

**Comprehensive monitoring report
on
Estonia's
preparations for membership**

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A. INTRODUCTION

The accession negotiations with Estonia were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. In a referendum held on 14 September 2003, a majority of Estonians expressed their support for membership of the European Union. Following ratification of the Treaty of Accession, Estonia will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”

The Copenhagen European Council in December 2002 concluded that:

“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”

and the Thessaloniki European Council in June 2003 stated that:

“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for Estonia. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in Estonia, and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for Estonia as being in need of further improvements.

The second part gives an overview of where Estonia stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative

capacity and enforcement. In view of their importance for the implementation and enforcement of the *acquis*, the overall state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

For each chapter of the *acquis*, this report identifies the areas in which Estonia is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that Estonia must be prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on Estonia's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. Estonia was invited to provide information on its state of preparedness. The report also draws on information provided by Estonia within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.¹ Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions, and by non-governmental organisations.

¹ For the European Parliament the rapporteur is Mr Michael Gahler.

B. ECONOMIC ISSUES

In its 2002 Regular Report the Commission concluded that

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

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

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in Estonia including the continuation of the reform path since last year’s Report.

1. Economic developments

Against the background of weak external demand, macroeconomic performance in Estonia remained solid but the current account deficit widened appreciably. GDP growth, of some 6% in 2002, was underpinned by buoyant private consumption growth which reached 9.3% in 2002, and was driven by low interest rates, strong wage and employment growth. Against the backdrop of a global investment slump, investment in Estonia grew by 16.2% in 2002, owing to FDI inflows and low interest rates. The mismatch between domestic and foreign demand was manifested in a robust demand for imports (10.2% increase in 2002), and a relatively sluggish export performance (6% increase in 2002), and consequently in a deterioration in the current account deficit to some 12.3% of GDP in 2002. Although, a number of large one-off items—mainly investment goods—do account for a large part of the deficit, a structural deterioration of the current account was also noticeable. Net foreign direct investment inflows—at some 2.5% of GDP—were considerably lower than during the previous year, although net portfolio flows increased sharply mainly due to several bond issues in the eurobond market. Inflation, which had accelerated to almost 7% in mid-2001 receded subsequently to 2.7% by end-2002 owing to exchange rate movements, and other temporary factors (e.g., food prices), while core inflation remained stable at around 4% throughout the year. Labour market conditions continued to improve, and as a result of an increase in the employment rate (to some 62%), the unemployment rate declined to 9.1% of the labour force in 2002. The general government surplus increased to 1.3% of GDP mainly on account of buoyant growth, and despite additional spending of some 1.1% of GDP approved by the parliament in two supplementary budgets.² The local governments continued to be a drain on the public finances and a bigger-than-expected deficit offset part of the surplus of the central government.

² Better-than-expected growth in 2002 resulted in additional tax revenues of some 2% of GDP, compared to the estimate included in the 2002 Budget.

| Main Economic Trends | | | | | | | |
|---|---|-------|-------|-------|-------|-------------------|-----------------------------|
| Estonia | | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 latest |
| Real GDP growth rate | per cent | 4.6 | -0.6 | 7.3 | 6.5 | 6.0 | 5.2 Q1 |
| Inflation rate | per cent | 8.8 | 3.1 | 3.9 | 5.6 | 3.6 | 1.9 |
| - annual average | | | | | | | August ^a |
| - December-on-December | per cent | 5.2 | 3.7 | 5 | 4.2 | 2.7 | 1.4 August |
| Unemployment rate | per cent | 9.2 | 11.3 | 12.5 | 11.8 | 9.1 | 10.9 Q1 |
| - LFS definition | | | | | | | |
| General government budget balance | per cent of GDP | -0.4 | -4.0 | -0.4 | 0.2 | 1.3 p | |
| Current account balance | per cent of GDP | -9.1 | -5.7 | -5.8 | -6.0 | -12.3 p | |
| | million ECU/Euro | -429 | -277 | -326 | -378 | -847 ^b | -687 Jan.-July ^b |
| Gross foreign debt of the whole economy | Per cent of exports of goods and services | 39.6 | 32.9 | 33.0 | 33.1 | : | |
| - debt export ratio | million ECU/Euro | 1 472 | 1 238 | 1 728 | 1 854 | : | |
| Foreign direct investment in flow | Per cent of GDP | 10.9 | 5.8 | 7.6 | 9.6 | 4.4 p | |
| - balance of payments data | million ECU/Euro | 513 | 284 | 425 | 603 | 307 ^b | 427 Jan.-July ^b |

Sources: Eurostat. National sources. OECD external Debt Statistics

^a Moving 12 months average rate of change.

^b Source: Website of the National Bank.

P= provisional figures

The authorities adhered to their reform path, particularly in the areas of pension reform and financial supervision. An independent Financial Supervision Authority was established at the beginning of 2002 and the reform of the pension system advanced considerably with the implementation of the second pillar. An overhaul of the hospital system, which consists of an excessive number of hospital units from the pre-independence era, is ongoing and in June 2002 the Health Insurance Act was approved by parliament, and is expected to provide the basis for the reform.

| Main Indicators of Economic Structure in 2002 | | |
|--|--------------------------|-------|
| Population (average) | Thousand | 1,359 |
| GDP per head ^a | PPS | |
| | Per cent of EU average | 41 |
| Share of agriculture ^b in: | | |
| - gross value added | Per Cent | 5.4 |
| - employment | Per Cent | 6.5 |
| Gross fixed capital formation/GDP | Per Cent | 28.5 |
| Gross foreign debt of the whole economy/GDP ^c | Per Cent | 30.0 |
| Exports of goods & services/GDP | Per Cent | 85.1 |
| Stock of foreign direct investment ^d | Million Euro | 2843 |
| | Euro per head | 2092 |
| Long term unemployment rate | Per Cent of labour force | 4.8 |
| <i>Source: Eurostat</i> | | |

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

b Agriculture, hunting, forestry and fishing.

c Data refer to 2001.

d Data refer to 2000.

2. Implementation of recommendations for improvements

The expansionary fiscal policy, notably during 2002 and 2003, at the level of the local and central governments poses a risk to macroeconomic stability, particularly in the light of a widening current account deficit. A clear commitment by authorities over the years toward fiscal consolidation has been paramount in maintaining a stable macroeconomic environment, and key in stimulating growth in Estonia. Nonetheless, since the 2002 Regular Report was published the fiscal position of local government has deteriorated markedly. In particular, the local government deficit turned out some 0.5% of GDP higher than had been anticipated (1% of GDP vis-à-vis 0.6% of GDP expected by the authorities in April 2002), offsetting a central government surplus of some 1.3% of GDP (in ESA 95 terms). To balance the general government budget, the growing deficits at local government level are being offset by surpluses by the central government, while for budgeting purposes the central government is internalising the expected local government deficit. To improve the expenditure management system for general government more co-ordination between central and local government is needed, both in terms of budgetary planning and execution. At the same time—and against the background of above-trend GDP growth, and a widening current account deficit,—the central government approved two supplementary budgets in 2002 introducing additional spending of some 1.1% of GDP and another more recently in June 2003 for additional expenditures of 0.7% of GDP.³ Although comparatively the fiscal situation in Estonia is indeed very strong, pro-cyclical fiscal policy can have adverse consequences from macroeconomic stabilisation viewpoint, and in addition it may limit the room for fiscal policy to manoeuvre during times of sub-potential growth. Indeed, the practise of balancing the budget on a year-on-year basis, instead of over the cycle, creates an incentive to pursue pro-cyclical fiscal policy. Instead — and particularly in view of the large current account deficit—the government ought to play a bigger role in restricting domestic demand by allowing the automatic stabilisers to operate fully, and by pursuing tax and expenditure policies that are not likely to exacerbate the current

³ Windfall revenues to the central government, as a result of better-than-expected growth, reached some 2% of GDP in 2002.

imbalances. Such actions are paramount both for maintaining macroeconomic stability in Estonia, and for setting a standard for fiscal prudence for the general government sector.

*Active labour market policies are being pursued to address the **unemployment** problem and progress to-date has been satisfactory.* The unemployment rate declined significantly from 14.6% in the first quarter of 2000 to 10.6% in 2003, although large regional disparities continue to persist. However, this improvement was the result of modest employment gains, and a significant decline in the economically active population; employment increased by some 2% while the economically active population declined by almost 2.5% during this period. Severe skill mismatches, and a large number of long-term unemployed pose a significant challenge to policy makers, and are likely to hinder a swift improvement in the labour market. Nonetheless, significant efforts are being undertaken to introduce, and implement, policies that should address these specific issues with particular emphasis on re-integrating the long-term unemployed — particularly in regions worse hit by the restructuring of the economy — promoting vocational training and life-long learning, and setting up an effective institutional framework that is seen as supporting job creation. These and other policies are set out in the Employment Action Plan of the Republic of Estonia 2002, the Joint Assessment of Employment Policy Priorities and subsequent progress reports of March 2003, and the National Development Plan. The authorities should put particular emphasis on the implementation of these policies that are designed to increase flexibility in the market, and promote sustainable growth employment.

*The **restructuring of the oil-shale** sector is advancing, but there has been no further liberalisation of the energy market (see also Chapter 14).* Considerable investments have been put in place for the renovation of the Narva Power Plant and a number of oil-shale mines have been closed down. The ongoing investment program should enhance Eesti Energia's competitiveness while at the same time allowing it to produce electricity in an environmentally sound manner. Estonia needs to ensure that market opening takes place according to commitments and that access to the grid occurs on a non-discriminatory basis. Further liberalisation of the electricity market, in accordance with the agreed transitional period with the EU as a minimum, should be seen as beneficial to consumers and producers of electricity alike, and key to preserving the country's competitiveness. In addition to the macroeconomic benefits that would arise from market liberalisation, a further strengthening of the regulatory framework could further contribute towards a more efficient operation of the market and allocation of resources.

C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that Estonia is fully prepared in all areas of the *acquis* from the start of its membership. In other words, Estonia must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on Estonia, the Commission found that:

“Estonia is generally meeting the commitments that it has made in the negotiations. However delays have occurred in adopting fisheries legislation, implementing a fisheries information system, ensuring the full operation and compliance of the Fishing Vessel Register, and in aligning legislation on air quality and radiation protection. These issues need to be addressed.

Bearing in mind the progress achieved since the Opinion, the level of alignment and administrative capacity that Estonia has achieved at this point in time and its track record in implementing the commitments that it has made in the negotiations, the Commission considers that Estonia will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading up to accession, Estonia needs to continue its preparations, in line with the commitments it has made in the accession negotiations.”

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

*“In most areas Estonia is reasonably advanced in terms of developing the necessary administrative capacity to implement and enforce the *acquis*. However, as highlighted above, there are a number of areas where much has already been done but further efforts will also be needed to complete the work. In particular, these areas are free movement of persons, fisheries, agriculture, taxation, social policy and employment, energy, regional policy, environment, customs and justice and home affairs.”*

As part of its continuous monitoring, the Commission services addressed two letters to Estonia in March and June 2003 expressing concern over its preparedness in terms of adoption of legislation and development of administrative capacity within the fisheries chapter, and labour law and equal treatment within the social policy and employment chapter, and calling for urgent action to remedy these shortcomings.

In order to give further guidance to Estonia in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where Estonia currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body of the *acquis*, on a chapter-by-chapter basis, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by Estonia in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been met, and where delays have occurred, but the principal focus of the assessment remains the requirement that Estonia must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on Estonia's obligations is duly reflected in the assessment. On the other hand, it should be underlined that, in order for Estonia to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions⁴.

For each chapter, a conclusion is provided, which is structured in the following way.

Firstly, it identifies those areas where Estonia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

Thirdly, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities. In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures, together with the question of the translation of the *acquis* into Estonian, are evaluated in a separate Section 1.

⁴ See also the Commission Communication "on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on Chapter 21 - Regional policy and coordination of structural instruments" of 16 July 2003 (COM(2003) 433 final).

1. Administrative and judicial capacity

Public administration

Some structural changes took place in late 2002. The Ministry of Economic Affairs and the Ministry of Transport and Communications were merged into a new Ministry of Economic Affairs and Communications. Responsibility for the Public Procurement Office was transferred from the Ministry of Economic Affairs to the Ministry of Finance. Responsibility for the Competition Board was transferred from the Ministry of Finance to the Ministry of Economic Affairs and Communications. A new Health Protection Board was established.

In addition, the Office of Public Administration Reform at the State Chancellery was abolished and its functions divided between three ministries (Justice, Finance and Interior). Co-operation between these bodies is currently satisfactory. However, in the longer term more formal mechanisms for ensuring the coherent development of the public administration would be useful.

Since 2001 there have not been any changes to the status of civil servants and other public employees established in the Public Service Act, in force since 1996. Estonia's civil servants are required to perform their tasks in an impartial and politically neutral way. The draft new Civil Service Act remains to be adopted.

Satisfactory rules are in place to provide for the openness and transparency of the public service. The Office of the Legal Chancellor supervises the functioning of state institutions and acts as ombudsman to settle complaints by citizens about public service activities.

No significant changes have taken place regarding the number and distribution of civil servants between different bodies, which demonstrates the relative overall stability of the Estonian civil service. At the end of 2002, the total number of employees in the Estonian central administration was around 20 600, representing a small increase from the previous year. However, 9% of posts are unfilled and staff turnover is relatively high. Whether the staffing level is sufficient varies from one public body to another (*see assessment for each chapter under Part C.2.*).

As highlighted in the 2002 Regular Report, certain weaknesses in the conditions of service and career structures should be addressed, in particular, a lack of transparency in recruitment, promotion and remuneration levels. The level of education of staff continues to improve: 48 % of civil servants in the state administration have higher education, compared to 42 % in 2001 and 40 % in 2000.

Training is well developed. The Estonian Institute for Public Administration has been reorganised and renamed the Centre for Public Service Training and Development. Its priorities are, as of December 2002, approved on an annual basis by the government. Responsibility for training for EU membership is shared between the EU Secretariat and ministries. The number of officials trained in EU subjects during 2002 was around 80 % higher than in 2001. A strategy for EU training from 2003-2005 was approved at the end of 2002.

