

Opinion of the Economic and Social Committee on 'Estonia's progress towards accession'

(2000/C 268/08)

At its plenary session of 21 October 1999, the Economic and Social Committee, acting under Rule 23(3) of its Rules of Procedure, decided to draw up an additional opinion on 'Estonia's progress towards accession'.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its opinion on 22 June 2000. The rapporteur was Mr Filip Hamro-Drotz.

At its 374th plenary session (meeting of 12 July 2000), the Economic and Social Committee adopted the following opinion with 83 votes in favour and two abstentions.

1. Background

1.1. Estonia regained its independence in 1991 and rapidly began to build closer relations with the European Union.

1.2. Estonia concluded a free trade agreement with Finland in 1992, with Sweden in 1993, and with the European Union in 1995. The Europe Agreement between Estonia and the EU was concluded in 1995. After a lengthy ratification process the agreement entered into force on 1 February 1998. Estonia currently has regional free trade agreements with the other Baltic states, the Ukraine, the EFTA countries, Poland, Hungary, the Czech Republic, Slovakia and Slovenia.

1.3. The Europe Agreement is the formal basis for relations between the EU and Estonia. The agreement addresses the issue of free trade in industrial products and seeks to prepare Estonia for full EU membership, to bring the country's legislation into line with EU rules and to increase political and economic cooperation.

1.4. The Europe Agreement provides for a ministerial level Association Council, an Association Committee for high level civil servants and a Joint Parliamentary Committee. The agreement also makes provision for the establishment of a Joint Consultative Committee comprised of socio-economic players. A committee of this kind has not yet been set up with Estonia.

1.5. The European Union began membership negotiations proper with Estonia in November 1998. Estonia was part of the 'first wave' of applicant countries (the others were Poland, Cyprus, Slovenia, the Czech Republic and Hungary). At the time, the other Baltic States — Latvia and Lithuania — were not considered as meeting the criteria for negotiations. However, at the Helsinki Summit of the European Council in December 1999 it was decided to open negotiations with all of the countries in question (Bulgaria, Latvia, Lithuania, Malta, Romania and Slovakia). Bilateral negotiations began in March

2000. The basic concept is that each country should progress towards membership at its own pace. Turkey was granted applicant country status at the Helsinki Summit.

1.6. The opening of membership negotiations was one of the recommendations made by the Luxembourg European Council (December 1997) on preparations for EU enlargement. The pre-accession strategy concentrates on partnership in preparation for membership and increasing support for this purpose.

Within the framework of this strategy, Estonia is striving actively, but with limited resources, to meet the membership requirements.

1.7. Estonia's position is also influenced by regional cooperation among the countries around the Baltic Sea as well as efforts to strengthen the EU's northern dimension. The objective is to improve security and socio-economic conditions in northern Europe through regional cooperation also involving Russia.

2. The main aim of the opinion

2.1. In this opinion the Economic and Social Committee wants to draw attention to matters which it feels are important to the EU's negotiations with Estonia on its future membership of the European Union, as well as other activities designed to prepare Estonia for membership.

2.2. Members of the European Union are required to implement Community legislation and to respect the principles of a properly functioning market economy and of the rule of law. In addition, Member States must have an operational environment which allows them to adapt easily to open interaction within the EU at all levels of society.

2.3. A prerequisite for this is the active operation in society of free, independent, democratically elected citizens' organisations, and in particular organisations representing different socio-economic interests, which are capable of playing an active role in socio-economic life, and have the knowledge and skills to play a constructive role in the country's economic development and in resolving social problems.

2.4. In addition, the assumption is that the country's authorities will seek to put the expertise of socio-economic organisations to the best possible use in social and economic development as well as in preparing the country for EU membership. Depending upon the issue, the relationship between the authorities and these organisations is mainly one of information, consultation, lobbying or negotiation. Their awareness of the consequences of forthcoming EU membership and the account taken of their views during the preparations for membership are the best guarantees for successful accession. Transparent relations between the authorities and socio-economic organisations, which also provide added value during the membership negotiations, are crucial.

