One oil-shale mine has been closed and renovation of power plants is ongoing. However, the rate of land registration has not been accelerated as planned.

Overall, the Accession Partnership priorities in this area have been partially met. The implementation of the measures under the Action Plan is delayed.

### *Ability to assume the obligations of membership*

#### **Chapter 1: Free movement of goods**

The transposition and implementation of *New Approach directives* and *traditional sectoral legislation* has continued but has not been completed. A modest reinforcement of the *market surveillance system* has taken place, through an improvement in the co-ordination between the relevant bodies. With regard to the *national accreditation system* and the *metrology organisation*, strengthening of the Estonian Accreditation Centre and of the metrology organisation has been carried out under separate Phare projects. *Adoption of EN standards* has continued. Estonia has performed an initial screening of *legislation in the non-harmonised area* which did not reveal any obstacles to the free movement of goods in the sense of Articles 28-30 of the EC Treaty. Strengthening of the Estonian Accreditation Centre and of the Estonian Technical Inspectorate in the fields of legal metrology and market surveillance, foreseen in the Action Plan, is taking place on schedule. Preparations for the strengthening of the food inspection system, foreseen in the

Action Plan, are taking place as planned. Elaboration of the market surveillance strategy, initially planned for the end of 2001 and also foreseen in the Action Plan, is delayed.

Overall, the Accession Partnership priorities in the area of free movement of goods have been partially met. Implementation of the measures under the Action Plan is delayed.

## **Chapter 2: Free movement of persons**

With respect to *professional qualifications obtained before harmonisation*, Estonia has continued to address the priority of introducing measures to ensure that all its professionals can, from accession, meet the requirements laid down by the directives. Estonia has continued alignment of *mutual recognition of professional qualifications and diplomas*, but has not completed it. Efforts to introduce the required *administrative structures, education and training programmes* have been modest. Development of administrative structures for the *coordination of social security* has continued. Training for the responsible authorities and ministries, foreseen in the Action Plan, is taking place on schedule. In the field of social security co-ordination, training of trainers and analysis of the exchange of data on social security and cross-usage of data between authorities, also foreseen in the Action Plan, is taking place on schedule.

Overall, the Accession Partnership priorities in this area have been partially met. Implementation of the measures under the Action Plan is on track.

## **Chapter 3: Freedom to provide services**

Alignment of *financial services legislation* has continued but has not been completed. With regard to the *supervision of financial services*, a new joint Financial Supervisory Body commenced its operations from January 2002 and has strengthened supervision of *securities markets*. In the area of *data protection legislation*, no developments can be reported. Furthermore, no developments have taken place with a view to strengthening and ensuring the *independence of the supervisory body*. Training for the officials of the Data Protection Inspectorate, foreseen in the Action Plan, is taking place on schedule. Also foreseen in the Action Plan was the elaboration and distribution of regulations and information materials for the wider public in order to raise public awareness in data protection matters. Here there are no developments to report.

Overall, the Accession Partnership priorities in this area have been partially met. Implementation of the measures under the Action Plan is delayed.

## **Chapter 4: Free movement of capital**

On the alignment of the *legislation on payment systems and ensuring effective implementation*, progress has been made following the adoption of the Law of Obligations Act and the Securities Market Act. The Estonian legislation is aligned with the *acquis* in the field of payment and settlement systems. As mentioned in the Action Plan, the New Interbank Payment System has also been functioning since January 2002 and the arbitration body to settle disputes between participants of the payment systems is in place. As regards alignment of *legislation on direct investment* in those sectors which are still restricted (security services), amendments still need to be adopted. As regards compliance with the *recommendations of the Financial Action Task Force*, Estonia has made progress and submitted the relevant self-evaluations and progress reports.



Therefore the activities foreseen in the Action Plan are on track. Alignment of legislation with the *Second Money Laundering Directive* still needs to be completed.

Overall, the Accession Partnership priorities in the area of free movement of capital have been partially met. Implementation of the measures under the Action Plan is on track.

### **Chapter 5: Company law**

The urgent priority of *alignment in intellectual and industrial property rights* has not progressed during the reporting period. The *administrative capacity* of the Customs authorities with a view to tackling piracy and counterfeiting has been strengthened, as foreseen in the Action Plan. through the strengthening of co-operation and information exchange between the Customs Board, the Police Board, the Competition Protection Board and the Competition Protection Board. However, enhancement of the capacity of the court system in the field of copyright and neighbouring rights and IPR by training judges and public prosecutors in specific questions relating to copyright and neighbouring rights, also foreseen in the Action Plan, is yet to take place.