Last December the previous government approved a plan for co-ordination of EU policies after accession, which is being gradually introduced; this began in March 2003. Overall, the EU Secretariat, functioning under the Prime Minister, will play the key role in the co-ordination

system. The Administrative Co-operation Act also entered into force in July 2003 and includes provisions on granting the authority to perform public administration duties, as well as on the provision of professional assistance between administrative authorities. However, there are continued co-ordination problems in particular areas of the administration (*noted as relevant for each chapter in Part C.2*).

The Government is also taking steps to improve the planning system, which up until now has been characterised by too many unrelated plans with insufficient budget projections. The Government adopted a budget strategy document for 2004-2007, which sets out the basic macroeconomic framework and funds available for this period, and on the basis of which four-year ministerial budget strategies will be developed.

On the initiative of the new coalition, the Parliament adopted a law creating the post of assistant ministers, to be appointed by the Government for the same term as ministers, who will be in charge of strengthening political management. Ministers are not obliged to have assistant ministers, and none have been appointed so far.

Estonia is organised into 15 counties and 241 municipalities, some of them very sparsely populated. As reported in the 2002 Regular Report, the reform and voluntary consolidation of local government proposed in 2001 has had little impact. In some cases this leads to difficulties in financing and implementing policies at a local level, and could potentially pose difficulties for the effective implementation of the structural funds.

Judicial capacity

The new Courts Act has been in force since July 2002 and constitutes a major step forward regarding the independence of the judiciary. Under the law, a new balance between the Ministry of Justice and the courts has been reached, and the system appears to function satisfactorily. The new penal code, which entered into force in September 2002, was another important step in improving the effectiveness of the judicial process, and consolidated a series of reforms that were already in force. However, a number of key areas of judicial reform remain to be completed. The new Code of Criminal Procedure, which will enter into force in July 2004, should bring substantial changes to the Estonian judicial system, particularly by enhancing the prosecutor's role in the supervision of investigations. Proceedings in court will take the form of a more adversarial system. Training is planned for the end of 2003 and 2004 both for judges and prosecutors to facilitate the entry into force of the new Code.

The constitution provides Estonian judges with a high degree of independence. The Courts Act further reinforced the statutory independence of judges by organising a mechanism of partial self-administration of courts, whereby the Court Administration Council and the Ministry of Justice share the responsibility for the reorganisation of the administration of courts. Proper implementation of provisions relating to the new Court Administration Council is essential for the consolidation of judicial independence and further improvement of judicial capacity.

The status and remuneration of judges have improved significantly with the entry into force of the Courts Act. The situation regarding vacancies for judges also improved following the entry into force of the Courts Act: in September 2003, there were 237 judges in place and only 3 vacancies. There is still a lack of transparency regarding examinations for candidate judges and

performance evaluation for judges. Standardisation of exams and evaluations should be carried out as planned, examiners should be better supervised and exams should be made more relevant. The Association of Judges should continue its reflections on the development of a new evaluation system, which could assist monitoring and improvement of judicial performance, whilst safeguarding judicial independence.

The duration of judicial proceedings has decreased slightly. The average time for managing a criminal case decreased by 5 days in 2002, from 3 months and 21 days in 2001 to 3 months and 16 days in 2002.

The backlog of criminal cases, defined as cases pending for longer than one year, decreased to 1502 in 2002 as compared to 1992 in 2001. The backlog of civil cases, defined as cases pending for more than 2 years, decreased to 1482 in 2002 from 1640 in 2001, partly thanks to the filling of vacancies for judges in Ida-Virumaa, where many of the oldest cases had been pending. However, at the end of 2002, a total of 12,690 civil cases had not been decided as compared to 10,623 cases at the end of 2001 (an increase of 19.2%).

The training of judges and prosecutors is being implemented, in line with the training strategy 2001-2004. The Estonian Law Centre Foundation has been recognised as the National Training Centre for the Judiciary and is also able to provide specific training for prosecutors. Development of judicial training system is on track but attention should be paid to ensuring that the budget and human resources of the Law Centre are adequate. Training on economic crimes (corruption, money laundering, intellectual property protection, etc.), EU law, international law, human rights and judicial skills should receive particular attention. A general training strategy still needs to be developed for prosecutors.

Concerning legal aid, the draft Legal Services Act, which was submitted to Parliament at the end of 2001, has yet to be adopted and may not enter into force before 2005. It is possible to be granted free legal aid by submitting an application to the court for the appointment of a lawyer at the expense of the state. This is provided for in the codes of criminal, civil and administrative procedure and also in connection with administrative offences. However, while free legal aid is routinely granted in criminal cases, its availability in civil and administrative cases seems to remain rather limited.

Anti-corruption measures

International studies consistently indicate that corruption in Estonia remains at a relatively low level.

The legislative framework concerning the fight against corruption in Estonia is mostly in place. The latest amendments to the Anti-Corruption Act entered into force in February 2003.

Estonia still needs to develop a comprehensive national strategy, complete with concrete implementation measures, for fighting corruption in the public sector, although some individual institutions (e.g. the Police and Customs Board) have anti-corruption activity plans. Customs and border guards remain vulnerable to corruption. An inter-ministerial committee was established in May 2003 to develop an anti-corruption strategy and co-ordinate the implementation of anti-corruption measures.

Estonia should continue to make its efforts against corruption more effective and coherent, notably by drafting action plans in the bodies concerned, improving co-ordination between the supporting authorities, and devising and implementing an early detection strategy.

The institutional framework is in place. However, in order to improve the effectiveness of anti-corruption provisions, the procedure concerning conflicts of interests and the declaration of assets by elected officials and civil servants performing managerial functions, as well as law enforcement officers, should be strengthened. Also the functioning of both the Parliamentary Anti-corruption Committee and of the Public Procurement Office should be improved, and the latter's independence increased.

The civil service code of ethics became effective in January 1996. However, it is brief and vague, and awareness of the code remains low. The action plan for its implementation, including training and seminars for civil servants and the dissemination of guidelines, remain to be fully carried out.

Training is being carried out internally for the police and security police; training for judges and prosecutors should also be implemented.

The number of corruption cases, although very low, has increased since 1999 (from 8 in 1999 to 15 in 2002), due to improvements in investigation and wider awareness amongst the public. There have been a number of cases of corruption in the administration.

As regards international law, Estonia 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. The Criminal Law Convention on Corruption, adopted in December 2001, entered into force in July 2002. Estonia participates in the Baltic Anti-Corruption Initiative (BACI), which is supported by the OECD Secretariat.

Estonia continues to participate in the Council of Europe Group of States against Corruption (GRECO). GRECO has evaluated the Estonian response to its 2001 evaluation report. On the 12 recommendations made by GRECO, nine have been implemented and three are under implementation. While noting the progress achieved by Estonia, GRECO has noted in particular that its recommendations concerning: making efforts against corruption more coherent and effective; the role of audit, particularly at local level; and functioning and independence of the Public Procurement Office, have been only partly implemented.

Translation of the *acquis* into Estonian

In accordance with Articles 2 and 58 of the Act of Accession, all acts adopted by the Union's institutions and the European Central Bank prior to accession become applicable to the new Member States and are to be published in the Official Journal of the European Union in the new official languages. While the EU institutions take responsibility for the final revision and publication of the translations, it falls to the acceding states to produce the translations and to ensure a thorough legal and linguistic revision.

Since the beginning of the year, Estonia has provided a constant and high number of revised texts. The quality of the Estonian version of the *acquis* appears to be satisfactory. As the whole

process of translation and revision in Estonia is fully integrated, consistency of terminology and of quality is satisfactory.

Therefore, if the present flow is maintained, there should be no major problems for the publication of the full Special Edition of the Official Journal in Estonian.

2. The chapters of the *acquis*

As indicated, the following review of Estonia's ability to assume the obligations of membership has been structured in accordance with the list of 29 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

Legislation covering the **horizontal and procedural measures** necessary for the administration of the Community product *acquis* in the new approach sector is in place and is in line with the *acquis*. The implementing structures for standardisation, metrology, accreditation, and conformity assessment are all in place. However, the comprehensive market surveillance strategy remains to be finalised, with the result that the present responsibilities of the organisations carrying out market surveillance cannot be considered final. Estonia's standardisation body has applied for full membership of CEN and CENELEC. The Estonian National Communications Board is a full member of ETSI.

Estonia has largely transposed the **sectoral legislation** under the **new approach**. Legislation has been adopted which aims at transposing the directives on equipment and protective systems intended for use in potentially explosive atmospheres, recreational craft, personal protective equipment, radio and telecommunications terminal equipment, and the cableways directive. Transposition of directives on medical devices, non-automatic weighing instruments, and explosives for civil use must be completed. Legislation transposing directives on toys, appliances burning gaseous fuel, simple pressure vessels, pressure equipment and construction products must be amended to ensure full alignment. In the area of construction products, many of the implementing measures are only partly transposed. The development of laboratory capacity for toys must be completed.

As regards the **old approach** directives, Estonia has partly transposed the *acquis* in these product sectors. Legislation has been adopted which aims at transposing the directives on legal metrology and pre-packaging, fertilisers, detergents, cosmetics, motor vehicles and tractors, footwear, and good laboratory practice. Having transposed the majority of EC legislation in this area, Estonia still needs to complete the transposition of the remaining vertical directives on foodstuffs. Transposition must also be completed as regards gas cylinders, electro-medical equipment, some chemical products, pharmaceuticals, glass, textiles, and wood.

Estonia has taken the steps necessary to ensure the creation, reinforcement, and operational capacity of the institutions required to manage the *acquis* in nearly all of the sectors covered by the old approach sector directives. However, continued attention is required as regards the further development of the Chemicals Notification Centre. Having recognised that the identification of "new" chemical substances on its market is a matter of priority, Estonia should provide for the appropriate notification of such substances in accordance with the *acquis*.

In the area of food safety Estonia has made considerable progress in transposing the *acquis*. It must now complete transposition and remove the incompatible pre-marketing authorisation of foodstuffs. Estonia should further improve its institutional capacity by implementing its action plan to address shortcomings. There is a need to clarify overlap between inspection services, to improve horizontal co-ordination, and to increase the level of sampling. Estonia must also proceed with its action plan for implementing Hazard Analysis and Critical Control Points (HACCP) principles, in particular the training of inspectors to audit implementation of HACCP principles, and the establishment of guides to good hygiene practice. Further efforts are needed to ensure appropriate control of genetically modified and novel foods. Estonia is making adequate progress in preparing itself for participation in the Rapid Alert System for Food and Feed (RASFF). Aspects of food safety are also covered under *Chapter 7 – Agriculture*.

In the field of **public procurement** Estonia's legislation remains to be fully aligned, pending adoption of the draft Public Procurement Amendment Act. The Public Procurement Office has been moved from the Ministry of Economy to the Ministry of Finance. Although it is operational, administrative capacity needs to be reinforced *inter alia* through training of staff and awareness raising amongst contracting authorities.

In the **non-harmonised area**, Estonia has conducted screening of national legislation possibly in contradiction with the free movement of goods; this screening must be continued and the identified barriers must be removed. In particular, amendments remain to be made to remove the obstacles in the areas of environment and agriculture. Estonia needs to include mutual recognition clauses in existing and planned legislation. Transposition of the *acquis* as regards arms control is largely complete. However, transposition remains to be completed in the specific area of the European firearms pass. Only minor amendments are needed as regards the transposition of the *acquis* concerning cultural heritage objects. The obligation under Estonian law that customs authorities verify the safety of goods exported from and imported into the customs territory is not completely in line with *acquis* requirements. A co-ordination structure for bodies responsible for the checks on product conformity for imports from third countries has been created.

Conclusion

Estonia is essentially meeting the requirements for membership as concerns **horizontal and procedural measures** necessary for the implementation of EC legislation in the new approach sectors and most of the **new approach sectoral legislation**. Once the remaining aspects of the new approach *acquis* are put in place, administrative structures further developed and the comprehensive market surveillance strategy finalised, Estonia should be in a position to implement the *acquis* from accession.

Estonia is partially meeting the requirements in respect of **old approach sectoral legislation, public procurement** and the **non-harmonised area**. In the area of old approach sectoral

legislation, Estonia must make further efforts to transpose the remaining *acquis*. Attention must be given to completing the transposition of the *acquis* on food safety and to ensuring proper implementation in this area. Additional efforts should be made to provisionally notify "new" chemical substances prior to accession so as to ensure the continued marketing of such substances. Estonia must also give priority to completing transposition of the *acquis* on public procurement; the required amendment must now be adopted without delay. Also, administrative capacity must be significantly reinforced in this area. Finally, attention must be paid to ensuring the implementation and enforcement of the principle of mutual recognition, as well as to the abolition of trade barriers that have been identified.

Chapter 2: Free movement of persons

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

In the field of **mutual recognition of professional qualifications**, major work remains to be carried out. Estonia's legislation on the general system and on lawyers is in line with the *acquis*. However, the relevant sectoral legislation on the recognition of qualifications of doctors, dentists, general care nurses, midwives and pharmacists remains to be adopted and its implementation needs to be ensured. Transposition of legislation on veterinarians needs to be completed whereas on commercial agents it remains to be fine-tuned. Training of veterinarians is currently substantially deficient. The necessary implementing administrative structures are in place in the area of mutual recognition of professional qualifications but need to be strengthened.

In the area of **citizens' rights** legislative alignment has been completed. The main administrative structures for implementation are in place.

As for **free movement of workers** a transitional arrangement has been agreed. For the first two years following accession, current Member States will apply national measures, or bilateral agreements, to regulate the access of workers from Estonia to their labour markets. These arrangements may continue up to a maximum of seven years. Most of the legislation aiming at transposition of the *acquis* has been adopted. However, care must continue to be taken over legislative requirements on language proficiency, to ensure justified public interest, non-discrimination and proportionality. Under the *acquis* mandatory requirements for language proficiency can only be applied in very exceptional circumstances, on a case-by-case basis. Estonia is also encouraged to continue to demonstrate flexibility regarding the expiry of old language certificates. Full alignment with the legislation on supplementary pension rights of workers moving within the EU remains to be achieved. The Public Service Act remains to be amended in order to give access for EU citizens to employment in the public service.