THE OPINION OUTLINES THE PRIORITIES OF SOCIO-ECONOMIC ORGANISATIONS

2.5. The opinion concentrates on Estonia's economic and social situation from the perspective of socio-economic organisations. The opinion presents views and recommendations, focusing on the main priorities and problems for these players, as well as their role in preparing Estonia economically and socially for EU membership. The recommendations are directed at both of the negotiating parties.

2.6. As part of the drafting process for the opinion, the ESC organised a hearing in Tallinn of representatives from various Estonian ministries and the socio-economic players who are active in the country. The views and recommendations of the opinion draw on the findings of the hearing, but recognise that they do not necessarily reflect conditions throughout Estonia.

2.7. The ESC has drawn up several opinions relating to this topic⁽¹⁾. The views presented in them have been taken into account in this opinion although they are neither referenced nor referred to directly. Equally, the opinion does not repeat the views and facts that have appeared during drafting in the European Commission's and European Parliament's particularly comprehensive reports and other documents relating to Estonia's accession.

(1) For example, the opinions on 'Relations between the European Union and the countries bordering the Baltic Sea' (OJ C 73, 9.3.1998) and 'Reinforcing the pre-accession strategy' (OJ C 157, 25.5.1998).

3. Views and recommendations

3.1. *Economic and social relations in Estonia today*

3.1.1. Since first regaining its independence, Estonia has been vigorously seeking to develop and enhance all its policy sectors. Determined efforts are being made with all the political means at its disposal to develop Estonia into a successful and internationally competitive economy, which ranks with the industrialised countries.

3.1.2. In its work the Estonian government has also realised the importance of socio-economic actors in the country's development, and as a consequence, dialogue procedures have been set up with them. These organisations are consulted mainly when legislation is being drawn up and in many instances formal consultation mechanisms have been set up. Formal dialogue procedures do therefore exist and are still being developed, but it is also clear that they do not yet function entirely satisfactorily. This is also partly because most actors are still weak, as the overall level of organisation is low. Efforts to improve dialogue must therefore continue. This can be achieved, inter alia, by training officials, establishing IT links, improving current practices (including the procedures for requesting opinions), and more rapid information provision.

3.1.3. With regard to the Estonian labour market, reasonably effective cooperation has been achieved between the social partners as well as between them and the state. In the private sector terms and conditions of employment are mostly determined at company level, even though some sector-wide agreements do exist. The objective of employers' organisations and trade unions is to extend the scope of sectoral agreements, although the poor level of organisation on both sides poses an obstacle to this. In the public sector labour market relations are based on tripartite cooperation, covering issues such as the minimum wage and taxation. In addition the authorities negotiate directly with trade unions over public sector salaries as there is no clear employers' body for the state and local authorities. Employment legislation and basic labour standards — such as health and safety, pension arrangements and other social security matters — are also being developed within the framework of tripartite cooperation.

Many aspects of Estonia's employment legislation are being reformed. Collective redundancies, equal opportunities and health and safety are examples of issues which are being developed. Reforms are also being made to social security and pension arrangements. A three-pillar pension system is being established: a people's/old-age/invalidity pension, compulsory retirement and voluntary retirement. The provisions on compulsory retirement are currently being drawn up. In addition, consideration is being given to modernising training policy. As the economy evolves the structure of the labour force is also undergoing significant change. Unemployment is about ten per cent although it varies a great deal between different sectors and regions.

There are various minority groups in Estonia. The largest of these is the Russian-speaking minority, which accounts for approximately 28 per cent of the population. This minority is gradually integrating into society. The problems they face are related mainly to the citizenship criterion which requires a command of the Estonian language. However reforms to the language law were recently approved to try to deal with this problem. Among other things, an imperfect command of the language makes it harder for Russian speakers to find employment. It is clear that resolving the minority problem requires a determined policy on the part of the government, not least because of the EU's rules on the protection of minorities and non-discrimination. The programme approved by the Estonian government in March 2000 on integration into Estonian society over the period 2000-2007 is necessary in this respect.

