EMERGING ECONOMIES TRANSITION

# OECD Reviews of Foreign Direct Investment

## ESTONIA

FINANCE AND INVESTMENT

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# OECD Reviews of Foreign Direct Investment

## ESTONIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

## ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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# Foreword

Co-operation between Estonia and the OECD goes back to the early 1990s. In the CCNM's Baltic Regional Programme, which was launched in 1998, foreign direct investment (FDI) has been a key item. One of its principal objectives has been to associate Estonia with the OECD's standards on FDI policy, in particular its Declaration on International Investment and Multinational Enterprises. This Declaration promotes national treatment of foreign direct investment, proposes voluntary standards of behaviour to multinational enterprises and encourages moderation and restraint in the use of investment incentives and conflicting regulatory requirements.

On 26 July 2001, Estonia became eligible for adherence to the OECD Declaration. Upon adhering, Estonia will be entitled to participate in the work related to the Declaration implemented by the OECD's Committee on International Investment and Multinational Enterprises. This Committee is composed of officials from Ministries of Economic Affairs, Finance, Foreign Affairs, Trade and Industry.

The OECD has invited Estonia to join the Declaration in view of Estonia's policies, which have included as their central feature a transparent, fair and open legal regime for foreign investment. At an early stage of its transition, Estonia overhauled its FDI-related legislation and set in motion a comprehensive privatisation process. Coupled with other measures to attract FDI, such as non-discriminatory access to government funds and a tax exemption for reinvested earnings, these policies have helped Estonia to achieve an FDI stock per capita which is the second highest among the transition economies of Central and Eastern Europe.

This report assesses the catalytic role that foreign direct investment has played in Estonia's economic transformation since the country regained its independence in 1991. It has been prepared under the auspices of the OECD Centre for Co-operation with Non-members by Marie-France Houde and Catherine Yannaca-Small, with the assistance of Rosemary Morris, of the Directorate for Financial, Fiscal and Enterprises Affairs of the OECD Secretariat, and edited by Kathleen Gray. The authors are grateful to the Estonian authorities for their valuable assistance, as well as to Inkeri Hirvensalo, Director of the Centre



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for Markets in Transition at the Helsinki School of Economics and Business Administration, and Ms Tuuli Juurikkala, of the School's Department of Economics, for their important contribution. The report is published on the responsibility of the Secretary-General of the OECD.

Eric Burgeat
Director
Centre for Co-operation with Non-Members



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# Overview

Estonia is a small country with a population of 1.4 million, located in the Baltic rim area. Since regaining its independence in 1991, Estonia has made impressive progress in its transition towards a market economy, stabilising its national currency and sustaining both continued growth and yearly reductions in inflation. One of the central features of its economic development policy has been the encouragement of foreign direct investment. FDI-related laws were comprehensively revised in order to create a transparent and non-discriminatory legal regime. This was complemented by an expansive privatisation process, which is nearing completion. FDI inflows increased annually during the 1990s, with the exception of 1995 and 1996, and have remained at relatively high levels. Another key factor has been Estonia's adaptation of its regulatory frameworks to meet internationally agreed standards, as a precursor to its 1999 accession to the WTO and its preparations for eventual membership of the EU.

FDI stocks in Estonia reached 44.5 billion EEK (US$2 645 million) by the end of the year 2000, a figure that represents an increase of almost 16 per cent over the previous year. FDI stock grew in per capita terms from approximately 7 000 EEK ($US384.5) at the end of 1996 to 32 600 EEK (US$1 938) at the end of 2000, one of the highest accumulated FDI levels per capita in Central and Eastern Europe. Studies of investors' motivations for choosing Estonia indicate that its potential market growth and the ease of access it affords to neighbouring markets are among its most attractive features. This conclusion is borne out by the level of outflows of FDI, which increased significantly from 1999-2000. A result of the expanding presence of large institutional investors in the country, this latter feature of Estonia's investment structure sets the country apart from its Baltic neighbours Latvia and Lithuania. In 2000, the majority of Estonian investment abroad (84.9 per cent) was in these two countries, reflecting the business strategy of many investors using Estonia as a production base to serve other Baltic markets.

The origin of FDI in Estonia is less diversified than that of its Baltic neighbours. At the end of 2000, Sweden and Finland accounted for 40.5 and 29.8 per cent of total investment respectively, while the four Nordic countries together account for more than 75 per cent of total FDI. This concentration was also



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characteristic of investment inflows in the second half of the 1990s. With the exception of Singapore and the United States, European investors dominate the "top fifteen" major investors in the country. Russia accounted for only 1.2 per cent of total FDI stock in 2000.

The financial sector has attracted the largest amount of FDI, accounting for about a third of total inflows in 2000. Major restructuring and consolidation in the banking sector in the late 1990s attracted foreign investors, notably from the Nordic countries, and made it one of the fastest growing sectors in the Baltic region. This has been reinforced by the successful opening of the Tallinn stock exchange, which accounts for more than 70 per cent of total turnover in the region. An important feature of the stock exchange is that foreign investors operate on an equal footing with their domestic counterparts.

Other sectors that have benefited from foreign investment are those of transport, communications, manufacturing, wholesale and retail trade. In contrast, investment in utilities such as gas, water and electricity have remained low, due to the postponement of privatisation in these state-run industries. Most investments have been channelled into existing enterprises and the share of reinvested earnings has grown during the 1990s, reaching almost 30 per cent of FDI inflows in 2000. Economic activity, including FDI, is for the most part concentrated in Tallinn and its surrounding area.

The growth of FDI in Estonia has had a significant impact on the country's overall economic development. The share of FDI in gross fixed capital formation, for example, although fluctuating in the 1990s, reached levels as high as 40.8 per cent in 1993 and 37.9 per cent in 1998. In addition, FDI has been a principal source of financing of the current account deficit, with the last two years witnessing higher FDI than the current account deficit. (However, the notable outflows of FDI resulted in the coverage ratio for 1999-2000 being reduced to 73-74 per cent.) The economic importance of FDI is equally reflected in the Estonian banking sector, with 84 per cent of shares of commercial banks being owned by non-residents at the end of 2000. Positive spill-overs in terms of employment generation from FDI have been documented.

The development of FDI and indeed the transition towards a market economy could not have been achieved in Estonia without an economic strategy that took as its central feature a transparent, fair and open legal regime for foreign investment. Restructuring, privatisation and liberalisation of investment conditions for foreign interests were thus key features of the newly independent Estonia's economic programme. The country embarked on substantial institutional and legal reform, aimed at attracting foreign capital by creating a non-discriminatory environment conducive to FDI. These efforts have been widely recognised as successful: in addition to the country's accession to the WTO in November 1999, and its inclusion at the end of 1997 in the first wave of accession



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preparations to the EU, Estonia has been assessed by various market access reviewers[1] as a generally free and accessible market.

The legal framework for business activities is mostly non-discriminatory, particularly since the repeal in July 2000 of the 1991 Foreign Investment Act. Foreign investment, up to 100 per cent of ownership, is now permitted through various types of entities and no sectors are completely closed to foreign companies. Certain activities require a licence, however, due to national health, security, safety and environmental policy objectives, but no distinction is made between foreign and national investors in the granting of such licences. A few restrictions remain on the acquisition of real estate, securities services and air and maritime transport, but these are not uncommon in other countries and are motivated in part by public order or national security considerations.

Foreign individuals wishing to work in Estonia require residency and work permits. Application procedures have been revised in order to make the process more transparent and to facilitate the entry of citizens from the EU, the United States and Japan, among others, by placing them outside the application of the immigration quota.

The privatisation process, following the German model, is scheduled for completion at the end of 2001 with the winding up of the Privatisation Agency. The process began in the early 1990s with international tenders for large Estonian enterprises, then moved to mass voucher sales in mid 1994. Most non-infrastructural companies had been privatised by the end of 1996, with foreign investors accounting for about one fifth of purchases of large enterprises. Infrastuctural privatisations became the focus of a special unit in 1995, and, with the exception of the Port of Tallinn, the process is either underway or completed. In 2000-2001, major privatisation transactions included that of the broadcasting transmission centre, railway passenger services, and Tallinn's water supplier, AS Tallinna Vesi. Foreign investors have enjoyed national treatment for privatisations; a "golden share" has been retained in only one case – the privatisation of Eesti Telekom – and this is due to expire at the end of 2002, or when government equity participation no longer exceeds 10 per cent.

Apart from a stable and transparent legal regime, the Estonian authorities have used financial incentives and promotion through information provision to attract FDI. Importantly, foreign firms established in Estonia have equal access to government funds. They also benefit from a new income tax regime that excludes reinvested earnings of companies from the corporate income tax base. At the same time, the Enterprise Estonia Foundation assists foreign investors in the

1. *E.g.* the Heritage Foundation's Index, the Emerging Market's Access Index, the Milken Institute's Capital Access Index.



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establishment phase, notably through its service of identification of potential business partners and operating locations.

As is the case with most countries making the transition from a centrally-planned economy, implementation problems have been reported in Estonia, in particular with regard to tax administration, licensing, and legal proceedings. The Estonian government is undertaking programmes to combat these issues: an Administration Organisation Act is being prepared to simplify and make existing administrative mechanisms more transparent; a new series of laws aimed at combating corruption, complemented by a training programme for public officials, is expected to put in place a clear and effective code of conduct. Estonia has also applied for accession to the OECD *Convention on Combating Bribery of Foreign Public Officials in International Business Transactions* and has ratified the Council of Europe conventions on money laundering and corruption.

The OECD Committee on International Investment and Multinational Enterprises reviewed Estonia's legal regime in June 2001 and concluded that the country is willing and able to adhere to the *Declaration on International Investment and Multinational Enterprises* and its related Decisions and Recommendations. Like the other Baltic countries, Estonia's challenges for future FDI policy include attracting more greenfield investment after the completion of privatisation, and continuing to adapt regulatory and institutional processes to meet internationally accepted standards. Adherence to the OECD instruments contributes to these on-going reform processes, and successfully concludes an important component of the OECD's Baltic Regional Programme.



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*Chapter 1*[1]

# Foreign Direct Investment Trends, Factors and Prospects

## 1.1. Introduction

Estonia is a small transition economy with a GDP per capita of US$3 564 in 1999 and a population of 1.4 million. Estonian economic policies are oriented towards long-term stability and have been reflected in the continuous growth of the economy, the stable national currency, as well as the substantial and lasting reduction of inflation. The peg to the DM has fostered the establishment of a favourable and stable macroeconomic environment for investment and economic development. Since its independence in 1991, the country has made considerable progress in its transition towards a market economy and has attracted considerable foreign investment. As a result, the economy has grown by an average of 3.6 per cent yearly since 1994. Following negative growth in 1999 in the aftermath of the Russian financial crisis, the real rise in GDP amounted to 5 per cent in 2000, and it is expected to grow at the same pace in 2001.

This chapter provides an overview of the characteristics of FDI in Estonia and the main factors behind FDI trends.

## 1.2. Flows and stocks of FDI

At the end of the year 2000 the stock of foreign direct investment in Estonia reached 44.5 billion kroons (US$2 645 million), up 15.9 per cent from 38.4 billion kroons the previous year.[2] During the 1990s, yearly FDI inflows first grew rapidly, then diminished somewhat in 1995 and 1996, peaked in 1998, and have stayed at a relatively high level since (Table 1, Figures 1 and 2).

Although Estonia is a net recipient of foreign direct investment, a special feature of its investment structure is the high outflow of FDI compared, for instance, to Latvia and Lithuania. Outward investment began to grow in the mid-1990s, as a result of both the increasing activities of Estonian investors abroad,



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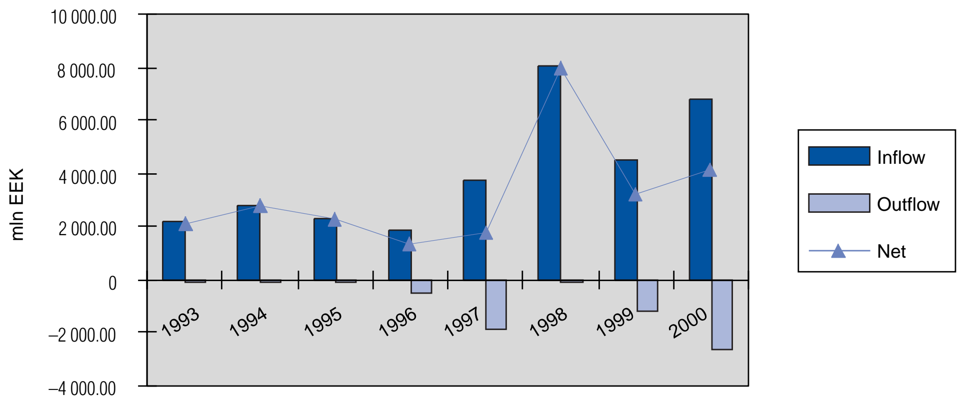
Table 1. **Flows of FDI 1993-2000**
(EEK *million*)*

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|
| Inflow | 2 152.90 | 2 819.20 | 2 312.90 | 1 814.40 | 3 694.10 | 8 071.40 | 4 448.00 | 6 807.30 |
| Outflow | –82.10 | –29.80 | –29.10 | –484.50 | –1 912.90 | –81.70 | –1 239.80 | –2 666.40 |
| Net | 2 070.80 | 2 789.40 | 2 283.80 | 1 329.90 | 1 781.20 | 7 989.70 | 3 208.20 | 4 140.90 |

* The Estonian kroon is pegged to the German mark at a rate of EEK8 = DEM1. US$1 = EEK16.82 as at 31 December 2000, Bank of Estonia.
*Source*: Bank of Estonia.

and the growing presence of large international investors in Estonia, which then started to invest in the other Baltic countries through their Estonian subsidiaries. Outflows of FDI peaked in 1997, but dropped dramatically to almost zero in 1998, before an upward surge again in 1999 that more than doubled in 2000.

Figure 1. **FDI inflows and outflows 1993-2000, EEK million**




*Source*: Bank of Estonia.

Throughout the 1990s, the Estonian economy was characterised by the use of foreign savings to keep up with the economy's demand for investments, which the relatively low level of local savings was unable to meet. In 1996, the importance of portfolio investments in relation to FDI inflows grew temporarily due to general economic development, the most important factor being the rapidly developing stock market. At the same time, in 1995-1996, the privatisation of manufacturing



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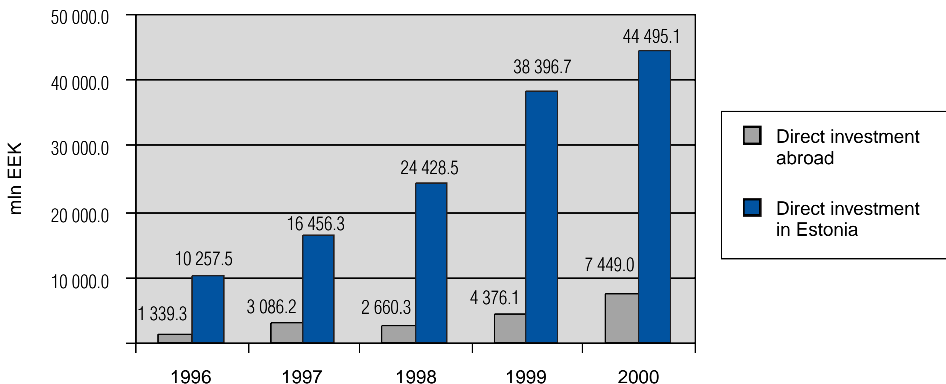
was coming to an end, which partly explains the drop in FDI figures. Privatisation of telecommunications, for example, again had an impact on the rising figures at the end of the 1990s.

In 1998, the flows of portfolio investment capital were in balance, and short-term loan capital was replaced by direct investment as the FDI inflow increased again, reaching its highest level to date. The record levels of inward FDI in 1998 were mainly a result of strategic investment in the banking sector, which then constituted 49 per cent of total FDI.[3]

Estonia's investments abroad were smaller in 1998 than they had been in the two previous years. According to the Bank of Estonia, this was caused by business losses outweighing profits and the repayment of loans granted to affiliated and associated undertakings in previous years. In 1999, there was another increase in investments into subsidiaries and associate companies abroad, and in 2000 they reached their highest level ever. Short- and long-term loans to affiliated and associated companies were responsible for 80 per cent of the outflow.

Figure 2. **FDI stock in Estonia FDI stock abroad, end of year, 1996-2000, EEK million**




*Source*: Bank of Estonia.

The balance of direct investments was positive by an amount of 4.1 billion kroons in 2000. The net inflow of FDI covered 73 per cent of the foreign trade deficit. Investments in share capital composed more than half of the FDI in Estonia. Reinvested income grew by a remarkable 2 billion kroons compared to 1999. Most of the FDI inflow originated from Finland and Sweden.



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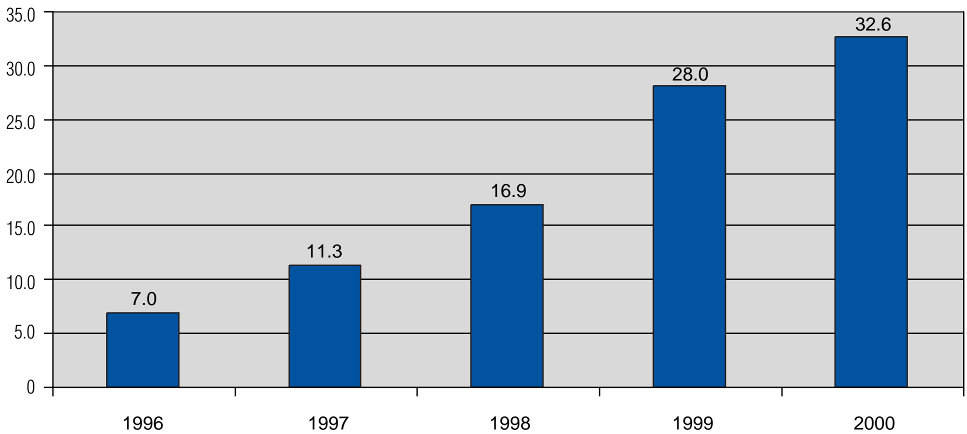
Figure 3. **FDI stock per capita, end of period, EEK thousand**




*Source*: Bank of Estonia.

The ability of Estonia to attract FDI is most strikingly visible in the level of FDI relative to the population. In per capita terms, FDI stock grew from about 7 000 EEK at the end of 1996 to reach 32 600 EEK or US$1 938 at the end of 2000, which is one of the highest accumulated FDI levels per capita in Central and Eastern Europe (Figure 3).[4]

## 1.3. Countries of origin and destination

Foreign direct investment stock in Estonia is characterised by a higher concentration of countries of origin than, for instance, that in Lithuania. At the end of the year 2000, two countries, Sweden and Finland, stood out from the others with their respective shares of 40.5 and 29.8 per cent of the total investment. Altogether, the four Nordic countries account for more than 75 per cent of the total FDI stock in the country, with only the United States joining them in the list of the top five investing countries (Figure 4).

The strong relative position of Nordic investors in Estonia lasted throughout the 1990s and was even more marked at the end of the period than at the start. Table 2 shows the top 15 investing countries at the end of the year 2000. From 1996 to 2000, the positions of the top investing countries stayed more or less the same.



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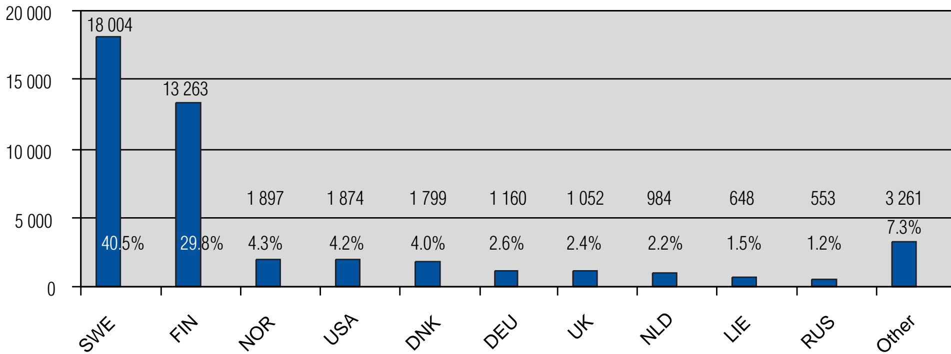
Figure 4. **FDI stock by country of origin, 31.12.2000, EEK million**




*Source*: Bank of Estonia.

Table 2. **FDI stock in Estonia by country, top 15**

| | 31.12.1997 | | 31.12.1998 | | 31.12.1999 | | 31.12.2000 | |
|---|---|---|---|---|---|---|---|---|
| | Thous. EEK | % | Thous. EEK | % | Thous. EEK | % | Thous. EEK | % |
| Sweden | 3 404 252 | 20.7 | 7 927 311 | 32.5 | 15 582 488 | 40.6 | 18 003 644 | 40.5 |
| Finland | 4 747 623 | 28.8 | 6 588 580 | 27.0 | 11 534 088 | 30.0 | 13 262 675 | 29.8 |
| Norway | 774 761 | 4.7 | 551 329 | 2.3 | 1 338 233 | 3.5 | 1 896 681 | 4.3 |
| United States | 947 318 | 5.8 | 947 273 | 3.9 | 1 513 815 | 3.9 | 1 873 967 | 4.2 |
| Denmark | 779 935 | 4.7 | 1 415 928 | 5.8 | 1 565 468 | 4.1 | 1 799 080 | 4.0 |
| Germany | 501 877 | 3.0 | 832 414 | 3.4 | 913 372 | 2.4 | 1 159 570 | 2.6 |
| Great Britain | 576 763 | 3.5 | 990 579 | 4.1 | 1 047 514 | 2.7 | 1 051 779 | 2.4 |
| Netherlands | 430 128 | 2.6 | 476 532 | 2.0 | 591 631 | 1.5 | 983 767 | 2.2 |
| Liechtenstein | 146 949 | 0.9 | 686 490 | 2.8 | 634 313 | 1.7 | 648 347 | 1.5 |
| Russia | 943 810 | 5.7 | 522 511 | 2.1 | 683 672 | 1.8 | 553 088 | 1.2 |
| Switzerland | 335 218 | 2.0 | 461 417 | 1.9 | 551 342 | 1.4 | 485 675 | 1.1 |
| Singapore | 692 507 | 4.2 | 786 487 | 3.2 | 576 501 | 1.5 | 464 545 | 1.0 |
| Italy | 119 144 | 0.7 | 290 004 | 1.2 | 235 057 | 0.6 | 321 267 | 0.7 |
| France | 3 380 | 0.0 | 8 410 | 0.0 | 72 128 | 0.2 | 232 172 | 0.5 |
| Ireland | 86 375 | 0.5 | 119 398 | 0.5 | 207 781 | 0.5 | 184 500 | 0.4 |
| Other | 1 966 259 | 11.9 | 1 823 838 | 7.5 | 1 349 297 | 3.5 | 1 574 343 | 3.5 |
| Total | 16 456 300 | 100 | 24 428 500 | 100 | 38 396 700 | 100 | 44 495 100 | 100 |

*Source*: Bank of Estonia; percentages do not add up to 100 due to rounding.

Swedish investment reached a category of its own in the late 1990s, as a result of the consolidation development of the Estonian banking industry. During the period 1998-2000, each year Sweden and Finland were the two main sources of



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FDI in Estonia. In 1999, for example, they accounted for approximately two-thirds of the total inflow of FDI into the country.

Direct investment from Latvia and Lithuania to Estonia has been negligible. In 2000, France made Latvia drop from the top 15. Lithuania's share has consistently been even smaller than Latvia's.

Estonian investment into the other two Baltic countries has been high in relation to investments from these countries into Estonia. Investment in Latvia and Lithuania accounted for 84.9 per cent of the total stock of Estonian FDI abroad at the end of the year 2000 (Table 3). Investment to Cyprus was third highest, down from first place at the end of 1997.

In 1998, the bulk of Estonian investments were made into Latvia and the Ukraine, in 1999 to Latvia and Lithuania and in 2000 to Latvia. The outflow of direct investment is largely attributed to foreign companies that have established subsidiaries in Estonia.