With regard to **co-ordination of social security systems** no transposition into national legislation is needed to achieve alignment with the *acquis*. However, administrative capacity should be developed, in particular through further training of staff.

Conclusion

Estonia is essentially meeting the commitments and requirements in the area of **citizens' rights, free movement of workers** and **co-ordination of social security systems**. Legislative alignment needs to be completed in the area of free movement of workers. Furthermore, the ongoing measures to ensure adequate administrative capacity in these areas should continue.

Estonia is partially meeting the requirements for membership in the veterinary sector within the area of **mutual recognition of professional qualifications**. In order to complete preparations for membership in this area, Estonia must improve the training for veterinarians.

Serious concerns exist relating to Estonia's preparations for mutual recognition of professional qualifications in the healthcare sector, where Estonia must seriously enhance its efforts to transpose the relevant directives. The required administrative bodies must be fully established and the capacity to implement this *acquis* reinforced. Unless immediate action is taken, Estonia will not meet the requirements for membership in this area.

Chapter 3: Freedom to provide services

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information-society services must also be respected.

In the field of the **right of establishment and the freedom to provide non-financial services**, the current comprehensive screening for obstacles caused by legal and administrative restrictions needs to be completed and those obstacles found must be removed. In Estonian legislation regulating economic activity, including the Commercial Code, a clear distinction should be made between economic operators providing services in Estonia temporarily and those established permanently, in order to ensure the free provision of cross-border services. The screening should also include the Language Law, where the requirement that all advertising and signs addressed to the public are only in Estonian should, for example, be amended.

In the field of financial services, Estonia is completing the implementation of its commitments with regard to legislative alignment with the *acquis* in the **banking sector**. The directives on electronic money institutions and on the winding up of credit institutions have still to be transposed. Estonia has committed itself to ensuring the full application of the *acquis* in respect of the deposit guarantee scheme and investor compensation scheme by the end of 2007, in accordance with the transitional arrangements it has been granted.

As regards the **insurance sector**, legislative alignment has been mostly completed, with the exception of, in particular, the rules related to cross-border operations and the directives

relating to motor vehicles. The procedure for Estonia becoming a signatory of the ‘green card’ Multilateral Guarantee Agreement, as foreseen in the 1st motor vehicle directive, still needs to be finalised and efforts should be made to cope with the responsibilities linked to this status.

In the field of **investment services and securities markets**, discrepancies in respect of all securities and financial instrument directives still need to be corrected. The directive on financial collateral remains to be transposed.

In terms of administrative capacity, at the beginning of 2002 the three supervisory authorities for banking, insurance and securities exchange were merged into one authority, the Estonian Financial Supervision Authority (EFSA). By doing this, many of the structural and organisational recommendations previously made have been followed up and the average quality of supervision across the financial sector has increased. Estonia should continue to pursue its 2002 Action Plan in order to meet each of the remaining recommendations.

In the area of the **protection of personal data and the free movement of such data**, a new Personal Data Protection Act has been adopted, aiming at bringing legislation closer to the *acquis*. However, important data protection provisions have not been transposed and the resulting act cannot be considered as fully aligned with the data protection directive. The State Data Inspectorate lacks the elements necessary to guarantee the full independence of this authority, as required by the directive, e.g. as regards the appointment of the head of the inspectorate by the Government, or its position as a government agency. These shortcomings should be rectified. Human resources at the inspectorate also need to be reinforced.

As regards **information-society services**, the more recent *acquis* on e-commerce still needs to be transposed and the relevant administrative capacity ensured before accession. The conditional access directive also remains to be transposed.

Conclusion

Estonia is essentially meeting the requirements for membership and is expected to be in a position to implement the *acquis* in the area of **banking** and **insurance** by the time of accession. Some legislative work in this area still needs to be completed.

Estonia is meeting the majority of the requirements for accession in the areas of **investment services and securities markets**, **protection of personal data** and **information-society services**. In order to complete preparations for membership, legislative alignment must be completed. The full independence of the State Data Inspectorate must be ensured. Enhanced efforts are also needed to remove all remaining administrative and legal restrictions on the **right of establishment and the freedom to provide non-financial services**.

Chapter 4: Free movement of capital

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payments systems and the fight against money laundering, requiring adequate enforcement capacity.

In the area of **capital movements and payments**, Estonia is to a large extent in line with the *acquis*. Estonia must still remove the restrictions on foreign direct investment in security services and the air transport sector. Amendments aimed at removing the remaining restrictions to ownership of sea-going vessels were adopted by the Parliament in January 2003 and will enter into force upon accession.

In accordance with the transitional arrangement it has been granted, Estonia will remove restrictions on the acquisition of agricultural land and forests by EU nationals and by EU companies by May 2011 at the latest.

In the field of **payment systems**, Estonia is completing its legislative alignment. An out-of-court arbitration body to cover complaints related to payment and settlement services between commercial banks and their customers remains to be established.

In the area of **money laundering**, Estonia still has to amend its anti-money-laundering legislation in line with the most recent *acquis* and, *inter alia*, extend the range of persons obliged to report suspicious transactions to cover lawyers, accountants, tax advisors, auditors and notaries. More detailed regulation on supervision of gambling is needed. Estonia must extend reporting obligations in case funds are intended for the financing of terrorism. Moreover, further work will also be necessary to comply with the recommendations of the Financial Action Task Force. In terms of implementing structures, the Financial Intelligence Unit (FIU) needs to be further strengthened both in terms of staff and equipment, especially to carry out analysis and maintain the security of data and premises. Training activities are needed for the FIU, economic police, prosecutors, customs officials, and bank staff (*see also chapter 24 – Justice and home affairs*).

Conclusion

Estonia is essentially meeting the requirements for membership and should be in a position to implement the *acquis* in the area of **capital movements and payments** and **payment systems** from accession. A limited number of specific issues still need to be addressed in these areas before accession.

The commitments and requirements in the fight against **money laundering** are partially met. In order to complete preparations for membership, Estonia must transpose the recent *acquis* and further reinforce its administrative capacity to effectively implement the *acquis* on money laundering.

Chapter 5: Company law

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights, industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

In the field of **company law** as such, Estonian legislation is to a very large extent in line with the *acquis*. Administrative bodies are in place and their capacity appears to be adequate.

With regard to **accounting**, Estonia's commitments have essentially been met and it should be in a position to implement the *acquis* in this field from the date of accession. Legislation is largely in line with the *acquis*, although a few shortcomings in the Act on authorised public accountants need to be addressed. In the area of auditing Estonia has reached a relatively high level of alignment with the *acquis*, although some discrepancies remain to be addressed. In terms of administrative capacity, Estonia should provide for government supervision of the self-regulatory Institute of Authorised Auditors.

In the field of **protection of intellectual and industrial property rights (IPR)**, further efforts are required to align the legislation on copyright and neighbouring rights. The recent Directive on copyright in the information society remains to be transposed; in particular, provisions on the right of reproduction, the right to make available, the protection of technological measures, rights management information and the principle of EC exhaustion of distribution right need to be adopted. Estonia still needs to ratify the two WIPO "Internet" Treaties. Legislation in the area of industrial property rights is largely aligned with the *acquis*. Estonia has in place legislation aimed at transposing the *acquis* in the area of biological patents.

Specific transitional rules will apply in relation to pharmaceutical product patents, involving the non-application of Community exhaustion to certain exports from Estonia, as regards the granting of supplementary protection certificates for medicinal and plant protection products, as well as in relation to the extension of registered or pending Community trademarks to the territory of Estonia.

As regards enforcement of IPR, administrative structures are in place but the fight against piracy and counterfeiting appears to no longer have sufficient priority. While the number of pirated goods seized by the Customs Board slightly increased in 2002, the number of seizures by the police fell from 70,109 items in 2001, to 15,393 items in 2002. The performance and administrative capacity of customs, police and the judiciary should, in particular, be reinforced. Efforts have been made to increase co-operation between relevant bodies, e.g. through the signature of a co-operation memorandum between the Police Board, the Estonian Organisation of Copyright Protection, the Estonian Authors' Society and the Business Software Alliance Estonian Committee. Nevertheless, co-operation between the police and local government should also be further enhanced, in particular in the enforcement of copyright legislation. In addition, the court system in the field of IPR should be improved by training judges and public prosecutors. The National Patent Administration infrastructure is functioning satisfactorily overall.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession, and accession to the **Rome Convention** will only be possible upon accession. Estonia should designate the relevant Courts and/or other authorities to ensure swift implementation of these provisions (*see also Chapter 24 - Justice and home affairs*).

Conclusion

Estonia is essentially meeting the requirements for membership, and is expected to be in a position by accession to implement the *acquis*, in the areas of **company law** and **accounting**, as well as the **Regulation replacing the Brussels Convention** and the **Rome Convention**. Certain discrepancies with the *acquis* must be removed in the area of auditing.

Estonia is partially meeting the commitments and requirements arising from the accession negotiations in the field of the **protection of intellectual and industrial property rights**. In order to complete alignment, further legislative adjustments are required in respect of copyright and related rights, and information society rules. Efforts to enforce intellectual and industrial property rights should be enhanced, in particular, through better co-ordination and training of enforcement bodies (mainly customs, police and judiciary). The efficient functioning of a well-trained judiciary should also be given particular attention.

Chapter 6: Competition policy

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, Estonia has adopted legislation containing the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. However, Estonia still needs to ensure that its legislation is not in contradiction with the more recent Community block exemptions. Furthermore, Estonia needs to continue its efforts to ensure that the rules allow for effective enforcement in view of the recent criminalisation of anti-trust offences. Preparations should also be made for the application of the EU's new procedural regulation.

Estonia has the necessary implementing structure in place. However, in view of the recent criminalisation of anti-trust offences, it remains to be ensured that the Competition Board is given the necessary powers and resources to continue to effectively enforce the competition rules. Further efforts are needed to raise awareness of anti-trust rules amongst all market participants and to build up a credible and transparent competition culture. Special training for judges should be further developed.

The enforcement record is generally satisfactory, although somewhat weakened in 2002. In order to ensure strengthening, priority should be given to cases that most seriously distort competition. Furthermore, much more deterrent sanctions should be imposed.

In the field of **state aid**, Estonia has adopted state aid rules covering the main principles of the *acquis*.

The necessary implementing structures are in place and the State Aid division of the Ministry of Finance is functioning well. Further efforts are needed to raise awareness of state aid rules amongst all market participants and aid grantors. Estonia must also pay further attention to training the judiciary.

The enforcement record is generally satisfactory. Estonia should continue to ensure that all aid measures are monitored and controlled.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the **competition** area and is expected to be in a position to implement this *acquis* from accession. In completing preparations for membership, Estonia must continue to develop a track record of proper application and enforcement of both anti-trust and state aid legislation, and complete the legislative fine-tuning that will enable such strengthening of the enforcement record. Particular attention is needed for ensuring that the new criminal procedure applied in anti-trust cases will allow for effective enforcement.

Chapter 7: Agriculture

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues" below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.

Horizontal issues

The CAP Implementing Act remains to be adopted by the end of 2003. The Agricultural Registers and Information Board (ARIB) will be the **Paying Agency** for all CAP measures. It remains to be accredited by the Ministry of Finance. A substantial amount of work remains to be done (such as conclusion of agreements with delegated bodies, written procedures and development of IT systems) if Estonia is to have a functioning paying agency by the date of accession.

With regard to the **Integrated Administration and Control System (IACS)**, Estonia has made good progress so far, but much remains to be done if Estonia is to have a fully functioning system by accession. The responsibilities of the 15 regional offices have to be clearly defined and their administrative structure fully established. Digitalisation of orthophotos remains to be finalised.

ARIB will be responsible for the administration of **trade mechanisms**, together with the Customs Board and Veterinary and Food Board, which will have the relevant control responsibilities. Further efforts will, however, be needed in setting up the procedures within ARIB and the veterinary service. Staffing will also need to be reinforced. Preparations in the customs field need to be accelerated.

Legislative measures for **quality policy** and **organic farming** are in place. Administrative structures to implement quality policy have been finalised. Supervision of organic farming is

performed by the Plant Production Inspectorate, the Veterinary and Food Board and the Health Protection Inspectorate.

Estonia has met the commitments and requirements arising from the accession negotiations in the area of the **Farm Accountancy Data Network** (FADN) and is expected to have implemented the FADN by accession.

Estonia must ensure that **state aid** measures in the field of agriculture are brought in line with the *acquis* at the time of accession.

As concerns direct payments to farmers, Estonia has not yet decided whether or not to apply the single area payment scheme (SAPS).

Common market organisations (CMOs)

ARIB will be responsible for intervention as well as inspection and authorisation of payments for **arable crops**. Intervention centres and storage premises remain to be set up and price reporting needs to be put in place.

Implementing legislation as regards marketing standards for **fruit and vegetables** as well as the establishment of producers organisations has been adopted. Further controls at the import stage remain to be implemented and the mechanisms for the reporting of entry prices remain to be set up. However, administrative structures are essentially in place.

In the area of **wine and alcohol**, the CMO for wine remains to be fully set up. Further efforts are needed to complete alignment with the *acquis* on sparkling wine and on registration of spirits. Estonia, in particular, needs to repeal national registering of spirits by the date of accession.

The Milk Bureau in ARIB is responsible for managing the **milk** quota system. A temporary simplified milk quota system was introduced in 2003, without application of the super-levy. However, a significant number of preparations remain to be completed, for example, the registration and quota allocation must be extended to cover all milk producers and the IT system needs to be adapted so that it can handle the fat adjustment and levy calculation. Other CMO mechanisms such as intervention also remain to be set up.

Some legislative measures have been adopted regarding carcass classification and price reporting for **beefmeat, sheepmeat and pigmeat**, but they need to be brought fully in line with the *acquis*. The labelling system for beefmeat has been adopted but remains to be implemented.

For **eggs and poultry**, quality standards for eggs and poultry and price reporting are in place, and the reporting of production statistics has been implemented.