Overall, the Accession Partnership priorities in this area have been partially met. The implementation of the measures under the Action Plan is delayed.

### **Chapter 6: Competition Policy**

The Competition Board and the Competition and State Aid Division in the Ministry of Finance have continued to build on their respective *enforcement* records. *Awareness-raising of the rules among all market participants and aid grantors* has taken place and should continue. However, *training of the judiciary in the competition field* has so far not received the necessary attention and should be intensified. In order to raise awareness, seminars have been organised and publications issued for entrepreneurs and State aid grantors, as foreseen in the Action Plan. Training of judges on implementation of anti-trust and State aid *acquis* in the form of seminars and study visits, also foreseen in the Action Plan, is yet to take place.

Overall, the Accession Partnership priorities in this area have been partially met. The implementation of the measures under the Action Plan is on track.

### **Chapter 7: Agriculture**

The *administrative structures* needed for the design, implementation, management, monitoring, control and evaluation upon accession of *Community-funded rural development programmes* have been reinforced, but further efforts will be required. The *capacity of the agricultural administration* will need to be ensured during preparations for the *enforcement and practical application of the management mechanisms of the common agricultural policy*, in particular the integrated administration and control system (IACS) and the Paying Agency, as well as for the *implementation and enforcement of veterinary and phytosanitary and food safety legislation*. As foreseen in the Action Plan, preparations for transformation of the SAPARD agency into the single Paying Agency for EAGGF Guidance and Guarantee Funds are under way and, in particular, a strategy for the implementation of market regulation measures has been developed. As foreseen in the Action Plan in the area of IACS, aerial photos for half of Estonia have been taken. The main databases for IACS are in place but need to be further developed and upgraded. As foreseen in the Action Plan, further progress has been made

in *upgrading the food processing industry* in line with Community food safety standards and reinforcing the *food control administration*. However, further efforts will be required. The *system of animal identification* still needs to be completed. Progress has been made in implementing *food safety control systems, animal waste treatment, residue and zoonosis control programmes* but completion of preparations in these areas must be ensured. Further progress has been made in *alignment of veterinary and phytosanitary legislation*. Further efforts are required in upgrading *inspection arrangements, with particular emphasis on improvement of laboratory capacity*. The Action Plan stated that equipment for the Veterinary and Food Laboratory should become operational in 2002. This process is underway. Progress has been made with transposition of *legislation on transmissible spongiform encephalopathies, plant passports, maximum residue levels and animal nutrition*. Further efforts will be required to ensure completion of this process, as well as implementation and enforcement. As foreseen in the Action Plan, the methods available to test for BSE are being improved, and the Estonian legislation on animal nutrition has been further aligned with the *acquis*.

Overall, the Accession Partnership priorities in the field of agriculture have been partially met. The implementation of the measures under the Action Plan is on track.

### **Chapter 8: Fisheries**

*Establishment of the adequate administrative structures* still needs to be reinforced in order to ensure the *implementation of the common fisheries policy*.

As foreseen in the Action Plan, the legislative amendments required for the fishing register have been adopted and the number of inspections has increased. However, implementation of the Action plan in the area of reporting and market policy has been less satisfactory.

Overall, the Accession Partnership priorities in the area of fisheries have only been met to a limited extent. Implementation of the measures under the Action Plan is delayed.

### **Chapter 9: Transport policy**

*Legislative alignment in maritime transport* is nearly completed. Strengthening of the *implementation of maritime safety standards* as foreseen in the Action Plan is ongoing. However, further strengthening of *administrative capacity* is necessary to redress the safety performance of the Estonian fleet, which has been deteriorating since 1999. Legislative alignment and reinforcement of administrative capacity as addressed in the Action Plan, in the *inland waterways sector* and in the *road sector* has been partially completed. In the *railway transport sector* and, in particular, the *implementation of the revised railway acquis*, particularly by setting up an independent allocation and charging body, Estonia must enhance the implementation of the *acquis* and ensure the independence of the infrastructure manager. Complete *legislative alignment in aviation* has been achieved and the *independent aviation accident investigation authority* has been set up.