3.1.4. Over the past few years Estonia's economic development has been particularly promising. There are however some elements of uncertainty, such as the balance of payments deficit, large market changes and changes in the production structure, rising inflation and debt-financed consumption. Estonian industry and business are still in the throes of change. Business development has taken place without any real support from the state and many uncompetitive companies have gone out of business. A very liberal economic policy and competitive production costs have resulted in a good deal of new investment flowing into the country. The privatisation of state-owned companies has almost been completed. The internationalisation of Estonian companies, inward foreign investment, and joint ventures with Estonian companies have all been significant. In addition, the number of small and micro businesses is growing rapidly. The structural changes in the economy are therefore striking, with the balance shifting towards the service and financial sectors, while companies mainly in the energy sector and heavy industry are faced with an urgent need to modernise. Key background information on Estonia can be found in Appendix 1. Estonian business interest representation is still undergoing a considerable process of change, although the Estonian chamber of commerce and industry, for example, already has an established position. Interest groups have relatively good links with the authorities. Many international companies operating in Estonia are also members of these organisations. Foreign companies operating in Estonia could help to influence the development of the Estonian labour market through their knowledge of modern labour market practices, among other things.

3.1.5. A determined education policy and other means are needed to ensure that Estonia has sufficient human capital for the economic renewal which it is undergoing. Similarly, the threat of a brain-drain exists (according to Eurostat's calculations, Estonia's GNP in 1995-97 was approximately one third of the EU average). At another level, foreign companies operating in Estonia can also contribute to developing the skills of their employees.

There is still a relatively large degree of uncertainty and indifference among Estonians regarding EU membership related issues — one third are in favour of membership and about a third are against. The proportion of those opposed has grown recently.

3.1.6. The agricultural sector and the food industry are facing major change. Prior to regaining its independence they were two of the key economic sectors in Estonia. Half of the milk and meat production was exported to Russia and eastern markets continue to be important to many companies. The range of products produced in the past was more extensive. During the 1990s agricultural production fell dramatically and rural areas are currently undergoing some upheaval. So far few determined efforts have been made to develop rural areas and to preserve their vitality. Estonia has consciously pursued a liberal agricultural and trade policy, avoiding production subsidies and export and import restrictions. The Estonian interest groups representing farmers have good working relationships with the agricultural authorities.

3.1.7. Estonian cooperative societies are not of much relevance to EU countries, even though they can bring considerable benefits to their members. The conditions for developing market gardening are good.

3.1.8. The Estonian consumer body has set itself ambitious objectives, even though its opportunities for exerting influence are still marginal. Its main aim is to improve consumer protection, product quality and safety, as well as to influence the pricing of the state-run electricity, heating (etc.) companies. Contacts have been established with the authorities, but consumer protection in Estonia remains a relatively new phenomenon.

3.1.9. Estonian socio-economic organisations are relatively new. The level of organisation is low and their structures are still being developed. There are problems with their funding (mainly through membership fees) and management, and they do not have adequate human resources for activities such as research. As a consequence many organisations are still very weak at both the level of their central organisation and sectorally. Their credibility as interest groups vis-à-vis the state suffers as a result. Their experience of government prior to the country regaining its independence means that some Estonians have a rather reserved attitude to joining the different interest groups which exist.

THE RELATIONSHIP BETWEEN THE STATE AND ORGANISED PLAYERS DOES NOT POSE AN OBSTACLE TO EU MEMBERSHIP

3.1.10. The ESC is of the view that although social relations in Estonia are still in need of improvement, the institutional and practical operating conditions for socio-economic organisations are of a sufficiently high standard for them not to call Estonia's membership of the EU into question.