Rural development

The CAP Implementing Act, which will implement measures under the Guarantee section of the European Agricultural Guidance and Guarantee Fund (EAGGF), remains to be adopted, along with the necessary implementing legislation. ARIB will be the paying agency for rural development and will be responsible for implementation of the measures. This agency already

has substantial experience with the implementation of SAPARD. Estonia has submitted its draft Rural Development Plan for EAGGF Guarantee expenditure to the Commission.

Veterinary and phytosanitary issues

Transposition of legislation on transmissible spongiform encephalopathies (**TSEs**) and **animal by-products** has largely been completed. However, implementation needs to be accelerated. TSE surveillance is not yet in compliance with the *acquis*; in particular, testing is still insufficient. Construction of an animal waste rendering plant is not yet complete, a final decision on the financing of the collection system for cadavers remains to be taken and the collection system has still to be put in place. A total feed ban is in place.

The **veterinary control system in the internal market** is not fully established. Estonia has not yet joined ANIMO, the computerised network linking veterinary authorities. The *acquis* in the field of identification and registration of animals has mainly been transposed. All bovine animals are ear-tagged and registered in the central bovine database. This database is operational but needs upgrading. Holding registration needs to be completed. The *acquis* on financing of veterinary inspections and controls has largely been transposed but fee levels need to be adjusted. Transposition regarding veterinary checks of imports from third countries and rules for imports remains to be completed. Further work is still needed to bring border inspection posts into compliance with EU requirements.

Regarding **animal disease control** measures, national contingency plans on foot and mouth disease, classical swine fever, Newcastle disease and avian influenza have been provided. Estonia has joined the Animal Disease Notification System (ADNS) on a voluntary basis. Most of the legislation on **trade in live animals and animal products** still needs to be transposed and implemented.

Legislation on **public health** protection is largely in compliance with the *acquis*, but remains to be adjusted for farmed game meat, wild game meat, and certain aspects of milk and meat products. The upgrading of establishments has in most cases taken place in accordance with upgrading plans. However, certain delays have taken place in the meat and milk sectors.

The *acquis* on **common measures** (including zoonoses) has partly been transposed. Shortcomings in the Estonian residue-monitoring programme, and in the effective follow up of positive results, need to be addressed.

The *acquis* in the field of **animal welfare** has largely been transposed.

In the field of **zootechnics**, steps have been taken to align and implement Estonian legislation with EU requirements.

The *acquis* for **animal nutrition** has partly been transposed but further legislative work remains to be carried out in the areas of official inspections. Estonia must ensure the effective implementation of registration and approval of establishments.

In the field of **phytosanitary** legislation (harmful organisms, quality of seeds and propagating material, and plant protection products), transposition has been largely achieved but amendments are still required. Legislation in the areas of harmful organisms and quality of seeds and propagating material largely remains to be implemented. In particular, the process of

selecting and upgrading border inspection posts that will operate after accession has to be completed. The plant passport system has been introduced at a national level for some commodities. The main plant protection products directives have been transposed but, for the most part, not yet implemented. However, the monitoring programme for residues is in place.

Estonia has no international veterinary and phytosanitary agreements.

In order to ensure a comprehensive approach to enhance food safety throughout the food chain, the Food Safety Council has been established, with the participation of the Food and Veterinary Board, the Health Protection Inspectorate and the Plant Production Inspectorate. Aspects of food safety are also covered under *Chapter 1 – Free movement of goods*.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations, among the horizontal issues as regards **quality policy** and **organic farming**, the **Farm Accountancy Data Network (FADN)** and **state aid**; among the common market organisations (CMOs) as regards **arable crops**, **fruit and vegetables**, **wine**, **beefmeat**, **sheepmeat and pigmeat**, and **eggs and poultry**; and as regards **rural development**. In the veterinary field, Estonia is essentially meeting the requirements relating to **animal disease control measures**, **animal welfare** and **zootchnics**. Subject to good progress being maintained in these areas, Estonia should be in a position to implement this *acquis* from accession.

Estonia is partially meeting the commitments and requirements for membership as regards the **Paying Agency**, the **Integrated Administration and Control System (IACS)**, **trade mechanisms**, the CMO for **milk**, and in the veterinary field as regards **TSE and animal by-products**, the **veterinary control system in the internal market** (as regards animal identification and import controls), **trade in live animals and animal products**, **common measures** (as regards residues), **animal nutrition** and **phytosanitary** issues. Attention must also be paid to **public health** protection as regards the upgrading of agri-food establishments in the milk and meat sectors. Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place at accession.

Chapter 8: Fisheries

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management, and inspection and control**, the Estonian legislation is partially in line with the *acquis*. The draft Fishing Act Amendment Act has been approved by the government but needs to be adopted in order, for example, to extend the requirement for vessels to carry satellite-tracking devices (Vessel Monitoring System (VMS)) to all vessels of 18 metres or more (including those operating in Estonian waters), and provide for completion of the Fishing Vessel Register (FVR). Implementing legislation in this area also

remains to be fully harmonised. Estonia has partly ensured the creation, the reinforcement, and the operational capacity of institutions in the field of fleet management, resources, inspection and control. Co-ordination between the Ministry of Environment, responsible for resource management and control, and the Ministry of Agriculture, responsible for market and structural policy, has improved, but still needs further efforts. There is a need for more centralised co-ordination, as well as institutionalised consultation with different stakeholders. The Fishing Vessels Monitoring Centre (FMC) is operational. According to the latest figures, 40 vessels able to operate outside Estonian waters are equipped with satellite tracking devices (VMS). The system also receives data from foreign vessels entering Estonian waters. However, VMS data are not used so far in an organised way for targeting inspections. The Fisheries Information System (FIS) has been established but needs to be further developed. It must be able to cope with much larger amounts of data and there should be more cross-checking options. A connection must be made with the Fishing Vessel Register, and an on-line link to the Fisheries Inspectorate, and links to the Ministry of Agriculture and the Agricultural Registers and Information Board (ARIB) need to be developed. The parameters used in the inspection reporting system need to be adjusted to meet the requirements for providing information to the Commission. Further efforts should be made to increase the level of sanctions for fisheries violations.

In the area of **structural actions**, the chapter on fisheries in the Estonian Single Programming Document (Development Plan) has been submitted to the European Commission. The planned Structural Fund Regulation remains to be adopted. ARIB will be responsible for the management of projects under the Financial Instrument for Fisheries Guidance (FIFG). Co-ordination between the Ministry of Environment, Ministry of Agriculture and ARIB needs to be improved in order to ensure smooth implementation of structural policy. The Fishing Vessel Register has been established at the Ministry of Environment and is operational for 158 vessels over 12 metres, including 11 large vessels fishing on the high seas. The register remains to be completed; in particular, fishing vessels under 24 metres remain to be re-measured. Currently, the rate of re-measurement is 65% for the total fishing fleet.

Regarding **market policy**, both the framework draft Fisheries Market Regulation Act, which was recently approved by the government, and implementing legislation remain to be adopted. This includes legislation concerning registration of first buyers, marketing standards, fishery freshness, size criteria and aquaculture. If Estonia intends to implement market intervention from accession, the legal basis for producers' organisations (POs) must be established and POs must be fully operational. The administrative structures and procedures in the area of POs have not yet been established. Fish quality standards entered into force in July 2003.

As regards **state aid** to the fisheries sector, Estonia needs to ensure that all state aid measures are in line with the *acquis* by accession.

As regards **international fisheries agreements**, Estonia needs to withdraw from the International Baltic Sea Fisheries Commission (IBSFC), the North Atlantic Fisheries Organisation (NAFO) and the North-east Atlantic Fisheries Commission (NEAFC) before accession. A solution has been found between Lithuania, Estonia, Latvia and Russia on the division of the NAFO block quotas.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position as from accession to implement the *acquis* in the areas of **state aid** and **international agreements**.

Estonia is partially meeting the commitments and requirements for membership in the areas of **resource and fleet management, and inspection and control, structural actions** and **market policy**. In order to complete preparations for accession, necessary legislative alignment must be completed, the Fisheries Information System (FIS) must become fully operational and the Fishing Vessel Register must be finalised. Moreover, in all areas, co-operation between the different bodies for fisheries administration should be reinforced. In addition, as regards market policy, both framework and implementing legislation remains to be adopted, and enhanced efforts are needed to establish the necessary administrative structures and procedures for implementing the *acquis*.

Chapter 9: Transport policy

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

The extension of the **trans-European transport networks** has been defined. While the necessary implementing structures in this area are in place, the administrative capacity requires further strengthening, both in qualitative and quantitative terms, in particular in the rail and the road sector.

In the land transport sector, Estonia is completing the implementation of its commitments with regard to legislative alignment with the **road transport** *acquis*. Framework legislation is in place and in line. Alignment with the fiscal and social *acquis* has been completed, except for checks of driving time and rest periods. The volume of the checks has to be increased for volumes to reach *acquis* requirements. In the technical field, legal alignment is largely complete, except for some implementing legislation. Further alignment is needed with regard to technical road-side inspection, transportable pressure equipment as well as speed-limitation devices. Implementing measures in the road transport area are proceeding as foreseen. The necessary administrative structures in this area are in place. Estonia has agreed to a transitional arrangement put forward by the EU concerning gradual reciprocal access to the cabotage market in the road haulage sector (for a maximum duration of five years).

Transposition of the revised **rail transport** *acquis* of February 2001 is taking place, and the process remains to be completed with regard to track access charging, capacity allocation and the interoperability directives. In light of the imminent transformation of the Railway Administration, procedures and task allocation should be reviewed and training of staff should be pursued. The independence of the allocation and charging functions remains to be ensured, in particular with regard to the privatised integrated railways.

On **inland waterways** transport, legislative alignment has been completed. Administrative structures in this area are in place and satisfactory.

In the area of **air transport**, all relevant framework legislation has been transposed and is essentially in line with the *acquis*, but some modifications are needed, notably with regard to ground handling, slot allocations and accident investigation. Implementing legislation is still being adopted in order to complete alignment with the *acquis*. The administrative capacity is satisfactory. Full membership of the Joint Aviation Authorities remains to be achieved, and particular efforts should be made in order to become a full member before accession as required by the *acquis* and irrespective of the setting up of the European Aviation Safety Agency (EASA).

In the field of **maritime transport**, framework legislation is in place and in line with the *acquis*. However, the adoption of implementing legislation needs to be accelerated, in particular in relation to the *acquis* adopted under the “Erika” packages, and with regard to the latest amendments to the *acquis* on passenger ships, fishing vessels, marine equipment and port reception facilities. The relevant administrative structures in this area are in place. The strengthening of the management system of the Estonia Maritime Administration needs to continue. According to statistics for 2002 under the Paris Memorandum of Understanding, the percentage of Estonian flag vessels detained following Port State control was 6.7%. This compares with an average for EU-flagged vessels of 3.5%. However, there are strong indications that the situation is deteriorating, in that the number of Estonian flag vessels being detained is rising sharply. Estonia needs to urgently address this issue with a view to reversing this trend of deteriorating detention rates.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the **trans-European transport networks, road transport, inland waterway and rail transport**, and is expected to be in a position to implement the *acquis* from the time of accession, provided that the current pace of progress is maintained. In completing preparations for membership, Estonia must complete the transposition of the railway *acquis* and strengthen administrative capacity. In the area of road transport, Estonia needs to adopt implementing legislation and further reinforce its administrative capacity.

Estonia is meeting the majority of commitments and requirements in the area of **air transport**, where legislative alignment remains to be completed. Estonia needs to accelerate its efforts to become a full member of the Joint Aviation Authorities before accession. In addition, Estonia is partially meeting the commitments and requirements in the area of **maritime transport**, where legislative alignment remains to be completed and remedial action must be taken without delay in order to improve the detention rates of Estonian flag vessels.

Chapter 10: Taxation

The *acquis* on taxation largely covers indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at

removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

As concerns indirect taxation, Estonia should complete alignment in the area of **VAT** by eliminating zero-rating on certain periodicals and educational textbooks, aligning its definition of taxable person, introducing refunds to foreign taxable persons not based in Estonia. Estonia should also introduce the special schemes for travel agents and investment gold, align the scope of some VAT exemptions, except in the areas where it has obtained transitional periods (see below) and introduce the intra-community regime. Furthermore, Estonia should align discrepancies regarding the taxable amount, the place of supply and the scheme for traveller's allowances.

Estonia has obtained a transitional period concerning the continued application of the reduced VAT rate on heating sold to natural persons, housing associations, apartment associations, churches, congregations and institutions or bodies financed from the State, rural municipality or city budget, as well as on peat, fuel briquettes, coal and firewood to natural persons (until 30 June 2007) and a derogation to apply a VAT exemption and registration threshold of €16 000 for small and medium sized enterprises and a VAT exemption on international passenger transport. The necessary administrative structures in this area are in place, but actions to modernise and strengthen the tax administration should be continued. Priority should be given to improving tax collection and control and audit procedures.

As concerns **excise duties**, Estonia needs to align duty rates on certain mineral oil products, some exemptions, the reimbursement system and to extend the duty suspension arrangement to intra-community movements. The gradual increase of excise duties on cigarettes is proceeding according to schedule, in order to reach the minimum rate level on 31 December 2009, as agreed in the accession negotiations. Estonia was also granted a transitional arrangement for a delayed implementation of the overall excise duty on smoking tobacco (until 31 December 2009). Estonia has the required administrative structures to apply and effectively implement the *acquis* in the area of excise duties. However, attention should be paid to the persistent problem of fraud, concerning in particular mineral oil.

In the area of **direct taxation**, Estonia needs to accelerate efforts to align its legislation notably by removing remaining discriminations concerning the free movement of capital provided by the EC Treaty on payments of dividend income by Estonian companies to non-resident individuals. Furthermore, Estonia needs to transpose the Directives on Interests and Royalties and on Taxation of Savings Income. A transitional measure agreed permits Estonia, for as long as it charges income tax on distributed profits without taxing undistributed profits, and at the latest until 31 December 2008, to continue to apply that tax to profits distributed by Estonian subsidiaries to their parent companies established in other Member States. The capacity of the tax administration is sufficient to ensure proper implementation of the *acquis*.