Table 3. **Estonian FDI stock abroad by country**

| | 31.12.1997 | | 31.12.1998 | | 31.12.1999 | | 31.12.2000 | |
|---|---|---|---|---|---|---|---|---|
| | Thous. EEK | % | Thous. EEK | % | Thous. EEK | % | Thous. EEK | % |
| Latvia | 1 099 602 | 35.6 | 1 403 143 | 52.7 | 2 230 508 | 51.0 | 3 994 154 | 53.6 |
| Lithuania | 483 468 | 15.7 | 612 256 | 23.0 | 1 619 958 | 37.0 | 2 329 213 | 31.3 |
| Cyprus | 1 278 998 | 41.4 | 352 956 | 13.3 | 328 308 | 7.5 | 650 590 | 8.1 |
| Other | 224 133 | 7.3 | 291 946 | 11.0 | 197 326 | 4.5 | 475 043 | 7.0 |
| Total | 3 086 200 | 100 | 2 660 300 | 100 | 4 376 100 | 100 | 7 449 000 | 100 |

*Source*: Bank of Estonia; percentages do not necessarily add up to 100 due to rounding.

## 1.4. Distribution by economic activity

Perhaps the most distinctive feature in the breakdown by economic activity of foreign direct investment in Estonia is the top position occupied by financial intermediation. This can be explained by the strong presence of Nordic banks in the local market. These banks have truly included the Baltic countries as part of their home markets. Developments in the banking sector are explained in more detail below.

Finance is followed by transport, storage, and communications (including telecommunications), manufacturing, and wholesale and retail trade. The development of FDI in telecommunications has depended to a considerable extent on privatisation and the investments that followed the liberalisation of the industry.

In 1999, half of the direct investments into Estonia were made into the manufacturing and transport, storage and communications sectors. Investments



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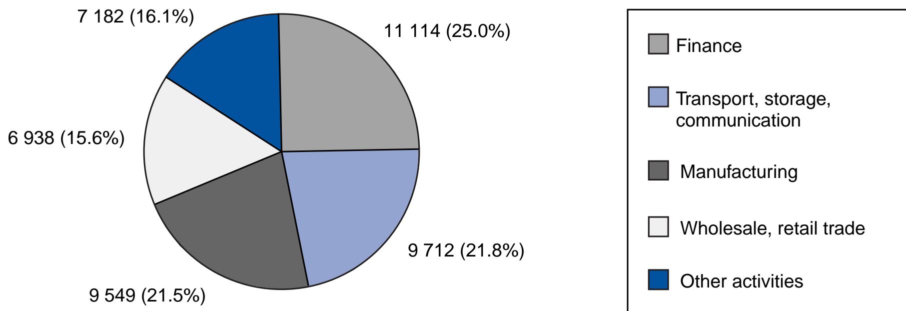
into finances were also significant. In 2000, finance accounted for approximately a third of the total inflow of EEK 6 807.3 million.

Figure 5. **FDI stock by field of activity 31.12.2000, EEK million**




*Source*: Bank of Estonia.

As can be seen from Table 4, although FDI into manufacturing has consistently grown in absolute terms, during the last couple of years it has to an extent lost its relative importance to the finance and telecommunications sectors. Whereas at the end of 1998 it held first place among the sectors receiving FDI, with a share of approximately one third, by the end of 2000 it had dropped to third position, with a share of about one fifth of the total FDI stock.

The share of FDI going to electricity, gas and water supplies has remained low, mainly due to the postponed privatisation of this infrastructure. In general, Estonia's economic policy has been among the most free-market-oriented in the world, and power production now also stands in line for privatisation, albeit as one of the last of the large government holdings.

Among the manufacturing sectors, food and beverages occupy first place, followed by wood, publishing and printing, then textiles and apparel. The high share of "other products" can most likely be explained by FDI into the manufacturing of electronics, which is not classified separately. This sector has recently grown in importance, particularly since the establishment in Estonia of Finnish sub-contractors to the multinational brands in the industry.

Table 6 shows the concentration of the Estonian banking industry in Swedish hands. Sweden and Finland have both invested heavily in telecommunications and manufacturing, whereas Finland is the main source of investment into trade and repairs. Investments from Finland are distributed more evenly across industries than those from Sweden.



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Table 4. **FDI stock in Estonia by field of activity**

| Field of Activity | 31.12.1997 Thous. EEK | % | 31.12.1998 Thous. EEK | % | 31.12.1999 Thous. EEK | % | 31.12.2000 Thous. EEK | % |
|---|---|---|---|---|---|---|---|---|
| Financial intermediation | 1 879 737 | 11.4 | 5 357 406 | 21.9 | 8 946 124 | 23.3 | 11 113 880 | 25.0 |
| Transport, communication | 2 745 112 | 16.7 | 1 837 434 | 7.5 | 10 696 267 | 27.9 | 9 711 613 | 21.8 |
| Manufacturing | 6 078 470 | 36.9 | 8 037 963 | 32.9 | 8 799 046 | 22.9 | 9 548 536 | 21.5 |
| Trade and repairs | 3 675 207 | 22.3 | 5 612 443 | 23.0 | 5 431 920 | 14.1 | 6 937 609 | 15.6 |
| Real estate and business activities | 524 857 | 3.2 | 1 935 529 | 7.9 | 2 212 543 | 5.8 | 3 090 333 | 6.9 |
| Electricity, gas and water | x | | x | | 691 964 | 1.8 | 1 051 272 | 2.4 |
| Hotels and restaurants | 321 032 | 2.0 | 339 098 | 1.4 | 351 637 | 0.9 | 876 396 | 2.0 |
| Construction | 98 833 | 0.6 | 342 064 | 1.4 | 334 521 | 0.9 | 648 093 | 1.5 |
| Agriculture | 206 585 | 1.3 | 319 014 | 1.3 | 475 921 | 1.2 | 570 641 | 1.3 |
| Mining and quarrying | 17 220 | 0.1 | 89 694 | 0.4 | 111 956 | 0.3 | 184 960 | 0.4 |
| Education | 13 588 | 0.1 | 9 534 | 0.0 | 12 305 | 0.0 | 12 900 | 0.0 |
| Fishing | –444 | 0.0 | –586 | 0.0 | 12 207 | 0.0 | 11 775 | 0.0 |
| Health and social care | 1 093 | 0.0 | 5 408 | 0.0 | 12 290 | 0.0 | 5 210 | 0.0 |
| Public administration and defence | x | | x | | 1 237 | 0.0 | 1 838 | 0.0 |
| Other | 895 010 | 5.4 | 543 500 | 2.2 | 306 728 | 0.8 | 730 044 | 1.6 |
| Total | 16 456 300 | 100 | 24 428 500 | 100 | 38 396 666 | 100 | 44 495 100 | 100 |

x = not possible to publish because of confidentiality principles.
*Source*: Bank of Estonia; percentages do not necessarily add up to 100 due to rounding. Other includes also unclassified.

Table 5. **FDI stock in manufacturing in Estonia by sector, end of year, 1998-2000**

| Sectors of manufacturing | 1998 Thous. EEK | % | 1999 Thous. EEK | % | 2000 Thous. EEK | % |
|---|---|---|---|---|---|---|
| Food and beverages | 2 203 695 | 27.4 | 2 534 308 | 28.8 | 2 156 398 | 22.6 |
| Textiles and wearing apparel | 522 774 | 6.5 | 821 161 | 9.3 | 1 322 162 | 13.8 |
| Wood, publishing and printing | 1 024 913 | 12.8 | 1 456 032 | 16.5 | 1 573 736 | 16.5 |
| Refined petroleum and other treatments | 2 403 | 0.0 | 58 043 | 0.7 | 100 147 | 1.0 |
| Chemical products | 1 443 742 | 18.0 | 1 168 997 | 13.3 | 833 513 | 8.7 |
| Rubber and plastic products | 1 213 416 | 15.1 | 82 649 | 0.9 | 105 907 | 1.1 |
| Metal products | 628 112 | 7.8 | 281 144 | 3.2 | 375 895 | 3.9 |
| Mechanical products | 206 179 | 2.6 | 229 353 | 2.6 | 311 845 | 3.3 |
| Office machinery and computers | 2 414 | 0.0 | x | x | 4 622 | 0.0 |
| Radio, TV, communication equipment | 189 941 | 2.4 | 192 509 | 2.2 | 275 183 | 2.9 |
| Motor vehicles | 11 112 | 0.1 | x | x | 444 808 | 4.7 |
| Other transport equipment | 589 261 | 7.3 | 179 220 | 2.0 | 212 570 | 2.2 |
| Other products | 0 | 0.0 | 1 401 145 | 15.9 | 1 831 750 | 19.2 |
| Total | 8 037 963 | 100 | 8 799 046 | 100 | 9 548 536 | 100 |

*Source*: Bank of Estonia.



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Table 6. **FDI stock in Estonia: Major investing countries by field of activity, thous. EEK (as of 31.12.2000)**

| Field of activity | Sweden | Finland | Norway | United States | Denmark |
|---|---|---|---|---|---|
| Agriculture | 57 810 | 391 763 | x | 19 186 | 33 506 |
| Fishing | 6 058 | | | | x |
| Mining and quarrying | x | 103 268 | | x | x |
| Manufacturing | 2 731 410 | 2 989 337 | 322 210 | 612 721 | 766 767 |
| Electricity, gas and water | x | 493 881 | | | x |
| Construction | 128 750 | 348 526 | x | 1 131 | x |
| Trade and repairs | 717 704 | 3 306 015 | 374 696 | 780 142 | 343 065 |
| Hotels and restaurants | 58 104 | 46 007 | x | 55 292 | x |
| Transport, communication | 4 123 175 | 3 951 617 | 224 449 | 36 978 | 432 353 |
| Financial intermediation | 9 847 871 | 679 710 | x | 77 433 | x |
| Real estate and business activities | 175 320 | 739 244 | 330 161 | 185 026 | 73 396 |
| Education | 87 | 9 309 | x | x | x |
| Other | 98 354 | 153 138 | x | 72 845 | 3 127 |
| Not classified | 42 607 | 48 942 | 29 587 | 20 579 | 6 330 |
| Total | 18 003 644 | 13 262 675 | 1 896 681 | 1 873 967 | 1 799 080 |

x = not possible to publish because of confidentiality principles.
*Source*: Bank of Estonia.

Also notable is the Finnish presence in agriculture, real estate and business activities. The high figures in these fields of activity partly reflect the cultural and geographical proximity of Estonia and Finland.

FDI from the United States is most visible in trade and repairs. Danish investors are relatively active in manufacturing.

Regarding outward FDI, Estonians were the first among the Baltic countries to have focused their marketing and sales activities on the Baltic region as a whole. This process was started by the Estonian commercial banks when Hansapank bought the Latvian Deutsche-Lättische Bank, now renamed Hansabanka, followed by the acquisition of Saules Banka [later sold to the Latvian Rietumu Banka (100 per cent of shares)] by Tallinna Pank. The Estonian company, Rakvere Lihakombinaat, bought Rigas Miesnieks and Magnum, an Estonian group of investors, which bought the leading Latvian pharmaceutical and drug manufacturing company, A/S Grindeks (OECD/Salokoski, 2000). On 23 April 2001 *Hansapank* signed an agreement to privatise Lithuania's second largest bank, *Lietuvos taupomasis bankas* (Lithuanian Savings Bank), which took effect on 1 June, 2001. *Hansapank* has, after purchasing *Lietuvos taupomasis bankas*, 28.8 per cent of the Lithuanian banking market, if measured by assets, and 36 per cent, if measured by deposits.



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Table 7. **Estonian FDI stock abroad by field of activity**

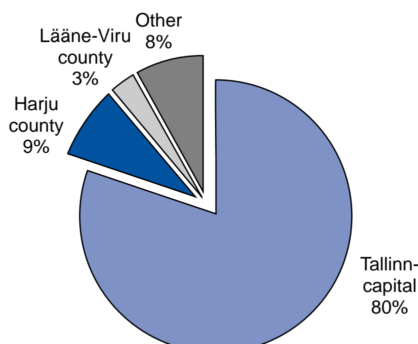
| | 31.12.1997 | | 31.12.1998 | | 31.12.1999 | | 31.12.2000 | |
|---|---|---|---|---|---|---|---|---|
| Field of Activity | Thous. EEK | % | Thous. EEK | % | Thous. EEK | % | Thous. EEK | % |
| Financial intermediation | 427 287 | 13.8 | 1 519 350 | 57.1 | 2 730 315 | 62.4 | 4 517 766 | 60.6 |
| Real estate and business activities | 878 574 | 28.5 | 141 791 | 5.3 | 281 387 | 6.4 | 1 072 641 | 14.4 |
| Transport, communication | 1 305 002 | 42.3 | 509 100 | 19.1 | 448 634 | 10.3 | 770 946 | 10.3 |
| Manufacturing | 272 939 | 8.8 | 249 133 | 9.4 | 537 495 | 12.3 | 658 333 | 8.8 |
| Trade and repairs | 116 398 | 3.8 | 184 933 | 7.0 | 333 269 | 7.6 | 346 364 | 4.6 |
| Other | 86 000 | 2.8 | 55 993 | 2.1 | 45 001 | 1.0 | 82 950 | 1.1 |
| Total | 3 086 200 | 100 | 2 660 300 | 100 | 4 376 100 | 100 | 7 449 000 | 100 |

*Source*: Bank of Estonia; percentages do not necessarily add up to 100 due to rounding.

## 1.5. Geographic distribution

In Estonia, foreign direct investment is mainly concentrated in the Tallinn area, as is economic activity in general. Harju county surrounds Tallinn, which explains its second position among recipient areas. In Lääne-Viru county there are three towns, Kunda, Rakvere and Tapa, of which Rakvere has attracted FDI into its food-processing industry (Rakvere Meat Factory) and Kunda its cement industry (Nordic Cement). In Tartu county, the biggest foreign direct investments have been made into the food industry (Tartu brewery), energy sector (Tartu Energia) and production of windshields (Saint-Gobain Sekurit Eesti). All other counties are also FDI recipients.

Figure 6. **FDI stock by region, end of year 1999**




*Source*: Bank of Estonia.



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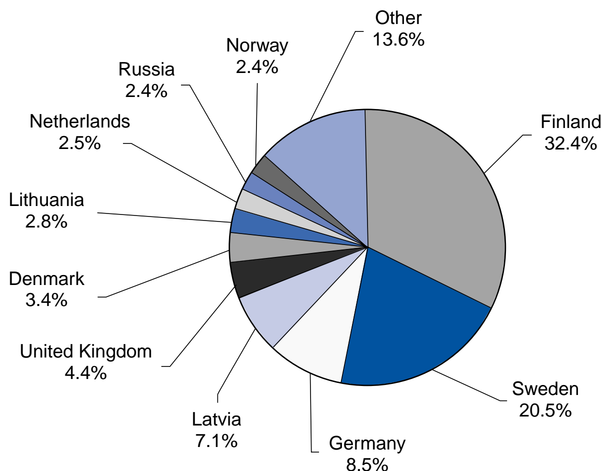
## 1.6. Export structure

Exports account for some 90 per cent of GDP in Estonia. The value of Estonian foreign trade in 2000 was 126.1 billion EEK, of which exports were 53.9 billion EEK (43 per cent) and imports 72.2 billion EEK (57 per cent). Foreign trade turnover increased 1.5 times compared with 1999. In 2000, exports increased by 52 per cent and imports increased by 43 per cent compared with 1999.

In 2000, the 10 main partner countries in exports remained the same as in 1999. Exports to Finland, Germany, Sweden and the Netherlands increased considerably. Exports to CIS countries accounted for 4 per cent of total exports (6 per cent in 1999). In imports there was a change among 10 main partner countries: the United States and Netherlands were replaced by China and Latvia. The rise of China was especially significant – from 16th place in 1999 to 6th place in 2000. The top three importers were the same in 1999 and 2000: Finland, Sweden and Germany, with shares of Estonian imports at 26.0, 10.7 and 10.4 per cent respectively in 2000.

The dominant position of the Nordic countries among the countries investing in Estonia and the largely export-oriented nature of this investment is clearly reflected in the structure of exports. A share of 77 per cent of total exports went to the EU countries in 2000, compared to 73 per cent in 1999 (see Figure 7).

Figure 7. **Exports by trade partner in 2000**




*Source*: Estonian Investment Agency, data provided by the Statistical Office of Estonia.



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There has been a clear shift towards fine electronics and higher value added timber and textile products. Machinery and equipment alone accounted for 37.4 per cent of exports and 38.5 per cent of imports in 2000, compared to 24.1 and 30.7 per cent in 1999. This development may be largely explained by the growing presence of subcontracting industries in Estonia, behind which are mainly the foreign investment based subsidiaries of the Scandinavian conglomerates. The rising share of China in imports also seems to be an indicator of this development, since it is a main source of electronic components.

## 1.7. Major investors

In the ranking of the top 50 investments into Estonia, Swedish banks hold first and third places, with the Finnish-Swedish-international consortium Eesti Telekom in second place between them (Table 8).

As to the countries of origin of the largest foreign investors, the Tolaram Group of Singapore in fourth place is an interesting exception within the otherwise largely European-dominated ranking of top investors. This group also has operations in Latvia.

In general, the list is rather heterogeneous by industry, indicative of the wide variety of motives for investing in Estonia, ranging from home-market to export-oriented production, as well as businesses serving the other international companies present – banks, for instance.

The following examples illustrate the origins of foreign investors as well as the industries chosen as investment targets.[5]

### *Nordic investors*

Investors from Finland, Sweden and Norway are shareholders in Estonia's largest brewery, Saku Õlletehas (Saku Brewery). It is owned by Baltic Beverages Holding (BBH), which was established in 1991 by Swedish-Norwegian Pripps Ringnes and Finland's Hartwall. Today Norway's Orkla owns half of the shares in BBH. In May 2000 Orkla announced a merger with Denmark's Carlsberg Breweries, which also owns one fifth of Hartwall. Thus Carlsberg became the majority owner of Saku Õlletehas. Saku has about a 50 per cent market share in the Estonian beer market, and this represents 1 per cent of Carlsberg's total production.

The second largest market share is held by the holding company A. Le Coq, which is the Estonian subsidiary of the Finnish brewery Olvi Oyj. A. Le Coq is sole owner of Tartu Brewery, which holds 38 per cent of the Estonian beer market.

In the forestry and wood processing industry, AS Paikuse Saeveski, majority owned by Forestex, a subsidiary of Finland's UPM Kymmene, is one of the most modern sawmill companies in the Baltics. In 2000, an additional investment was made into the new plywood and veneer factory, FSS Plywood AS, based in Otepää



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in the south-east of Estonia. The owners of the company are AS Forestex, AS Sylvester and Schaumann Wood Oy (Finland).

Narva-based Kreenholmi Valduse AS (Kreenholm Hoding), fully owned by Boras Wafveri (Sweden), is the largest textile plant in Estonia and one of the biggest in Europe, employing about 4 650 people.

In the electronics sector, Elcoteq Tallinn, a subsidiary of Finnish electronics manufacturer Elcoteq Oyj, was a star performer in 2000 producing electronic parts such as cell phone components for Nokia and Ericsson. After Ericsson withdrew from cell phone manufacturing early in 2001, Elcoteq Tallinn cut down the assembly of cellular phones and is building up new capacity to produce IT network equipment. Another big foreign investor in the electronic sector is the Finnish JOT Automation Group Oyj.

Baltic Tele AB holds a stake of 49 per cent in Eesti Telekom, a consortium of Sonera (Finland) and Telia (Sweden). The Estonian government retains a 27 per cent stake, as well as a golden share, with veto rights over certain strategic corporate decisions, which is due to expire at the end of 2002.

Radiolinja Eesti, a joint venture between Radiolinja Oy and Elisa Communications Oyj (both from Finland) launched the nation's second GSM network in 1995. By October 2000, Radiolinja Eesti had a 23 per cent market share.

In the energy sector, Finland's Fortum Oyj is a majority shareholder in Viru Energia, a power generator and distributor, and has controlling stakes in two other electricity distributors, Viimsi Elekter and AS Läänemaa Eletrivõrk. Sweden's Vattenfall is, in turn, the largest Nordic energy company and since 1999 has owned the majority of shares in a Pärnu based district heating company as well as in the municipal district heating company Pärnu Soojusvõrk, the fifth largest heating utility in Estonia. Finland's Kotkan Energia Oy is a majority shareholder in Tartu Energia AS.

### *Other investors*

Horizon Pulp and Paper, a leading paper factory based in Kehra, 50 kilometres east of Tallinn, is owned by Tolaram Group (Singapore). It is reconstructing its cellulose and paper factory with financing from an international financial consortium.

The Russian company Gazprom holds 37 per cent of the shares in the Estonian gas utility, AS Eesti Gaas, with 11 per cent owned by the German company Ruhrgas and 10 per cent by the Finnish company Fortum, the rest being held by private portfolio investors.