3.1.11. Nevertheless, with a view to enhancing socio-economic relations in Estonia, the ESC recommends the following additional measures:

- A 'bench-marking' model is being developed in Estonia for comparing the progress of different socio-economic factors with EU Member States and other applicant countries.
- Setting up or stepping up existing EU funded programmes aimed at improving dialogue between the Estonian authorities and socio-economic organisations through the medium of information technology.
- The EU should encourage and support Member States' organisations and their EU-level bodies (Unice, ETUC, Eurochambres, UEAPME, COPA/Cogeca, etc., as well as any sectoral bodies belonging to them) to step up their technical assistance (e.g. training) to their Estonian counterparts. The different sources of technical assistance need to be coordinated effectively. Inward-investing companies have a key role to play in channelling know-how. The importance of the support provided by the Nordic Council should also be highlighted.
- The EU should support the Estonian authorities in developing and strengthening the country's internal regional policy, so that the economy and living standards develop as evenly as possible across the country. This would also help to ensure an improvement in the position of the Russian-speaking minority and its integration into Estonian society.
- The EU should support the Estonian authorities in their efforts to improve education policy, spread computer literacy, and develop information and communication technology (ICT) infrastructure in accordance with the guidelines of the eEurope strategy.
- The EU should help Estonia and its organisations to develop regional (mainly Baltic Sea region) cooperation with neighbouring countries and their organisations.

3.2. *Preparing for European Union membership*

3.2.1. *The preparation procedures*

3.2.1.1. The Estonian government's pre-accession programme is ambitious, aiming to prepare the country for membership at the beginning of 2003. Determined and all-out efforts are being made to get the country ready. These efforts are to be praised. There is however a clear risk that the quality of the preparations will suffer as a result of the speed at which they are taking place. It is evident that the results of the subject-specific negotiations and their practical consequences have not always been sufficiently well prepared, or, at least, have not yet been implemented in practice.

3.2.1.2. The Estonian government is seeking to ensure that socio-economic organisations are consulted in the negotiation preparations and has established a mechanism for this purpose consisting of subject-specific working groups. These meet regularly and relevant interest groups may be invited to attend. In addition, in November 1999 the foreign ministry set up a consultative committee to assist the leader of Estonia's EU negotiating delegation. Regular updates on the negotiations are provided.

3.2.1.3. A formal consultative mechanism does therefore exist and according to the authorities it works reasonably well. However, such organisations feel that they are not always kept sufficiently up-to-date and that their scope for influencing the content of negotiations is marginal. At the governmental level developments are extremely rapid and these organisations are finding it difficult — not least in view of their limited resources — to form well-considered views on the subjects being discussed. Opinions — often on many different topics currently under discussion — usually have to be produced at short notice. This does not leave their members, including SMEs, enough preparation time. Language problems can also arise if the background documents are only available in the EU's official languages. Estonian players often do not have the capacity to prepare and present necessary contributions. This has the result that socio-economic organisations do not support the decisions which have been taken and in some cases actually oppose them (for example the impact of membership on free trade between the Baltic states). In addition, when membership related issues are being discussed by the parliament, Estonian MPs often seem to be poorly informed. A particularly serious problem is posed by the fact that businesses are constantly having to adapt to an extremely large number of new rules — including those relating to working conditions — within very short deadlines, which causes both funding and management problems.

IMPROVING ESTONIA'S PRE-ACCESSION PROCEDURES

3.2.1.4. The ESC recommends that the procedures for Estonia's membership negotiations are reviewed so that all relevant parties are involved more closely in the preparation of ongoing issues. The ESC urges the European Union to address this issue during the negotiations and to step up its assistance to Estonia and Estonian actors for this purpose.

3.2.1.5. The Estonian government has sought to develop its civil service so that it has the necessary expertise for conducting the EU membership negotiations. The level of expertise is, in fact, quite high among the country's fairly young body of civil servants, but the human resources are limited and the number of officials with expertise is quite

small. This means that there is not enough information, nor the means to acquire it, on the practical consequences of the subjects being negotiated, such as the impact on business and the labour market. For example, the need to make large investments in environmental protection in industry has been recognised. It is also known that the cost will be considerable. The government's position has been that the costs should mainly be borne by the private sector; however, the private sector cannot afford this. A workable solution to this problem remains to be found in Estonia.