On **administrative co-operation and mutual assistance**, Estonia is taking the necessary steps to transpose the *acquis* and implement it by accession, both from the legislative point of view and as concerns organisational structures including information technology systems. A Central Liaison Office (CLO) was set up, whereas the Excise Liaison Office (ELO) remains to be established. Preparations for the VAT Information Exchange System (VIES) and for the

System for Exchange of Excise Data (SEED) databases are ongoing and proceeding according to plan.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **VAT, excise duties and administrative co-operation and mutual assistance** and is expected to be by accession in a position to implement the relevant *acquis*. Estonia needs to adopt legislation in some areas, so as to complete alignment, as well as to strengthen its tax administration. Estonia should continue its efforts to set up the information technology systems allowing for the exchange of computerised data with the Community and its Member States.

Estonia is meeting the majority of the commitments and requirements arising from the accession negotiations in the area of **direct taxation**. In order to complete preparations for membership, Estonia must eliminate the remaining discriminations with respect to the free movement of capital provided by the EC Treaty on payments of dividend income by Estonian companies to non-resident individuals.

Chapter 11: Economic and monetary union

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that Estonia will not adopt the euro as a currency from accession. EMU policy also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

In the area of **prohibition of direct financing of the public sector**, Estonia has met the commitments and requirements arising from the accession negotiations, and is in a position to implement the relevant *acquis* as from the date of accession.

In the area of **prohibition of privileged access of the public sector to financial institutions**, Estonia has met the commitments and requirements arising from the accession negotiations, and is in a position to implement the relevant *acquis* as from the date of accession.

In the field of **independence of the national central bank**, legislation is in place and in line with the *acquis*. One final specific amendment to the Central Bank Law should be adopted concerning possible conflicts between managing bodies of the bank and potential interference of the Parliament. The necessary administrative structures are in place and function adequately.

Conclusion

Estonia has met the commitments and requirements arising from the accession negotiations in the fields of **prohibition of direct financing of the public sector and prohibition of privileged access of the public sector to financial institutions**. Estonia is essentially meeting the requirements arising from the negotiations in the area of **independence of the national central bank** and is expected to be able to implement the *acquis* as of accession. Estonia should adopt one final amendment to its Central Bank Law.

Chapter 12: Statistics

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. Estonia needs to improve the quality and the timeliness of data in certain domains such as government finance statistics and economic accounts for forestry data.

Chapter 13: Social policy and employment

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment, social inclusion and social protection.

Estonia must pay attention to completing alignment in the field of **labour law**. Only a small part of the legislation aiming at the alignment with the *acquis* has been adopted. The Draft Employment Contract Act and the Social Dialogue Act, which aim at transposing directives on *inter alia* European Works Council, collective redundancies, fixed-term work and part-time workers, remain to be adopted. There are substantial delays compared to the original timetable for transposition, which need to be addressed urgently. The independent guarantee fund for employees is in place and functioning well. However, the remaining implementing structures need to be put in place.

Estonia has not transposed legislation in the field of **equal treatment of women and men**. Alignment with the *acquis* is scheduled to be achieved with the adoption of the Gender Equality and Equal Treatment Act and the Employment Contract Act. The adoption of the Gender Equality and Equal Treatment Act is foreseen to also provide for an institutional framework for ensuring its effective implementation. There are substantial delays compared to the original timetable for transposition, which need to be addressed urgently. Implementing structures remain to be put in place.

In the area of **health and safety at work**, most of the legislation has been transposed and is expected to be in force as from accession. Further legal alignment is still required, in the areas

of, amongst others, work equipment, drilling, surface and underground mineral extracting industries. Further legal adjustments are also needed in order to achieve full alignment with the framework directive. The National Labour Inspectorate is in place, but further strengthening, in terms of staffing, salaries, training, and technical facilities, is needed. In particular, attention should be paid to the enforcement of the legislation in small and medium-sized enterprises.

As regards **social dialogue**, the tripartite social dialogue body is in place. However, effective tripartite social dialogue, as well as autonomous sectoral social dialogue, could be improved. The number of collective agreements signed at sectoral level is still low in Estonia and should be increased.

In the field of **public health**, the legislative transposition of the new tobacco *acquis* remains to be completed. Transposition of the legislation with regard to surveillance and control of communicable diseases requires further revision. In addition, new laboratory equipment and training in modern epidemiology, as well as additional computerisation, are needed. Efforts should continue in order to improve the health status of the population, including communicable diseases, such as HIV/AIDS, and to increase health expenditure. A National Institute for Health Development, administered by the Ministry of Social Affairs, was established in May 2003.

Concerning **employment policy**, efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP). In particular, it is important to increase incentives for job creation and for people to take up work. Estonia needs to continue the modernisation of education and training policies, including establishment of the lifelong learning system. Concerns exist over the capacity to develop a more active and preventive strategy, and efforts are needed to improve policy co-ordination, as well as financial resources.

As regards the future establishment of the **European Social Fund (ESF)**, the administrative framework is being put in place. However, development of the administrative structures for the management of the ESF should be accelerated. The capacity of the Ministry of Labour and Social Affairs (one of the intermediate bodies for human resource development) should be strengthened to effectively monitor, evaluate and financially manage the fund. The capacity of the other intermediate bodies should be developed and their tasks clarified. The on-going preparatory work on a project pipeline needs to be strengthened. Preparations for participation in the transnational operations of the EQUAL initiative also need to be intensified.

The Commission and Estonia are finalising the Joint Memorandum on Social Inclusion (JIM), which identifies key challenges and possible policy orientations for promoting **social inclusion**. On this basis, an integrated strategy and a National Action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be developed in line with the EU commonly agreed indicators on social inclusion.

In the field of **social protection**, sustained efforts are required to implement the reforms that have been introduced, including the health care reform and pension reform, which will further help improve the level and efficiency of social protection.

Concerning **anti-discrimination**, legislation remains to be prepared to ensure full alignment with the *acquis* and the Equality Body required by the *acquis* needs to be established. Estonia

is also encouraged to further promote integration of the Russian minority by, in particular, continuing to increase the speed of naturalisation procedures and by taking other proactive measures to increase the rate of naturalisation. It is also encouraged to ensure the effective and flexible implementation of the planned transition by 2007 to bilingual education in non-Estonian speaking schools, and to ensure that at all levels the implementation of the language law respects the principle of justified public interest and proportionality, as well as Estonia's international obligations.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **health and safety at work, social dialogue, employment policy, social inclusion and social protection**, and is expected to be in a position to implement this *acquis* from accession. As regards health and safety at work, further alignment will be needed in order to fully comply with the *acquis*, as well as a strengthening of the National Labour Inspectorate in terms of financial, human and technical resources. In the field of employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

Estonia is partially meeting the requirements for membership in the areas of **public health, European Social Fund and anti-discrimination**. In order to complete preparations for membership, Estonia needs to complete legal alignment and implementation of the new tobacco *acquis* and revise its communicable disease legislation. Measures are also needed to reach the necessary capacity to meet Community requirements in the area of communicable disease surveillance and control. With regard to European Social Fund, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level. In addition, Estonia needs to fully transpose and implement the anti-discrimination *acquis*.

There are serious concerns in the fields of **labour law and equal treatment of women and men**. In these areas there have been significant delays in the adoption of legislation, which must urgently be addressed. The necessary implementing structures must also be put in place.

Chapter 14: Energy

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects of the safety of nuclear installations.

With respect to **security of supply**, and in particular oil stocks, legislation in Estonia is in line with the *acquis*. Both framework and implementing legislation are in place. Administrative capacities required - the Estonian oil-stocks authority body and a division within the Ministry of Economic Affairs - are in place. Building up of oil stocks is essentially taking place in

accordance with the transitional arrangement Estonia has been granted, namely to reach the 90 days of oil stocks required by the *acquis* by the end of 2009.

In the field of **competitiveness and the internal energy market** (electricity and gas-sectors), transposition of the *acquis* is taking place according to schedule. Framework legislation, on electricity and gas, is in place and partially in line with the *acquis*. Implementing legislation is partially in place and in line with the *acquis* but needs to be completed. Estonia was granted a transitional arrangement to implement the market opening provisions of the electricity directive until end 2008. It needs to ensure that market opening takes place according to commitments and that access to the grid -in particular the application of import license rules - takes place on a non-discriminatory basis without affecting cross-border trade. Market opening, taking place in line with the commitments made in the negotiations, is presently 10% for electricity and 90% for gas. The energy regulator, the Energy Market Inspectorate, functions satisfactorily within the current market conditions. However, it needs to be strengthened, including in terms of its independence, given the potential conflict of interest stemming from the State's ownership of Eesti Energy and the Inspectorate's position under the jurisdiction of the Ministry of Economic Affairs. Estonia should transpose the recently adopted electricity and gas directives in line with the timetable laid down by the *acquis*, while taking into account the transitional arrangement negotiated with Estonia on electricity.

Restructuring of the oil shale sector should be continued in line with the Restructuring Plan for the Estonian Oil-shale Sector 2001-2006 as a necessity for further electricity market opening. Eesti Energy is investing nearly €191 million in the reconstruction of Narva oil shale power plants in the current year. In parallel, certain mines have been closed down and their workers redeployed or retrained.

In the area of **energy efficiency and renewable energy**, legislative alignment has been largely completed. Framework legislation is in place and implementing legislation is largely in place and in line with the *acquis*. Estonia should transpose Directives on refrigerators and freezers on energy efficiency, and requirements for ballasts for fluorescent lightning. The newest *acquis* should be transposed according to the timetables laid down in the directives. The Ministry of Economic Affairs and the Technical Inspectorate, a body functioning under the Ministry as the main institution, are in place but need to be strengthened. The Energy Efficiency Target Programme and implementation plan were adopted in 2000/2001.

In the field of **nuclear energy and nuclear safety**, Estonia meets the commitments and requirements arising from the accession negotiations and is in a position to implement the Euratom *acquis* as from the date of accession. During the accession negotiations Estonia committed itself to providing further information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. Estonia provided such information in January 2002. In July and September 2003, Estonia submitted additional information covering recent progress made in various fields of nuclear safety, *inter alia* legislative aspects and implementing structures, as well as radioactive waste management issues concerning the three sites of Paldiski, Tammiku and Sillamäe. Estonia should continue to pay attention to the further strengthening of the capacity of the Radiation Protection Centre.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the **energy** sector and is expected to be in a position to implement the *acquis* by accession. Estonia needs to continue to build up oil stocks progressively, open up the electricity and gas markets in line with the schedules agreed during the negotiations and complete restructuring of the oil shale sector. It also needs to continue to further strengthen administrative capacity in the energy sector.

Chapter 15: Industrial policy

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

Estonia's **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable. Estonia should complete the process of drafting its comprehensive Economic Development Policy/Industrial Policy guidelines, based on the existing policy documents on Enterprising Estonia, knowledge-based Estonia, export policy and tourism policy. The necessary administrative structures in this area are in place. The central body for the formulation and co-ordination of industrial policy, the Ministry of Economic Affairs and Communications, needs to ensure that line ministries and other relevant institutions responsible for managing specific industrial branches participate in the on-going policy-making process.

The **privatisation and restructuring** process in Estonia is almost complete in the industrial sector, with the exception of the energy industry, which is not on the privatisation agenda at present. The restructuring of the oil-shale industry has continued in line with the restructuring plan approved by the Government in March 2001. Priority should be given to ensuring that restructuring policy is implemented in a manner which conforms to the competition and state aid *acquis*, in order to create efficient and competitive firms. The necessary administrative structures in this area are in place.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **industrial policy** and is expected to be in a position to implement the relevant *acquis* as of accession.

Chapter 16: Small and Medium-sized Enterprises

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter **small and medium-sized enterprises**. Alignment with the new

Commission recommendation on the SME definition should be carried out. The implementation of the European Charter for Small Enterprises should be maintained.

Chapter 17: Science and research

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

Estonia has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

Chapter 18: Education and training

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

Estonia has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this *acquis* from accession. The implementing capacity for Community programmes will need to be enhanced to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, Estonia's legislation is broadly in line with the *acquis* and efforts made to ensure its implementation need to be continued.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue.

Chapter 19: Telecommunications and information technologies

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. However, A regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, Estonia's primary legislation is in line with the *acquis* adopted in the period 1998 to 2000, but needs to be amended to transpose fully the *acquis* on carrier pre-selection, local loop unbundling and affordable universal service. The 2002 *acquis* remains to be transposed. Implementation of Estonia's regulatory framework is largely in line with the *acquis*, except concerning carrier pre-selection and for all the elements of universal service as required by the *acquis*. Local loop unbundling has started despite the lack of a legal requirement by Estonian legislation.

The necessary administrative structures in this area are in place and function adequately. The Estonia National Communication Board (ENCB) is a fully independent regulatory authority with licensing powers and supervision functions. However, it operates under the administrative authority of the Ministry of Economic Affairs and Communications.

In the area of **postal services**, Estonia's legislative alignment remains to be completed, *inter alia* regarding the independent regulatory body, the licence regime, universal service providers as well as standards for quality monitoring for postal services. The administrative capacity in this sector is in place and the ENCB also exercises the functions of regulatory institution for the postal field. However, given that the Ministry of Economic Affairs and Communications represents the full state shareholder's interest in Eesti Post, the incumbent universal service provider, and at the same time exercises the administrative authority over ENCB, conflicts of interest could arise.

Conclusion

Estonia is meeting the majority of the commitments and requirements arising from the accession negotiations in the **telecommunications** area and is partially meeting the commitments and requirements in the **postal services** sector. Attention must be given to the transposition and implementation of the telecommunications *acquis*. In order to complete preparations for membership, enhanced efforts must be made with regard to the transposition of the *acquis* in the postal sector. Estonia must ensure the correct application of the universal service *acquis*. Possible conflict of interests, as the Government is both the majority shareholder and regulator of Eesti Post, should be resolved.

Chapter 20: Culture and audio-visual policy

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

Estonia has met the commitments and requirements arising from the accession negotiations on **culture and audio-visual policy** and will be in a position to implement the *acquis* by accession.

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

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost effective manner from the point of view of both management and financial control.

Estonia has agreed with the Commission on a NUTS classification of its **territorial organisation**.

The essential feature of the **legislative framework**, i.e. the ability to ensure multi-annual budget programming, is in place. Draft amendments to the State Budget Act have been drafted to ensure the necessary flexibility.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However, in order for Estonia to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from that date. In particular, urgent efforts are needed in the area of public procurement.