Overall, the Accession Partnership priorities in the field of transport have been partially met. The implementation of the measures foreseen in the Action Plan is on track.

## **Chapter 10: Taxation**

*Alignment with the tax acquis as regards VAT, excise duties and direct taxation* has continued with the entry into force of the new VAT Act and some amendments to the Income Tax Act. Legislation regarding excises duties and direct taxation still needs to be amended. At this stage of the Commission's initial technical assessments of potentially harmful measures, it appears that Estonia is ensuring compliance with the principles of the *Code of Conduct for Business Taxation*. As regards strengthening of the *administrative capacity and control procedures* and improvement of *administrative cooperation and mutual assistance*, some progress has been made in particular concerning tax fraud investigation, and the implementation of the Action Plan is progressing in this respect (staffing and training for Tax Authority Fraud Investigation Centre TAFIC and preparations for Central Liaison Office CLO). However, progress is still necessary as regards the tax administration, in particular for mutual assistance. As regards the *development of IT systems so as to allow for the exchange of electronic data with the Community and its Member States*, some progress has been made in line with the Action Plan.

The Accession Partnership priorities in the field of taxation have been partially met. The implementation of the measures under the Action Plan is largely on track.

## **Chapter 12: Statistics**

Good progress has been made as regards the *quality and coverage of statistics* and ensuring that *adequate resources are available to further strengthen statistical capabilities, including at regional level*, although resources (budget and staffing) should be further improved.

The Accession Partnership priorities in the field of statistics have been met to a large extent. The implementation of the measures under the Action Plan is on track.

## **Chapter 13: Social policy and employment**

As regards *alignment* and ensuring *proper implementation of Community legislation* in particular in the field of *equal treatment for women and men*, no new developments can be reported. A one year training programme for labour law judges was launched early in 2002, helping to strengthen the *capacity of enforcement bodies*. The adoption of *legislation against discrimination*, and a timetable for its implementation are awaited. *To implement the acquis on public health* Estonia adopted a 10-year public health Action Programme in June 2002. The National Public Health and Medical Officers' Service has organised a number of training courses for its staff on EC legislation, with special emphasis on legal approximation and law enforcement. As concerns preparation for future participation in the European Social Fund, managing procedures and schemes have been developed, instructions for the employees responsible for implementing ESF and carrying out projects have been prepared, and study programmes for training necessary teachers have been elaborated. Training of the staff of the Local Employment Services is being organised.

Overall, the Accession Partnership priorities in the area of Social Policy and Employment have been partially met. Implementation of the measures under the Action Plan is on track.

## **Chapter 14: Energy**

*Preparations for the internal energy market and alignment of legislation with the electricity and gas directives* have continued but need to be completed. The establishment of an *independent transmission system operator (electricity)* has been partially completed. The remaining *price distortions* have been eliminated. Despite a limited degree of electricity market opening, considerable efforts remain to be made to further open the market in order not to affect the implementation of the Baltic Electricity market. In the gas sector, market opening is well advanced. The *administrative capacity of the independent regulator of the energy sector* still needs to be further strengthened in accordance with the measures foreseen in the Action Plan. Considerable efforts are needed in *building up levels of oil stocks*, and adequate *administrative structures* need to be developed in line with the Action Plan. Improvement of *energy efficiency*, promotion of the *use of renewable energy sources* and *strengthening of the relevant institutions in this area* in line with the Action Plan is only partially achieved. The *recommendations contained in the Council report on nuclear safety in the context of enlargement* have been adequately addressed as foreseen in the Action Plan.

Overall, the Accession Partnership priorities in the field of energy have only partially been met. The implementation of the measures under the Action Plan is on track.

## **Chapter 19: Telecommunications and Information Technologies**

Progress has been made as regards the completion of the *transposition and implementation of the acquis including local loop unbundling*, as well as ensuring *effective functioning of the liberalised market through effective interconnection regulation and availability of carrier selection facilities*.

The Accession Partnership priorities in the area of telecommunications have been met to a large extent. The implementation of the measures under the Action Plan is on track.

