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# REGULAR REPORT

ON

ESTONIA'S

PROGRESS TOWARDS ACCESSION

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# REGULAR REPORT

ON

Estonia's

PROGRESS TOWARDS ACCESSION

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## Table of contents

### A. Introduction [\\*](#)

#### a) Preface [\\*](#)

#### b) Relations between the European Union and Estonia [\\*](#)

Recent developments under the Europe Agreement, including bilateral trade [\\*](#)

Accession Partnership [\\*](#)

Action Plan for reinforcing administrative and judicial capacity [\\*](#)

National Programme for the Adoption of the Acquis [\\*](#)

Community assistance [\\*](#)

Twinning [\\*](#)

Negotiations [\\*](#)

### B. Criteria for membership [\\*](#)

#### 1. Political criteria [\\*](#)

Introduction [\\*](#)

Recent developments [\\*](#)

##### 1.1. Democracy and the rule of law [\\*](#)

The parliament [\\*](#)

The executive [\\*](#)

The judicial system [\\*](#)

Anti-corruption measures [\\*](#)

##### 1.2. Human rights and the protection of minorities [\\*](#)

Civil and political rights [\\*](#)

Economic, social and cultural rights [\\*](#)

Minority rights and the protection of minorities [\\*](#)

### **1.3. General evaluation [\\*](#)**

## **2. Economic criteria [\\*](#)**

### **2.1. Introduction [\\*](#)**

### **2.2. Summary of economic developments since 1997 [\\*](#)**

### **2.3. Assessment in terms of the Copenhagen criteria [\\*](#)**

The existence of a functioning market economy [\\*](#)

The capacity to cope with competitive pressure and market forces within the Union [\\*](#)

### **2.4. General evaluation [\\*](#)**

## **3. Ability to assume the obligations of membership [\\*](#)**

Introduction [\\*](#)

### **3.1. The chapters of the *acquis* [\\*](#)**

#### ***Chapter 1: Free movement of goods [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 2: Free movement of persons [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 3: Freedom to provide services [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 4: Free movement of capital [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 5: Company law [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 6: Competition policy [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 7: Agriculture [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 8: Fisheries [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 9: Transport policy [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

#### ***Chapter 10: Taxation [\\*](#)***

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 11: Economic and Monetary Union*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 12: Statistics*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 13: Social policy and employment*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 14: Energy*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 15: Industrial policy*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 16: Small and medium-sized enterprises*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 17: Science and research*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 18: Education and training*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 19: Telecommunications and information technologies*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 20: Culture and audio-visual policy*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 21: Regional policy and coordination of structural instruments*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 22: Environment*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

Conclusion [\\*](#)

### ***Chapter 23: Consumers and health protection*** [\\*](#)

Progress since the last Regular Report [\\*](#)

Overall assessment [\\*](#)

[Conclusion \\*](#)

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

[Progress since the last Regular Report \\*](#)

[Overall assessment \\*](#)

[Conclusion \\*](#)

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

[Progress since the last Regular Report \\*](#)

[Overall assessment \\*](#)

[Conclusion \\*](#)

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

[Progress since the last Regular Report \\*](#)

[Overall assessment \\*](#)

[Conclusion \\*](#)

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

[Progress since the last Regular Report \\*](#)

[Overall assessment \\*](#)

[Conclusion \\*](#)

#### ***Chapter 28: Financial control \****

[Progress since the last Regular Report \\*](#)

[Overall assessment \\*](#)

[Conclusion \\*](#)

#### ***Chapter 29: Financial and budgetary provisions \****

[Progress since the last Regular Report \\*](#)

[Overall assessment \\*](#)

[Conclusion \\*](#)

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

### **3.3. General evaluation \***

## **C. Conclusion \***

## **D. Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment \***

[Political criteria \\*](#)

[Economic criteria \\*](#)

[Ability to assume the obligations of membership \\*](#)

## **Annexes \***

### ***Human Rights Conventions ratified by the Candidate Countries, 15 September 2002 \****

### ***Statistical data \****

## **Introduction**

### *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 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.

. 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

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 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.

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

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#### *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 trade surplus with Estonia.

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, enhances the EC's existing agricultural trade preferences and promotes 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 of 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*

## 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. 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 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 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 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 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 2001. 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 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 ardu 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.

## Criteria for membership

### Political criteria

#### Introduction

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

In its 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 particular to improve transparency in personnel management."*



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 it 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.

## 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 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 (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. 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.

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 Kohla-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 on 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.

### **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 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, out 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. 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 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 their status, such as providing information 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.

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) 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.

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.

### **General evaluation**

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 and administration as well as the independence and autonomy 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.

## Economic criteria

### 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".

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.

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.

### 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 s 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 g 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 - annual average	per cent	9.3	8.8	3.1	3.9	5.6	6.1	4.5 July <sup>b</sup>
- December-on-December	per cent	10.9	5.2	3.7	5.0	4.2	5.8	3.3 July
Unemployment rate - IFS definition	per cent	10.6	9.6	11.7	13.2	12.4	11.5	9.4 Q2
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 - debt export ratio	per cent of exports of goods and services	32.3	41.2	36.3	28.1	:	:	
	million ECU/€	1,031	1,534 <sup>a</sup>	1,367	1,465	:	:	
Foreign direct investment inflow - balance of payments data	per cent of GDP	5.8	11.0	5.8	8.0	9.7	8.1	
	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 cap its 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.