The necessary **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds have been identified. However, those structures in charge of the implementation of the specific financial control provisions, including the 5% and 15% on-the-spot checks, have not yet been formally designated. The Foreign Investment Department of the Ministry of Finance is designated as the Managing Authority. The National Fund Department of the same ministry will assume the role of the Paying Authority.

Effective inter-ministerial co-ordination and establishment of the delivery structure placed under the responsibility of the Managing Authority, as well as of the functions of the Paying Authority require close attention. The final division of tasks between the Managing Authority and the intermediate bodies, as well as amongst the intermediate bodies themselves, needs to be fully clarified.

Functionally independent internal audit units are being established in all Intermediate Bodies. The required separation of functions has been made. Training of auditors continues to be a priority.

As regards **programming**, the draft Single Programming Document (SPD), submitted in March 2003, provides a good basis for the ongoing negotiations. The Programme Complement was submitted in May 2003. The ex-ante evaluation and the strategic Environmental Impact Assessment were submitted with the SPD. As regards partnership, Estonia has involved a wide number of actors in the preparation of the draft SPD.

Considerable and sustained efforts are required to establish a pipeline of projects that are ready to be implemented in technical and financial terms, so that Estonia is able to benefit from Community funds as soon as the programme starts. This would include clarification of any state aid cases and their clearance by the Commission. A key concern is the preparation of projects at the local level, due to the inexperience of local stakeholders.

A Monitoring and Evaluation Unit has been established in the Ministry of Finance (within the Foreign Investment Department). However, delays have occurred in the development of the monitoring information system, which is now planned for May 2004. Given the importance of this system, its further development should be closely followed.

Arrangements for **financial management and control** have been made. Estonia now needs to focus on finalising specific procedures for financial control, auditing, certification of expenses, and correction of irregularities. Separate accounting codes should be used within the existing accounting systems for the needs of the Structural Funds and the Cohesion Fund.

Additionality will be verified before approval of the Single Programming Document.

Conclusion

Estonia is essentially meeting the requirements for membership in relation to **territorial organisation** and **programming**. Concerning programming it needs to focus on establishing an adequate pipeline of well-prepared projects and on setting up a functioning computerised monitoring system. Estonia also needs to give priority to strengthening partnership arrangements.

Estonia is only partially meeting the requirements in relation to the **legislative framework**, **institutional structures** and **financial management and control**. Estonia must fully align its legislation with the *acquis* on public procurement, and ensure the effective application of the resulting rules and procedures by final beneficiaries in order to benefit from Community funding from 1 January 2004. Particular attention must be paid to finalising arrangements for financial management and control.

Chapter 22: Environment

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

Horizontal legislation is in place and is in line with the *acquis*, except for the recent *acquis* on strategic environmental impact assessment, which needs to be transposed and implemented by

July 2004 in line with the Directive. While the relevant administrative capacities are in place and function adequately, the competent authority for strategic environmental impact assessment needs to be designated.

In the **air quality** sector, the *acquis* has not yet been fully transposed. The Ambient Air Protection Act, one new implementing regulation and two existing regulations need to be amended as regards air quality directives. Administrative capacities are in place and function adequately. Air quality plans and programmes need to be completed and monitoring enhanced by accession. As regards volatile organic compound emissions from storage and distribution of petrol, a transitional arrangement until 31 December 2006, with intermediate targets, has been agreed for certain installations in Estonia.

In the field of **waste management**, the *acquis* has not yet been fully transposed. As regards packaging waste and landfill of waste, new waste and packaging acts and new implementing regulations to replace existing acts and regulations still have to be adopted. Transposition of the recent *acquis* on end-of-life vehicles also needs to be completed by accession. Administrative capacities are in place and function, but more staff are needed at ministerial and regional levels. While a national waste management plan has been adopted, some regional and municipal plans need to be revised and adopted. The establishment of permit and deregistration systems for end-of-life vehicles needs to be completed by accession. The establishment of collection systems and recovery and disposal facilities needs to continue. As regards landfill of waste, a transitional arrangement until 16 July 2009, with intermediate targets, was agreed for oil shale.

In the area of **water quality**, legislation is not yet fully in place. Full transposition requires the adoption of implementing regulations related to discharges of dangerous substances, groundwater and the recent framework *acquis* on water. These need to be adopted by accession. Administrative capacities are in place and function, but require continuous close attention. A programme for nitrates needs to be finalised and adopted by accession. A programme for dangerous substances also needs to be adopted. Close attention needs to be paid to implementation as regards drinking water, and the problem of fluoride needs to be solved by accession. Transitional arrangements, until 31 December 2010 for urban waste water and until 31 December 2013 for drinking water, with intermediate targets, have been agreed.

In the field of **nature protection**, enhanced efforts are required to adopt a new nature protection act and implementing legislation, including the authorisation for site designation. Further efforts are needed to finalise the list of proposed sites of Community interest, to designate special protection areas by accession, and to ensure that relevant protection measures are applied by accession. Close attention needs to be paid to ensuring proper consultations while avoiding delays. Administrative capacity at various levels needs to be further strengthened. A derogation has been agreed as regards strict protection of lynxes. The Commission will report to the Council by 1 May 2009, and the Council will review this derogation on the basis of the Commission's report.

The legislation on **industrial pollution and risk management** is not yet fully in place. Full transposition requires adoption of an amendment to the Ambient Air Protection Act, a new Waste Act, and implementing legislation regarding volatile organic compound emissions from solvents, incineration of waste and the recent *acquis* on large combustion plants and national emission ceilings. These need to be transposed by accession. Permits need to be issued and complied with for new installations subject to the rules on integrated pollution prevention and

control (IPPC) by accession, and permits for existing installations must continue to be issued until October 2007. While administrative capacities are in place and function, the capacity to issue integrated permits needs to be strengthened. As regards air pollution from large combustion plants, a transitional arrangement until 31 December 2015, with intermediate targets, was agreed for certain installations in Estonia.

The *acquis* concerning **chemicals and genetically modified organisms** (GMOs) has been transposed, and the legislation is in line with the *acquis*, except for biocides and the recent *acquis* on the deliberate release into the environment of GMOs, which need to be transposed by accession. Administrative capacities are in place and function. Implementing measures are proceeding as planned. Authorisation procedures for biocides need to be established by accession. Co-ordination between the organisations involved needs to continue to be enhanced.

Transposition of the *acquis* on **noise** is proceeding according to schedule, and the legislation is in line with the *acquis*. The *acquis* on noise from outdoor equipment needs to be completed by accession and the recent *acquis* on ambient noise needs to be transposed by July 2004 in line with the Directive. Administrative capacities are in place and function.

The legislation on **nuclear safety and radiation protection** is not yet fully in place. Enhanced efforts are required to adopt a new act on radiation protection and a number of implementing regulations on basic safety standards, outside workers, shipments of radioactive waste, information on emergencies and medical exposure by accession. Administrative capacities in this area are largely in place and function.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the areas of **horizontal legislation, water quality, industrial risk management, chemicals and genetically modified organisms** and **noise** by accession. Estonia needs to finalise legal alignment as regards the following areas: horizontal legislation, water quality, chemicals and genetically modified organisms and noise. It needs to complete air quality plans and programmes and continue to enhance air quality monitoring. Moreover, Estonia must pay particular attention to implementation in the water sector and to finalising necessary programmes on water. As regards waste management, Estonia needs to strengthen administrative capacity at ministerial and regional levels. Regional and municipal waste management plans need to be completed. The establishment of waste collection systems and recovery and disposal facilities needs to continue. In addition, in the area of nature protection further efforts are needed to finalise the lists of proposed nature protection sites and special protection areas. In this context, close attention needs to be paid to ensuring proper consultation while avoiding delays. Administrative capacity for integrated permits requires close attention. Permits for IPPC installations need to continue to be issued and complied with according to *acquis* deadlines. Authorisation procedures for biocides need to be established.

Estonia is partially meeting the commitments and requirements in the areas of **air quality, waste management, nature protection, industrial pollution** and **nuclear safety and radiation protection**. In order to complete preparations for membership, enhanced efforts are required to amend the ambient air act and adopt a new waste act, a new packaging act, a new radiation protection act and a new nature protection act. Moreover, a significant amount of

implementing legislation remains to be adopted by accession. Although Estonia has taken steps to implement the *acquis* in these areas, it needs to ensure that delays in the adoption of legislation do not have an adverse effect on ensuring full implementation by accession. In addition, the administrative capacity for nature protection requires close attention at various levels.

Chapter 23: Consumer and health protection

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisement, price indication, consumer credit, unfair contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

In the area of **safety-related measures** Estonia has completed alignment related to liability for defective products. The revised general product safety directive remains to be transposed. The relevant administrative structures are in place, but **market surveillance** relating to general product safety is only partly developed. The Consumer Protection Board under the Ministry of Economic Affairs and Communication is the main market surveillance body and has signed several co-operation agreements with other institutions. However, market surveillance activities should be further developed (for example, by designing pro-active surveillance plans) and the capacity of the main enforcement structures reinforced. The number of inspectors engaged in market surveillance activities should be increased, as should laboratory capability for testing the safety of non-food products.

As regards **non-safety related measures**, with the adoption of the Law on Obligations Estonia has made further steps to complete transposition. However, the Consumer Protection Act needs to be brought into line with the *acquis* on injunctions for the protection of consumers' interests and on indication of the prices of products offered to consumers. The relevant administrative framework is in place. The Consumer Protection Board is working effectively to settle consumer complaints and to inform and advise consumers. Of the 1763 consumer complaints submitted to the Board in 2002, 94% were resolved by the body. However, it should be further strengthened both in terms of human and financial resources.

With regard to **consumer organisations**, the development of an effective consumer movement in Estonia needs greater support. There is one umbrella consumer organisation in place, which groups together ten legal entities. Activities in areas such as representation of consumer interests, testing of products, publications on consumer issues and consumer education should be further developed. Improvements are also necessary to increase the level of consumers' and businesses' awareness of their rights and responsibilities.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related measures** and **consumer organisations** and is

expected to be in a position to implement this *acquis* as from accession. Estonia needs to complete alignment of the revised general product safety directive.

Estonia is meeting the majority of the requirements for membership in the areas of **market surveillance** and **non-safety related measures**. In order to complete preparations for membership, Estonia needs to improve market surveillance, in particular through the development of pro-active surveillance plans, and thereby ensure the proper enforcement of legislation on safety and non-safety related measures including by strengthening the administrative capacity and structure. Alignment with the *acquis* in the area of non-safety related measures should also be finalised.

Chapter 24: Justice and home affairs

The most developed part of this chapter is the Schengen *acquis*, which entails in the lifting of internal border controls. However, much of this *acquis* will not apply to the acceding countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the *acquis* on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

With regard to the preparation of the Schengen provisions (**Schengen Action Plan**) relevant for accession, progress is still broadly satisfactory in Estonia, but significant efforts will be needed after accession to prepare for the lifting of internal borders and full implementation of the Schengen *acquis* once a further decision has been taken by the Council. The preparation for integration into the Schengen Information System (SIS) II is continuing according to schedule.

In the field of **data protection**, Estonia has largely aligned its legislation, also on the use of personal data by the police. Outstanding amendments to the “Statutes of the Data Protection Inspectorate” should be adopted (*see also Chapter 3 - Free movement of services*). The responsible body, the Data Protection Inspectorate, has been in place since 1999. Staff and training and inter-agency co-operation should be further enhanced.

On **visa policy**, Estonia has almost completed alignment with the EU visa *acquis*. Estonia has introduced visas requirements for all countries with EU visa obligations and has to implement and complete bilateral visa free travel arrangements with 17 outstanding countries. Estonia should also introduce a visa sticker following the transmission of the relevant technical specifications by the EU in August 2003. As regards implementation and administrative capacity, the national visa register is operational, with connections with the Estonian foreign representations for processing visa requests. The capacity of the consulates in the Russian Federation, Belarus and Ukraine need to be reinforced. Estonia also has to provide all diplomatic and consular missions with equipment to detect forged and falsified documents.

As regards the management of the future **external borders**, remaining legislation concerning border control and border surveillance should be aligned. Border co-operation agreements with neighbouring countries are in place although the Border Agreement, including demarcation, with the Russian Federation has not yet been signed. Implementation of the relevant parts of its Schengen Action Plan is ongoing, although Estonia still needs to develop an Integrated Border Management Strategy. Inter-agency co-operation has been improved by the conclusion of several co-operation agreements between the various law enforcement agencies. However, particular attention is needed for the recruitment of staff and the allocation of sufficient financial means to fully implement the Schengen Action Plan. Estonia is in the process of upgrading its equipment for border surveillance, including sea borders and the construction and renovation of border posts at Estonia's eastern border.

In the area of **migration**, legislative alignment has been completed, including with regard to carrier liability. However, provisions concerning expulsion still need to be adopted. Estonia is taking action to conclude readmission agreements with the Russian Federation, Belarus and Ukraine; however further efforts are required. Administrative structures are in place at the visa and illegal immigration department of the Citizens and Migration Board.

In the field of **asylum**, Estonia has completed its alignment. As regards implementation capacity Estonia needs to accelerate its preparation (technical and organisational) for active participation in EURODAC and Dublinet, including the establishment of the corresponding National Action Points, in order to ensure full implementation by accession. Its reception capacity is adequate.

In the area of **police co-operation and combating organised crime**, preparations are broadly satisfactory. Management, quality control and salary levels of the police are good, as is inter-agency co-operation and, increasingly, information sharing through use of police databases. The organisational reform of the police (including reducing the number of prefectures and creating regional emergency centres) remains to be implemented. Police training is also in good order, but a decision still needs to be made on the funding of the new training system that will start in 2004. As regards co-operation and co-ordination between the police and the prosecuting and judicial bodies, the changes foreseen under the new Criminal Procedure Code will require adequate preparation and training of the police and prosecutors to ensure smooth implementation. International co-operation is well established and supported by co-operation agreements, in particular the conclusion of an agreement with Europol. Attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU. The strengthening of the International Criminal Intelligence Department's administrative capacity in connection with the establishment the Supplementary Information Request at the National Entries Bureau should be stepped up. Inter-agency co-operation is being reinforced. Estonia has signed but not yet ratified the three protocols to the UN Convention against transnational organised crime.