## **Chapter 20: Culture and audio-visual policy**

Progress is continuing on the strengthening of the *administrative capacity and coordination of relevant authorities in order to ensure implementation of the acquis*. As foreseen in the Action Plan, training to improve technical supervisory functions is ongoing. However, coordination of authorities responsible for the application and enforcement of audio-visual legislation should be further improved.

The Accession Partnership priorities in this area have been partially met. The implementation of the measures under the Action Plan is on track.

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

Preparation of a *single programming document as required by the Structural Funds regulations* (as foreseen in the Action Plan) is in progress - Estonia submitted the first draft to the Commission in March 2002. *The Managing Authority and Paying Authorities* to implement Structural Funds have been designated. Efforts need to be continued concerning the proper staffing of these. As regards *the monitoring and evaluation systems* and the *financial management and control procedures*, the measures foreseen in the Action Plan are scheduled for 2003. *Technical preparation of projects eligible for Structural and Cohesion Funds assistance* is ongoing as scheduled in the Action Plan.

Overall, the Accession Partnership priorities in the area of Regional Policy have been partially met. The implementation of the measures under the Action Plan is on track.

## **Chapter 22: Environment**

*Transposition of the acquis, with particular emphasis on water quality and waste management, has mostly been completed. The implementation of the acquis, in particular as regards landfill of waste, discharge of dangerous substances in the aquatic environment and nitrate pollution from agricultural sources has not yet been completed. The microbiological parameters for water intended for human consumption have been implemented. The administrative capacity, in particular at regional and local level, has been strengthened to some extent. The training of the civil servants as planned in the Action Plan, is taking place. The integration of environmental protection requirements into the definition and implementation of all other sectoral policies with a view to promoting sustainable development has continued.*

Overall, the Accession Partnership priorities in the field of environment have been partially met. The implementation of measures foreseen under the Action Plan is on track.

## **Chapter 23: Consumers and health protection**

*Legislative alignment has progressed considerably whilst strengthening of market surveillance and enforcement authorities has only been modest. Training organised for the staff of the Consumer Protection Board, foreseen in the Action Plan, is taking place on schedule. The publishing of information materials, organising of information campaigns and development of a website of the Consumer Protection Board have also taken place as foreseen in the Action Plan.*

Overall, the Accession Partnership priorities in this area have been partially met. The implementation of measures foreseen under the Action Plan is on track.

## **Chapter 24: Cooperation in the field of justice and home affairs**

*The implementation of the Schengen Action Plan is taking place, although a comprehensive Schengen Strategy is still lacking. Activities foreseen are proceeding in line with the Action Plan in terms of training, although progress is less satisfactory as regards staffing levels. Co-ordination among law enforcement bodies and the judiciary is being improved and the liaison officer with EUROPOL has been appointed, as foreseen in the Action Plan. In the fight against organised crime, progress is continuing. However, capacities to deal with money laundering should still be reinforced. Progress is ongoing concerning the preparation for future participation in the Schengen Information System by developing various national databases and registers in line with the activities foreseen in the Action Plan. Legislative alignment is largely complete, however Estonia still needs to take necessary steps to ensure implementation of the Community instruments, particularly through the adoption and implementation of the new Criminal and Civil Procedure Codes. Training of judges is continuing in line with the Action Plan. Progress is being made in the fight against drugs by developing and implementing the national drugs strategy and strengthening the administrative bodies involved in its implementation. The revision of the national strategy and elaboration of its implementation plan and mechanisms are proceeding in line with the Action Plan. Preparation for full participation in the work of European Monitoring Centre for Drugs*

*and Drug Addiction* has been completed. However, the capacity to fight against drug trafficking needs to be further intensified, and a more effective multi-agency approach developed. As regards alignment of *legislation on visas, legal migration and asylum, implementation of border and migration legislation to prevent illegal immigration, and implementation of the Refugees Act*, progress is continuing. *Border demarcation with Russia* is largely complete. Some progress has been made in strengthening of *border management and control, including sea surveillance*, although progress is still needed on the adjustment of infrastructure and equipment necessary for border control foreseen in the Action Plan. Work remains to be done to complete the *legislative alignment with the Convention on the Protection of the Communities' Financial Interests and its Protocols*.

The Accession Partnership priorities in the area of justice and home affairs have been partially met. The implementation of the measures under the Action Plan is largely on track.