IMPROVING THE CAPACITY OF THE ESTONIAN CIVIL SERVICE TO TAKE THE NECESSARY VIEWS ON BOARD AS WELL AS THE CAPACITY OF ACTORS TO PREPARE AND PRESENT OPINIONS

3.2.1.6. The ESC recommends that, the Estonian government steps up its efforts to reinforce the capacity of the Estonian civil service. These efforts should be directed at both national and regional level civil servants, as well officials working for implementation and compliance bodies (certification, industrial rights, competition, customs, law and order and the courts, consumer protection, agriculture, regional development, etc.). Policing and border controls should also be improved in order to fight organised, cross-border financial and other crime. Similarly efforts should be made to establish how organisations can be helped to become more credible defenders of particular interests. Technical assistance, training and apprenticeships, as well as familiarisation with practices in EU countries are the priorities in this respect.

3.2.1.7. The Estonian government has sought to provide a great deal of public information in order to inform citizens adequately about the membership negotiations. Local authorities have set up EU information points, ministries have separate integration secretariats and EU handbooks and other information have been produced and distributed. The formal machinery is good, although on a practical level many problems remain with the dissemination of information. For example, not even organised players are adequately informed. This also results from their poor responsive capacity and low level of interest. Misinformation in the public debate, one example being that the forthcoming price and tax increases are being attributed to future EU membership, needs to be rectified urgently.

INCREASING PUBLIC DEBATE ON EU MEMBERSHIP

3.2.1.8. The ESC firmly supports the Commission's decision in May 2000 to adopt a separate communication strategy on enlargement which will be used to finance public information provision. The Committee encourages determined efforts, in cooperation with the Estonian government, to decisively improve the level of knowledge and public debate. In particular, civil society organisations should increase the role they play in the reflection process, the dissemination of information and the public debate on the challenges posed by EU membership. Among other things, printed information should be easier to understand. The most important documents

concerning membership should also be made available in Estonian and Russian. The information dissemination channels of these organisations — most commonly their members' newsletters — should be used to provide information on EU matters.

ADAPTING THE PACE OF PROGRESS IN THE NEGOTIATIONS TO ENSURE THE BEST RESULTS

3.2.1.9. The ESC considers that on the basis of the above-mentioned views, Estonia needs to consolidate its internal pre-accession procedures and to adapt the pace of the negotiations in order to ensure the best results. The realistic ability of the country to cope with the reforms should be taken into account. In the Committee's view this will have an important impact on public opinion and on how Estonian interest groups and citizens feel about EU membership, as the attitude towards membership will in due course be determined on the basis of the outcome of the membership negotiations.

3.2.1.10. Research and reports on EU matters must also be promoted. Indeed, too little is known about the consequences of many important issues relating to EU membership. For example, the impact of new competition and external customs rules on different business sectors, the sectoral impact of membership on the labour market, social security and employment, issues relating to the free movement of people and services, the impact of membership on economic issues (incomes, prices, taxation, etc.), the consequences for product and consumer safety are all extremely important as regards decision-making, the credibility of the preparations, and public attitudes towards EU membership. Independent research must be increased and Estonian actors should be involved in this. However their capacity to do so must be improved.

3.2.2. The readiness of different sectors

3.2.2.1. Among the greatest challenges which EU membership poses for industry and business are the changes to existing free trade agreements, environmental protection, product safety and product liability standards, as well as maintaining and improving competitiveness within the EU's single market. The situation varies considerably from sector to sector. The Estonian financial, transport and other service sectors are particularly competitive, as is the country's information and communication technology. In contrast, traditional sectors, such as heavy industry, are often in a weak position, having to contend with the challenges of structural change, rationalisation and environmental protection. In May 2000 the industry ministers of the EU and applicant countries discussed industrial reform and competitiveness. These discussions need to be continued and pursued in greater depth.