Estonia has ratified the most important Conventions in the area of the **fight against terrorism**. Estonia should accelerate its preparatory efforts in order to accede to the Convention on Mutual Assistance in Criminal Matters between the EU Member States upon accession.

As regards the **fight against fraud and corruption**, Estonia still needs to align with the *acquis* on the protection of the European Communities' Financial Interest and its Protocols and to adopt the necessary amendments of the Penal Code before accession. It should also align with the provisions of the 1997 Convention on the Fight Against Corruption involving Officials of the

European Communities or Officials of Member States of the EU. Alignment with the Council Framework Decisions of 29 May 2000 and 6 December 2001 on the protection of the euro against counterfeiting is also still necessary. Estonia has yet to designate a National Central Office, dealing notably with banknote and coin analysis. Full implementation of this *acquis* should be ensured. Progress has been made to establish the anti-corruption legal framework by implementing appropriate legislation and establishing supporting institutions. An overall anti-corruption strategy still needs to be developed in order to ensure effective anti-corruption co-ordination between relevant authorities and establish an early corruption detection strategy. As regards *corruption*, see also *Section C.1. — Administrative and judicial capacity*.

On the **fight against drugs**, Estonia has largely completed its legislative measures. The new multidisciplinary national drug strategy still needs to be adopted by the Government. The alcohol and drug abuse prevention programme 1997-2007 continues to be implemented. Implementation, however, needs further improvement, including the necessary arrangements for connection of databases, collection and exchange of information and the allocation of sufficient financial resources. The institutional infrastructure of the National Focal Point for co-operation with the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) is in place. Overall, inter-agency co-operation and co-ordination needs to be increased.

Estonia still needs to complete its legislative alignment with the most recent *acquis* on **money laundering**. A Financial Intelligence Unit is in place, but its resources and capacities should be reinforced (*see also Chapter 4 – Free movement of capital*).

In the area of **customs co-operation**, Estonia still needs to align its legislation and to ratify the relevant conventions in this area. Inter-agency co-operation is provided for as well as co-operation with businesses on the basis of memoranda of understanding. However, inter-agency co-operation needs to be further improved and a register for customs investigation established.

In the area of **judicial co-operation in civil and criminal matters** legislative alignment, where still necessary, is ongoing and Estonia should be ready upon accession to apply it and accede to the relevant conventions. Particular attention is needed for alignment with the Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedure between Member States. The administrative structures for direct contacts between competent judicial authorities are in place but need to be further strengthened.

As regards the *reform of the judiciary* in general, a detailed analysis is provided in *Section C.1. — Administrative and judicial capacity*.

All the **human rights legal instruments** under the justice and home affairs *acquis* have been ratified by Estonia.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement by accession the *acquis* in the areas of **Schengen Action Plan, visa policy, external borders, migration, asylum, police co-operation and combating organised crime, the fight against terrorism, drugs, customs co-operation, judicial co-operation in civil and criminal matters and human rights legal instruments**.

Estonia is partially meeting the commitments and requirements for membership in relation to the **data protection, fight against fraud and corruption** and **money laundering**. Estonia needs to adopt and implement the necessary legislation. Particular attention must be given to the technical and organisational preparations necessary to implement EURODAC and Dublin II. Overall, inter-agency co-operation needs to be improved and co-ordination structures strengthened.

Chapter 25: Customs union

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It includes the Community's Customs Code and its implementing provisions; the Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

Estonia's **customs legislation** is largely in line with the *acquis* as it stood in 2001. Implementation of the provisions in the 2002 and 2003 *acquis* will take place upon accession, when the EC customs legislation becomes directly applicable. National provisions superseded by the *acquis* are to be repealed at the time of accession and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

Administrative and operational capacity is partly in place. Although a functioning customs administration is in place, the current absence of duties on industrial products does not allow Estonian customs to function in the same way as in EU Member States. Such duties will be introduced only at the time of accession. As a result, tariff classification, rules of origin, customs procedures with economic impact, temporary admission and duty reliefs are major areas where expertise is lacking. Therefore, in these areas extensive training is necessary and ongoing.

The envisaged IT simulation, which aims at providing the Estonian customs service with practice in an EC-type environment, should be implemented prior to the introduction of the Community Integrated Tariff (TARIC) system which Estonia intends to start operating in parallel with the existing national system two months before accession. Preparations should also be made for the implementation of quota management, through introduction of dedicated software and training. The Customs services' capacity to combat fraud and economic crime, in close co-operation with other enforcement bodies, should continue to be strengthened.

Estonia should continue to carry out its plans for reorganisation in terms of closure of customs offices, and redeployment of staff as a result of accession, when the volume of customs work will decrease as a result of the conversion of external to internal trade and the land frontier with Latvia becomes an internal border.

Measures to complete the development and implementation of the computerised customs system and solve all the other interconnectivity-related issues are ongoing and on track. However, the Estonian authorities must ensure that the remaining work, including delivery of hardware and software and testing, is completed according to schedule, especially as regards

the integrated tariff system and adaptation of the declaration-processing system which needs to be connected to it. Attention should be paid to ensuring that the Estonian authorities are fully able to manage and maintain these systems effectively after accession.

Conclusion

Estonia is essentially meeting the commitments and requirements for membership in the **customs union** area. Subject to good progress being maintained in the preparation for the application of tariffs and tariffs-related measures, in completing the remaining work on computerised systems, and training on Community measures and provisions, Estonia is expected to be in a position to implement the *acquis* with the necessary administrative and operational capacity by accession. The development and implementation of computerised customs systems and work aimed at ensuring inter-operability remain to be completed. Attention should also be paid to improving co-operation by the customs administration with other enforcement bodies.

Chapter 26: External relations

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual-use goods and, where applicable, export credits. Acceding countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure the capacity to participate in the EC's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are essentially in place and sufficient.

Estonia has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. Estonia should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and Most Favoured Nation (MFN) exemptions into the EU ones (consolidation EU 25), to be finalised upon accession. Exchanges of information have taken place on Estonia's third stage of integration under the Agreement on Textiles and Clothing (ATC), although some discrepancies remain.

On trade in dual-use goods, Estonia has reached a high degree of alignment with the *acquis*. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, since export control regimes continue to adopt decisions that the EU integrates into its legislation. Membership in all export control regimes is a crucial factor enabling implementation of export controls by Estonia. Based on the Thessaloniki Action Plan to support the acceding countries' membership in export control regimes, the EU supports Estonia's accession to the regimes to which it has already applied but is not yet a member. Full alignment as regards the Community general export authorisation can only take place upon accession. Administrative structures are adequate in the area of dual-use goods, with ongoing efforts to train customs officials.

Estonia is finalising its compliance with the *acquis* in the area of export credits. The amended State Export Guarantees Act has entered into force and implementing legislation is being adopted. Administrative structures for export credits are in place and satisfactory.

Estonia needs to take further steps to terminate or renegotiate those **bilateral agreements with third countries** that are found to be incompatible with the *acquis*, within the timeframe set by the respective agreements. Following the successful signature of the Memorandum of Understanding regarding the bilateral investment treaty (BIT) between Estonia and the USA, Estonia must ensure swift ratification of the additional protocols to the BIT, which were also signed with the US, in order for the adaptations to enter into force by the date of its accession to the EU.

In the area of **humanitarian aid and development policy**, Estonia needs to further pursue the shaping of a development policy in line with EU principles, particularly as regards financial expenditure levels given that the 2003 budget in this area represented less than 0.01% of GDP. It needs to ensure that its policy is in line with the guidelines laid down by the OECD Development Assistance Committee, as well as the commitments and objectives that Estonia has approved in the context of the UN and other international organisations. A new legislative framework to increase the transparency of the decision-making process and of project management in the area of development co-operation has been adopted. The few humanitarian aid actions undertaken seem to be in line with EU practice.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement the *acquis* on the **common commercial policy** and **humanitarian aid and development policy** from accession.

Estonia is meeting the majority of the commitments and requirements for membership in relation to **bilateral agreements with third countries**. In order to complete preparations in this area, Estonia must finalise the steps it has taken to renegotiate or terminate its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

Chapter 27: Common foreign and security policy

The *acquis* related to the common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

Estonia has the required administrative capacity to participate in the **political dialogue**. With regard to alignment with **EU sanctions and restrictive measures, statements, declarations and démarches**, Estonia has adopted the necessary legislation in relation to the introduction and withdrawal of economic sanctions. The administrative structures in this area in Estonia are in place and satisfactory.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy**, and is expected to be

able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession.

Chapter 28: Financial control

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate ex ante financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, Estonia has put framework and implementing legislation in place which is in line with the *acquis*. Internal audit facilities are in place in all income and spending centres, as well as in county governments, and a Central Harmonisation Unit has been established in the Ministry of Finance. Adequate training facilities for PIFC have been established.

In the field of **external audit**, framework legislation is in place and is in line with the *acquis*. The State Audit Office (SAO) is functionally independent and its audit services satisfactorily cover all public and EU funds. The recently developed audit manuals still need adoption. Formal mechanisms for Parliament to react to SAO reports are included in the SAO law. A strategy for 2003-5 has been adopted, including improving co-operation with Parliament and continuing preparation of SAO audit standards based on international standards.

As regards **control over EU pre-accession funding and structural action expenditure**, framework and implementing legislation in Estonia is in place and is essentially in line with the *acquis*. However, audit manuals with a specific focus on on-the-spot checks and annual audits need to be developed for the future auditing of the Structural and Cohesion Funds. Appropriate administrative structures are being set up and Estonia should continue to enhance its administrative capacity to manage future structural funds in order to meet fully the requirements for financial control and internal audit. Estonia needs to complete its efforts to implement the extended decentralised implementation system (EDIS) for Phare and ISPA.

In the area of the **protection of EC financial interests**, Estonia needs to complete the framework and implementing legislation in particular, with a view to defining the powers and co-ordinating role of the anti-fraud co-ordinating service (AFCOS), located within the Ministry of Finance's Financial Control Department. The AFCOS' operational capacity also needs to be substantially reinforced, enabling co-operation with OLAF and with other Estonian institutions to be effectively implemented.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **public internal financial control, external audit and control over structural action expenditure** and is expected to be in a position to implement the *acquis* in

these fields as of accession. It should continue to enhance its administrative capacity in the areas of public internal financial control and of managing future structural funds. Estonia should also complete its preparations for the extended decentralised implementation system.

Estonia is meeting the majority of the commitments and requirements arising from accession negotiations in the area of **protection of EC financial interests**. In order to complete preparations for accession, enhanced efforts are required to reinforce its legislation and administrative capacity in this area.

Chapter 29: Financial and budgetary provisions

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, the national reporting system on cases of fraud and irregularity is currently being reconsidered. Estonia should finalise the system and ensure that the data required by the Commission's OWNRES system will be available. Definitive procedures and systems for A and B accounts still need to be established.

Estonia needs to improve its ability to correctly calculate the **VAT-based resource**, in particular as regards the calculation of the weighted average rate in accordance with ESA95.

As regards the **GNI-based resource**, continued efforts are needed by Estonia to further improve the quality and reliability of the national accounts and GNI calculations in line with ESA95, in particular, with respect to exhaustiveness, durable goods of small value, own account software and in the field of constant price estimates.

All institutions necessary for application of the own resources system in Estonia exist. A unit within the Ministry of Finance co-ordinates a task force for own resources issues, which is operating effectively.

Conclusion

Estonia is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions** and is expected to be in a position by accession to implement the relevant *acquis*. Estonia should now focus attention on completing preparations under this chapter by finalising OWNRES procedures for reporting to the European Commission, establishing the definitive procedures for the A and B accounts, improving the calculation of the VAT resource and further improving the quality and reliability of the national accounts.

D. CONCLUSION

Against the background of weak external demand, macroeconomic performance in Estonia remained solid but the current account deficit widened appreciably. The authorities adhered to their reform path, particularly in the areas of pension reform and financial supervision.

As regards the areas where last year's report suggested improvements, some progress has been made, but challenges remain. The expansionary fiscal policy, notably during 2002 and 2003, at the level of the local and central governments poses a risk to macroeconomic stability, particularly in the light of a widening current account deficit. Active labour market policies are being pursued to address the unemployment problem and progress to-date has been satisfactory. The restructuring of the oil-shale sector is advancing, but there has been no further liberalisation of the energy market.

As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Estonian public administration and judiciary, but there is room for further improvements. In the field of public administration, weaknesses in the conditions of service and career structures should be improved, as well as co-ordination across the civil service. A number of further reforms remain to be made to the judicial system, and will partly result from the new Code of Criminal Procedure, due to enter into force in July 2004. Estonia should continue to improve the effectiveness of its anti-corruption measures.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Estonia has reached a **high level of alignment with the *acquis*** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession: horizontal and procedural measures, and new approach legislation in the *free movement of goods* chapter; citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector and insurance in the area of *freedom to provide services*; capital movements and payments, and payment systems related to the *free movement of capital*; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Estonia is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas, in most common market organisations, in rural development, and in the veterinary field in areas such as animal disease control, zootechnics and animal welfare; and in *fisheries*, in the areas of state aid and international agreements.

Estonia is also expected to be in a position to implement the *acquis* by accession in: the majority of the *transport* sector; most areas in the field of *taxation*; *economic and monetary union*; *statistics*; health and safety, social dialogue, employment policy, social inclusion and social protection in the area of *social policy and employment*; the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; *culture and audio-visual policy*; programming for *regional policy and co-ordination of structural instruments*; horizontal legislation, industrial risk management, water quality, chemicals, genetically modified organisms and noise in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; almost all

aspects of *justice and home affairs*; *customs union*; the common commercial policy, and humanitarian aid and development policy in the *external relations acquis*; *common foreign and security policy*; most aspects of *financial control*; and the area of *financial and budgetary provisions*.