### **Chapter 25: Customs union**

Limited progress has been made on the *implementation of tariffs and tariff-related measures* as the new Customs Code entered into force only recently (July 2002). However, the training envisaged for customs officials and clients on application of new customs legislation was initiated in line with the Action Plan. Alignment of *legislation concerning cultural goods and precursors* is continuing. In the fields of the *fight against fraud and corruption* and implementation of the *customs ethics policy* progress is continuing. Further efforts should be made to reinforce *administrative and operational capacity including border control*, the development of *capacity in the field of revenue collection and on all customs procedures related to tariffs*, to improve *coordination between the relevant bodies as regards enforcement and revenue collection of duties* and to improve the *capacity of customs laboratories*. *Implementation of the IT strategy of the Estonian customs administration* as well as to develop *IT systems so as to allow for the exchange of computerised data between the Community and Estonia* is ongoing, although the implementation of activities foreseen in the Action Plan has experienced some delays.

Overall, the Accession Partnership priorities in the field of customs have only been met to a limited extent. The implementation of the measures under the Action Plan is delayed.

### **Chapter 26: External relations**

Estonia has continued to inform the Union of negotiations aimed at the conclusion of new trade agreements with third countries. However, Estonia needs to make further efforts to take the necessary measures to *renegotiate or renounce all international agreements and treaties, including bilateral investment treaties, concluded with third countries that are incompatible* with its future obligations as an EU Member State.

Overall, this Accession Partnership priority has only been partially met. No specific measures have been foreseen under the Action Plan.

### **Chapter 28: Financial control**

*Implementation of the new legislation on public internal financial control* needs to be completed. The Financial Control Department in the Ministry of Finance is the contact point for all matters relating to PIFC. As foreseen in the Action Plan, training of internal

auditors has continued. The *legislative framework for external audit* seems to be complete. The *working relationship between the Supreme Audit Office and the Parliament* has been satisfactorily formalised. As foreseen in the Action Plan the *fight against fraud* is being strengthened and Estonia has designated an anti-fraud co-ordinating service (the Financial Control Department in the Ministry of Finance). Estonia is continuing its efforts to *ensure the correct use, control, monitoring and evaluation of EC pre-accession funding*, as foreseen in the Action Plan.

Overall the Accession Partnership priorities in the field of financial control are being met. Implementation of the measures under the Action Plan is on track.

## **Annexes**



***Human Rights Conventions ratified by the Candidate Countries,  
15 September 2002***

<i>Adherence to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SI</b>	<b>TK</b>
<b>ECHR (European Convention on Human Rights)</b>	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	X	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
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	X	O	X	X	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	X	X	O	X	O	O	X	O	O	X	O	X	O
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	X	X	X	X	X	X	O
<b>ICCPR (International Covenant on Civil and Political Rights)</b>	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the ICCPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to ICCPR (death penalty)	X	X	O	O	X	O	X	X	O	X	X	X	O
<b>ICESCR (International Covenant on Economic, Social and Cultural rights)</b>	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT (Convention against Torture)</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CERD (Convention on the Elimination of All Forms of Racial Discrimination)</b>	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
Optional Protocol to the CEDAW	O	X	X	O	X	O	O	O	O	O	X	O	O
<b>CRC (Convention on the Rights of the Child)</b>	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