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Table 8. **Largest foreign investors in Estonia**

Invest in Estonia 2000 Top 50*

| | Company | Investment mil EEK Total | Investment mil EEK 2000 | Shareholders % | Turnover mil EEK 2000 | No. of Employees 2000 | Activity |
|---|---|---|---|---|---|---|---|
| 1 | Hansapank AS | 3 880.0 | 545.0 | Föreningssparbanken (Swedbank) 57.5% (SWE) EBRD 9.7% (UK) | 3 547.3 | 3 431 | Banking |
| 2 | Eesti Telekom | 2 061.0 | 702.0 | Telia 24.5% (SWE) Sonera 24.5% (FIN) other foreign investors 23.7% | 3 900.0 | 7 000 | Telecommunications |
| 3 | Eesti Ühispank AS* | 1 834.7 | –98.0 | Skandinaviska Enskilda Banken (SEB) 95.1% (SWE) | 1 648.6* | 1 039 | Banking |
| 4 | Tolaram Grupp | 1 416.8 | 238.3 | Tolaram Corporation 100% (SGP) | 944.9 | 1 602 | Textile, pulp and paper, real estate development |
| 5 | Eesti Merelaevandus** | 1 090.0 | 210.0 | Tschudi & Eitzen (NOR) Stanton Capital (US) | NA | 859 | Maritime transport |
| 6 | Eesti Tööstusliising AS** | 751.9 | 128.0 | Merita Finance Ltd. 80% (FIN) | 79.6 | 20 | Finance |
| 7 | E.O.S. AS | 650.0 | 221.7 | Coastal Baltic Holding Company Ltd. 100% (CYM) | 860.2 | 32 | Oil terminals |
| 8 | Kunda Nordic Tsement AS | 555.6 | 87.3 | Atlas Nordic Cement Ltd Oy 100% (FIN) | 414.7 | 363 | Cement production |
| 9 | Rakvere Lihakombinaat AS* | 505.1 | –15.2 | HK-Ruokatalo Oyj 91.5% (FIN) | 891.7 | 613 | Food processing |
| 10 | Pro Kapital Group AS** | 480.0 | 203.0 | Peak Mount Corporation 56.1% (CHE) | 383.4 | 13 | Real estate development |
| 11 | Radiolinja Eesti AS** | 442.9 | 151.0 | Oy Radiolinja Ab 46% (FIN); Elisa Communications Oyj 46% (FIN) | 253.4 | NA | Mobile telecommunications |
| 12 | Tele2 Eesti AS** | 347.6 | –17.0 | Tele2 AB 95% (SWE) | 192.0 | 140 | Telecommunications |
| 13 | Eesti Gaas AS** | 346.7 | 83.3 | OAO Gazprom 30.64% (RUS) Ruhrgas AG 38.71% (GER), Fortum Oil and Gas Oy 16.85% (FIN) | 762.6 | 449 | Gas distribution |
| 14 | Eesti Coca-Cola AS** | 321.0 | 1.0 | Coca-Cola Getränke Holding 89% (AUT) The Coca-Cola Export Corp 11% (United States) | 222.5 | 274 | Soft drinks |
| 15 | Neste AS** | 319.9 | –22.3 | Fortum Oyj 100% (FIN) | 874.9 | 43 | Sale of fuels |
| 16 | Shell Eesti AS** | 284.5 | 39.8 | Shell Overseas Holding Ltd 100% (UK/NLD) | 511.5 | 20 | Sale of fuels |
| 17 | Elcoteq Tallinn AS | 275.1 | 16.1 | Elcoteq Oyj 100% (FIN) | 588.8 | 3426 | Electronic components |
| 18 | Tartu Õlletehas AS | 263.4 | 32.5 | OLVI Oyj 80% (FIN) | 329.4 | 181 | Beer and soft drinks |
| 19 | Saku Õlletehase AS* | 261.0 | 23.1 | Baltic Beverages Holding AB 75.01% (SWE) | 729.6 | 269 | Beer and soft drinks |



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Table 8. **Largest foreign investors in Estonia** (*cont.*)

Invest in Estonia 2000 Top 50*

| | Company | Investment mil EEK Total | Investment mil EEK 2000 | Shareholders % | Turnover mil EEK 2000 | No. of Employees 2000 | Activity |
|---|---|---|---|---|---|---|---|
| 20 | Eesti Metallieksport AS | 259.8 | –7.9 | Kuusakoski OY NA (FIN) | 713.2 | 256 | Supply and processing of metals |
| 21 | Kreenholmi Valduse AS | 249.1 | 37.6 | Boras Wäfveri AS 100% (SWE) | 1240.0 | 4 862 | Textile industry |
| 22 | Imavere Saeveski AS | 239.8 | 123.4 | Stora Enso Timber OY Ltd 33% (FIN); Skov -Link AS 4% (DNK) | 629.1 | 215 | Wood processing |
| 23 | Reval Hotelligrupi AS | 238.2 | 165.6 | Lindstow International 85,46% (NOR) | 263.4 | 219 | Hotels management and development |
| 24 | Tartu Energia AS | 234.9 | 234.9 | Kotkan Energia 80% (FIN) | 0.5 | 9 | Energy |
| 25 | Eesti Statoil** | 232.8 | –37.7 | Statoil 100% (NOR) | 592.5 | 220 | Sale of fuels |
| 26 | Sampo Pank AS* | 223.1 | 223.1 | Sampo Finance Ltd 92,9% (FIN) | NA | NA | Banking |
| 27 | IVO Energia AS | 204.1 | 39.1 | Fortum Power and Heat Oy 100% (FIN) | 123.1 | 255 | Energy |
| 28 | Eesti Meedia AS | 198.0 | –30.0 | Schibsted 92,5% (NOR) | 322.4 | 923 | Media |
| 29 | Järvakandi Klaas AS | 176.0 | 36.4 | Finnish Holdings Oy 99.92% (FIN) | 312.4 | 240 | Production of glass |
| 30 | Balti Spoon AS | 174.0 | 45.8 | Atlantic Veneer CORP 85% (United States) CHI Group Limited Partnership 15% (United States) | 131.6 | 424 | Production of spoons |
| 31 | Loksa Laevatehase AS | 167.6 | –4.0 | Odense Steel Shipyard Ltd 100% (DNK) | 203.9 | NA | Shipbuilding |
| 32 | Flexa Eesti AS** | 164.0 | NA | Flexa Holding AB NA (DNK) | | 300 | Wood processing |
| 33 | Optiroc AS | 162.3 | 16.6 | Optiroc Oy AB 100% (FIN) | 270.0 | 224 | Production of construction materials |
| 34 | HTM Sport Eesti OÜ | 161.9 | 19.7 | HTM Sport S.p.A. 89% (ITA) | 370.9 | 458 | Sports goods |
| 35 | Rannila Profiil AS** | 160.7 | 11.4 | Rannila Steel Oy 100% (FIN) | 400.1 | 106 | Roof materials |
| 36 | Hydro Texaco Eesti AS** | 146.5 | 64.6 | Hydro Texaco 100% | 94.0 | NA | Sale of fuels |
| 37 | Fibo Exclay Eesti AS** | 139.6 | NA | Svensk Leca AB 100% (SWE) | NA | 70 | Production of construction materials |
| 38 | Valga Gomab Mööbel AS | 124.2 | 56.4 | Gomab Scandinavia AB 100% (SWE) | 154.0 | 349 | Production of furniture |
| 39 | Fortum Läänemaa AS** | 121.5 | 36.8 | Fortum Power and Heat Oy 95,11% (FIN) | 64.9 | 36 | Energy |
| 40 | Dekoil AS** | 120.7 | 13.9 | Eurodek Copenhagen As 70% (DNK) | 254.4 | 186 | Oil products |



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Table 8. **Largest foreign investors in Estonia** (*cont.*)

Invest in Estonia 2000 Top 50*

| | Company | Investment mil EEK Total | Investment mil EEK 2000 | Shareholders % | Turnover mil EEK 2000 | No. of Employees 2000 | Activity |
|---|---|---|---|---|---|---|---|
| 41 | Lindegaard Eesti AS | 113.9 | 55.8 | Lindegaard Paperisto Oy 100% (FIN) | 246.0 | 383 | Paper and plastic goods |
| 42 | Sonmarin AS** | 108.5 | 15.4 | Sonmarin Oy 100% (FIN) | 48.9 | 32 | Transit of oil |
| 43 | JOT Eesti OÜ | 108.3 | 47.7 | JOT Automation Group Oy 51% (FIN), JOT Robotics OY 49% (FIN) | 580.2 | 226 | Industrial automation |
| 44 | Marat AS** | 105.9 | 3.5 | Finnwear Oy AB 98.6% (FIN) | 279.9 | 1 209 | Textile industry |
| 45 | Balti ES AS** | 105.8 | 21.9 | OSF Portfolio Investment 100% (DNK) | 112.4 | 756 | Machine building industry |
| 46 | Saint- Gobain Sekurit Eesti AS | 105.3 | 55.8 | Saint-Gobain Sekurit Scandinavia AB 100% (SWE) | 97.8 | 58 | Production of windshields |
| 47 | Toftan AS** | 100.1 | 0.5 | Hereda TRA AB 60% (SWE), Thomesto Oy 60% (FIN) | 204.0 | 96 | Sawmills |
| 48 | Es Sadolin** | 94.5 | NA | Akzo Nobel 90% (NLD) | | 159 | Production of paints |
| 49 | E-Betoonelement AS | 79.2 | 11.7 | Addtek International Oy AB 31% (FIN), Euroc Beton AB 25% (SWE), Strangbetong AB 44% (SWE) | 176.7 | 361 | Building materials |
| 50 | Leibur AS | 77.4 | 0.1 | Vaasan ja Vaasan 55% (FIN) Cerealia 45% (SWE) | 212.1 | 387 | Bakery products |

Questionnaire “Entrepreneurship Award 2000” (Estonian Investment Agency, PW Partners, University of Tartu).
* data from Internet, media.
** data for 1999.

## 1.8. Financial structure of FDI

Two major conclusions can be drawn from Table 9, which illustrates the financial structure of FDI in Estonia. First, investments into newly created enterprises have been almost negligible since 1996 as the bulk of investments have been directed to already existing enterprises. Second, the share of reinvested earnings has increased considerably over the years as a source of FDI financing. In the year 2000, in particular, the share of reinvested earnings rose to almost 30 per cent of the FDI inflow. Although it is still too early to judge how much of this can be attributed to tax incentives introduced at the beginning of 2000, it is most likely that they partly explain the marked increase in reinvested earnings. In addition to the considerable increase in reinvested earnings, loans taken by foreign-owned enterprises have been a significant source of financing since 1998.



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This is probably a reflection of Estonian banks' increased interest and ability to finance foreign-owned enterprises as a result of foreign acquisitions within the Estonian banking sector.

Table 9. **FDI into Estonia by financial structure, 1996-2000,**
(EEK *million*)

| | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|
| Into capital stock | 215.8 | 1 360.8 | 5 661.9 | 2 551.9 | 3 702.0 |
| O/W into new enterprises | 48.8 | 52.4 | 42.0 | 45.8 | 47.9 |
| Additional investments into existing enterprises | 155.1 | 1 303.3 | 5 579.0 | 2 445.6 | 3 582.3 |
| Reinvested earnings | 216.3 | 1 303.8 | 389.4 | 721.9 | 1 978.9 |
| Loan capital (net) | 516.6 | 491.7 | 1 397.4 | 1 173.5 | 1 244.5 |
| Claims on direct investors | –167.5 | –99.4 | –203.0 | –266.7 | –268.9 |
| Liabilities to direct investors | 684.1 | 591.1 | 1 600.4 | 1 440.2 | 1 531.4 |
| Other | 865.7 | 537.8 | 622.7 | 0.7 | –118.1 |
| Total | 1 814.4 | 3 694.1 | 8 071.4 | 4 448.0 | 6 807.3 |

*Source*: Bank of Estonia.

## 1.9. Main explanatory factors behind FDI

The motivating factors of foreign investors have been analysed in several studies. In their study based on a detailed dataset that allowed them to identify FDI inflows to a sample of transition economies and the source countries of these inflows, Bevan and Estrin concluded that FDI inflows are significantly influenced by the following factors: risk, unit labour costs, host market size and gravity (distance) factors. In addition, according to their findings, private sector development, industrial development, the government balance, gross reserves and corruption are significant determinants of the perceived country risk (Bevan and Estrin, 2000).

The Estonian Investment Agency and the Faculty of Economics and Business Administration of the University of Tartu carried out four surveys among foreign investors in Estonia during the period 1997-2000 (Varblane 2001). The approximately 100 respondents were divided into four groups according to their field of economic activity, export performance, technological level and employment data. Using the groups distinguished in the literature on foreign investors based, among others, on the theoretical work of Dunning (1994), the largest group (65% of respondents) was characterised as market-seeking investors, the second largest group (18%) as efficiency-seeking investors and the two other groups as natural resources seeking investors (10%) and strategic assets seeking investors (7%).



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The findings of the study indicate that market-seeking investors are mainly motivated by entry into the Estonian market and potential market growth. On the other hand, production costs have a strong influence on investment decisions in the case of efficiency and natural resources seeking investors. However, findings show that production costs have increased in significance for all types of investors since the first survey in 1997.

On the other hand, several studies have also been carried out on the investment climate and barriers to FDI as experienced by investors. Two of these studies (Hirvensalo-Hazley, 1998 and Ziazic-Varblane, 2000) conclude that investors are increasingly faced with problems in acquiring skilled and productive employees. The other barriers identified in these studies, such as problems in VAT payments, land purchases, and project financing, are being rectified as legislation and administration procedures improve, together with the rapidly developing banking sector. However, the problem in acquiring highly qualified employees is not as easily corrected as it takes time to train the labour force and, more importantly, change the mentality of those managers who are already in important positions and do not necessarily see the need to re-educate themselves.

Based on the various studies quoted above, most foreign investors in Estonia are market-seeking investors. As the Estonian market, with only 1.4 million consumers, is very small, an increasing number of investors are looking for access to neighbouring EU and Baltic markets. From this point of view, the common trading area and harmonised trade and investment policies around the Baltic Sea region are becoming increasingly important.

Referring to the studies on investment barriers in Estonia, it seems likely that foreign investors have already employed most of the highly skilled potential employees in Estonia and that it is becoming more difficult to recruit a sufficient number of skilled personnel. In addition, as will be shown in more detail in Section 2, the wage and productivity gap that still exists between foreign-owned and local enterprises is beginning to close. This implies in turn that there will be increasing competition for skilled people in Estonia and efficiency-seeking investors might turn to other markets.

Estonia's tax regime has been complemented with tax incentives granted for reinvested earnings of direct investors. It is still too early to predict what the long-term effects of this incentive might be. In the short term there are already indications that it is likely to enhance the motivation of foreign investors to enter the Estonian market.

Estonia has traditional and newly developed economic sectors: wood and food processing, electronics, chemicals, textiles, energy and engineering, IT, biotechnology, etc. These are industries that have already attracted a fair amount of foreign investment. A crucial issue for Estonia, however, is how to attract new



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greenfield investments in these and related industries, in order to strengthen the development clusters within the economy.

## 1.10. Future perspectives

The increase in Estonia's foreign debt has been moderate despite its current account deficit, as a large proportion of foreign capital has come into the country as foreign direct investments. Taking this fact into account, the government intends to continue to give equal treatment to foreign and local investors and supports the business environment by favourable tax policy measures and other economic policies.

The abolishment of profit tax on reinvested earnings resulted in a rise in FDI in 2000. This effect is expected to be sustained over the next few years, since there is typically a time lag of some two to three years between the introduction of such incentives and the realisation of subsequent investment decisions.

According to the Ministry of Finance Pre-Accession Economic Programme of April 2001, the essential factor in attracting foreign investments into the country is Estonia's further integration with the EU. Successful integration should improve the legal and institutional framework and provide Estonian enterprises access to European markets.

The amount of FDI in recent years has been influenced by several large single investment projects in privatised infrastructure enterprises. This trend should also carry on for some time to come, since the energy sector is in the process of being both privatised and modernised.

The financing of the current account deficit by FDI shows foreign investor confidence in Estonia. Bank of Estonia assessments indicate that constant FDI inflows require conservative economic policies, and considering the current world economic outlook, consumer saving should acquire a more important role.



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*Chapter* 2

# Economic Impact of Foreign Direct Investment

The economic impact of FDI can be assessed, among other factors, by the share of FDI in domestic fixed capital formation, the impact on the capital account in the balance of payments, as well as by the impact on employment and spill-over effects.

## 2.1. FDI and fixed capital formation

Estonian gross fixed capital formation has grown more rapidly than the gross domestic product and consequently its share of GDP increased from 21 per cent in 1992 to 29 per cent in 1998. This share is relatively high in comparison to the other Baltic countries and it has greatly facilitated the needed restructuring of the economy.

Table 10. **FDI flows into Estonia and gross fixed capital formation in 1992-1998**

| | Gross domestic product (GDP), EEK mln[1] | Gross fixed capital formation (GFCF), EEK mln[1] | Flow of inward FDI, EEK mln[2] | Inward FDI as per cent of GDP | Inward FDI as per cent of GFCF |
|---|---|---|---|---|---|
| 1992 | 13 158 | 2 755 | 996.6 | 7.6 | 36.2 |
| 1993 | 21 610 | 5 280 | 2 152.9 | 10.0 | 40.8 |
| 1994 | 29 600 | 8 004 | 2 819.2 | 9.5 | 35.2 |
| 1995 | 40 705 | 10 576 | 2 312.9 | 5.7 | 21.9 |
| 1996 | 52 446 | 14 015 | 1 814.4 | 3.5 | 12.9 |
| 1997 | 64 324 | 17 962 | 3 694.1 | 5.7 | 20.6 |
| | 73 213 | 21 311 | 8 071.4 | 11.0 | 37.9 |

*Source*: 1. International Monetary Fund: *International Financial Statistics Yearbook* 2000,
2. Bank of Estonia, authors' calculations.

The share of foreign direct investments in gross fixed capital formation amounted to as high as 35 per cent in 1992-94 and again in 1998, which indicates just how vital a role FDI has played in the economic development of the country.



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According to a study carried out by Varblane (2001) Estonian enterprises with foreign investment are generally more capital intensive than domestic enterprises and the production process of foreign-owned enterprises is also more capital intensive than that of domestic companies. In 1998 the tangible assets per employee in foreign-owned enterprises were 2.4 times higher than those in domestic companies. The situation is equalising rapidly, however, as the growth rate of assets among domestic enterprises is higher than that of foreign-owned enterprises. On the other hand, foreign-owned enterprises possess a higher share of new assets than domestic companies, which implies that they have higher productivity. The share of new assets is especially high in foreign office machines and the electronic components sector, as well as in the paper, publishing, wood and textile industries.

## 2.2. FDI and the balance of payments

FDI has also contributed significantly to the financing of the current account deficit in Estonia, although there have been large fluctuations in the deficit coverage ratio. During 1994-95 and 1998 the net inflow of FDI was greater than the current account deficit, while during 1996-97 FDI covered only 23-28 per cent of the deficit. In the last two years 1999-2000 FDI into Estonia was again higher than the current account deficit, but significant outflows of FDI brought the coverage ratio down to 73-74 per cent. The growth of Estonian investments abroad particularly reflects the strategies of Finnish and Swedish investors, who often consider Estonia as a "first step on the Baltic stairs" (Kilvits and Purju, 2001).

Table 11. **FDI flows and current account 1994-2000**
(EEK *million*)

| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|
| Current account balance | –2 145.6 | –1 810.6 | –4 806.9 | –7 810.2 | –6 760.2 | –4 334.9 | –5 709.1 |
| Current account balance as % of GDP | –7.2 | –4.4 | –9.2 | –12.1 | –9.2 | –5.8 | –6.8 |
| Estonian FDI abroad | 29.8 | 29.1 | 484.5 | 1 912.9 | 81.7 | 1 239.8 | 2 666.4 |
| FDI into Estonia | 2 819.2 | 2 312.9 | 1 814.4 | 3 694.1 | 8 071.4 | 4 448.0 | 6 807.3 |
| Net FDI | 2 789.4 | 2 283.8 | 1 329.9 | 1 781.2 | 7 989.7 | 3 208.2 | 4 140.9 |
| Net FDI as % of current account balance | 130 | 126 | 28 | 23 | 118 | 74 | 73 |

*Source*: Bank of Estonia, authors' calculations.

## 2.3. FDI and the Estonian banking sector

During the period 1999-2000 the Estonian banking sector attracted significant amounts of FDI. It can even be argued that without FDI the effects of the Russian



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banking crisis of 1998 would have been much more severe in the Estonian banking sector than they actually were because of the expertise and capital brought in by foreign owners. Foreign investments in the banking sector became possible after the major Estonian banks listed their shares on the stock exchanges, first in Estonia, then later abroad. By the end of 1995 foreign ownership amounted to 35 per cent of the share capital of Estonian banks. Two major Swedish banks, Swedbank and SEB, had acquired majority ownership both in Hansapank and Eesti Ühispank, respectively, by 1998. After the merger of the mother banks in Sweden, however, it is unlikely that the two largest Estonian banks, with a combined market share of over 80 per cent, will be allowed to merge. In June 2000 Optiva Pank, which was established by the merger of Eesti Investeerimispank and Forekspank, was acquired by the Finnish-dominated Sampo Finance Ltd and was renamed Sampo Pank. The fourth biggest bank in Estonia, a branch of the Finnish Merita Bank, it is part of Nordea AB, the largest financial group in the Nordic Region. As a result, by the end of 2000, 84 per cent of the shares of Estonian commercial banks were in the hands of non-residents. Estonian local shareholders hold only three banks that have a marginal share in the market. Table 12 illustrates developments during 1998-2000.

Table 12. **Shareholders of the Estonian commercial banks**
(*per cent*)

| Shareholders | 31.12.1998 | 31.12.1999 | 31.12.2000 |
|---|---|---|---|
| Bank of Estonia (Eesti Pank) | 13.1 | 11.4 | 0.0 |
| Local governments | 0.4 | 0.3 | 0.0 |
| Non-resident credit institutions | 45.5 | 52.6 | 67.0 |
| Other non-resident legal bodies | 9.5 | 9.0 | 16.7 |
| Resident credit institutions | 1.5 | 4.6 | 0.6 |
| Other resident legal bodies | 20.8 | 10.5 | 6.2 |
| Resident private individuals | 8.4 | 10.8 | 9.1 |
| Non-resident private individuals | 0.5 | 0.7 | 0.2 |
| Other shareholders | 0.3 | 0.1 | 0.2 |

*Source*: Mart Sõrg, 2001, based on BoE data.

## 2.4. FDI and Estonian exports

Several studies have concluded that inflows of FDI into Estonia have had a positive impact on the development of the country's export capacity (*e.g.* Sõrg and Miljan, 2000, Varblane 2000). Foreign-owned companies in Estonia are generally more export-oriented than domestic companies. According to surveys carried out by Tartu university between 1997 and 2000, the share of exports from total sales among foreign-owned enterprises reached 50 per cent in 1998, while the corresponding share among domestic companies was 37 per cent (see Table 13).



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Foreign-owned enterprises also export twice as much per employee as domestic companies (Varblane 2001).

Table 13. **Share of exports of net sales in Estonian manufacturing, 1996-1998**
*(per cent)*

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| Companies with foreign ownership | 46.7 | 50.6 | 50.9 |
| Domestic companies | 36.4 | 40.4 | 36.9 |

*Source:* Urmas Varblane, 2001, *Industrial Restructuring and Relocation Strategies of* EU *Enterprises in* Estonia, based on *Database on Manufacturing industries in* Estonia, ESO, Tallinn, 1999.

Among foreign-owned enterprises there are also significant differences in the degree of export orientation versus local market orientation. Surveys indicate that export-oriented investors have different motivations for investing in Estonia than non-exporting investors. Exporters are motivated by production and labour force costs rather than by market potential, as they do not plan to supply the domestic market. Non-exporters, in turn, are more motivated in tapping into the new market and benefiting from expected market growth. Exporters mainly operate in the chemical, wood processing and furniture, electronics, textile, machinery and engineering industries, while non-exporters are mainly in the food and beverage and construction material industries (Varblane and Ziazic, 2000).

An additional finding of the surveys reveals that Estonian firms with foreign ownership are also using Estonia as a production base for entering new neighbouring markets. The main export markets of firms receiving FDI are the EU countries (Finland and Sweden in particular) with 42 per cent, Latvia and Lithuania accounting for 29 per cent, and Canada and the United States for 11 per cent of firms with foreign ownership. Only a small proportion of firms with FDI indicated Russia as their major export market. This could be explained by the high macroeconomic instability of Russia and/or Russia's foreign trade policy towards Estonia (Varblane and Ziazic, 2000).

Surveys also indicate that there are certain spill-over effects of FDI in Estonia. For example, foreign investors engaged in export offer more training than domestic exporters, especially management and language training. In a limited comparative study on spill-over effects of FDI in all three Baltic countries it was found that the strongest spill-over effects resulted from the subcontracting activities of foreign investors. Major effects included pressure to produce higher quality products, and compliance with delivery deadlines and payment terms, which in turn made the subcontractors more efficient and profitable (Hirvensalo and Juurikkala, 2000).



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## 2.5. FDI, employment, productivity and salaries

The foreign impact in Estonian manufacturing industries can also be assessed by employment, productivity and wage levels. Table 14 lists such indicators. Although they comprise only 10 per cent of the total number of manufacturing enterprises, foreign-owned companies employ, on average, about 20 per cent of the labour force in manufacturing. Their nominal capital amounts to 40 per cent, their net sales are 28 per cent and their exports amount to 35 per cent of all manufacturing industries.

Table 14. **Foreign share in Estonian manufacturing industry measured by various indicators in 1998**
*(as a percentage of the total)*

| Industries | Number of firms | Nominal capital | Employment | Net sales | Exports |
|---|---|---|---|---|---|
| Textiles | 16.7 | 85.0 | 55.9 | 70.5 | 60.7 |
| Paper and paper products | 24.1 | 93.9 | 64.8 | 77.5 | 94.6 |
| Office and electrical equipment | 14.6 | 42.2 | 50.1 | 42.7 | 63.5 |
| Total manufacturing | 9.5 | 40.1 | 20.8 | 28.2 | 35.2 |

*Source:* Urmas Varblane, 2001, *Industrial Restructuring and Relocation Strategies of EU Enterprises in Estonia*, based on *Eesti ettevõtete majandusnäitajad* 1998, Tallinn, ESA, 2000.

A productivity gap also exists between foreign-owned and domestic Estonian enterprises. Measured by value added per employee, foreign-owned companies were 1.32 times more efficient than domestic companies in 1998, but this gap has a diminishing trend. Foreign-owned firms are also more productive than domestic firms, even though they pay about 25 per cent higher wages. In addition, the unit labour costs of foreign-owned firms are lower than those of domestic firms but this gap also has a diminishing trend (See Table 15).