Secondly, in certain areas Estonia partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation on the *free movement of goods*, as well as public procurement and the non-harmonised area; in the area of *free movement of services*, the fields of investment services and securities markets, protection of personal data, information society services, and the right of establishment and the freedom to provide non-financial services; in the fields of *free movement of capital*, the reinforcement of its efforts in the fight against money laundering; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area it concerns the Paying Agency, the Integrated Administration and Control System (IACS), trade mechanisms, the common market organisation for milk, TSEs and animal by-products, the veterinary control system, trade in live animals and animal products, public health in agri-food establishments, common measures, animal nutrition and phytosanitary issues; and most areas of the *fisheries* policy.

This also includes the fields of: air and maritime *transport*, direct *taxation*; public health, the European Social Fund, and anti-discrimination in the area of *social policy and employment*; *telecommunications and information technologies*, including the postal services sector; the legislative framework, institutional structures and financial management and control for *regional policy and co-ordination of structural instruments*; legislative alignment and implementation in the air quality, waste management, industrial pollution, nature protection, and nuclear safety and radiation protection areas of *environment* policy; market surveillance and non-safety measures in the area of *consumer and health protection*; data protection, and the fight against fraud, corruption and money laundering in the area of *justice and home affairs*; *external relations*, as regards bilateral agreements with third countries; and the protection of EC financial interests in the area of *financial control*.

Thirdly, Estonia must take immediate and decisive action to address three issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *free movement of persons*, relating to Estonia's preparations for mutual recognition of qualifications for certain professions in the healthcare sector. It also concerns the field of *social policy and employment*, as regards labour law, and equal treatment of women and men.

STATISTICAL ANNEX

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|----------------------|--------------------------|--------|--------|--------|--------|
| Basic data | in 1000 | | | | |
| Population (average) | 1,386 | 1,376 | 1,370 | 1,364 | 1,359 |
| | in km² | | | | |
| Total area | 45,227 | 45,227 | 45,227 | 45,227 | 45,227 |

| National accounts | 1000 Mio Kroon | | | | |
|---|--|-------|-------|-------|--------|
| Gross domestic product at current prices | 73.5 | 76.3 | 87.4 | 97.9 | 108.0 |
| | 1000 Mio ECU/euro | | | | |
| Gross domestic product at current prices | 4.7 | 4.9 | 5.6 | 6.3 | 6.9 |
| | in ECU/Euro | | | | |
| Gross domestic product per capita a) at current prices | 3,400 | 3,600 | 4,100 | 4,600 | 5,100 |
| | % change over the previous year | | | | |
| Gross domestic product at constant prices (nat. currency) | 4.6 | -0.6 | 7.3 | 6.5 | 6.0 |
| Employment growth | -2.0 | -4.3 | -1.3 | 0.8 | 1.3 |
| Labour productivity growth | 6.8 | 3.8 | 8.8 | 5.5 | 4.5 |
| Unit labour cost growth | -1.6 | 5.5 | -6.5 | -3.0 | -2.1 |
| | in Purchasing Power Standards | | | | |
| Gross domestic product per capita a) at current prices | 8,000 | 8,200 | 9,100 | 9,400 | 10,000 |
| | in % of EU-15 average | | | | |
| GDP per capita a) at current prices in PPS | 40 | 38 | 40 | 40 | 42 |
| Labour productivity (GDP per person employed in PPS) | 39 | 40 | 43 | 42 | 43 |
| Structure of production | % of Gross Value Added b) | | | | |
| - Agriculture | 7.2 | 6.7 | 6.1 | 5.7 | 5.4 |
| - Industry (excluding construction) | 22.6 | 21.1 | 22.5 | 22.8 | 22.8 |
| - Construction | 6.7 | 6.0 | 6.1 | 6.2 | 6.6 |
| - Services | 63.5 | 66.2 | 65.3 | 65.6 | 65.3 |
| Structure of expenditure | as % of Gross Domestic Product | | | | |
| - Final consumption expenditure | 81.6 | 81.6 | 77.4 | 75.9 | 77.0 |
| - household and NPISH | 59.0 | 58.2 | 56.3 | 55.9 | 57.3 |
| - general government | 22.6 | 23.4 | 21.0 | 20.0 | 19.7 |
| - Gross fixed capital formation | 29.6 | 24.9 | 25.4 | 26.5 | 28.5 |
| - Stock variation c) | -0.3 | -0.4 | 2.4 | 2.4 | 2.9 |
| - Exports of goods and services | 79.7 | 77.2 | 93.7 | 89.4 | 84.2 |
| - Imports of goods and services | 90.1 | 82.2 | 97.7 | 93.1 | 93.6 |

| Inflation rate | % change over the previous year | | | | |
|-----------------------|--|-----|-----|-----|-----|
| Consumer price index | 8.8 | 3.1 | 3.9 | 5.6 | 3.6 |

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|--------|--------|--------|--------|---------|
| Balance of payments in Mio ECU/euro | | | | | |
| -Current account | -429 | -277 | -326 | -378 | -847 h) |
| -Trade balance | -998 | -827 | -840 | -882 | : |
| <i>Exports of goods</i> | 2,399 | 2,303 | 3,601 | 3,748 | : |
| <i>Imports of goods</i> | 3,397 | 3,130 | 4,441 | 4,630 | : |
| -Net services | 511 | 540 | 612 | 649 | : |
| -Net income | -74 | -96 | -223 | -315 | : |
| -Net current transfers | 132 | 106 | 125 | 170 | : |
| - of which: government transfers | 99 | 90 | 97 | 140 | : |
| - FDI (net) inflows | 513 | 284 | 425 | 603 | 307 h) |
| Public finance in % of Gross Domestic Product | | | | | |
| General government deficit/surplus | -0.4 | -4.0 | -0.4 | 0.2 | 1.3p |
| General government debt | 6.0 | 6.5 | 5.1 | 4.8 | 5.8p |
| Financial indicators in % of Gross Domestic Product | | | | | |
| Gross foreign debt of the whole economy | 31.5 | 25.4 | 30.9 | 29.6 | : |
| as % of exports | | | | | |
| Gross foreign debt of the whole economy | 39.6 | 32.9 | 33.0 | 33.1 | : |
| Monetary aggregates 1000 Mio ECU/euro | | | | | |
| - M1 | 0.9 | 1.2 | 1.4 | 1.7 | 2.0 |
| - M2 | 1.7 | 2.1 | 2.6 | 3.2 | 2.9 |
| - M3 | : | : | : | : | : |
| Total credit | 1.5 | 1.6 | 2.1 | 2.5 | 3.1 |
| Average short-term interest rates % per annum | | | | | |
| - Day-to-day money rate | 6.5 | 11.7 | 4.9 | 4.5 | 3.6 |
| - Lending rate | 11.8 | 10.2 | 9.0 | 8.6 | 7.0 |
| - Deposit rate | 11.2 | 9.3 | 7.6 | 5.7 | 4.2 |
| ECU/EUR exchange rates (1ECU/euro=..Estonian Kroon) | | | | | |
| - Average of period | 15.753 | 15.647 | 15.647 | 15.647 | 15.647 |
| - End of period | 15.647 | 15.647 | 15.647 | 15.647 | 15.647 |
| 1992=100 | | | | | |
| - Effective exchange rate index | 294.0 | 344.4 | 334.9 | 339.4 | 346.4 |
| Reserve assets Mio ECU/euro | | | | | |
| -Reserve assets (including gold) | 753 | 941 | 1,084 | 931 | 958 |
| -Reserve assets (excluding gold) | 751 | 938 | 1,082 | 929 | 956 |
| External trade Mio ECU/euro | | | | | |
| Trade balance | -1,277 | -986 | -1,170 | -1,100 | -1,441 |
| Exports | 2,252 | 2,238 | 3,445 | 3,698 | 3,638 |
| Imports | 3,529 | 3,224 | 4,615 | 4,798 | 5,079 |
| previous year=100 | | | | | |
| Terms of trade d) | 98.5 | 99.9 | 98.6 | 108.1 | 94.4 |
| as % of total | | | | | |
| Exports with EU-15 | 66.7 | 72.5 | 76.5 | 69.5 | 68.0 |
| Imports with EU-15 | 67.8 | 65.3 | 62.6 | 56.5 | 57.9 |

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|--|-------------------------------|------|------|------|------|
| Demography | per 1000 of population | | | | |
| Natural growth rate | -5.2 | -4.3 | -3.9 | -4.3 | -3.9 |
| Net migration rate (including corrections) | -4.8 | -0.9 | : | : | : |
| | per 1000 live-births | | | | |
| Infant mortality rate | 9.4 | 9.6 | 8.4 | 8.8 | 5.7 |
| Life expectancy : | at birth | | | | |
| Males: | 64.4 | 65.4 | 65.1 | 64.7 | 65.2 |
| Females: | 75.5 | 76.1 | 76.0 | 76.2 | 77.0 |

| Labour market (Labour Force Survey) | % of population | | | | |
|--|------------------------|------|------|------|------|
| Economic activity rate (15-64) | 72.2 | 70.0 | 69.6 | 69.6 | 68.3 |
| Employment rate (15-64), total | 64.6 | 61.5 | 60.3 | 61.0 | 62.0 |
| Employment rate (15-64), males | 69.6 | 65.8 | 64.1 | 65.0 | 66.5 |
| Employment rate (15-64), females | 60.3 | 57.8 | 56.8 | 57.4 | 57.9 |

| | as % of the total population of the same age group | | | | |
|--|---|------|------|------|------|
| Employment rate of older workers (55-64) | 50.2 | 47.5 | 44.8 | 48.5 | 51.6 |
| Average employment by NACE branches | In % of total | | | | |
| - Agriculture and forestry | 9.3 | 8.6 | 6.8 | 6.9 | 6.5 |
| - Industry (excluding construction) | 25.6 | 25.2 | 26.7 | 27.0 | 25.0 |
| - Construction | 7.4 | 6.4 | 7.8 | 7.2 | 5.9 |
| - Services | 57.7 | 59.8 | 58.7 | 59.0 | 62.6 |
| | % of labour force | | | | |
| Unemployment rate, total | 9.2 | 11.3 | 12.5 | 11.8 | 9.1 |
| Unemployment rate, males | 9.9 | 12.5 | 13.4 | 11.5 | 9.8 |
| Unemployment rate, females | 8.3 | 10.1 | 11.5 | 12.0 | 8.4 |
| Unemployment rate of persons < 25 years | 14.9 | 22.1 | 23.5 | 24.5 | 17.3 |
| Long-term unemployment rate | 4.8 | 5.5 | 6.3 | 6.2 | 4.8 |

| Social cohesion | ratio of top quintile to lowest quintile | | | | |
|--|---|------|------|------|------|
| Inequality of income distribution | : | : | 6.3 | : | : |
| | % of population aged 18-24 | | | | |
| Early school-leavers | 12.6 | 14.0 | 14.2 | 14.1 | 12.6 |
| | % of population aged 0-65 | | | | |
| Population in jobless households (persons aged 0-65) | 10.1 | 11.6 | 11.0 | 12.0 | 11.3 |

| Standard of living | per 1000 inhabitants | | | | |
|---|-----------------------------|-------|-------|---------|-------|
| Number of cars | 312.0 | 334.4 | 339.4 | 299.2e) | 295.5 |
| Main telephone lines | 345.3 | 375.4 | 381.9 | 376.2 | 351.5 |
| Number of subscriptions to cellular mobile services | 172.3 | 282.8 | 407.8 | 542.8 | 650.7 |

| Infrastructure | in km per 1000 km² | | | | |
|------------------------|--------------------------------------|------|------|------|------|
| Railway network | 21.4 | 21.4 | 21.4 | 21.4 | 21.4 |
| | Km | | | | |
| Length of motorways f) | 74 | 87 | 93 | 93 | 98 |

| | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|--------------------------|------|-------|-------|--------|
| Industry and agriculture | previous year=100 | | | | |
| Industrial production volume indices g) | 104.1 | 96.6 | 114.6 | 108.9 | 107.1p |
| Gross agricultural production volume indices g) | 96.4 | 89.6 | 108.2 | 99.0 | 96.9p |

| Innovation and research | as % of GDP | | | | |
|---|-----------------------------|------|------|------|-------|
| Spending on Human Resources (public expenditure on education) | 6.77 | 7.37 | 6.66 | 6.74 | 7.13E |
| | as % of GDP | | | | |
| Gross domestic expenditure on Research & Development | 0.61 | 0.75 | 0.66 | : | : |
| | per 1000 inhabitants | | | | |
| Level of Internet access - households | : | : | 7.0 | 9.8 | : |

| Environment | tonnes CO2 equivalent per capita | | | | |
|----------------------------------|--|---------|---------|------|---|
| Total greenhouse gases emissions | 49.4 | 45.2 | 45.4 | : | : |
| | kg of oil equivalent per 1000 euro of GDP | | | | |
| Energy intensity of the economy | 1,576.4 | 1,468.6 | 1,316.4 | : | : |
| | as % of total electricity consumption | | | | |
| Share of renewable energy | 0.2 | 0.2 | 0.2 | : | : |
| | as % of total freight transport | | | | |
| Modal split of freight transport | 38.4 | 35.3 | 32.7 | 35.3 | : |

p=provisional figures

E=estimated data

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) On the basis of unit value indexes.

e) The vehicles not re-registered in the National Motor Vehicle Registration Centre of 1 June 2001 were excluded.

f) Semi-motorway (double-track road).

g) In 2000 year prices as % of previous year.

h) Website of the National Bank

Methodological notes

Inflation rate

For details please refer to the following link to the Eurostat website:
http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm

Finance

Public finance: The general government deficit / surplus refers to the national accounts *concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.*

External trade

Imports and exports (current prices). The data is based upon the special trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

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

Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2nd quarter of the respective year.

The results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

Social cohesion

For details please refer to the following link on the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

Industry and agriculture

Industrial production volume indices. Industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification Sections C,D,E). Index of Industrial Production covers total industrial production including estimates for enterprises with up to 19 employees. Electricity, gas and water supply cover only energy production (NACE Rev. 1 classes: 4010, 4030).

Gross agricultural production volume indices. The gross agricultural output has been calculated in 2000 prices.

Innovation and research

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

Environment

For details please refer to the following link to the Eurostat website:
<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

Sources:

Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture: National sources. Other indicators: Eurostat.