	1997	1998	1999	2000	2001
<b>Basic data</b>	<b>in 1000</b>				
Population (average)	1,400	1,386	1,376	1,370	1,364
	<b>in km<sup>2</sup></b>				
Total area	45,227	45,227	45,227	45,227	45,227
<b>National accounts</b>	<b>1000 Mio Kroon</b>				
Gross domestic product at current prices	64.0	73.5	76.3	87.2	96.6
	<b>1000 Mio ECU/euro</b>				
Gross domestic product at current prices	4.1	4.7	4.9	5.6	6.2
	<b>in ECU/euro</b>				
Gross domestic product per capita a) at current prices	2,900	3,400	3,600	4,100	4,500
	<b>% change over the previous year</b>				
Gross domestic product at constant prices (nat. currency)	9.8	4.6	-0.6	7.1	5.0
Employment growth	0.1	-2.0	-4.3	-1.3	0.8
Labour productivity growth	9.7	6.7	3.9	8.5	4.2
	<b>in Purchasing Power Standards</b>				
Gross domestic product per capita a) at current prices	7,500	8,000	8,200	9,200	9,800
Structure of production	<b>% of Gross Value Added b)</b>				
- Agriculture	7.9	7.2	6.7	6.1	5.8
- Industry (excluding construction)	23.0	22.6	21.1	22.4	22.8
- Construction	6.3	6.7	6.0	6.1	5.9
- Services	62.8	63.5	66.2	65.4	65.5
Structure of expenditure	<b>as % of Gross Domestic Product</b>				
- Final consumption expenditure	82.3	81.6	81.6	77.2	76.7
- household and NPISH	59.3	59.0	58.2	56.4	56.4
- general government	23.0	22.6	23.4	20.8	20.3
- Gross fixed capital formation	28.1	29.6	24.9	25.4	26.1
- Stock variation c)	1.3	-0.7	-1.6	1.5	1.0
- Exports of goods and services	78.4	79.7	77.2	93.8	90.6
- Imports of goods and services	90.0	90.1	82.2	97.9	94.4
<b>Inflation rate</b>	<b>% change over the previous year</b>				
Consumer price index	9.3	8.8	3.1	3.9	5.6
<b>Balance of payments</b>	<b>in Mio ECU/euro</b>				
-Current account	-497	-429	-277	-348	-378e
-Trade balance	-996	-998	-827	-862	:
<i>Exports of goods</i>	2,028	2,399	2,303	3,580	:
<i>Imports of goods</i>	3,024	3,397	3,130	4,442	:
-Net services	524	511	540	587	:
-Net income	-128	-74	-96	-223	:
-Net current transfers	103	132	106	150	:
- <i>of which: government transfers</i>	85	99	90	121	:
- FDI (net) inflows	235	513	284	435	603
<b>Public finance</b>	<b>In Mio ECU/euro</b>				
General government deficit/surplus	2.0	-0.4	-4.0	-0.4	0.2p
General government debt	6.8	6.0	6.5	5.1	4.8p
<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
Gross foreign debt of the whole economy d)	25.3	32.9	28.0	26.8	:
	<b>as % of exports</b>				
Gross foreign debt of the whole economy d)	32.3	41.2	36.3	28.1	:

Monetary aggregates	1000 Mio ECU /euro				
- M1	1.0	0.9	1.2	1.4	1.7
- M2	1.6	1.7	2.1	2.6	3.2
- M3	:	:	:	:	:
Total credit	1.2	1.5	1.6	2.1	2.5
Average short-term interest rates	% per annum				
- Day-to day money rate	6.5	11.7	4.9	4.8	4.5
- Lending rate	11.8	14.3	9.9	8.9	9.6
- Deposit rate	6.2	8.1	4.1	3.7	4.1
ECU/EUR exchange rates	(1ECU/euro=Estonian Kroon)				
- Average of period	15.715	15.753	15.647	15.647	15.647
- End of period	15.811	15.647	15.647	15.647	15.647
	1992=100				
- Effective exchange rate index	270.2	294.0	344.4	334.9	339.4
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	746	753	941	1,084	931
-Reserve assets (excluding gold)	744	751	938	1,082	929

External trade	Mio ECU/euro				
Trade balance	-1,231	-1,268	-986	-1,171	-1,102
Exports	1,883	2,237	2,238	3,444	3,696
Imports	3,114	3,505	3,224	4,615	4,798
	previous year=100				
Terms of trade*	98.3	98.5	99.9	98.6	108.1
	as % of total				
Exports with EU-15	62.4	66.7	72.5	76.5	69.4
Imports with EU-15	68.5	67.8	65.3	62.6	56.5

Demography	per 1000 of population				
Natural growth rate	-4.2	-5.2	-4.3	-3.9	-4.3
Net migration rate (including corrections)	-5	-4.8	-0.9	0.2	:
	per 1000 live-births				
Infant mortality rate	10.0	9.3	9.5	8.4	8.8
Life expectancy:	at birth				
Males:	64.7	64.4	65.4	65.1	64.7
Females:	76.0	75.5	76.1	76.0	76.2