Main Indicators of Economic Structure in 2001		
Population (average)	Thousand	1,364
GDP per head <sup>a</sup>	PPS	9,800
	per cent of EU average	42









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 an 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 FIS. 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 new development 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 *aquis* 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 *aquis* 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 *aquis* upon access to sea.

Negotiations on this chapter have been provisionally closed. Estonia has not requested any transitional arrangements. Estonia is partially meeting 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.

## Progress since the last Regular Report

During the past year, Estonia has continued to align its legislation with the *aquis* 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 documented 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 licences 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 *aquis*. 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 *aquis* 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 *aquis*. 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 *aquis*. 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 *aquis* notably regarding the infrastructure package and rail interoperability.

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

As regards air transport, Estonia is well advanced in aligning its legislation with the aviation *aquis* 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 *aquis*. 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 inland market *aquis*. 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 *aquis* 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 *aquis* 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.

## Progress since the last Regular Report

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

In the area of indirect taxation, the new VAT Act, that in principle harmonises the Estonian VAT legislation with the *aquis*, 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 ECTI 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 information system of the Estonian Railway 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 *aquis*, 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 *aquis* 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 *aquis* 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 *aquis*, although some weaknesses remain to be addressed. However, the Commission'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 only aligned, with only a few remaining amendments to be introduced, and Estonia is reasonably advanced as regards the necessary capacity to implement the *aquis* 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 member 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 *aquis* (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.

## 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 *Aquis* – 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 lending 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 *aquis* 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 *aquis* 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 signs 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 *aquis* 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.



There is still a need to complete the development of a comprehensive industrial policy and to define and implement specific measures in the financial, transport 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).

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.

## 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 "Entrepreneurship 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 information and reduction of administrative burdens.

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 2001, 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 - "Kredifid", 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 enterprise users, 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 Kredifid 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 times 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.

## 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 grantee schemes to support technological transfer to SMEs. (see Chapter 16 (SID-A) 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 administrative 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.

## 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.6 - 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 vocational attend general education until establishments free of charge. In order to meet the particular circumstances 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 training and training (VET) system, the recognition 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 Education 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.

## 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 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 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, now adopted in its final form in January 2002, entered into force. 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 56%. 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 *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 (EEC 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.

## 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.









regards to employees 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 in 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, management procedures and schemes have been developed, instructions for the employees responsible for implementing ESM 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 its 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 the legislative framework to prevent illegal immigration, and implementation of the Refugee Act, progress is continuing. Border demarcation with Russia is largely complete. Some progress has been made in strengthening of border management and control, including visa 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 Protocol.

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 tariff 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 the 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 in order 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 audits 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

Adherence to following conventions and protocols	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	TK
<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 of 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; SI-Slovenia; T-Turkey

	1997	1998	1999	2000	2001	Monetary aggregates					
<b>Basic data</b>	in 1000					1000 Mio ECU / euro					
Population (average)	1,400	1,386	1,376	1,370	1,364	-M1	1.0	0.9	1.2	1.4	1.7
	in km <sup>2</sup>					-M2	1.6	1.7	2.1	2.6	3.2
						-M3	:	:	:	:	:



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
<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
<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>% 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	:
Exports of goods	2,028	2,399	2,303	3,580	:
Imports of goods	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	:
-of which: government transfers	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	:

Total credit	1.2	1.5	1.6	2.1	2.5
<b>% per annum</b>					
Average short-term interest rates	6.5	11.7	4.9	4.8	4.5
- Day-to-day money rate	11.8	14.3	9.9	8.9	9.6
- Lending rate	6.2	8.1	4.1	3.7	4.1
- Deposit rate	<b>(1ECU/euro=Estonian Kroon)</b>				
<b>ECU/EUR exchange rates</b>					
- 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
<b>1992=100</b>					
- Effective exchange rate index	270.2	294.0	344.4	334.9	339.4
Reserve assets	<b>Mio ECU/euro</b>				
- Reserve assets (including gold)	746	753	941	1,084	931
- Reserve assets (excluding gold)	744	751	938	1,082	929
<b>External trade</b>					
<b>Mio ECU/euro</b>					
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
<b>previous year=100</b>					
Terms of trade*	98.3	98.5	99.9	98.6	108.1
<b>as % of total</b>					
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
<b>Demography</b>					
<b>per 1000 of population</b>					
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	:
<b>per 1000 live-births</b>					
Infant mortality rate	10.0	9.3	9.5	8.4	8.8
Life expectancy:	<b>at birth</b>				
Males:	64.7	64.4	65.4	65.1	64.7
Females:	76.0	75.5	76.1	76.0	76.2
<b>Labour market (Labour Force Survey)</b>					
<b>% of population</b>					
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
<b>in % of total</b>					
- 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
<b>% of labour force</b>					
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
<b>as % of all unemployed</b>					
Long-term unemployment share	39.2	46.1	42.6	47.4	46.6

Infrastructure	<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). It is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adopting 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 GIS 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 (net price):* 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 exportation after inward processing. Trade data exclude trade in services as well as licences, 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.

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

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

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

### Demography

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

*Net migration rate*: Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case most consistent. Fourthly, 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 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:

- 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;
- 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;
- 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:

- the duration of search for a job, or
- 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:

- 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.
- does not cross at level with any road, railway or tramway track, or footpath;
- 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). *Cross agricultural production volume indices*: The gross agricultural output has been calculated at 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.