THE NEED TO DRAW UP AND IMPLEMENT ECONOMIC, INDUSTRIAL AND EMPLOYMENT STRATEGIES

3.2.2.2. The ESC recommends that work begin on drawing up a sectoral operating strategy for Estonian business, as well as a regional industrial cooperation strategy designed to promote investment, finance and other business operating conditions between Estonia and its neighbours. Determined efforts should also be made to implement the mid-term economic policy priorities (2000-2003) evaluated by Estonia and the EU in March 2000. A national employment strategy consistent with the EU's employment guidelines should be drawn up on a tripartite basis. The joint employment assessment concluded recently by the Czech Republic and the EU can serve as a useful example in this respect.

3.2.2.3. Estonia's readiness for EU membership and its adjustment to the four freedoms requires bringing its social policy and labour market legislation up to EU standards. This also applies to the implementation of this legislation. To succeed in this, labour market organisations need to be involved and general labour market operability needs to be brought into line with that of a market economy.

EMPLOYMENT CONDITIONS ARE IN NEED OF FURTHER REFORM

3.2.2.4. The ESC is of the view that Estonia needs to continue its efforts to bring its legislation on employment and job placement into line with EU standards as well as to improve its legislation on workplace health and safety, above all with regard to implementation and compliance. In addition to developing tripartite relations, cooperation between employers and employees at different levels should be improved. The EU and its Member States' labour market organisations should support the efforts of Estonian labour market organisations to develop an effective labour market and to increase the opportunities for dialogue.

3.2.2.5. Estonian agriculture and its food industry represent a relatively small proportion of Estonia's overall economy. Primary production accounts for some 7 % of GNP. The food industry is nevertheless Estonia's largest industrial sector, constituting roughly 25 % of all industrial production. Faced with the prospect of EU membership the agricultural sector and the food industry are in need of reform. For example, Estonia does not yet have a comprehensive land register, and as a result does not have a properly functioning property market. This makes it considerably more difficult to fund agriculture. Indeed, the slow progress in the country's privatisation process stems largely from unclear land ownership conditions and a shortage of surveyors. The liberal trade and agricultural policy pursued by Estonia has contributed to creating a very unstable environment for farmers. There are weaknesses in the Estonian food production chain with regard to the requirements of EU rules. In many cases the quality of

food products does not yet meet EU standards. Compared with production in many EU countries, Estonian livestock production has been concentrated in relatively large units.

THE NEED FOR AGRICULTURAL AND FOOD INDUSTRY REFORM

3.2.2.6. The ESC is of the view that reforms in the agricultural sector and food industry should concentrate on the following:

- Stepping up efforts to create a more stable operating environment for farmers. This would help to stabilise the volume of production.
- Improving Estonia's border controls further, and establishing effective import controls and a competent certified customs laboratory.
- Completing the country's privatisation process and the immediate establishment of an effective land register.
- Continuing the reforms to improve the quality of Estonia's food production chain, from the field to the table. Among other things the production machinery and technology of farms and the food industry are in need of considerable modernisation. Estonia needs to make progress in reaching the EU's hygiene and quality standards. This would also create export opportunities in new markets for Estonia which would contribute to providing stability for both the food industry and farmers. The EU needs to decide how it can support these structural reforms, as well as how the trade policy problems facing agricultural products can be resolved, with a view to ensuring that Estonia ends up with a viable agricultural sector and food industry. There is a need for capital investment in production machinery and vocational training throughout the agricultural sector. These will in due course result in increased revenue. Efforts to develop agriculture must also pay greater attention to environmental protection, including water quality.
- Encouraging family farms and production, processing and selling based on cooperative principles. The EU must actively assist these efforts as the European agricultural model is based on agricultural multifunctionality and family farms.