Labour market (Labour Force Survey)	% of population				
Economic activity rate (15 - 64)	72.7	72.4	70.3	70.0	69.9
Employment rate (15-64), total	64.9	65.3	62.0	60.6	61.1
Employment rate (15-64), male	69.7	70.3	66.3	64.3	65.6
Employment rate (15-64), females	60.6	60.7	58.0	57.1	56.9
Average employment by NACE branches	in % of total				
- Agriculture and forestry	9.9	9.5	8.8	7.0	7.1
- Industry (excluding construction)	28.2	25.7	25.3	26.8	27.0
- Construction	5.2	7.4	6.5	7.8	7.3
- Services	56.7	57.4	59.4	58.3	58.7
	% of labour force				
Unemployment rate, total	10.6	9.6	11.7	13.2	12.4
Unemployment rate, males	11.5	10.5	13.0	14.7	11.8
Unemployment rate, females	9.7	8.6	10.2	11.6	13.1
Unemployment rate of persons < 25 years	19.0	14.8	22.1	23.7	24.5
	as % of all unemployed				
Long-term unemployment share	39.2	46.1	42.6	47.4	46.6

<b>Infrastructure</b>	<b>in km per 1000 km<sup>2</sup></b>				
Railway network	22.5	21.4	21.4	21.4	21.4
	<b>km</b>				
Length of motorways	68	74	87	93	93

<b>Industry and agriculture</b>	<b>previous year=100</b>				
Industrial production volume indices	114.6	104.1	96.6	114.6	107.8p
Gross agricultural production volume indices**	98.1	96.4	89.6	108.2	90.3p

<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
Number of cars	294.0	312.0	334.4	339.4	299.2***
Main telephone lines	322.6	345.3	375.4	381.9	376.2
Number of subscriptions to cellular mobile services	103.7	172.3	282.8	407.8	542.8
Number of Internet subscriptions****	:	:	:	:	46.7

p=provisional figures

\* On the basis of unit value indexes

\*\* In 2000 year prices as % of previous year

\*\*\* The vehicles not re-registered in the National Motor Vehicle Registration Centre of 1 June 2001 were excluded

\*\*\*\* ISDN+ADSL lines

- a) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.
- b) Including FISIM.
- c) These figures include changes in inventories, acquisitions less disposals of valuables and the statistical discrepancy between the GDP and its expenditure components.
- d) Series break after 1997.
- e) Source: Website of the National Bank

## 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 Harmonised Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. 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 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:  $\text{population (X+1)} - \text{population (X)} - \text{Deaths (X)} + \text{Births (X)}$ . This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

## **Labour force**

The European Labour Force Survey is conducted in spring each year in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998. A detailed description of the sampling methods, the adjustment procedures, the definitions and the common Community coding currently used in the labour force survey is presented in the publications 'Labour Force Survey – Methods and definitions, 1998' and 'Labour Force Survey in central and east European countries – Methods and definitions, 2000'.

All definitions apply to persons aged 15 years and over, living in private households. The concepts and definitions used in the survey follow the guidelines of the International Labour Organisation. Persons carrying out obligatory military service are not included.

*Persons in employment* were those who during the reference week did any work for pay or profit for at least one hour, or were not working but had jobs from which they were temporarily absent. Family workers are included.

As from 2001 (Commission Regulation (EC) No 1897/2000 of 7 September 2000), unemployed persons comprise persons aged 15 to 74 who were:

- (a) without work during the reference week, i.e. neither had a job nor were at work (for one hour or more) in paid employment or self-employment;
- (b) currently available for work, i.e. were available for paid employment or self-employment before the end of the two weeks following the reference week;
- (c) actively seeking work, i.e. had taken specific steps in the four weeks period ending with the reference week to seek paid employment or self-employment or who found a job to start later, i.e. within a period of at most three months.

*Comparability with results prior to 2001:* unemployment results used to refer to persons aged 15 and more. Persons who found a job to start later used to be considered as unemployed with the unique condition to have no job in the reference week.

*Duration of unemployment* is defined as:

- (a) the duration of search for a job, or
- (b) the length of the period since the last job was held (if this period is shorter than the duration of search for a job).

*The active population* is defined as the sum of persons in employment and unemployed persons.

*Inactive persons* are those who are not classified as persons in employment nor as unemployed persons.

*Employment rates* represent employed persons aged 15-64 as a percentage of the same age population.

*Unemployment rates* represent unemployed persons as a percentage of the active population aged 15 years and more.

*Economic activity rates* represent the active population aged 15-64 as a percentage of the population of the same age.

### **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: 4010, 4030). *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.