Table 15. **Productivity and wage levels of foreign-owned enterprises in comparison to domestic enterprises**

| | 1996 | 1997 | 1998 |
|---|---|---|---|
| Net sales per employee | 1.85 | 1.59 | 1.50 |
| Value added per employee | 1.41 | 1.51 | 1.32 |
| Wage level | 1.27 | 1.26 | 1.24 |
| Unit labour costs | 0.69 | 0.79 | 0.83 |

*Source:* Urmas Varblane, 2001, *Industrial Restructuring and Relocation Strategies of EU Enterprises in Estonia*, based on *Database on Manufacturing Industries in Estonia*, ESO, Tallinn, 1999.



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In an analysis of the employment effects of FDI in five central European countries, Mickiewicz, Radosevic and Varblane (2000) point out that employment generation or preservation is foreign-led, with domestic firms playing a complementary role in all sectors. According to their study, the growth in foreign-controlled employment in Estonia and Hungary, in particular, is complemented by growth in overall employment in the majority of branches. However, the overall capability of the Estonian economy to generate employment was considered weaker than in Hungary. At the same time, in the Czech Republic, Slovenia and Slovakia, foreign-owned companies substituted for the overall decrease in employment. This suggests that restructuring in Hungary and Estonia has reached a more advanced stage than in the other three countries.

According to their analysis, however, employment generation/preservation predominantly takes place through the export bias of foreign investment. On the other hand, it needs to be pointed out that Hungary and Estonia are the two countries that chose the direct sales method as the major mode of privatisation. Thus, enterprises were sold to local or foreign buyers mainly on the condition that they guaranteed certain levels of investment and jobs for a specified number of years.



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*Chapter 3*

# The Legal and Regulatory Framework for FDI

## 3.1. Introduction

Between the two world wars Estonia was an independent country with a market economy, and during the 1930s it had one of Europe's highest rates of per capita GDP. As soon as it regained its independence in 1991, Estonia set itself the goal of transforming its centrally planned economy into a market economy once again. Liberalisation, macroeconomic stabilisation, restructuring, privatisation, legal and institutional reforms towards the supremacy of law, and healthy competition were the main elements of Estonia's economic strategy.[6]

As a small economy with relatively poor local financing availability and low saving capacity in relation to its transition and economic development needs, Estonia also set itself as a priority the goal of attracting foreign capital. This has been reflected in the early adoption of laws on ownership reform and the private ownership of land, the foreign investment law (1991), the creation of special incentive programmes, the early liberalisation of various sectors, the adoption of a privatisation law (1993), and the creation of the Estonian Investment Agency in 1994[7] in conjunction with other economic reforms. At the same time, it started application procedures to the family of UN organisations and engaged in the negotiation of trade and economic agreements with its major trading partners. Estonia became a member of the World Trade Organisation and its main Agreements on 13 November 1999.

There is wide consensus that Estonian efforts have met with considerable success. The Heritage Foundation's 2001 Index – which measures economic freedom in over 150 countries – ranks Estonia in 14th position (close to Austria, Canada, Denmark and Japan).[8] The Milken Institute's Capital Access Index 2000 has Estonia in 8th position among the 81 countries reviewed (after the United States, Hong Kong, Switzerland, Luxembourg, United Kingdom, Singapore and the Netherlands).[9] Under the Emerging Markets Access Index 2000 – which measures the level of access that foreign goods, services and investment enjoy in some 44 emerging economies – Estonia ranks 4th after Hong Kong, Chile and Singapore.[10] Included for the first time in the "World Competitiveness Scoreboard 2000" –



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published annually since 1989 by the Switzerland-based Institute for Management Development – Estonia ranks 22nd among the 49 countries listed, after New Zealand and before Spain, France, Greece and Italy.[11]

Estonia's inclusion in the first wave of accession to the European Union[12] is another indicator of this success. Estonia has been found to meet the Copenhagen political criteria for EU accession of "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities". It is also regarded as a "functioning market economy" that should be able to make the progress necessary to cope with the competitive pressures and market forces with the Union in the medium-term. With 19[13] of the 31 chapters of the *acquis communautaire* preliminary closed, the Estonian government has set 1 January 2003 as the target date for joining the Union and has indicated its readiness to conclude negotiations in most of the issues by the end of 2001.

The favourable judgement passed by the international community on the Estonian economic and regulatory situation applies in particular to the regulatory framework for business operations in Estonia and its treatment of foreign investment. Estonia is generally viewed as having very few restrictions or requirements on foreign investments departing from the national treatment principle, and as offering high levels of freedom and protection of property rights. While further improvements are still possible, the government has done a relatively good job in reducing the regulatory and bureaucracy excesses inherited from the Soviet system.

The economy is forecast to remain on a growth trajectory of 5 per cent over 2001-2002, the fiscal situation is under control – despite the costs associated with structural reforms and EU regulatory requirements – and the balance of payments is in equilibrium with capital inflows covering mounting current account deficits.[14] Estonia can claim to have re-joined the ranks of middle-income countries and to have successfully gone through the transition process. Estonia now faces the economic and regulatory challenges posed by accession to the EU, and, more broadly, the process of catching-up with the richer nations.

The present chapter analyses (a) Estonia's regulatory framework in the light of the various provisions of the OECD Declaration on International Investment and Multinational Enterprises, and more particularly those of the National Treatment and the Revised Guidelines for Multinational Enterprises, and (b) assesses the implications of Estonia's adherence to the Declaration.

## 3.2. General requirements

### *a) A flexible and non-discriminatory legal framework for business operations*

Until it was repealed on 21 July 2000, the 1991 Foreign Investment Act (as subsequently amended) defined the procedures and legal regime for making



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foreign investment in Estonia, the basis for investment incentives, and the legal safeguards available. Foreign investors and their investments were granted "equal rights and obligations" unless prescribed otherwise in other legislation (notably in respect to the acquisition and use of land and other national resources). It guaranteed the unhindered transfer of profits, dividends and invested capital and provided fundamental protection and dispute settlement rights (such as in the case of expropriation). These guarantees were secured by the provisions of some 23 bilateral treaties for the promotion and protection of investment, 23 bilateral taxation treaties and adherence to important international conventions (see Section 3.7) In addition, Estonia established special conditions for making foreign investment in free zones under concessions. However, the Act allowed the Estonian government to "specify areas of activity" where establishment or investment could be prohibited or required a foreign investment license. Investment in banking was also made subject to a license issued by the Bank of Estonia.

Since the repeal of the Act, the framework for business operations is essentially determined by the *Commercial Code of 1 September 1995* (other than those defined by a few sectoral legislations described in the following section). As a result, the government can no longer resort to new FDI restrictions. Investment is permitted freely in the form of five business entities: general partnership,[15] limited partnership,[16] private limited company,[17] public limited company[18] and branches. Foreign investors can establish all forms of business entity and own them 100 per cent. Estonia does not prohibit foreign services suppliers from establishing trade offices in any sector and no services sectors or activities are completely closed to foreign companies.[19]

A *branch* is not a legal person. Thus, when a foreign company chooses to operate in the form of a branch, it is liable to the obligations of the branch. The branch of a foreign company is deemed established after its registration in the Commercial Register.[20] The branch must keep separate records of its transactions, which provide a true and fair basis for determining the income and expenses attributable to the branch. In general, it must follow the Estonian Accounting Law, in which minor exceptions pertaining to branches are stipulated (*e.g.* the branch is not required by law to have a statutory audit performed). Foreigners need to obtain an investment licence from the Council of the Bank of Estonia in order to engage in banking activities in Estonia.

Certain activities (see Table 16) remain subject to an "Activity Licence". There is no longer any prescribed need for foreign investors in certain sectors to apply for a Foreign Investment Licence.[21] Activity licences are granted under the same conditions to Estonian and foreign companies, and are valid up to 5 years. The criteria for these licences are defined by the relevant laws. They essentially relate to health, safety and environmental considerations, national security concerns, or



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the reliability of basic infrastructure. Anybody fulfilling these criteria can obtain the required licence.[22]

It is necessary to obtain an Activity Licence before entry into the commercial register can be granted. According to Article 521 of the Commercial Code, any undertaking must be registered in the Commercial Register within six months of concluding the Foundation Agreement.[23] The obtaining of a license is considered to be relatively corruption-free.

Article 521 also prescribes that an "operating" licence shall be issued by the local government pursuant to the procedure established by the Government of the Republic of Estonia.

The number of new companies being entered in the Commercial Register increased from about 4 200 in the period between 1 October 1998 to 1 June 1999 to about 5 600 during the same period in 1999-2000.

### *b)* *Residency requirements and working permits*

Articles 180 and 308 of the Commercial Code stipulate that the *residence* of at least one-half of the members of the management board of a public or private limited company must be in Estonia. In addition, under Article 385 of the Commercial Code, at least one director of the branch of a foreign company must be a resident of Estonia.

Foreign personnel have to apply for both residence and work permits. According to the Estonian authorities, the application procedures for work and residence permits have been made more transparent. The current procedure has also opened up some additional possibilities. Residence permits are issued within the limits of the immigration quota, however. The immigration quota does not apply to citizens of the European Union, the United States of America, Norway, Iceland, Switzerland or Japan. The provision of Article 6 (4) of the Aliens Act enables the Minister of Internal Affairs, on a reasoned proposal of the Minister of Economic Affairs, the Minister of Finance, Minister of Culture or Minister of Education, to exempt specific persons from the immigration quota if their presence in Estonia is necessary in the national interests for economic, educational, scientific or cultural development.

To accommodate the establishment of business entities, the institution of a business visa has been created. A business visa is valid for a period of 12 months and allows multiple entry. Holders of business visas are not allowed to earn any income in Estonia, or be paid by an Estonian employer, because a business visa is not a substitute for a working permit.

According to the November 2000 EU assessment report, non-citizens are subject to some restrictions affecting the right to belong to a political party or to be employed in certain areas of public administration. In March 2000, the Estonian



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government adopted the state integration programme "Integration in Estonian Society 2000-2007" to address some of the concerns of minorities. The Parliament also amended the Language Act in April 2000. These amendments aim at ensuring compatibility of the law with international standards on such issues as freedom of expression as well as with Estonian obligations under the Europe Agreement.

Table 16. **Activities subject to licensing**

| Activities requiring an Activity Licence | Issuing Authority |
|---|---|
| Management of aviation and sea transport (excludes small private boats), international car and railway transport (excludes intra-enterprise rail transport) | Ministry of Transport and Communications |
| Geology-related activities, mining of natural resources | Ministry of Economic Affairs |
| Production and trade in objects containing precious metal and precious stones. | Ministry of Finance |
| Production and trade in weapons, parts thereof, ammunition, or pyrotechnic equipment; repairs of weapons | Ministry of Internal Affairs |
| Production, possession, and trade, as well as purchasing and possessing of medical narcotic, highly toxic, radioactive, and poisonous substances. Growing plants that contain narcotic, highly toxic and poisonous substances. | Ministry of Social Affairs |
| All forms of medical treatment | Ministry of Social Affairs |
| Production of trade in medicines | Ministry of Social Affairs |
| Import and export, as well as production and wholesale of tobacco and production thereof, and alcohol; and retail of alcohol | Ministry of Economic Affairs; Municipal Governments |
| Printing and minting of money | Bank of Estonia |
| Printing of securities | Ministry of Finance |
| Printing of postage stamps | Ministry of Transport and Communications |
| Building and management of public communications' networks of any kind | Ministry of Transport and Communications |
| Management of an educational institution of a higher or general level, both vocational, or professional; together with the right to issue nation-wide accepted certificates of education | Ministry of Education |
| Management of security service firms, installation of security, guard, and signalling systems | Ministry of Internal Affairs |
| Opening and management of private detective agencies | Ministry of Internal Affairs |
| Collation of measuring instruments | Ministry of Economic Affairs |
| Production and trade in micro-organisms, plants, and animals created by genetic engineering | Ministry of Environment |
| Banking | Bank of Estonia |
| Insurance | Ministry of Finance |
| Projecting, expertise and inspection of building, construction and contracting activities | Ministry of Environment |
| Geodetic and cartographic activities | Ministry of Environment |
| Ecological expertise | Ministry of Transport and Communications |



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Table 16. **Activities subject to licensing** (*cont.*)

| Activities requiring an Activity Licence | Issuing Authority |
|---|---|
| Management of environmentally harmful substances | Ministry of Transport and Communications |
| Transmission of broadcasting of radio and television programmes by means of the radio and television networks | Ministry of Culture |
| Management of casinos (gambling) | Ministry of Finance |
| Reproduction of the State symbols or their parts of the Republic of Estonia | State Chancellery |
| Exchange management | Ministry of Finance |
| Tourism | Ministry of Economic Affairs |
| Ships' agencies and organising sea transport | Ministry of Transport |
| Lotteries | Ministry of Transport and Communications |
| Assessment of land property, selling and buying land | Ministry of Environment |
| Activities on the securities' market | Ministry of Finance |
| Veterinary activities, veterinary practice | Ministry of Agriculture |
| Temporary storage of commercial goods, custom-storage procedures | Ministry of Finance |
| Commercial trade (imports, re-exports), wholesale and retail, and storage of imported fuels and lubricants | Ministry of Economic Affairs |
| Production and repairs of weapons, ammunition, and technology or national defence purposes | Ministry of Defence |
| Experiments with animals | Ministry of Agriculture |
| Management of imports and exports, as well as other trade, services, repairs, and dissembling of motor vehicles and trailers | Ministry of Economic Affairs |
| Assessment of personal protective equipment types, quality certification; assessment of machinery and equipment types | National Labour Inspection Board |
| Logopedical aid | Ministry of Social Affairs |
| Conservation, restoration, creating of repairs projects, and carrying out the corresponding activities on objects of cultural importance (objects of archaeological, architectural, technological, and historical value, objects of fine arts) | Ministry of Culture |
| Classification of goods and measuring of goods for customs' purposes | Ministry of Finance |
| Commercial mediation of scrap metal and metal waste | Ministry of Economic Affairs |
| Importation of foodstuffs | Ministry of Agriculture |

*Source*: WTO, March 1999.

### *c) Real estate*

Establishment of property rights and restitution of land has been one of the major challenges faced by transition countries. In Estonia, property rights are now firmly established and around 86 per cent of land restitution to private owners has been completed. The share of land registered in the *cadastre* has increased to



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57 per cent of the total land stock. A large part of Estonia's territory (notably inland waters and unfit land) is not expected to be registered, however, in view of the need to preserve natural areas, parks, wildlife and state-ownership of valuable natural resources. Private land accounts for about a third of the total land stock.

Following amendments to existing legislation, privatisation of land has continued, in particular for forests and agricultural land, albeit at a slow pace. Lack of enforcement by local authorities and high financial claim costs have delayed the process of restitution and privatisation, in particular in the northern regions of the country. There is a need for more determined action by local authorities and the simplification of procedures to privatise land should improve the functioning of the land market.[24]

The Act on Restrictions on Transfer of Immovable Property Ownership to Aliens, Foreign States and Legal Persons (1996) contains certain restrictions and requirements on real estate purchases. Ownership of a plot of a land may be transferred to an alien (*i.e.* a non-Estonian citizen) or a foreign legal person with the permission of the country governor of the location of the plot of the land (Articles 3 and 4). Permission may be granted if the acquisition of possession or ownership is not contrary to the public interest and security of the state and the local government when the branch of a foreign commercial undertaking is entered in the commercial register in Estonia. Permission is not required for transfer of a plot of land to the spouse, direct descendants or ascendants of the transferor. In practice, only very few (3-4) applications have been turned down on public order grounds out of a total of 1 500 real estate acquisitions by foreign investors.

Acquisition of land by aliens or foreign legal persons is prohibited, however, in Estonian islands, except for the four largest islands (Saaremaa, Hiiumaa, Vormsi and Muhu) and certain local municipalities bordering Russia [Article 2 (3) of the Act]. The Government may, as an exception, grant permission for acquisition of a plot of land in the prohibited areas for reasons significant to the state. The areas covered by this prohibition amount to around 5-6 per cent of the national territory.

The transfer of immovable property ownership to and possession of immovable property by foreign states requires the permission of the Minister of Foreign Affairs (Article 6). Permission may be granted if the acquisition of possession or ownership is not contrary to the public interest and security of the state and the local government.

The restrictions provided by the Act do not apply to the restitution and privatisation of land or to the establishment of building leases for the benefit of owners of buildings pursuant to the Land Reform Act.

Estonian experts have indicated that priority has been given to the restitution of ownership rights and that this process has been particularly complex in urban areas. The central government has provided the framework legislation but most of



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the responsibilities for real estate transactions lay with local authorities. The restitution process, which must be completed by the time of EU accession, is well advanced.

### d) Implementation and transparency

Most of the remaining complaints of foreign investors – or investors generally – relate to implementation and transparency issues. The areas most frequently mentioned are tax administration, licensing and legal proceedings.

The problems have their origins, of course, in the rapid pace of transition, the insufficient availability of qualified personnel, and budget constraints. They have been further compounded by harmonisation requirements with EU regulations. The situation has nonetheless improved significantly. Estonia has benefited from foreign technical assistance as provided under the EU Phare programme, as well as from the expertise available from international financial institutions.

The Government has also taken specific action. An Administration Organisation Act is under preparation to correct to the extent possible much of the time-consuming bureaucracy of the existing administrative mechanisms and render procedures more transparent. Special efforts have been deployed to cut down or simplify regulatory requirements and expedite approval procedures, such as the specification of delays from official responses in legislative text.

Estonia's A*nti-corruption* Act entered into force on 28 February 1999. This Act, together with the Public Service Act, the Public Information Act, the State Property Act, the Public Procurement Act and the Criminal Code, define a code of conduct that public officials must observe in carrying out their duties. Other important pieces of legislation are the new Penal Code, which was adopted by Parliament on 6 June 2001 (and will enter into force on 1 March 2002), and which is one of the most important acts in the implementation of penal law reform, and the new drafts of the Code of Criminal Procedure and the Courts Act currently before Parliament. It is intended that these pieces of legislation enter into force on 1 January 2002. Estonia has also established a special training programme for public officials.

The Criminal Code establishes criminal liability for the active and passive corruption of domestic public officials. The punishment for accepting, arranging or giving a bribe is found in articles 164, $164^1$, 165 and $165^1$. Accepting, arranging or giving a bribe is punishable by up to four years' imprisonment, and in the case of additional aggravating circumstances, the sentence can go up to seven years' imprisonment.

In addition to the articles relating to bribes, the Criminal Code includes a special article concerning corruption (Art $164^2$). Corrupt activity of an official, according to this article, is the making of undue or unlawful decisions or performance of such acts, or failure to make reasoned and lawful decisions or



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perform such acts by an official through the use of his or her official position for receiving income derived from corrupt practices or other self-serving purposes. Corruptive activity is punishable by a fine and deprivation of the right of employment in a particular position or operation in a particular area of activity, or up to three years' imprisonment. In cases of additional aggravating circumstances the corruptive activity is punishable by up to seven years' imprisonment.

The Europe Criminal Law Convention on Corruption is under ratification process in Parliament. In a survey of Transparency International, which compares countries by an annual Corruption Perceptions Index, Estonia was found to be the least corrupt country in Central and Eastern Europe, ranking 27th among the countries reviewed. Estonia has applied for accession to the OECD Convention on Bribery of Foreign Public Officials in International Business Transactions.

*Money laundering prevention* questions are regulated by the Money Laundering Prevention Act. Estonia has ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the Civil Law Convention on Corruption.

The Estonian authorities see transparency as a good governance issue, particularly for a small open, transition economy like Estonia. A more transparent environment enables creditors to better assess the risks taken, and thus reduce asymmetric information problems. In this field as in others, Estonia has relied on international experience and advice to implement internationally accepted good practices.

To increase transparency and knowledge about legislative changes, Article 2 of the Law on the Official Journal "Riigi Teataja" (State Gazette) stipulates 14 different groups of legislative acts (normative acts) to be published in this official journal in order to become effective.[25] The official journal is available on the Internet (*www.rk.ee/~teataja*). Most relevant domestic legislation has been translated into English.[26] Estonia has undertaken to comply with WTO transparency requirements.

In addition, Estonia has been involved in several projects initiated by the IMF and other international organisations.

In 1998 Estonia subscribed to the IMF statistics standard SDDS, and now meets all the requirements of this standard.

1) In 1999 Estonia joined the pilot project of voluntary dissemination of IMF reports. In the framework of this project, Estonia had the opportunity to make available to the public all reports on Article IV consultations. They have been published without deletion since July 1999. The reports are available on the IMF Website.



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2) In 2000 Estonia participated in the Financial Sector Assessment Program (FSAP), a joint programme of the IMF and World Bank. There have been two main outputs:
   - A Financial Sector Stability Assessment (FSSA) programme of the IMF. Although the IMF decided not to publish this document, it has been used in EU accession negotiations; and
   - A Compliance assessment of Estonian monetary and financial sector regulations with internationally acknowledged standards and codes of good practices. Estonia received quite a high mark, namely *full* compliance with 13 of the 20 principles of good practices in monetary and financial policy transparency and *broad* compliance with the other seven. There have been four IMF assessment reports of Estonian banking, insurance and securities market and supervision and payment and settlement systems. These reports have been published without deletions and are available on the Estonian authorities' websites.

Finally, the Estonian authorities have been transparent about the EU accession process, which is now part of Estonia's political and economic life. Negotiation positions and overviews of the state of negotiations have been available to the public on the Website of the Ministry of Foreign Affairs. The government's action plans for EU accession and various progress reports on European integration and legal harmonisation have also been published.

## 3.3. Sectoral measures

Estonia has proposed national treatment exceptions [Section 3.2*c*] on already-established enterprises in only four areas pertaining to real estate, securities services and air and maritime transport. These restrictions are partly motivated by public order or national security considerations or compliance with international obligations.

### *a)* *Financial sector*[27]

Estonia's financial sector is one of the most developed among all transition countries. The financial system is comprised of the central bank (Bank of Estonia); commercial banks, investment funds; insurance companies and two pension funds and some other investment funds. The main regulatory act is the Law on Credit Institutions, in force since 20 January 1995 and renewed in 1 July 1999 in accordance with EU legislation.

Banking supervision has gradually strengthened and is now considered to be mostly in compliance with the Basle core principles.[28] Plans are under way to establish an integrated financial supervisory authority for banking, securities and insurance.



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*i*) *Banking*

Even if the road has at times been rocky, the Estonian banking sector has been one of the fastest-growing sectors in the Baltic countries. It has also become one of the most concentrated banking sectors in the region, and the one with the highest foreign involvement.

This is the result of major restructuring and consolidation, notably in 1998 and 1999. Commercial banks may engage in a wide range of services, including mortgaging, finance and investments. Estonia's largest bank, Hansapank, is the product of a merger between the former Hansapank and Eesti Hoiupank and a take-over by Swedbank (Sweden). It is also the largest bank in the Baltic countries. Estonia's second largest bank, Eesti Ühispank is the result of a merger between the former Eesti Ühispank and Tallinna Pank and a take-over by SEB (Sweden). The new Swedish owners of these two Estonian banks have done much to strengthen them, both directly through capital injections, and indirectly through improved governance and management.

In late 1998, the central bank recapitalised the troubled Forekspank and merged it with the Estonian Investment Bank to create Optiva Pank. The Finnish banking group Sampo Finance bought Optiva Pank in mid-2000, and renamed it Sampo Pank.[29] With this transaction, the Estonia banking sector has now for all practical purposes been completely privatised (with residual government ownership of less than 1 per cent).

A new commercial bank, Preatoni Pank began to operate in November 1999. Other banks in operation are Eesti Krediidipank, Tallinna Äripank and Merita Pank, which is a branch of the Finnish Merita Bank (subsidiary of Nordic finance group Nordea). As of 1 April 2001, there were a total of seven commercial banks in operation (including the branch of the Nordea). Hansapank and Eesti Ühispank[30] accounted for 55 per cent of banking assets. Following the sale of Optiva Pank, the four largest banks, all foreign-owned, control more than 95 per cent of domestic banks' assets.

SEB and Swedbank have recently declared their merger. This may have a major impact on the TSE trading volume (see also section *c* below). The Bank of Estonia has indicated that it is against the merger of Hansapank and Ühispank.