3.2.3. General assessment of Estonia's readiness for membership

ESTONIA IS MAKING GOOD PROGRESS TOWARDS MEMBERSHIP IN SPITE OF LIMITED RESOURCES

3.2.3.1. On the basis of the views expressed above, the ESC's general conclusion is that the real obstacle facing Estonia

in ensuring that its membership of the EU is sustainable lies essentially in the limited resources available for preparing and taking into account the views of different players when establishing policy positions, implementing, complying with and monitoring compliance with changing legislation and regulations, as well as in developing the public debate. Workable solutions must also be found for making administrative improvements and financing necessary investment. Limited resources are an obstacle for a small economy. Under these circumstances efficient allocation and priority setting are crucial.

3.2.3.2. However this is not just a problem facing Estonia. The EU must also help to reduce the above-mentioned obstacles as it has committed itself to working towards Estonian membership. The EU must show through its positions in the negotiations, the different pre-accession projects and the public debate that it has unreservedly committed itself to working to promote Estonian membership. The ESC urges the EU to examine the support programmes aimed at preparing Estonia for membership in their entirety as its top priority. The EU must speed up the introduction of programmes such

as ISPA and SAPARD and ensure that they are managed efficiently and flexibly and that they respond quickly to change. The effectiveness of the Phare programme must also be ensured through permanent critical evaluation. In cooperation with Estonia the support programmes must be targeted more specifically at correcting the main problems outlined in this opinion. New support instruments must be created if necessary. Among other things it must be ensured that Estonians are given sufficient opportunities to participate in EU research, student exchange and other similar programmes.

3.2.3.3. The ESC intends to continue its links with, and support for Estonian socio-economic organisations with a view to improving their ability to participate in Estonia's preparations for EU membership. The Committee believes that this will enhance Estonia's readiness for EU membership, while commanding the far-reaching support of both Estonians and EU citizens. In order to improve the joint participation opportunities for both Estonian and EU socio-economic organisations during the membership negotiations, the ESC urges the EU and Estonia to lose no time in setting up a Joint EU-Estonia Consultative Committee of socio-economic interest groups on the basis of the Europe Agreement provisions.

Brussels, 12 July 2000.

The President
of the Economic and Social Committee
Beatrice RANGONI MACHIAVELLI

APPENDIX I

on the Opinion of the Economic and Social Committee**Key facts about Estonian economy**

National currency: the kroon (EEK) (100 sents = 1 kroon)

Currency system: modified currency board

Currency peg: 8 EEK = 1 DEM

Currency peg and currency board fixed by law since June 1992

Central Bank's exchange rate May 25, 2000: 1 USD = 17,1743 EEK; 1 EUR = 15,6466 EEK (fixed through DEM)

Tax system: 26 % flat income tax, reinvested corporate profit is tax free; 18 % VAT

| Key indicators (estimated) | 1997 | 1998 | 1999 | 2000 |
|------------------------------------|------------|------------|----------|----------|
| GDP Change y-on-y (%) | 10,6 | 4,0 | - 1,1 | 5,5 |
| GDP per capita | 44 118 | 50 502 | 51 716 | 56 770 |
| Inflation (annual average %) | 11,4 | 8,2 | 3,7 | 3,8 |
| Current account balance (% of GDP) | - 12,1 | - 9,2 | - 4,5 | - 5,6 |
| Annual FDI (mill EEK) | 3 694,1 | 8 071,4 | 4 468,3 | — |
| Population (estimate mill) | 1,45 | 1,44 | 1,44 | 1,43 |
| Average Monthly wage (EEK) | 3 573 | 4 125 | 4 413 | 4 825 |
| Trade balance (mill EEK) | - 20 925,2 | - 21 812,4 | - 11 809 | - 12 991 |
| Average unemployment (%) | 10 | 10,1 | 11,9 | 11,4 |

(*) The percentage of the unemployed according to ILO methodology.

Sources: Ministry of Foreign Affairs of Estonia <http://www.mfa.ee>,

Ministry of Finance of Estonia <http://www.fin.ee>,

Bank of Estonia <http://www.ee.epbe>