The Credit Institutions Act of Estonia applies to both domestic and foreign credit institutions. As in the case of the founders of a domestic credit institution (Article 13), in order to establish a subsidiary, a foreign credit institution must submit an application for an establishment permit (Article 21) to the Bank of Estonia. It is also required to obtain an authorisation from the Banking Supervision arm of the Central Bank if it wishes to establish a branch (Article 21) or a representative office (Article 22). A foreign credit institution cannot commence any activity before obtaining a licence. The requirements are in



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conformity with good practice for prudential regulation in the financial sector. A license may be refused on the grounds of non-credibility or monopoly threat.

Prudential regulation also justifies restrictions stipulated in the Investment Funds Act (1997) and the Pension Funds Act (1998) limiting the investment of the assets of these funds to securities traded on regulated securities markets in Estonia, EU Member States and certain other countries.[31]

Additionally, the Estonian Parliament enacted a comprehensive Money Laundering Prevention Act that came into effect on 1 July 1999.[32]

*ii)* *Insurance*

The Insurance sector in Estonia is just beginning to develop. Total assets are equivalent to approximately 3.7 per cent of banking assets as of September 1999. At the moment, there are 13 insurance companies (seven non-life and six life companies), ten of which are directly or indirectly owned by foreign companies. The sector has exhibited signs of weakness, including low profitability and a number of bankruptcies following the Russian crisis. The Insurance Supervisory Authority of Estonia (ISA) is a member of the International Association of Insurance Supervisors (IAIS). The new *Insurance Activities Act*, further harmonising Estonian legislation with the EU acquis, entered into force in summer 2000. A new draft Insurance Law has been presented to Parliament. The new law contains major improvements over the present law.

The sector of insurance services is regulated by the Insurance Activities Act, which does not allow any discrimination on the basis of nationality. Persons who have been issued activity licences may operate as insurers. The Minister of Finance (Article 11) issues an activity licence if the information and documents submitted to the Insurance Supervisory Authority (Article 12) comply with requirements. The Estonian authorities retain the right to verify, on the basis of the submitted information and documents, that facilities exist to carry on insurance activities and that the interests of policyholders and insured persons are sufficiently protected (Article 13 of the Insurance Activities Act).

Article 95(1) of the same Act states that if Estonia accedes to the European Union, persons who have been issued activity licences for insurance activities by competent authorities may act as insurers in Estonia. According to Article 20(7), an insurer of an EU Member State would also be able to operate branches in Estonia provided it is authorised to do so by the competent authority of that Member State. This regime would be based on mutual recognition of prudential requirements.

The provisions concerning insurance intermediation came into force in August 2001.



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Estonia's schedule prepared for the General Agreement on Trade in Services states that the management body of an insurance-stock company with foreign capital participation may include citizens of foreign countries in proportion to foreign participation but should not exceed half of the members of the management group. Moreover, the head of the management of a subsidiary or an independent company must be a permanent resident of Estonia.

*iii*) *Securities*

The Tallinn Stock Exchange[33, 34] (TSE) started operations in June 1996. It is the biggest of the three Baltic State exchanges, accounting for more than 70 per cent of the total turnover in the region.[35] No distinction is made between domestic and foreign investors.[36] As noted earlier, foreigners seeking to acquire a stake in bank shares need approval from the central bank. In other sectors any stake over 10 per cent must be declared openly.

Rules and regulations relating to public trading also comply with international standards. In 1999, the Tallinn Stock Exchange added a chapter on take-over rules and principles of remote membership to its Rules and Regulations. On 18 January 2000, parliament approved further changes designed to protect minority shareholders and provide transparency in take-overs. The amendments allow licensed brokerage firms in EU member states to become remote members of the Tallinn Stock Exchange, enfranchised with the same rights as domestic bourse members. They also require that an investor purchasing a majority stake in a publicly traded company should offer to buy out minority shareholders.

It is expected that Parliament will adopt a new securities market act, in line with the relevant EU requirements, during the second half of 2001.

In 2002, a new unified financial supervisory authority will regroup the existing supervisory agencies for banking, the securities market, and insurance.

Another top priority is the international integration of the Estonian securities market. At the beginning of 2000, the Estonian, Latvian and Lithuanian stock exchanges launched the Baltic blue-chip securities, and the TSE announced its intention to join Norex, the alliance of the Scandinavian stock exchanges. At the end of February 2001, however, the TSE decided to enter into co-operation with the Helsinki Exchanges Group, TSE Helsinki counterpart. This arrangement includes ownership as well as operational aspects.[37] The aim of this co-operation is to build a well-functioning securities market in Estonia and to significantly increase the visibility of Estonian companies and liquidity in the trading of their shares. Operationally, HEX offers TSE a trading system under a facilities management arrangement thereby expanding HEX's network to Estonia. Creating a much larger home market is expected to increase turnover and significantly enhance liquidity, as international investors will gain easy access to Estonian



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securities. As before, trading in Estonia will continue to be regulated by Estonian laws, and clearing and settlement will take place at the Estonian Depository for Securities (ECDS), a subsidiary of TSE.

Table 17. **Tallinn Stock Exchange – Selected Companies**

| Company | Industry | Price 16-Feb-01 EEK | MCap 16-Feb-01 EUR min | Turnover 2000 EUR min | Price Change 2000, % | Price 29-Dec-00 EEK |
|---|---|---|---|---|---|---|
| Eesti Telekom | Telecommunic. | 81.50 | 716 | 73.7 | –5.8 | 86.50 |
| Hansapank | Financial serv. | 139.00 | 700 | 259.6 | 0.0 | 139.00 |
| Pro Kapital | Real estate | 49.90 | 111 | 2.6 | –3.1 | 51.50 |
| Norma | Engineering | 48.80 | 41 | 45.4 | 2.7 | 47.50 |
| Saku | Beverage ind. | 66.00 | 34 | 0.0 | 10.9 | 59.50 |
| Kaubamaja | Retail trade | 67.00 | 29 | 4.2 | 21.8 | 55.00 |
| Merko | Construction | 43.00 | 24 | 5.8 | 13.2 | 38.00 |
| Sampo Pank | Financial serv. | 13.40 | 21 | 25.4 | 0.0 | 13.40 |
| Harju Elekter | Electrical engin. | 43.60 | 15 | 5.1 | 3.3 | 42.20 |
| Rakvere Meat Factory | Food industry | 4.80 | 12 | 3.7 | 1.1 | 4.75 |
| Viisnurk | Timber process. | 48.20 | 14 | 0.0 | 1.9 | 47.30 |
| Baltika | Apparel manuf. | 36.70 | 11 | 3.8 | 22.3 | 30.00 |
| Kalev | Food industry | 18.00 | 9.1 | 2.1 | 20.0 | 15.00 |
| Külmhoone | Food industry | 16.00 | 3.5 | n.a. | 4.6 | 15.30 |
| Estiko | Real estate | 6.70 | 2.6 | 0.7 | –5.6 | 7.10 |
| Fakto | Retail trade | 22.50 | 2.4 | 1.1 | 0.0 | 22.50 |
| Tallinn Farma | Pharmaceutical | 16.00 | 1.3 | 0.3 | –31.3 | 23.30 |
| Klementi | Apparel manuf. | 7.00 | 1.6 | 0.2 | –9.1 | 7.70 |
| XXL.EE | Internet consult. | 7.50 | 0.5 | 0.7 | –24.2 | 9.90 |
| Tallinn General Index | | 137.03 | 1 809.0 | 231.0 | 10.2 | 138.24 |

*Source*: Tallinn Stock Exchange, Reuters.
30 Estonia Country Report *www.nordea.com*.

Another topical issue is whether Swedbank, after its merger with SEB, will opt for buying the rest of Hansapank shares. This could mean de-listing the most traded share. Trading activity was already reduced by the SEB's acquisition of the remaining shares in Ühispank, which was the third largest company by market capitalisation in the Tallinn market. Trading in Ühispank shares has already been terminated in Tallinn and Helsinki.

Finally, Estonia is undertaking a major pension reform which could help to deepen the Estonian securities market in the coming years.

### *b)* *Non-financial Sector*

#### *i)* *Transport*

Estonia is an important transit route for Russia in its trade with western markets. Providing transit services for Russian clients has resulted in huge investment in the transport infrastructure. Together with storage and



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communications, there are over 3 300 transport enterprises, which contribute to 12 per cent of GDP. 1999 was a record year for the oil transit sector as Russia boosted oil exports to overcome the financial crisis experienced in 1998.[38]

*ii*) *Waterways*

As in the case of the other two Baltic countries, Estonian ports are very important for transport between Russia and the EU. Petrochemicals products account for more than 40 per cent of total goods transported, and cereals and wood products for 12.5 per cent each. Three harbours – Tallinn Old City Harbour, Paljassaare Harbour and Muuga Harbour – are responsible for 70 per cent of the total turnover. Tallinn is one the biggest passenger ports in the Baltic region, servicing about 5.5 million passengers a year.

Cabotage is reserved to the national flag, in part because of national security considerations. Exceptions are allowed with the approval of the government. Ships under the flag of an EU Member State are allowed to carry out cabotage on a reciprocal basis. This regime calls for an exception to National Treatment (see Section 4).

In accordance with international practice, the Merchant Shipping Code and the Ship Flag and Registers of Ships Act establishes a link between the flag and ownership. Fifty-one per cent of the board of directors of any company owning an Estonian flagship must be Estonian citizens. Legal entities established in Estonia may own such companies.

In accordance with Article 6 (2) of the Ports Act, only an Estonian citizen with the necessary expertise, as established by the Minister of Transport and Communication, may be a harbour master.[39]

*iii*) *Air transport*

After regaining independence, Estonia inherited the monolithic Aeroflot infrastructure. Aviation was reorganised into separate enterprises for airports, the air aviation system and the national airline. The air navigation system became part of the Estonian Civil Aviation Administration. In January 1998, the Administration was transformed into a 100 per cent state-owned limited company. Airports also became a state enterprise, Estonian airports. The airline, Estonian Air, was privatised in May 1996. Foreign investors were offered 49 per cent of the shares (bought by Denmark's Mærsk Air), 17 per cent offered to local investors (Baltic Cresco Investment) and 34 per cent was retained by the state. The sale was the first privatisation of a state carrier in Eastern Europe. Today carriers operating in Estonia include Estonian Air and several foreign carriers. Estonia has five airports, which became independent companies in July 1997. Tallinn airport is the largest



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airport in the Baltic countries with an annual capacity of 1.4 million passengers (but with a current turnover of 600 000 travellers).

An Estonian National Development Plan of Aviation for the Years 2000-2006 has been adopted. Its main strategies for the development of the sector during this period include alignment with the *Acquis*, and the impact of EU accession. In addition, the statutes of the Estonian National Civil Aviation were adopted in 1999.

Article 40 of the Aviation Act establishes the institution of an operating licence, which permits the air carrier to engage in the carriage by air of passengers, mail and/or cargo, as stated in the operating licence, for remuneration or compensation. An operating licence may be issued to: 1) an Estonian citizen or a person who holds a permanent residence permit in Estonia; 2) a company which is registered in Estonia and owned either directly or through majority ownership by the Estonian state, a local government and/or Estonian citizens. This measure calls for the lodging of an exception to National Treatment (see section 4).

Article 18 of the Aviation Act provides that an aircraft shall be entered in the national civil aircraft register on the basis of an application if the owner of the aircraft is an Estonian citizen, a person holding a permanent residence permit in Estonia, a legal person registered in Estonia, a local government or the Estonian state.

Negotiations between the EC and Estonia on a framework agreement to establish a Europe Common Aviation Area were concluded at the end of 1999. Negotiations are under way on a special annex to this agreement. Estonia has concluded some 20 bilateral aviation agreements for the provision of cross-border services.

*iv)* *Rail transport*

By far the largest volume of transit traffic in Estonia (60 per cent) is carried out by rail, however, with total freight estimated at around 35 million tonnes. On 30 April 2001, the agreement on the sale of 66 per cent of the shares in *Eesti Raudtee* (Estonian Railway – the railway operator and infrastructure company) to Baltic Rail Services (BRS) was signed. The shareholders in BRS are Jarvis International of the United Kingdom (25.5 per cent); the United States rail operator Rail World Inc. (25.5 per cent); Railroad Development Corporation of the United States (5 per cent); and Ganinger Invest, which is owned by Estonian businessmen (44 per cent). The agreement of sale of the domestic regional passenger traffic company Edalaraudee to GB Railways (United Kingdom) was signed on 29 November 2000.

*v)* *Post and Telecommunications*

*Postal services* in Estonia are *de facto* deregulated. Legislation still needs to be adopted, however, in particular to set up the mechanism guaranteeing universal



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postal services in a competitive environment, and to strengthen the role of the independent regulator. A new Postal Services legislation on modalities for universal services is scheduled to come into force on 1 January 2002.

A new T*elecommunications* Act was adopted in February 2000. It regulates the competencies of an independent regulator, National Communications Board, under the responsibility of the Ministry of Transport and Telecommunications, as well as a new regime for authorisation and licensing, and for interconnection. The Act constitutes the legal basis for the provision of national universal services and establishes that tariffs have to be cost-oriented. In order to operate a telecommunications network an investor has to apply for a licence, which can be refused by the Board if the applicant does not meet the criteria of the Act.[40]

The exclusive rights of Eesti Telefon, a subsidiary of Eesti Telekom, were abolished by law, effective on 1 January 2001. This liberalisation has placed Estonia among the first Central and Eastern European countries to open all segments of their telecommunications market.

Eesti Telekom (Estonian Telecom) was privatised in February 1999 through an issue of general deposit receipts (GDRs) in London and a public offering in Tallinn. The issue was 18 times oversubscribed and raised around US$221 million, the largest international equity offering from the Baltic countries so far. Baltic Tele AB with Sonera and Telia still holds its combined stake of 49 per cent and the government has retained a 27.3 per cent stake as well as a "golden share" with veto rights over certain strategic corporate decisions, which is due to expire at the end of 2002, or until the government equity participation no longer exceeds 10 per cent.

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

While Estonia has been commended for its liberalisation, the latest EU report on accession considers that a credible policy to secure the availability of an affordable universal service still needs to be devised, and that the independence of the National Communication Board needs to be monitored in practice.

*vi)* *Audiovisual works*

Operations must obtain a broadcasting licence from the Ministry of Culture under the conditions specified by the Broadcasting Act of 1999, as subsequently amended. A Media and Copyright Department has been created within the Ministry to carry out the tasks of application and enforcement of the audiovisual legislation. If an application is refused, the applicant must be notified within 30 days of submission (Articles 37-40 of the Act). On 19 April 2000, parliament



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repealed the 1994 restriction that limited foreign ownership and the possession of broadcasting transmitters to below 50 per cent of share value.

There are currently four television broadcasters [of which three foreign private television companies: TV1 – Polsat (Poland); Kanal 2 – Schibsted AS (Norway); TV 3 – Modern Times Group MTG AB (Sweden)] and 30 private radio companies.

On 19 April 2000 other amendments were adopted to bring the Estonian regime into line with the Television without Frontiers Directive by 2003. Estonia has ratified the European Convention on Transfrontier Television and the protocol amending the Convention in January 2000. Estonia's adherence to the Convention entered into force in May 2001.

Estonia completed its legislation alignment to EU requirements last autumn, which led to the closing of the corresponding chapter in the accession negotiations.

*vii)* *Legal services*

According to Estonia's GATS schedule of commitments, commercial presence is restricted to sole proprietorships or to law firms with limited liability, in which cases permission is needed from the Bar Association. Under article 54 of the Bar Association Act that entered into force on 19 April 2001, only Estonian residents, citizens or citizens of the EU are allowed to be members of the Bar Association and establish a lawyer's office.[41] To be accepted into the Bar Association the following requirements must be met: *a*) two year's experience as an assistant to a barrister of law; *b*) passing of a relevant examination; *c*) three years experience as a senior assistant. After that, it is possible to pass a lawyer's exam (excellent knowledge of Estonian law and excellent proficiency in the Estonian language are required).

The Ministry of Justice appoints notaries, who are considered to provide a public service.

There are no restrictions on other legal advisory and information services (other than those listed in the horizontal GATS commitments). These consultancy services do, however, exclude appearing as attorney in any court, or before any magistrate or other judicial officer of the Republic of Estonia, and preparing any instrument effecting the transfer or registration of title to real estate located in Estonia.

*viii)* *Monopolies and concessions*

There are no government-designed monopolies or concessions in Estonia. Monopoly concessions of "Estline" shipping company and "Eesti Telefon"



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telephone company are no longer valid. The concession of Eesti Telefon was terminated on 1 January 2001.

*ix) Security services*

Article 6 (4) of the Security Services Act gives the Government of Estonia the authority to establish restrictions on foreign capital in the composition of the assets of security undertakings. A security undertaking is an undertaking that holds a licence issued by the police authorities to provide security services. Foreign security services may temporarily provide security services or perform security tasks in Estonia in the cases and pursuant to the procedure established by the Republic of Estonia (Article 21). The restriction in Article 6(4) has never been applied, however, and furthermore it is not included in the new draft of the Security Services Act prepared by the Ministry of Internal Affairs. Notwithstanding this, the existing measure calls for an exception to National Treatment (see Chapter 4).

## 3.4. Privatisation

### *Main features*

Privatisation in Estonia has followed the German model, with vast authority and independence given to the Privatisation Agency. The process is practically finished with the pending sale of Estonian Energy and Estonian Railways. The Privatisation Agency is scheduled to wind down at the end of 2001. The selling of the remaining state-owned shares will continue under the State Assets Act. According to the latest EBRD Report, the private sector represents 75 per cent of Estonian GDP.[42]

Three privatisation methods have been used:

– tender with preliminary negotiations;

– public auction;

– public offering of shares.

For large-scale privatisation, the emphasis has been on finding strong owners rather than fragmenting ownership through voucher schemes or management/employee buy-outs. T*ender* with preliminary negotiations has been used in situations requiring complex diligence and additional conditions in the privatisation of major industrial and service companies in the open sector.

The *public auction* method has been used for bidding in the open sector in cases where it has not been necessary to set additional conditions or if it is possible for them to be determined before the announcement. This method has also been used when privatising rented assets and in selling minority shares.



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*Public offering* of shares has been used in offering the shares of major companies that are expected to generate general interest. In order to protect the control of majority shareholders who have a responsibility to develop the company, such public share offerings have been limited to sales of minority interest only. Shares in enterprises have been offered to the general public in exchange for vouchers.

The first company in which shares were offered was the Tallinn Department Store at the end of 1994.

The law on privatisation specifically provides for national treatment to foreign investors acquiring Estonian state enterprises or their assets. The government instated a "golden share" on only one occasion, *i.e.* with respect to the privatisation of Eesti Telekom. This golden share is due to expire at the end of 2002 or until the government equity participation no longer exceeds 10 per cent [see 3.3*b*].

The government has closely followed the implementation of commitments undertaken by private investors (level of investment, level of employment, training, R&D) and waivers or extensions have been accorded for investors encountering unforeseen problems.

**FDI *and Estonian large scale privatisation***[43]

The Estonian Privatisation Enterprise was formed in 1992, on the basis of the German privatisation (Treuhandanstalt) model. The German advisor Herbert B. Schmidt had reached a principal agreement with Estonian Prime Minister Laar that the Privatisation Enterprise would prepare a major wave of sale on enterprises and that it would take the form of an international tender. The tender was announced in November 1992 but caused political problems because it was presented as a *fait accompli*. The tender, which was published in leading economical periodicals throughout the world, was not withdrawn, however, but the political situation led to the replacement of the Privatisation Enterprise with the newly created Estonian Privatisation Agency under new leadership.

*The first international tender* included 38 predominantly large enterprises (in Estonian terms) or their sub-units. Many of them were considered the cream of Estonia's industry, such as the "Kalev" confectionery factory and the sewing factory "Sangar". On the other hand, the list of problem-ridden enterprises was almost as long. All enterprises to be privatised were industrial enterprises from a large variety of sectors, the largest group representing textile and sewing enterprises.

Out of the total 103 bids submitted for the 38 enterprises, 50 were from Estonia and 53 from abroad. The interest of foreign investors and the number of bids were surprisingly high. German investors were the most active, followed by the British, the Finns and the Swedes, with the Americans lagging somewhat



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behind. However, the first international tender was the only tender that attracted more foreign than domestic bidders. The greatest number of foreign bids was submitted for "Kalev" confectionery factory and the Tallinn Plywood and Furniture Plant, with five bids each. However, the number of bids submitted for a particular company did not necessarily imply success in the actual sale of the enterprise.

Within 12 months, sales contracts were concluded for 13 enterprises. Foreign investors bought one furniture factory, one engineering plant and the subsidiaries of some other enterprises. Thus, foreign buyers' initial interest was greater than their actual interest to buy. Even so, the first international privatisation round in Estonia could be considered a success, as the share of concluded transactions rose to almost 40 per cent, which was higher than in the first privatisation rounds in Hungary and Poland, for example.

T*he second international tender* was announced in 1993. This time there were 52 enterprises for sale, five of them for the second time. The best known enterprises on the list were the "Viru" hotel and the "Standard" furniture plant. A total of 180 bids were submitted, 103 from Estonia and 77 from abroad, indicating a clear increase in domestic interest for bidding. Twenty-eight enterprises and parts of five enterprises were sold, five of which to foreign investors. The greatest public debate concerned the privatisation of the hotel "Viru", where a Finnish company purchased the hotel via an Estonian front firm and the Finnish buyers could therefore benefit from an advantageous payment schedule aimed at domestic buyers. The Privatisation Agency was further accused of having sold the hotel, which is located in the best part of Tallinn, too cheaply.

B*y mid-*1994 *the privatisation process reached a phase which could be called the period of mass* (*voucher*) *sales*. While in 1993, 55 sales contracts were concluded, that figure rose to 214 contracts in 1994. This acceleration of pace was caused by at least four factors: 1) an increase in the purchasing power among Estonian new entrepreneurs; 2) developments in the institutional framework, particularly in commercial banking; 3) a large number of enterprises offered for sale under the jurisdiction of sectoral ministries and 4) the sales method proposed by the German Treuhand model had justified itself.

Although the waves of internationally announced tenders continued in 1993-95, Estonian privatisation remained basically a domestic business. Whereas, based on the total worth of contracts, in 1993 the share of contracts concluded with foreign investors was around 25 per cent, in 1994 and 1995 it dropped to below 10 per cent. However, when investment guarantees provided by foreign investors are taken into account, the significance of foreign investors is far bigger. In general, investment guarantees made up between 60 and 70 per cent of the bidding price in 1993 and 1994.

A*utumn* 1995 *proved a turning point in the* E*stonian privatisation process*. By that time a clear majority of Estonian enterprises had been sold, and some larger, semi-



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infrastructural enterprises, were put up for sale, among them Estonian Air, the Estonian Shipping Company, and the fuel dealer "Esoil".

In summary, the privatisation of non-infrastructural companies (using the 90 per cent criterion) started in 1991 and was completed in 1996. Thus the process took about five years. Throughout the process the share of large enterprises bought by foreign capital was quite moderate, scarcely more than 20 per cent, but as a rule, the highest prices were paid by foreign investors.

The privatisation of infrastructure enterprises, such the Eesti Raudtee (Estonian Railway), Eesti Energia (Estonian Energy), Eesti Põlevkivi (Estonian Oil Shale), Eesti Telekom (Estonian Telecom) and the Port of Tallinn, became topical in 1995 and the Privatisation Agency formed a special team for their privatisation.

According to the Estonian authorities, the privatisation of the Port of Tallinn – the main transit port – is unlikely to be carried out in the near future, as the governing bodies of the port already started to rent operating rights in 1995-96. In all other cases the process is either completed or under way and involves significant foreign investment.

In the case of the privatisation of Eesti Telekom, Estonia demonstrated its capacity to carry through the complex procedure of an international public offering. Shares in Eesti Telekom excited much interest and the sale was well timed considering the dynamics of the international stock markets. Consequently, Estonia earned 3 billion Estonian kroons in 1998, a considerable sum which influenced the Estonian economy for several years.

The main economic motivation for introducing a foreign investor in the Eesti Energia (Estonian Energy) and Eesti Raudtee (Estonian Railway) is the need to modernise the power stations and the railway infrastructure. The preparatory negotiations with the United States company, NRG Energy, started in 1995 and the sale of the railway had already been an issue for a long time, but the process was accelerated after 1999 and privatisation was announced in 2000. The present status of these two privatisation deals is as follows.

In June 2000, a general agreement (basic terms of the sale) with the Minneapolis-based energy company NRG Energy Inc. (United States) was concluded, by which NRG Energy will acquire a 49 per cent stake in N*arva* El*ektrijaamad* (Narva Power Plants), which consists of two oil-shale-using thermal generation plants (Eesti Elektrijaam and Balti Elektrijaam) that together account for 92 per cent of Estonia's and one-third of Latvia's electricity consumption. AS Narva Elektrijaamad also owns a controlling stake (51%) in AS E*esti Põlevkivi*, which owns Estonia's oil-shale mines. A supplemental package of agreements covering remaining issues will probably be worked out during the year 2001, after which the acquisition will enter into force.



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Rail Estonia, a consortium of North American firms, also applied for the acquisition of the Eesti Raudtee, the state owned railway company. However, its bid has failed and negotiations have been initiated with the second placed bidder, Baltic Rail Services, owned by Jarvis International of the United Kingdom (25.5 per cent); the United States rail operator Rail World Inc. (25.5 per cent); Railroad Development Corporation of the United States (5 per cent); and Ganinger Invest, which belongs to Estonian businessmen (44 per cent).

In 2000, the biggest privatisation transactions were the sale of a 49 per cent share in Ringhäälingu Saatekeskus (the broadcasting transmission centre) to *TéléDiffusion de France*, and the Edelaraudtee AS (railway passenger services) sale to GB Railways (United Kingdom). Another major privatisation in 2001 besides that of Eesti Raudtee, was the sale of AS Tallinna Vesi (Tallinn's water supplier) majority shares to International Water UU, which is owned by the UK companies International Water and United Utilities International.

## 3.5. Investment incentives and promotion

Rather than engaging in attractive but costly schemes of various sorts to attract foreign direct investment, Estonia has relied on liberal and non-interventionist regulations and a healthy economy.[44] The essential role of the Estonian Investment Agency, established in 1994, is to provide information services to potential foreign investors.

### *a) Financial incentives*

Foreign firms and private companies established in Estonia have had equal access to existing *Government Funds*, namely the KredEx (export credit), the Fund of Credit Agriculture and Rural Life, the Foundation "Enterprise Estonia".[45] The latter is a non-profit organisation, whose operations are co-ordinated by the Estonian Research and Development Council. Estonia has undertaken to administer its subsidy programmes in line with the WTO Agreement on Subsidies and Countervailing measures.

### *b) Taxation*

The *tax framework* could be considered moderate and simple by international standards. Individual income tax and corporate (profit) tax are both charged at a flat rate of 26 per cent. The rules governing the taxation of income of the branch are stipulated in the Estonian Law on Income Tax (LIT) and in double tax treaties (see Section 3.7) if the company from the treaty country has formed the branch.

On 1 January 2000, the Income Tax Act entered into force. The main principle of the new Income Tax is taxation of distributed profits. All reinvested earnings of Estonian and foreign business entities are excluded from the base of corporate



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income tax until the profit is distributed. One essential feature of the new tax law is to provide impetus to entrepreneurship and investment. Preliminary figures collected by Estonian authorities seem, in fact, to suggest a positive impact at this stage. According to Estonia's Statistical Office, investment into capital assets increased by 8 per cent in 2000 but the increase was particularly remarkable in the case of small businesses (less than 19 employees) – whose investments rose by 30 per cent in 2000 – and reinvested profits of foreign companies – which tripled. Retained earnings amounted to 29 per cent of total FDI inflows against 16 per cent in 1999. The Estonian authorities have also reported that several studies directed at foreign investors (such as the annual study "Foreign Investor") suggest a distinct improvement in the investment climate, notably from the perspective of small businesses.[46]

Estonia's Value Added Tax (VAT) is applied at a standard rate of 18 per cent (with a few exceptions). Social tax (social security contributions) amounts to 33 per cent. Excise taxes are levied on tobacco, alcoholic beverages, fuel and motor vehicles as well as alcoholic and non-alcoholic beverage packaging. Annual land tax rates range from 0.5 to 2 per cent of the taxable value of the land and is set by local authorities. There are no subsidies or VAT on exports. There is a flat rate of EEK 200 for each customs declaration.

In transactions related to privatisation, foreign and domestic investors are generally exempt from all state taxes and fees.

At the time of its accession to the WTO, Estonia confirmed that sub-central entities have no autonomous authority over issues of subsidies, taxation, trade policy or any other measures covered by WTO provisions.

### *c)* Free zones

Before its application to join the EU, Estonia had created a number of free zones. The establishment of free zones in Estonia is based on the Estonian Customs Act and the main purpose is to simplify customs formalities and promote transit trade.

Goods in the free zone are considered to be outside the customs territory regarding import and export taxes and trade policy measures applied for import. The retail sale of goods in the free zone is prohibited. If goods move from the free zone to other territory within Estonia they are subject to normal proceedings, taxes and charges.

There are currently three free zones in Estonia:

1) Muuga free zone, in effect since 1 July 1997, is situated in Muuga Port. It is trade oriented, with goods being temporarily stored and then reloaded. Services taking place there are subject to VAT rules.



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2) Sillamäe free zone is situated in the north-eastern part of Estonia, about 20 km from the Russian border. On the territory of Sillamäe free zone, Silmet Group AS produces rare metals and rare earth metals. Silmet's main production is based on raw materials imported from Russia and Brazil. There are only two other companies in the world carrying out the same type of production, one of which is located in China, the other in the United States. In the Sillamäe free zone production is licensed with the Estonian Customs Authority.

3) Valga free zone is close to the Latvian border. Its only activity is the storage of goods.

The location of the zones in border areas allows the moving of transit goods without applying customs formalities (but transit formalities do apply).

The government has had to freeze the establishment of new zones (although the free zones are not in conflict with EU rules).

Despite the free zones, administrative and operational problems still persist in customs procedures. For foreign investors, the establishment of industrial parks to provide land for production purposes may be a more urgent need than any incentives offered by the free zones. This has been raised as an option to provide a rapid resolution to real estate problems resulting from slow land privatisation and other indirect barriers to land ownership by foreigners.[47]

### *d)* *Promotion*

The Estonian Investment Agency (EIA) was established in May 1994 to promote foreign direct investment into Estonia. After restructuring in 1997, it now operates under the Enterprise Estonia Foundation.[48] Its objective is to raise awareness of investment opportunities, facilitate contacts with the public and private sectors, and to supply foreign investors with information and assistance in the establishment phase. In this context, one of the most significant services it provides is the identification of potential business partners and convenient operating locations. Financing is provided from the budget with support from the EU Phare programme. Project and property databases cover the electronics, food processing, wood and paper, engineering and distribution sectors.[49]

In November 1999, the OECD Conference on FDI policy and private sector development in the Baltic countries supported further co-operation between Baltic investment promotion agencies as part of broader regional co-operation, particularly as investors frequently perceive the region as an entity, as well as to avoid detrimental incentive competition.[50] Estonian policy-makers are generally pushing forward integrated approaches to enhance investment, taking into account obstacles and concerns that confront investors in various fields.



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### 3.6. Government procurement

The Public Procurement Act, which came into force on 1 April 2001, does not contain any provisions that limit the rights of foreign tenders as opposed to domestic tenders. According to the Act, a contracting authority shall treat all persons participating in a public procurement tendering procedure equally. There are no provisions in the legislation that accord more favourable treatment to domestic supplies and suppliers than that accorded to foreign supplies and suppliers or according supplies or suppliers of any particular country more favourable treatment than those of any other country. There are no provisions that allow a locally established supplier to be treated less favourably than another locally established supplier on the basis of its degree of foreign affiliation or ownership or discriminating against locally established suppliers on the basis of the country of production of the goods or service being supplied. There are also no provisions requiring or allowing the use of offsets, such as domestic content, licensing of technology, investment, counter trade or similar requirements in the qualification or selection of suppliers, products or services or in the evaluation of tenders and award of contracts.

Estonia has committed itself, as part of the accession conditions to the WTO, to become a member of the WTO plurilateral agreement on Government Procurement.

### 3.7. Investment protection and double taxation[51]

Estonia has concluded 23 bilateral investment protect treaties, 18 of which with developed countries.

The Estonian authorities are of the view that since Estonia's investment-related legislation is not inconsistent with OECD principles and practices, there is no apparent need for new investment protection treaties with OECD member states. In the future, Estonia will conclude new investment protection treaties only with non-OECD countries where Estonian companies have business interests.

Estonia participated in the negotiations on a Multilateral Agreement on Investment at the OECD. As a WTO member, it also participates in investment-rules related consultations in that organisation.

Estonia has also concluded double taxation agreements with 23 countries, 17 of which with OECD countries. The tax treaties with Armenia, Austria, Belgium and Malta have not yet come into force (see Table 19).

Estonia has also become a signatory of important investment-related and intellectual property conventions (see Table 20).



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Table 18. **Estonia's treaties for the promotion and protection of investment**

| Partner | Date of signature | Date of entry into force |
|---|---|---|
| Austria | 16 May 1994 | 01 October 1995 |
| Belgium/Luxembourg | 24 January 1996 | 23 September 1999 |
| China | 02 September 1993 | 01 June 1994 |
| Czech Republic | 24 October 1994 | 18 July1995 |
| Denmark | 06 November 1991 | 24 February 1992 |
| Finland | 13 February 1992 | 03 December 1992 |
| France | 14 May 1992 | 25 September 1995 |
| Germany | 12 November 1992 | 12 January 1997 |
| Greece | 17 April 1997 | 07 August 1998 |
| Israel | 14 March 1994 | 23 May 1995 |
| Italy | 20 March 1997 | 09 May 2000 |
| Latvia | 07 February 1996 | 23 May 1996 |
| Lithuania | 07 September 1995 | 20 June 1996 |
| Netherlands | 27 October 1992 | 1 September 1993 |
| Norway | 15 June 1992 | 15 June 1992 |
| Poland | 06 May 1993 | 06 August 1993 |
| Spain | 11 November 1997 | 01 July 1998 |
| Sweden | 31 March 1992 | 20 May 1992 |
| Switzerland | 21 December 1992 | 18 August 1993 |
| Turkey | 03 June 1997 | 29 April 1999 |
| Ukraine | 15 February 1995 | 05 July 1995 |
| United Kingdom | 12 May 1994 | 16 December 1994 |
| United States | 19 April 1994 | 19 February 1997 |

Table 19. **Estonia's bilateral treaties for the avoidance of double taxation on income and capital**

| Partner | Date of signature | Date of entry into force |
|---|---|---|
| Armenia | 13 April 2001 | – |
| Austria | 05 April 2001 | – |
| Belarus | 21 January 1997 | 22 July 1998 |
| Belgium | 05 November 1999 | – |
| Canada | 02 June 1995 | 28 December 1995 |
| China | 12 May 1998 | 08 January 1999 |
| Czech Republic | 24 October 1994 | 26 May 1995 |
| Denmark | 04 May 1993 | 30 December 1993 |
| Finland | 23 March 1993 | 30 December 1993 |
| France | 28 October 1997 | 01 May 2001 |
| Germany | 29 November 1996 | 29 December 1998 |
| Iceland | 16 June 1994 | 10 November 1995 |
| Ireland | 16 December 1997 | 29 December 1998 |
| Italy | 20 March 1997 | 22 February 2000 |
| Latvia | 14 May 1993 | 31 December 1993 |
| Lithuania | 13 September 1993 | 31 December 1993 |
| Kazakhstan | 03 January 1999 | 19 July 2000 |
| Malta | 05 May 2001 | – |
| Moldova | 23 February 1998 | 24 July 1998 |
| Netherlands | 14 March 1997 | 08 November 1998 |
| Norway | 14 May 1993 | 30 December 1993 |
| Poland | 09 May 1994 | 09 December 1994 |
| Sweden | 05 April 1993 | 31 December 1993 |
| Ukraine | 10 May 1996 | 30 December 1996 |
| United Kingdom | 12 May 1994 | 19 December 1994 |
| United States | 15 January 1998 | 30 December 1999 |



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Table 20. **Investment-related and intellectual property conventions**

| Convention/treaty | Date of entry into force for Estonia |
|---|---|
| Convention on the Settlement of Investment Disputes between States and Nationals of other States (ICSID) | 22 July 1992 |
| Convention Establishing the Multilateral Investment Guarantee Agency (MIGA) | 24 September 1992 |
| Convention Establishing the World Intellectual Property Organisation | 2 May 1994 |
| Paris Convention for the Protection of Industrial Property (WIPO) – 14.07.1967 | 24 May 1994 |
| Bern Convention for the Protection of Literary and Artistic Works | 26 June 1994 |
| Patent Co-operation Treaty (PCT) | 24 August 1994 |
| Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure | 14 September 1996 |
| International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations | 28 April 2000 |
| Convention for the Protection of Producers of Phonograms against Unauthorised Duplication of their Phonograms | 28 May 2000 |
| Protocol relating to the Madrid Agreement Concerning the International Registration of Marks | 18 August 1998 |
| Locarno Agreement Establishing an International Classification for Industrial Designs | 31 July 1996 |
| Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks | 24 February 1996 |
| Strasbourg Agreement Concerning the International Patent Classification | 24 February 1996 |



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*Annex 1*

# Summary of the Main Provisions of the OECD Declaration on International Investment and Multinational Enterprises

Adherence to the OECD Declaration on International Investment and Multinational Enterprises implies acceptance of all its components as well as the related Decisions and Recommendations. The OECD Declaration on International Investment and Multinational Enterprises is a political agreement among Adherent countries for co-operation on a wide range of investment issues. The Declaration contains four related elements: the National Treatment Instrument; the Guidelines for Multinational Enterprises as amended by the 2000 Revision; an instrument on incentives and disincentives to international investment; and an instrument on conflicting requirements. It is supplemented by legally binding Council Decisions on implementation procedures, and by Recommendations to Adherents to encourage pursuit of its objectives, notably with regard to National Treatment.

## National Treatment

The National Treatment Instrument provides that Adherents should, consistent with their needs to maintain public order, to protect their essential security interests and to fulfil commitments relating to international peace and security, accord to enterprises operating in their territories and owned or controlled by nationals of another Adherent country, treatment under their laws, regulations and administrative practices consistent with international law and no less favourable than that accorded in like situations to domestic enterprises.

Under the Third Revised Decision of the Council on National Treatment, Adherents to the Declaration must notify the Organisation of all measures constituting exceptions to the National Treatment principle within 60 days of their adoption and of any other measures which have a bearing on this principle (the so-called "transparency measures"). These measures are periodically reviewed by the CIME, the goal being the gradual removal of measures that do not conform to this principle.

Exceptions to National Treatment fall into five categories: investments by established foreign-controlled companies, official aids and subsidies, tax obligations, access to local bank credit and the capital market, and government procurement.

Transparency measures include measures based on public order and national security interests, restrictions on activities in areas covered by monopolies, public aids and subsidies granted to government-owned enterprises by the state as a share.

The National Treatment Instrument is solely concerned with discriminatory measures that apply to established foreign-controlled enterprises. This includes established



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branches, except for the category of "investment by established foreign-controlled enterprises".

Areas of existing public, private or mixed monopolies are to be recorded for the purpose of transparency since foreign-controlled and domestic private enterprises are subject to the same restrictions. The undertaking to apply National Treatment comes into force as and when areas previously under monopoly are opened up. In such cases, access to these areas should be provided on a non-discriminatory basis. If restrictions prohibit or impede in any way the participation of foreign-controlled enterprises, *vis-à-vis* their domestic counterparts, then these restrictions are to be reported as exceptions to National Treatment. The objective is to ensure access to formerly closed sectors on an equal basis.

The 1991 Review confirmed the understanding reached in 1988 by the Committee on International Investment and Multinational Enterprises on a standstill on National Treatment measures. This understanding provides that Adherents should avoid the introduction of new measures and practices, which constitute exceptions to the present National Treatment Instrument. Particular attention is to be given to this question in the Committee's work.

A number of Recommendations of the Council have also been addressed to Adherents in the context of earlier horizontal examinations. Most of these recommendations were made to individual countries, but a number of them were of a general character. Concerning investment by established foreign-controlled enterprises, Adherents should give priority to removing exceptions where most Adherents do not find it necessary to maintain restrictions. In introducing new regulations in the services sectors, Adherent countries should ensure that these measures do not result in the introduction of new exceptions to National Treatment. Adherent countries should also give particular attention to ensuring that moves towards privatisation result in increasing the investment opportunities of both domestic and foreign-controlled enterprises so as to extend the application of the National Treatment Instrument.

In the area of official aids and subsidies, Adherents should give priority attention to limiting the scope and application of measures which may have important distorting effects or which may significantly jeopardise the ability of foreign-controlled enterprises to compete on an equal footing with their domestic counterparts.

Finally, with regard to measures motivated by public order and essential security interests, Adherents are encouraged to practice restraint and to circumscribe them to the areas where public order and essential considerations are predominant. Where motivations are mixed (*e.g.* partly commercial, partly national security), the measures concerned should be covered by exceptions rather than merely recorded for transparency purposes.

### Guidelines for Multinational Enterprises

The Guidelines for Multinational Enterprises are recommendations jointly addressed by Adherent governments to multinational enterprises operating in their territories. While their observance is voluntary and not legally enforceable, they represent the collective expectations of these governments concerning the behaviour and activities of multinational enterprises.

The Guidelines also provide standards by which multinational enterprises can ensure that their operations are in harmony with the national policies of their host countries. The



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areas covered include disclosure, employment and industrial relations, environment, combating bribery, consumer interests, science and technology, competition, and taxation.

An important revision of the Guidelines came into force in June 2000.

Adherents are encouraged to translate the text of the Guidelines in their own official language(s). They must set up N*ational* C*ontact* P*oints* (NCPs) to deal with the implementation of the Guidelines. The purpose of NCPs is to undertake promotional activities, handle inquiries, and for discussions with the parties concerned on all matters covered by the Guidelines so that they can contribute to the solution of problems which may arise in this connection, taking due account of the Procedural Guidance.

NCPs in different Adherent countries shall co-operate if such need arises, on any matter covered by the Guidelines relevant to their activities. NCPs shall also meet annually to share experiences and report to the CIME.

The Committee on Investment and Multinational Enterprises is responsible for periodically, or at the request of an adhering country, holding exchange of views on matters covered by the Guidelines and periodically inviting the Business and Industry Advisory Committee to the OECD (BIAC), the Trade Union Advisory Committee to the OECD (TUAC) ("the advisory bodies"), and other non-governmental organisations to express their views as well as representatives of non-adhering countries on matters covered by the Guidelines.

The Committee shall also be responsible for clarifications of the Guidelines and for exchanging views on the activities of National Contact Points and shall periodically report to the Council on matters related to the Guidelines.

**Incentives and Disincentives**

The instrument on Investment Incentives and Disincentives recognises that Adherents may be affected by this type of measure and stresses the need to strengthen international co-operation in this area. It first encourages them to make such measures as transparent as possible so that their scale and purpose can be easily determined. The instrument also provides for consultations and review procedures to make co-operation between Adherents more effective. Adherents may be called upon to participate in studies on trends in and effects of incentives and disincentives on FDI and to provide information on their policies.

**Conflicting Requirements**

The instrument on Conflicting Requirements provides that Adherent countries should co-operate with a view to avoiding or minimising the imposition of conflicting requirements on multinational enterprises. In doing so, they shall take into account the general considerations and practical approaches recently annexed to the Declaration. This co-operative approach includes consultations on potential problems and giving due consideration to other country's interests in regulating their own economic affairs.



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*Annex 2*

# Estonia's Position under the OECD Declaration on International Investment and Multinational Enterprises

## A. Exceptions under the National Treatment Instrument

Adherents to the Declaration have the obligation to notify their exceptions to National Treatment. The exceptions notified by Estonia are as follows:

### I. *Investment by established foreign-controlled enterprises*

*Real estate*

Ownership of land can be transferred to foreigners and foreign legal persons with the permission of the relevant county governor. On islands (except for the four biggest islands) and 19 local government units mostly bordering on Russia, acquisition of land and real estate is forbidden for foreigners, foreign legal persons and foreign states.

Authority: Restrictions on Transfer of Immovable Property Ownership to Aliens, Foreign States and Legal Persons Act.

*Securities services*

Foreign capital in the assets of security undertakings may be restricted.

Authority: Article 6 of the Security Services Act (RT I 1993, 75, 1100; 1995, 62, 1056; 1996, 49, 953).

*Air transport and related services*

Licence to operate an air transport enterprise is granted only to companies majority-owned by the Estonian state, a local government and/or Estonian citizens.

Authority: Article 40 of Aviation Act (RT 1 1999, 26, 376).

*Maritime transport and related services*

Cabotage is reserved to sea-going vessels flying the national flag of the Republic of Estonia unless an approval is granted. Ships under the flag of an EU member State are allowed to carry out cabotage on a reciprocal basis. The national flag of the Republic of Estonia may be flown by sea-going vessels owned by Estonian citizens, sea-going vessels in common ownership if the greater share of the vessel is owned by Estonian co-owners; sea-going vessels which are the object of shared succession if the greater share of the succession is owned by Estonian citizens or Estonian legal persons which have inherited the sea-going vessel in common.

Authority: Merchant Shipping Code, Ship Flag and Registers of Ships Act.



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### II. *Official aids and subsidies*

None.

### III. *Tax obligations*

None.

### IV. *Government purchasing*

None.

### V. *Access to local finance*

None.

## B. Implementation of the OECD Guidelines for Multinational enterprises

According to the Decision of the OECD Council of June 2000 (and the attached Procedural Guidance), Estonia is under the obligation to set up National Contact Points (NCPs) for undertaking promotional activities and handling inquiries on all matters covered by the Guidelines. Estonia also needs to inform the business community, employee organisations and other interested parties of the availability of such facilities.

The Estonian authorities have provided the following information on their intentions with regard to the implementation of the[52] Guidelines.

1) The Government of Estonia has designated the Ministry of Economic Affairs as the Government National Contact Point. It will also create a trilateral consultative body consisting of representatives of concerned ministries, industrial and labour organisations to promote the Guidelines and consult the NCP.
2) The OECD Declaration and related Decisions have been translated into Estonian and are available on the MFA website (*http://www.mfa.ee*). The OECD Declaration and related Decisions have also been published in *Riigi Teataja* (State Gazette) as annexes to the Government decision to adhere to this OECD instrument.
3) The Estonian authorities consider that their legislation is fully in accordance with the principles and recommendations contained in the Guidelines.



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*Annex* 3

## Methodology of FDI Data Compilation in Estonia

According to the Law on the Central Bank of the Republic of Estonia (LCB), 18.06.93, the Bank of Estonia as a fully independent institution is the only agency responsible for balance of payments compilation. The first comprehensive statement of the Estonian balance of payments was published in November 1992 and it comprised data on 9 months. The compilation system combines banking settlement reports, direct surveying of economic agents, as well as administrative data.

The collection of direct investment data is a part of the general reporting system. No estimation methods are used in the field of direct investments. Information on direct investment is derived from the following sources:

– The Estonian Business Register provides data on the registered owner's equity in established companies as well as changes in registered ownership.

– The Estonian Privatisation Agency supplies information on non-resident participation in the privatisation of state-owned enterprises.

– The BOE enterprise survey provides data on direct investment stocks and flows to operating enterprises.

– The Banking Statistics and Analysis Department of BOE supplies statistics on foreign direct investment for commercial banks.

– The Central Depository for Securities provides data on transactions and stocks of listed or registered companies.

Sectoral breakdown is recorded according to the resident economic sector, *i.e.* the investing sector for outward flows and receiving sector for inward flows. All direct investment flows are broken down by the following instruments:

– Equity capital.

– Acquisition or disposal of real estate.

– Reinvested earnings.

– Trade credit.

– Short-term and long-term loan capital.

– Other capital.

Estonia complies with the recommendations for direct investment items set out in the Balance of Payments Manual 5th edition. From the beginning of year 2000, the benchmark for direct investment is 10 per cent of total equity capital instead of 20 per cent used earlier. Data on earlier years has been revised accordingly.[53]



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All transactions between direct investor and enterprises and among affiliated enterprises are recorded as direct investment flows. In the case of banks and other financial intermediaries in a direct investment relationship, only equity transactions and permanent debt are included in direct investment. Reverse equity investment is not allowed in Estonia.

Directional principle is applied. Inter-company loans are included under direct investment. Special Purpose Entities are not significant in Estonia and there is no different treatment for those transactions. Reinvested earnings are recorded both on income account and on financial account.

Investment transactions are recorded when transactions are entered in the transactor's books and change of ownership has taken place. The debtor/creditor principle is used governing geographical allocation of investment.

*Source*: Bank of Estonia. Accession countries: Balance of Payments/International Investment Position Statistical Methods.



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*Annex 4*

# Foreign Direct Investment Statistics in Adherent Countries to the OECD Declaration on International Investment and Multinational Enterprises

Table 1. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**

Million US dollars

| | Cumulative flows 1971-1980 | Cumulative flows 1981-1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia [1] | 11 295 | 39 822 | 4 042 | 5 036 | 3 007 | 3 951 | 12 737 | 5 171 | 7 510 | 6 502 | 4 441 |
| Austria | 1 455 | 3 274 | 359 | 940 | 982 | 1 314 | 1 904 | 4 429 | 2 656 | 4 902 | 2 952 |
| Belgium-Luxembourg | 9 215 | 27 986 | 9 292 | 11 326 | 10 751 | 8 313 | 10 812 | 14 061 | 12 093 | 22 724 | 15 868 |
| Canada | 5 534 | 33 409 | 2 870 | 4 717 | 4 748 | 8 204 | 9 255 | 9 407 | 11 470 | 16 499 | 24 268 |
| Czech Republic | .. | .. | .. | 1 004 | 654 | 869 | 2 562 | 1 428 | 1 300 | 2 540 | 4 877 |
| Denmark | 1 561 | 3 467 | 1 453 | 1 015 | 1 681 | 4 890 | 4 176 | 776 | 2 801 | 6 722 | 7 450 |
| Finland | 376 | 2 838 | –247 | 406 | 864 | 1 578 | 1 063 | 1 109 | 2 116 | 12 141 | 3 024 |
| France [2] | 16 908 | 54 588 | 15 157 | 17 855 | 16 439 | 15 580 | 23 677 | 21 942 | 23 174 | 28 955 | 37 416 |
| Germany [3] | 13 816 | 19 691 | 4 729 | –2 089 | 368 | 7 134 | 12 019 | 6 577 | 11 092 | 21 271 | 52 403 |
| Greece [4, 8] | .. | 6 145 | 1 135 | 1 144 | 2 583 | 3 081 | 4 272 | 5 888 | 3 586 | 3 709 | 539 |
| Hungary | .. | 512 | 1 462 | 1 479 | 2 339 | 1 146 | 4 453 | 2 275 | 2 173 | 2 036 | 1 944 |
| Iceland | .. | 74 | 18 | –11 | .. | .. | 14 | 82 | 149 | 112 | 90 |
| Ireland [5] | 1 659 | 1 371 | 1 168 | 1 244 | 850 | 420 | 621 | 1 888 | 1 676 | 3 904 | 5 422 |
| Italy | 5 698 | 24 888 | 2 481 | 3 210 | 3 746 | 2 236 | 4 817 | 3 535 | 3 698 | 2 611 | 5 019 |
| Japan [6] | 1 424 | 3 324 | 1 286 | 2 755 | 210 | 888 | 41 | 228 | 3 224 | 3 193 | 12 378 |
| Korea | .. | 4 025 | 1 180 | 728 | 588 | 809 | 1 176 | 2 325 | 2 844 | 5 416 | 8 798 |
| Mexico | .. | 24 421 | 4 762 | 4 393 | 4 389 | 10 973 | 9 526 | 9 185 | 12 830 | 11 311 | 11 568 |
| Netherlands | 10 822 | 37 857 | 6 552 | 7 824 | 8 561 | 7 333 | 12 216 | 15 055 | 14 499 | 41 977 | 33 341 |
| New Zealand [7] | 2 598 | 3 940 | 1 695 | 1 089 | 2 212 | 2 690 | 2 697 | 3 697 | 1 832 | 2 172 | 989 |
| Norway | 3 074 | 5 634 | 655 | –426 | 2 244 | 2 713 | 2 230 | 3 201 | 3 786 | 3 882 | 6 579 |
| Poland | .. | 88 | 359 | 678 | 1 715 | 1 875 | 3 659 | 4 498 | 4 908 | 6 365 | 6 471 |
| Portugal | 535 | 6 920 | 2 451 | 1 914 | 1 550 | 1 265 | 695 | 1 368 | 2 278 | 2 802 | 570 |
| Spain | 7 060 | 46 158 | 12 445 | 13 352 | 8 073 | 9 425 | 6 285 | 6 820 | 6 387 | 11 797 | 9 357 |
| Sweden | 897 | 8 619 | 6 351 | –41 | 3 843 | 6 346 | 14 448 | 5 076 | 10 968 | 19 569 | 59 102 |
| Switzerland | .. | 14 068 | 2 644 | 411 | –83 | 3 368 | 2 224 | 3 078 | 6 642 | 7 499 | 3 412 |
| Turkey | 228 | 2 434 | 910 | 911 | 746 | 636 | 885 | 722 | 805 | 940 | 783 |
| United Kingdom | 40 503 | 130 469 | 16 027 | 16 214 | 15 468 | 10 497 | 22 738 | 26 084 | 33 245 | 64 388 | 82 176 |
| United States | 56 276 | 363 421 | 23 695 | 20 975 | 52 552 | 47 438 | 59 644 | 88 977 | 109 264 | 193 375 | 282 507 |
| **TOTAL OECD** | **190 934** | **869 442** | **124 931** | **118 052** | **151 079** | **164 971** | **230 846** | **248 882** | **299 004** | **509 313** | **683 744** |

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Table 1. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows** (*cont.*)

Million US dollars

| | Cumulative flows | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-1980 | 1981-1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p |
| Argentina | 1 278 | 869 442 | 2 439 | 4 384 | 2 763 | 3 490 | 5 315 | 6 522 | 8 755 | 6 526 | 23 152 |
| Brazil | 11 026 | 16 512 | 1 103 | 2 061 | 1 292 | 3 072 | 4 859 | 11 200 | 19 650 | 31 913 | .. |
| Chile | 708 | 5 261 | 822 | 935 | 1 034 | 2 583 | 2 957 | 4 634 | 5 219 | 4 638 | 9 221 |
| Estonia | .. | .. | .. | 82 | 162 | 214 | 201 | 150 | 266 | 580 | 305 |
| Latvia | .. | .. | .. | 29 | 45 | 214 | 180 | 382 | 521 | 357 | 366 |
| Lithuania | .. | .. | .. | .. | 30 | 31 | 73 | 152 | 354 | 925 | 486 |
| **TOTAL** | **203 946** | **1 760 658** | **129 295** | **125 543** | **156 405** | **174 575** | **244 431** | **271 922** | **333 769** | **554 252** | **717 274** |

*Note*: Data are converted using the yearly average exchange rates.
p. Provisional data.
1. Break in series. As from 1995, data are based on a new methodology.
2. Break in series. As from 1988, data are based on a new methodology.
3. Break in series. As from 1971, data are based on a new methodology.
4. Up to 1992, data are on an approval basis. As from 1993, change in the coverage: the amounts include entrepreneurial capital net and real estate investment inflows.
5. Break in series. As from 1990, the results shown are for net (inward and outward) direct investment capital flows.
6. Break in series.
7. Data from 1993 to 1999 are based on fiscal years ending 31 March.
8. Break in series. As from 1999, data are based on a new methodology.

*Source*: OECD/Financial Statistics Unit – Based on national sources. For Argentina, Brazil and Chile, *International financial Statistics Yearbook*, IMF 2000 edition.

Table 2. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**

Million US dollars

| | Cumulative flows 1971-1980 | Cumulative flows 1981-1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia[1] | 2 510 | 22 266 | 3 001 | 951 | 1 779 | 5 291 | 3 846 | 5 927 | 6 262 | 2 466 | –3 192 |
| Austria | 578 | 4 132 | 1 288 | 1 871 | 1 467 | 1 201 | 1 131 | 1 935 | 1 948 | 2 948 | 2 703 |
| Belgium-Luxembourg | 3 213 | 20 984 | 6 493 | 10 389 | 4 693 | 1 205 | 11 712 | 8 065 | 7 273 | 28 453 | 24 937 |
| Canada | 11 335 | 42 337 | 5 813 | 3 586 | 5 868 | 9 293 | 11 461 | 12 879 | 22 054 | 26 575 | 17 362 |
| Czech Republic | .. | .. | .. | 21 | 101 | 120 | 37 | 153 | 25 | 175 | 197 |
| Denmark | 1 063 | 6 292 | 1 844 | 2 225 | 1 373 | 4 041 | 3 069 | 2 518 | 4 210 | 3 962 | 8 207 |
| Finland | 605 | 11 577 | –124 | –753 | 1 409 | 4 297 | 1 498 | 3 596 | 5 292 | 18 643 | 4 194 |
| France[2] | 13 940 | 101 365 | 25 115 | 30 416 | 19 732 | 24 381 | 15 757 | 30 395 | 35 586 | 41 913 | 88 324 |
| Germany[3] | 27 830 | 94 239 | 22 947 | 18 596 | 17 197 | 18 858 | 39 030 | 50 841 | 40 716 | 91 183 | 98 853 |
| Greece[4] | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | 573 |
| Hungary | .. | .. | .. | .. | 11 | 49 | 43 | –3 | 431 | 481 | 249 |
| Iceland | .. | 26 | 27 | 3 | 11 | 23 | 24 | 62 | 51 | 99 | 70 |
| Ireland | .. | .. | .. | .. | .. | .. | .. | .. | .. | 8 569 | 18 326 |
| Italy | 3 597 | 28 707 | 7 326 | 5 948 | 7 221 | 5 109 | 5 732 | 6 465 | 10 619 | 12 078 | 3 038 |
| Japan[5] | 18 052 | 192 410 | 31 688 | 17 301 | 13 916 | 18 117 | 22 629 | 23 424 | 25 991 | 24 159 | 20 730 |
| Korea | .. | 2 406 | 1 489 | 1 162 | 1 340 | 2 461 | 3 552 | 4 670 | 4 449 | 4 799 | 4 044 |
| Mexico | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Netherlands | 27 829 | 65 771 | 13 577 | 14 366 | 12 343 | 17 745 | 20 159 | 31 230 | 29 247 | 51 365 | 45 540 |
| New Zealand[6] | 375 | 4 556 | 1 472 | 391 | –1 386 | 2 015 | 1 751 | –1 260 | –1 602 | 376 | 1 020 |
| Norway | 1 079 | 8 995 | 1 840 | –80 | 791 | 2 098 | 3 139 | 5 918 | 5 047 | 2 418 | 5 483 |
| Poland | .. | .. | .. | 13 | 18 | 29 | 42 | 53 | 45 | 316 | 123 |
| Portugal | 21 | 374 | 474 | 687 | 141 | 283 | 689 | 776 | 1 668 | 2 901 | 2 679 |
| Spain | 1 274 | 8 793 | 4 424 | 2 171 | 2 648 | 3 900 | 4 158 | 5 590 | 12 547 | 18 935 | 35 421 |
| Sweden | 4 597 | 48 074 | 7 053 | 409 | 1 357 | 6 698 | 11 215 | 4 664 | 12 648 | 24 376 | 18 951 |
| Switzerland | .. | 33 553 | 6 212 | 6 050 | 8 765 | 10 798 | 12 214 | 16 150 | 17 747 | 16 631 | 17 910 |
| Turkey | .. | 97 | 127 | 133 | 175 | 78 | 113 | 110 | 251 | 367 | 645 |
| United Kingdom | 55 112 | 185 581 | 15 972 | 19 156 | 25 573 | 28 251 | 44 329 | 34 125 | 61 620 | 119 463 | 199 275 |
| Unites States | 134 354 | 225 911 | 38 233 | 48 733 | 84 412 | 80 697 | 99 481 | 92 694 | 109 955 | 132 829 | 152 152 |
| **TOTAL OECD** | **307 364** | **1 108 446** | **196 291** | **183 745** | **210 955** | **247 038** | **316 810** | **340 977** | **414 079** | **636 480** | **767 814** |

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Table 2. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows** (*cont.*)

Million US dollars

| | Cumulative flows | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1971-1980 | 1981-1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| Argentina | 193 | 135 | - | 1 166 | 704 | 1 013 | 1 497 | 1 600 | 3 656 | 2 166 | 1 195 |
| Brazil | 1 128 | 2 537 | 1 014 | 137 | 491 | 1 037 | 1 384 | 467 | 1 042 | 2 721 | .. |
| Chile | 20 | 53 | 125 | 398 | 434 | 911 | 752 | 1 188 | 1 865 | 2 798 | 4 855 |
| Estonia | .. | .. | .. | 2 | 6 | 2 | 2 | 40 | 137 | 6 | 83 |
| Latvia | .. | .. | .. | 2 | 5 | 65 | 65 | 3 | 6 | 54 | - |
| Lithuania | .. | .. | .. | .. | .. | .. | 1 | - | 27 | 4 | 9 |
| **TOTAL** | **308 705** | **1 111 171** | **197 430** | **185 450** | **212 595** | **250 066** | **320 511** | **344 275** | **420 812** | **644 229** | **773 956** |

*Note*: Data are converted using the yearly average exchange rates.
p. Provisional data.
1. Break in series. As from 1995, data are based on a new methodology.
2. Break in series. As from 1988, data are based on a new methodology.
3. Break in series. As from 1971, data are based on a new methodology.
4. Break in series. As from 1999, data are based on a new methodology.
5. Break in series.
6. Data from 1993 to 1999 are based on fiscal years ending 31 March.
*Source*: OECD/Financial Statistics Unit – Based on national sources. For Argentina, Brazil and Chile, *International financial Statistics Yearbook*, IMF 2000 edition.

Table 3. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**

As a percentage of GDP

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p |
|---|---|---|---|---|---|---|---|---|---|
| Argentina | 1.29 | 1.91 | 1.17 | 1.35 | 2.06 | 2.40 | 2.99 | 2.19 | 8.18 |
| Australia | 1.28 | 1.61 | 0.98 | 1.14 | 3.39 | 1.24 | 1.79 | 1.74 | 1.09 |
| Austria | 0.21 | 0.49 | 0.53 | 0.66 | 0.81 | 1.91 | 1.29 | 2.32 | 1.41 |
| Belgium-Luxembourg | 4.34 | 4.72 | 4.71 | 3.35 | 3.68 | 4.90 | 4.63 | 8.46 | 5.92 |
| Brazil | 0.27 | 0.53 | 0.29 | 0.56 | 0.69 | 1.45 | 2.45 | 4.12 | .. |
| Canada | 0.49 | 0.83 | 0.86 | 1.48 | 1.60 | 1.56 | 1.84 | 2.76 | 3.82 |
| Chile | 2.37 | 2.23 | 2.32 | 5.07 | 4.53 | 6.76 | 6.93 | 6.37 | 13.67 |
| Czech Republic | .. | 3.38 | 1.87 | 2.11 | 4.92 | 2.47 | 2.45 | 4.48 | 9.20 |
| Denmark | 1.08 | 0.69 | 1.21 | 3.22 | 2.32 | 0.42 | 1.66 | 3.85 | 4.23 |
| Estonia | .. | .. | 9.91 | 9.39 | 5.66 | 3.44 | 5.73 | 11.13 | 5.94 |
| Finland | –0.20 | 0.37 | 1.00 | 1.58 | 0.82 | 0.87 | 1.73 | 9.41 | 2.34 |
| France | 1.24 | 1.33 | 1.29 | 1.15 | 1.52 | 1.41 | 1.65 | 1.99 | 2.60 |
| Germany | 0.27 | –0.10 | 0.02 | 0.34 | 0.49 | 0.28 | 0.52 | 0.99 | 2.48 |
| Greece | 1.26 | 1.15 | 2.76 | 3.08 | 3.63 | 4.73 | 2.96 | 3.06 | 0.43 |
| Hungary | 4.33 | 3.93 | 6.00 | 2.74 | 9.97 | 5.04 | 4.75 | 4.33 | 4.05 |
| Iceland | 0.27 | –0.16 | .. | .. | 0.20 | 1.13 | 2.01 | 1.38 | 1.04 |
| Ireland | 2.45 | 2.32 | 1.69 | 0.77 | 0.94 | 2.59 | 2.10 | 4.53 | 5.80 |
| Italy | 0.21 | 0.26 | 0.38 | 0.22 | 0.44 | 0.29 | 0.32 | 0.22 | 0.43 |
| Japan | 0.04 | 0.07 | 0.00 | 0.02 | 0.00 | 0.00 | 0.07 | 0.08 | 0.28 |
| Korea | 0.40 | 0.23 | 0.17 | 0.20 | 0.24 | 0.45 | 0.60 | 1.71 | 2.17 |
| Latvia | .. | 1.97 | 2.07 | 5.87 | 4.05 | 7.44 | 9.24 | 5.87 | 5.49 |
| Lithuania | .. | .. | 1.12 | 0.73 | 1.21 | 1.93 | 3.69 | 8.61 | 4.56 |
| Mexico | 1.51 | 1.21 | 1.09 | 2.61 | 3.33 | 2.76 | 3.20 | 2.69 | 2.41 |
| Netherlands | 2.17 | 2.33 | 2.63 | 2.09 | 2.95 | 3.66 | 3.85 | 10.73 | 8.47 |
| New Zealand | 4.07 | 2.72 | 5.06 | 5.24 | 4.49 | 5.67 | 2.83 | 4.10 | 1.81 |
| Norway | 0.56 | –0.34 | 1.93 | 2.21 | 1.52 | 2.03 | 2.44 | 2.63 | 4.28 |
| Poland | 0.47 | 0.80 | 1.99 | 1.89 | 2.88 | 3.13 | 3.41 | 4.00 | 4.17 |
| Portugal | 3.05 | 1.98 | 1.81 | 1.40 | 0.65 | 1.22 | 2.14 | 2.51 | 0.50 |
| Spain | 2.26 | 2.22 | 1.61 | 1.87 | 1.08 | 1.12 | 1.14 | 2.01 | 1.56 |
| Sweden | 2.57 | –0.02 | 2.00 | 3.07 | 6.02 | 1.94 | 4.59 | 8.16 | 24.48 |
| Switzerland | 1.14 | 0.17 | –0.04 | 1.29 | 0.72 | 1.04 | 2.60 | 2.85 | 1.32 |
| Turkey | 0.60 | 0.57 | 0.41 | 0.49 | 0.52 | 0.40 | 0.42 | 0.47 | 0.42 |
| United Kingdom | 1.55 | 1.52 | 1.61 | 1.01 | 2.02 | 2.21 | 2.52 | 4.57 | 5.70 |
| United States | 0.40 | 0.33 | 0.80 | 0.68 | 0.81 | 1.15 | 1.32 | 2.22 | 3.06 |

p. Provisional data.

*Source*: Foreign Direct Investment database, 2000, OECD. For Argentina, Brazil and Chile, *International Financial Statistics Yearbook*, IMF 2000 edition. The source of the GDP is the OECD Statistics Department, except for Argentina, Brazil and Chile, the source of the GDP is the *International Financial Statistics Yearbook*, IMF 2000 edition.



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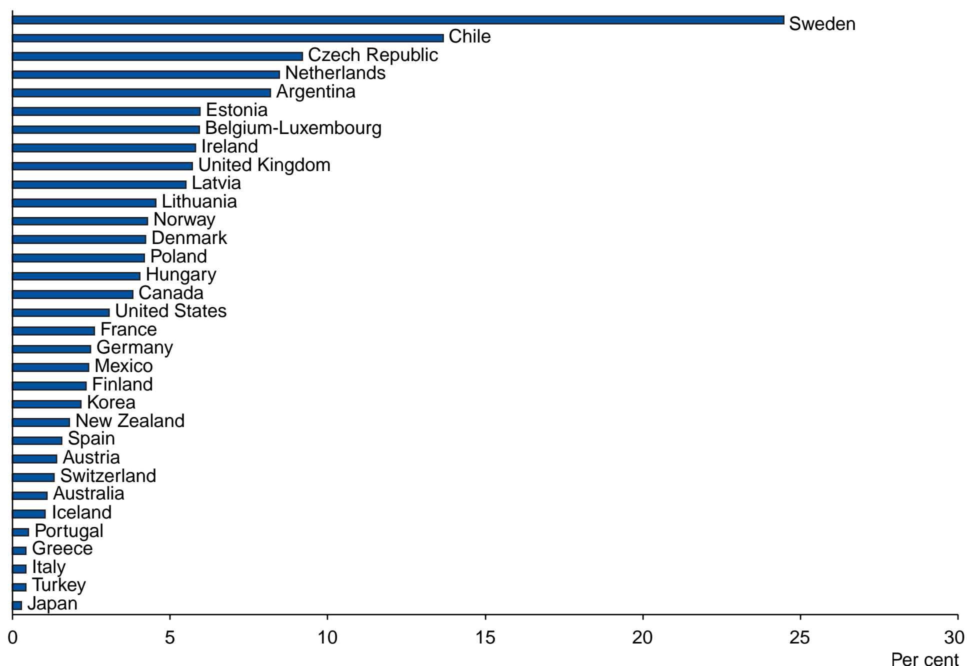
Graph 1. **Direct Investment from abroad in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inflows**
As a percentage of GDP: 1999




*Source:* OECD.



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Table 4. **Direct Investment abroad from Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**

As a percentage of GDP

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p |
|---|---|---|---|---|---|---|---|---|---|
| Argentina | 0.00 | 0.51 | 0.30 | 0.39 | 0.58 | 0.59 | 1.25 | 0.73 | 0.42 |
| Australia | 0.95 | 0.30 | 0.58 | 1.53 | 1.02 | 1.42 | 1.49 | 0.66 | –0.78 |
| Austria | 0.76 | 0.98 | 0.79 | 0.60 | 0.48 | 0.84 | 0.95 | 1.40 | 1.29 |
| Belgium-Luxembourg | 3.03 | 4.33 | 2.05 | 0.49 | 3.98 | 2.81 | 2.78 | 10.60 | 9.30 |
| Brazil | 0.25 | 0.04 | 0.11 | 0.19 | 0.20 | 0.06 | 0.13 | 0.35 | .. |
| Canada | 0.99 | 0.63 | 1.06 | 1.68 | 1.98 | 2.14 | 3.53 | 4.44 | 2.73 |
| Chile | 0.36 | 0.95 | 0.98 | 1.79 | 1.15 | 1.73 | 2.48 | 3.84 | 7.20 |
| Czech Republic | .. | 0.07 | 0.29 | 0.29 | 0.07 | 0.27 | 0.05 | 0.31 | 0.37 |
| Denmark | 1.38 | 1.51 | 0.99 | 2.66 | 1.70 | 1.38 | 2.49 | 2.27 | 4.66 |
| Estonia | .. | .. | 0.37 | 0.09 | 0.06 | 0.92 | 2.95 | 0.12 | 1.62 |
| Finland | –0.10 | –0.69 | 1.63 | 4.30 | 1.16 | 2.82 | 4.32 | 14.45 | 3.24 |
| France | 2.06 | 2.26 | 1.55 | 1.80 | 1.01 | 1.96 | 2.53 | 2.89 | 6.14 |
| Germany | 1.30 | 0.92 | 0.88 | 0.90 | 1.59 | 2.13 | 1.93 | 4.24 | 4.68 |
| Greece | .. | .. | .. | .. | .. | .. | .. | .. | 0.46 |
| Hungary | .. | .. | 0.03 | 0.12 | 0.10 | –0.01 | 0.94 | 1.02 | 0.52 |
| Iceland | 0.40 | 0.04 | 0.18 | 0.37 | 0.34 | 0.85 | 0.69 | 1.22 | 0.81 |
| Ireland | .. | .. | .. | .. | .. | .. | .. | 9.93 | 19.62 |
| Italy | 0.63 | 0.48 | 0.73 | 0.50 | 0.52 | 0.52 | 0.91 | 1.01 | 0.26 |
| Japan | 0.91 | 0.45 | 0.32 | 0.38 | 0.43 | 0.50 | 0.60 | 0.61 | 0.46 |
| Korea | 0.50 | 0.37 | 0.39 | 0.61 | 0.73 | 0.90 | 0.93 | 1.51 | 1.00 |
| Latvia | .. | 0.14 | 0.23 | 1.78 | 1.46 | 0.06 | 0.11 | 0.89 | 0.00 |
| Lithuania | .. | .. | .. | .. | 0.02 | 0.00 | 0.28 | 0.04 | 0.08 |
| Mexico | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Netherlands | 4.49 | 4.29 | 3.79 | 5.05 | 4.86 | 7.58 | 7.77 | 13.13 | 11.57 |
| New Zealand | 3.53 | 0.98 | –3.17 | 3.93 | 2.92 | –1.93 | –2.47 | 0.71 | 1.86 |
| Norway | 1.56 | –0.06 | 0.68 | 1.71 | 2.14 | 3.75 | 3.26 | 1.64 | 3.57 |
| Poland | .. | 0.02 | 0.02 | 0.03 | 0.03 | 0.04 | 0.03 | 0.20 | 0.08 |
| Portugal | 0.59 | 0.71 | 0.16 | 0.31 | 0.64 | 0.69 | 1.57 | 2.60 | 2.35 |
| Spain | 0.80 | 0.36 | 0.53 | 0.77 | 0.71 | 0.92 | 2.24 | 3.23 | 5.90 |
| Sweden | 2.85 | 0.16 | 0.71 | 3.24 | 4.67 | 1.78 | 5.29 | 10.17 | 7.85 |
| Switzerland | 2.67 | 2.48 | 3.70 | 4.13 | 3.98 | 5.46 | 6.94 | 6.33 | 6.92 |
| Turkey | 0.08 | 0.08 | 0.10 | 0.06 | 0.07 | 0.06 | 0.13 | 0.18 | 0.35 |
| United Kingdom | 1.55 | 1.79 | 2.67 | 2.72 | 3.93 | 2.89 | 4.67 | 8.47 | 13.82 |
| United States | 0.64 | 0.78 | 1.28 | 1.15 | 1.36 | 1.20 | 1.33 | 1.52 | 1.65 |

p. Provisional data.

*Source*: Foreign Direct Investment database, 2000, OECD. For Argentina, Brazil and Chile, *International Financial Statistics Yearbook*, IMF 2000 edition. The source of the GDP is the OECD Statistics Department, except for Argentina, Brazil and Chile, the source of the GDP is the *International Financial Statistics Yearbook*, IMF 2000 edition.



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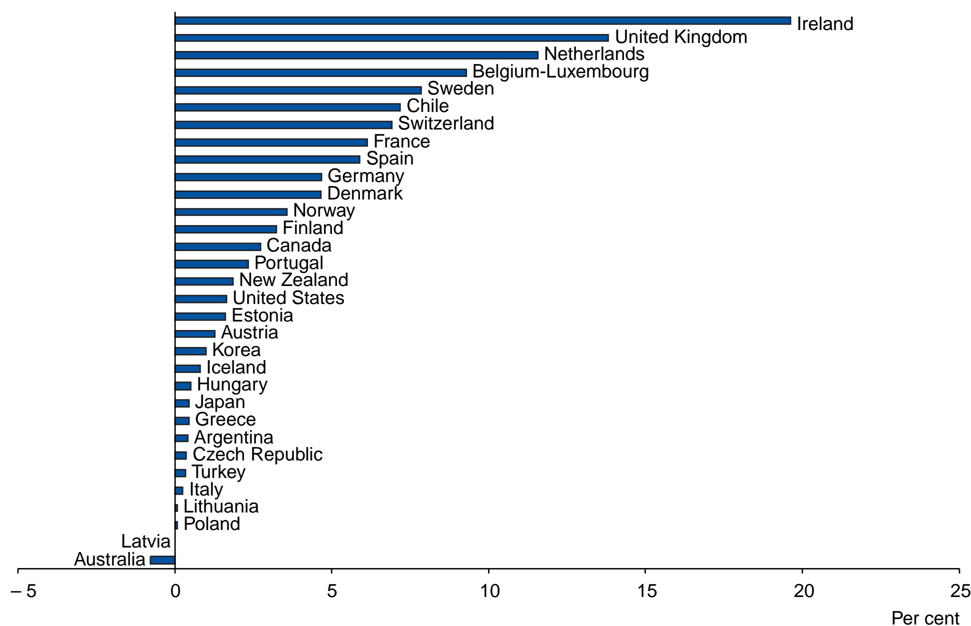
Graph 2. **Direct Investment abroad from Adherents to OECD Declaration on International Investment and Multinational Enterprises: Outflows**
As a percentage of GDP: 1999




*Source:* OECD.



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Table 5. **Direct Investment abroad from and in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inward and Outward positions at year-end**

Million US dollars

| | Inward | | | | | | | Outward | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p |
| Australia [1] | 76 808 | 86 974 | 100 369 | 116 201 | 99 388 | 102 763 | 116 715 | 35 412 | 39 857 | 47 176 | 59 190 | 56 695 | 62 025 | 54 924 |
| Austria [2] | 11 373 | 13 092 | 17 532 | 18 258 | 17 510 | 22 800 | 24 800 | 8 111 | 9 282 | 11 702 | 12 781 | 13 310 | 16 500 | 18 500 |
| Belgium-Luxembourg | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Canada | 106 868 | 110 204 | 123 290 | 131 634 | 138 332 | 142 973 | 166 266 | 92 468 | 104 302 | 118 209 | 131 779 | 146 577 | 160 642 | 178 347 |
| Czech Republic | 2 053 | 3 077 | 7 530 | 8 572 | 9 234 | 14 375 | 16 246 | .. | .. | 346 | 498 | 548 | 804 | 908 |
| Denmark | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Finland | 4 217 | 6 714 | 8 464 | 8 797 | 9 530 | 16 455 | 16 539 | 9 178 | 12 534 | 14 993 | 17 666 | 20 297 | 29 407 | 31 803 |
| France | 103 197 | 123 887 | 143 673 | 143 937 | 141 136 | .. | .. | 141 430 | 163 075 | 184 388 | 192 973 | 189 681 | .. | .. |
| Germany [3] | 129 781 | 160 128 | 192 898 | 188 502 | 185 980 | .. | .. | 178 648 | 213 654 | 258 142 | 271 241 | 280 779 | .. | .. |
| Greece | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Hungary | 5 576 | 7 087 | 12 829 | 14 958 | 16 086 | 18 517 | 19 276 | 226 | 291 | 491 | 474 | 900 | 1 286 | 1 586 |
| Iceland | 117 | 128 | 129 | 197 | 332 | 457 | 499 (e) | 112 | 146 | 179 | 241 | 249 | 361 | 413 (e) |
| Ireland | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Italy | 52 512 | 58 846 | 63 453 | 72 482 | 81 082 | 103 107 | 106 788 | 76 422 | 81 383 | 97 038 | 107 441 | 124 977 | 159 171 | 188 487 |
| Japan [4] | 16 884 | 19 211 | 33 532 | 32 675 | 27 086 | 26 647 | .. | 259 795 | 275 574 | 238 452 | 282 257 | 271 967 | 267 584 | .. |
| Korea | .. | .. | .. | .. | .. | .. | .. | 5 588 | 7 623 | 10 500 | 13 796 | 16 546 | 20 433 | .. |
| Mexico | 13 072 | 6 234 | 5 382 | 5 975 | 6 860 | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Netherlands | 82 792 | 103 359 | 124 506 | 131 936 | 128 482 | .. | .. | 124 820 | 149 023 | 179 557 | 201 475 | 210 247 | .. | .. |
| New Zealand [5] | 15 552 | 19 849 | 26 009 | 33 584 | 37 644 | 33 323 | 32 537 | 4 400 | 5 167 | 7 624 | 8 925 | 6 746 | 5 513 | 7 039 |
| Norway | 14 463 | 16 305 | 19 513 | 21 591 | 22 978 | 26 083 | .. | 13 482 | 16 909 | 22 519 | 25 440 | .. | .. | .. |
| Poland [6] | 2 307 | 3 789 | 7 843 | 11 463 | 14 587 | 22 479 | .. | 198 | 461 | 539 | 735 | 678 | 1 165 | .. |
| Portugal | .. | .. | 18 170 | 18 947 | 18 312 | 22 446 | 20 513 | .. | .. | 4 408 | 4 488 | 5 571 | 9 221 | 9 605 |
| Spain | 71 071 | 86 161 | 111 481 | 109 326 | 100 359 | 118 877 | 112 889 | 22 403 | 28 331 | 36 661 | 40 094 | 47 873 | 69 153 | 97 821 |
| Sweden | 13 007 | 22 247 | 31 090 | 34 784 | 41 513 | 50 985 | 70 198 | 44 559 | 59 237 | 73 143 | 72 187 | 78 202 | 93 534 | 108 322 |
| Switzerland | 38 714 | 48 667 | 57 063 | 53 919 | 59 519 | 69 687 | .. | 91 571 | 112 586 | 142 479 | 141 591 | 165 365 | 181 541 | .. |
| Turkey | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| United Kingdom | 196 811 | 218 211 | 203 825 | 228 642 | 252 959 | 305 325 | 394 534 | 253 213 | 286 394 | 314 340 | 330 432 | 360 796 | 491 924 | 664 059 |
| United States [7] | 467 412 | 480 667 | 535 553 | 598 021 | 693 207 | 811 756 | .. | 564 283 | 612 893 | 699 015 | 795 195 | 865 531 | 980 565 | .. |
| **TOTAL OECD** | **1 424 587** | **1 594 838** | **1 844 134** | **1 984 400** | **2 102 114** | **1 909 055** | **1 097 799** | **1 926 319** | **2 178 722** | **2 461 902** | **2 710 899** | **2 863 536** | **2 550 828** | **1 361 812** |

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Table 5. **Direct Investment abroad from and in Adherents to OECD Declaration on International Investment and Multinational Enterprises: Inward and Outward positions at year-end** (*cont.*)

Million US dollars

| | Inward | | | | | | | Outward | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999p |
| Argentina | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Brazil | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Chile | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| Estonia | .. | .. | .. | 852 | 1 187 | 1 736 | 2 616 | .. | .. | .. | 111 | 226 | 189 | 298 |
| Latvia | .. | .. | 616 | 936 | 1 272 | 1 558 | 1 885 | .. | .. | 231 | 209 | 222 | 281 | 215 |
| Lithuania | 149 | 310 | 352 | 700 | 1 041 | 1 625 | 2 063 | .. | - | 1 | 3 | 26 | 16 | 26 |
| **TOTAL** | **1 424 736** | **1 595 148** | **1 845 102** | **1 986 888** | **2 105 614** | **1 913 974** | **1 104 363** | **1 926 319** | **2 178 722** | **2 462 134** | **2 711 222** | **2 864 010** | **2 551 314** | **1 362 351** |

*Note*: Data are converted using the end-of-year exchange rates.
p. Provisional data.
e. Country estimates for 1999.
1. Break in series. As from 1994, data are based on a new methodology.
2. 1996 and 1997 data are provisional estimates.
3. Break in series.
4. Break in series as from 1995.
5. As from 1993, data are based on fiscal years ending 31 March.
6. As from 1994, outward include investment from the Polish banking system.
7. Inward: break in series as from 94 due to the reclassification from "direct investment" to "other investment" of intercompany debt flows and associated income payments between parent companies and affiliates that are non-depository financial intermediaries.
*Source*: OECD/Financial Statistics Unit – Based on national sources.

## Notes

1. Chapters 1 and 2 (as well as Chapter 3.4) are based on the work of Inkeri Hirvensalo and Tuuli Juurikkala from the University of Helsinki.
2. From 1 January 1999 the kroon was pegged at a fixed rate of EEK 15.6466 = 1 euro, equivalent to the previous fixed exchange rate of EEK 8 = 1 DEM under the currency board arrangement dating from 1992.
3. Source: Bank of Estonia.
4. 1 US$ = 16.81982 EEK as of 31 December 2000, Bank of Estonia.
5. Based mainly on the E*stonian* I*nvestment* P*rofile* 2001, published for the Business Forum held on the occasion of the EBRD Annual Meeting in London 22-24 April 2001.
6. For an excellent overview of Progress and Prospects in Transition Economies, see IMF Issue Brief, 3 November, 2000.
7. For a more complete list of the sequence of the various economic policy measures, see Annex 1.
8. *http://www.heritage.org/index/*
9. *http://www.milken-inst.org/pdf/pbriefs/localglobal.pdf*
10. *http://www.dartmouth.edu/tuck/fac_research/centers/caee_emai.html.*
11. *http://www.imd.ch/wcy/ranking/index.cfm.* At the Luxembourg Summit in December 1997, the European Council decided to begin EU accession negotiations with six countries – Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia.
12. The political and economic criteria for accession to the European Union were established at the Copenhagen European Council of June 1993. These serve as the basis for the European Commission's regular assessments to the European Council on the progress made by applicants in meeting the accession requirements. The Commission's reports serve in turn as a basis for the necessary Council decisions on the conduct of the accession negotiations. The latest Commission progress report on Estonia's progress towards accession has been issued on 8 November 2000.
13. By April 2001, Estonia had presented its position to Member States in 29 chapters (chapter 30 "Institutions" and 31 "Other Issues" have not yet been addressed. The chapters preliminary closed include those on Industrial Policy, Statistics, Free Movement of Capital, Economic and Monetary Union, Company Law, Free Movement of Services, and most recently, those on Free Movement of Goods and Financial Control.
14. See in particular "Estonia At A Glance – 2001-02", The Economist Intelligence Unit, April 2001.



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15. A general partnership is a commercial undertaking in which two or more partners operate under a common business name and are jointly liable for the obligations of the undertaking with all of their assets.

    A general partnership will operate on the basis of the partnership agreement concluded by the partners. There is no minimum capital requirement and no obligation to present the partnership agreement to the Commercial Register. Each partner will receive a portion of the distributed profit corresponding to the partner's contribution (unless the partnership agreement prescribes otherwise). After leaving the general partnership, for the next five years the partner is personally responsible for fulfilling the liabilities which occurred before he left. Similarly, when an unlimited partnership terminates, the partners are jointly responsible for its liabilities for the next five years.

16. In a limited partnership there must be at least one general partner with unlimited liability and one or more limited partners who are liable only to the extent of their capital contributions. The limited partner is not responsible for the liabilities of the limited partnership if he has paid his deposit in full. A limited partner who has not fully paid his deposit is responsible for the liabilities of the limited partnership up to the unpaid deposit. A limited partner does not usually have the right to take part in management unless the partnership agreement states otherwise but he is entitled to the corresponding part of its profits.

17. A private limited company is a commercial undertaking whose capital is divided into shares. A shareholder will not be personally liable for the obligations of the company. A private limited company is liable for the fulfilment of its obligations with all of its assets. The share capital must be a minimum of 40 000 EEK (approx. US$2 700). The minimum nominal value of a share is 100 kroons. A share of a private limited company can be sold to the other joint owner. When selling to a third party the joint owners have the prerogative of purchasing the share. A joint owner can only own one share in a private limited company. A share of a private limited company can be divided and therefore alienation of a part of a share is possible. In that case the agreement of other joint owners is necessary.

    A share of a private limited company can be pledged or be of shared ownership if not fixed otherwise in the Articles of Association. A share is not heritable if the Articles of Association state so. The Management Board organises the accounting of the private limited company. A private limited company must have an auditor if the share capital of the private limited company is greater than 400 000 EEK (approx. US$27 000) or if so stated in the Articles of Association. Shareholders whose shares represent at least one tenth of the share capital may demand a resolution on conducting a special audit on matters regarding the financial situation of the private limited company.

18. A public limited (stock) company is a commercial undertaking which has a stock capital divided into stocks. A stockholder is not personally liable for the obligations of the public limited company. A public limited company is liable for the fulfilment of its obligations to the full extent of its assets. Stock capital must be a minimum of EEK 400 000 (approx. US$27 000) and the minimum par or nominal value of a share should be EEK 10. The number of shares a shareholder can own in a stock company is unlimited and shares can be freely transferred to third parties. A share cannot be divided. Shares may either be registered or bearer shares. The rights attached to registered shares belong to the person who is entered as the shareholder in the stock register. The rights attached to bearer shares are considered to belong to the person who has possession of the stock certificate unless proved to the contrary or unless



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otherwise provided by law. The general meeting, which specifies the procedure for the remuneration of auditors, will also specify the number of auditors.

19. See Report of the WTO Working Party on the Accession of Estonia to the World Trade Organisation WT/ACC/EST/28 of 9 April 1999, pages 35-36.
20. To register a branch, the application must contain the same data about the branch and the parent company as for a stock company. The application also has to state the country under whose legislation the corporation operates. A foreign company shall appoint a director or directors for the branch. A director must be a natural person with active legal capacity. The residence of at least one director must be in Estonia. A bankrupt or a person whose right to engage in economic activity has been taken away pursuant to law shall not be a director.
21. This was previously the case for operations in mining, power engineering, gas and water supply, transport, administration/reconstruction of waterways, ports, dams and similar structures, telecommunications and communication network and retail trade in pharmaceutical products.
22. It should be noted that these requirements have been found to be consistent with the provisions of Article VI (Domestic Legislation) of the GATS and that as a result they do not need to be covered by the GATS Schedule of Estonia.
23. For further details on the modalities of establishment of a company under the 1995 Commercial Code, see the fact sheet prepared by the Estonian Investment Agency *http://www.* E*ia.ee/print.php*3
24. EC 2000 Regular Report on Estonia's Progress Towards Accession, p. 27.
25. These include: Laws, decisions and declarations of Parliament; decisions and regulations of the President; regulations and orders of the Government; regulations of ministers; and the annual report and general regulations of the Central Bank.
26. Estonian legal acts can be found in *http://www.legaltext.ee*
27. See also the Bank of Estonia website: *www.ee/ephe*.
28. At the request of the Estonian authorities, the IMF conducted a general assessment of Estonia's observance of and consistency with the relevant international standards and core principles in the financial sector. The IMF found that Estonia has made great strides in strengthening its supervisory framework. Progress has been particularly strong in the area of banking supervision. Supervision of banking insurance is also improving. Supervision in the securities sector is weak, however, while payment system supervision could be improved. The IMF report can be found at *http://www.imf.org/external/np/rosc/est/index.htm*.
29. The central bank, which owns 58 per cent of Optiva Bank, intends to sell its stake to a strategic investor in the first half of 2000. Esti Ühispank has announced that it is prepared to sell its 21 per cent stake in Optiva Bank to the same future investor.
30. Ühispank also forms part of the SEB Baltic Group, which includes Latvian Unibanka and Lithuanian Vilniaus Bankas. Estonia Country Report *www.nordea.com*.
31. Ministry of Finance 1999.
32. The Money Laundering Prevention Act (958 SE II) was enacted on 25 November 1998 and came into effect on 1 July 1999.
33. The Tallinn Stock Exchange (TSE) group is a leading operator of the Estonian securities market infrastructure. The TSE group and its subsidiaries provide, on a centralised basis, the environment for trading in securities, clearing and settlement of securities



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transactions, listing services, market supervision, and maintain the electronic securities register in Estonia. Tallinn Stock Exchange, the group's parent company, handles the strategic management of the group, the listing of securities, the supervision of market participants, public relations as well as strategic and technological development. The TSE group's subsidiaries are the Estonian Central Depository for Securities (ECDS), which runs the electronic Estonian Central Register for Securities, and the Clearing House, which handles clearing and settlement of securities transactions and risk management. The Clearing House will be launched in the first half of 2001.
The main shareholder of TSE is Helsinki Exchanges Group (HEX), the parent company of the Helsinki Stock Exchange, which owns 60.3 per cent of TSE shares.

34. *http://www.tse.ee/*.
35. See Estonian Review, Volume 11, Number 10, March 5-11, 2001, pp 7-8.
36. Estonia, 2000 Country Investment Profile, Business Forum, May 2000.
37. Tallinn's negotiations with NOREX, which was proposing a loser alliance, foundered because the small exchange was expected to take on the cost of upgrading the NOREX common trading system, SAXESS. As a subsidiary of HEX, Tallinn may now attract Nordic funds and woo local issuers. See *Estonian Review*, Volume 11, Number 10, March 5-11, 2001, pp 7-8.
38. Information provided on individual sectors is drawn from Estonia – 2000 Country Investment Profile, EBRD Business Forum, Riga, 20-22 May 2000.
39. A harbour master is a person in an employment relationship with a port authority whose duty is to manage safe shipping traffic in one or several ports designated as his or her work area.
40. Several regulations implementing the Telecommunications Act have also recently been adopted, including the National Radio Frequency Plan, the rules for conformity assessment as well as the procedures for marking of terminal equipment, the rules for verifying radio frequencies, the establishment of the National Numbering Plan as well as rules and procedures for using and reserving blocks of numbers and the identification code and short-code for carrier selection.
41. Some controversy has surrounded the adoption of this law on the basis that only members of the Estonian Bar Association can work as lawyers.
42. EBRD, Transition Report, November 2000.
43. This description is mainly based on Terk, Erik (2000) "Privatisation in Estonia", Estonian Institute for Futures Studies, Tallinn, and further on Purju, Alari (1999) "The Political Economy of Privatisation in Estonia" in Reconstituting the market. The Political Economy of Microeconomic transformation (eds) Hare, P. Batt, J., Estrin, S. (pp. 1999-236) Harwood Academic Publishers, Amsterdam.
44. As identified in a Conference held in Tallinn in November 1999, this is the policy aim across the eastern Baltic Rim, as a general beneficial environment for investment has been recognised as crucial for the success of economic reforms.
45. See Report of the WTO Working Party on the Accession of Estonia to the World Trade Organisation WT/ACC/EST/28 of 9 April 1999, page 9.
46. According to Estonian experts, it is more difficult for small businesses to access capital markets than for big businesses. Thus the lowering of the tax burden enables small businesses to develop their activities and create new work opportunities.



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47. Among others, Mr. Sonny Aswani, Chairman of the Tolaram Group advocated this idea at the OECD Conference on FDI policy and private sector development, held in November 1999: *http://www.oecd.org/daf/tallinn/index.htm*
48. WTO, March 1999.
49. *http://www.eia.ee/factshee/fact7.htm*
50. See *http://www.oecd.org/daf/tallinn/index.htm*
51. In addition to its Association Agreement with the EU, Estonia has also concluded bilateral trade agreements with the following countries: Czech Republic, the Slovak Republic, Hungary, Poland, Slovenia, Latvia, Lithuania, the EFTA countries, Ukraine and Turkey. It is currently negotiating similar agreements with Bulgaria and Romania. In addition, it has concluded two MFN agreements with Kazakhstan and Vietnam, and Economic Co-operation agreements with Azerbaijan and Georgia.
52. To that effect, the Estonian Ministry of Foreign Affairs and the OECD have concluded on 20th February 2001 a Translation Agreement by which the OECD has granted the Ministry of Foreign Affairs of the Republic of Estonia the non-exclusive authorisation to translate and publish the Estonian edition of The OECD Declaration and Decisions on International Investment and Multinational Enterprises [DAFFE/IME(2000)20].
53. The OECD benchmark and the IMF Balance of Payments manual classify holdings by foreign investors of at least 10 per cent of company stock as foreign direct investment. In Estonia, however, the minimum threshold for inflows categorised as FDI was raised in 1996 to at least 20 per cent of company equity, in order to conform with accounting standards introduced by the new Accounting Law. This Law stipulates different principles of holding accounts for affiliated and associated partners and others, and at least 20 per cent of company equity for an associated company. Other reasons for the shift were low minimum share capital requirements for companies, and the right to issue preferred shares up to one third of total equity according to the Business Law. Source: OECD 1999/Berghäll.



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