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REPUBLIC OF ESTONIA

Overview of the Estonian Economy and Foreign Trade

The following communication has been received, on 3 February 1993, from the Minister of Foreign Affairs for the Republic of Estonia.

FOREWORD

The following overview has been compiled for presentation to the GATT Secretariat in conjunction with the granting of observer status to the Republic of Estonia on 19 June 1992.

The overview contains a short summary of the present state of the Estonian economy, its structure, foreign trade and import/export policies.

The overview reflects the situation at the time it was compiled. As the Estonian economy is constantly undergoing change and many laws have yet to be drafted or have yet to be passed by the Riigikogu (parliament), changes or supplements to the information in this overview may be necessary, of which Estonia will keep GATT informed.

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CHARACTERISTICS OF THE ESTONIAN ECONOMY

1.1. Summary of the Estonian Economy

After restoring its independence on 21 August 1991, Estonia was faced with one major task - to build a politically independent State with a functional economy, based on market principles.

In the previous fifty years, the Estonian economy was closely integrated with the economy of its neighbour to the east, the Soviet Union. Consequently, the collapse of the Soviet economy greatly affected Estonia. Economic and trade relations with Russia, Estonia's formerly largest trade partner, as well as with other CIS States, became progressively unreliable or broke off completely.

Despite the continuance and deepening of the crisis situation, stabilizing trends and the first indications of progression into a market economy system have begun to emerge in the Estonian economy. The cost of foodstuffs is stabilizing, competition is developing in the internal market, and many industrial enterprises have been able to convert their production to the demands of the western market.

Even with these positive indicators, the state of the economy remains poor, reflected by the continued decrease in production and in the consumer demand for goods and services. The production levels of State-owned enterprises have dropped 36 per cent in the first nine months of 1992. In addition to the loss of the eastern markets, the large increase in the price of fuel and raw materials, as well as the disorganization of the banking system, have also influenced the economic situation.

Real Grass Domestic Product fell in 1990 by 3.6 per cent compared to 1989, and in 1991 by 12.6 per cent compared to 1990. It is anticipated that the real Gross Domestic Product for 1992 will fall by 28 per cent compared to 1991. The GDP in 1991 was 17,271.7 thousand roubles.

1.2. The Structure of the Estonian Economy

AGRICULTURE. Approximately 12 per cent of the workforce is engaged in agricultural production, accounting for 18 per cent of the GDP. The main agricultural products are meat and dairy products. The privatization process has been dynamic in this area of the economy, where most of the 300 collective farms have been disbanded into smaller units and 7,000 small private farms have been created between 1989 and 1991.

Agricultural production has declined in recent years, primarily due to relations with Russia. Deliveries of grain for fodder by the Soviet Union, previously amounting to over 1 million tons per year, were cut in half in 1991, and by today have been entirely discontinued. Growth in the production of the private sector has not kept pace with the decline of production in the former collective farms.

INDUSTRY. The leading rôle in the Estonian economy belongs to industry, with a 61 per cent share in the total output.

A few years ago, the number of industrial enterprises totalled no more than 300. Today, thanks to the emergence of small enterprises, there are well over 3,000.

Official statistics published during the Soviet period did not reflect the true situation, as industrial enterprises often resorted to hidden price increases and accounting transgressions to create balance sheets which would satisfy the plans for growth imposed by central authorities.

It is therefore only possible to compare production figures for 1990 and 1991:

Product	1990	1991	Unit of measure
Oil shale	22.5	19.6	million tons
Electrical energy	17,180.5	14,627.2	million kilowatt-hours
Alternating current electric-motors	202,700	202,000	pieces
Mineral fertilizers	215.5	180.5	thousand tons
Synthetic detergents	39.5	28.0	thousand tons
Cellulose	68.4	65.7	thousand tons
Paper	77.3	77.5	thousand tons
Cement	938,0	705.0	thousand tons
Window glass	1,638	1,600	thousand square metres
Cotton fabric	169.2	167.5	million square metres
Knitted goods	20.0	22.4	million pieces
Footwear	7.2	6.3	million pairs

The Structure of Industrial Output (Shown as a % of 1991 Prices)

Engineering and metal processing	12.7
Chemical and oil processing	8.5
Construction materials	3.4
Fuel	2.7
Electricity production	5.1
Timber, wood processing, pulp and paper	10.3
Light industry	25.9
Food processing	26.6
Other	4.6

The leading sectors of industry are food processing and light industry.

The Food Processing Industry is primarily based on fishing and local meat and dairy supplies. A few years ago exports to the Soviet Union accounted for one third of total production.

Light industrial production such as textiles, clothing, footwear and leather goods is based on imported raw materials. The greatest challenge today is to obtain enough quality raw materials to make use of existing production capacity and compete with production on the world market.

The Engineering and Metal Processing Industries were established to serve the needs of the Soviet Union as a whole. Enterprises in this field were directly subordinated to ministries in Moscow. Equipment and instruments were produced for enterprises throughout the Soviet Union, including manufacturers of munitions, electric motors and cables, excavators, equipment for the oil and gas industry, food industry machinery, and agricultural machinery.

Many serious environmental problems have been caused by the concentration of the Fuel and Power Industry in North-Eastern Estonia. Seven mines and four open-pit mines produce over 20 million tons of oil shale per year, of which 90 per cent is used to fuel thermal power stations. Although one third of industrial capital is concentrated in the fuel and power industry, the industry accounts for only 8 per cent of total output. The main problem faced by the fuel and power industry is the wasteful consumption of raw materials.

The Chemical Industry has also been responsible for significant ecological damage. Phosphorite production, the focus of great controversy, has been halted. Exploitation of this resource has been postponed for an indefinite period due to the lack of ecologically acceptable technology. A petrochemical industry based on oil shale has developed in Estonia as an offshoot of the chemical industry. The manufacture of plastic consumer goods is also well developed.

One of the oldest industries is the Timber and Paper Industry, which is based on Estonian natural resources, which are sufficient to meet not only domestic demand. This industry has the most promising potential for future development, equally in furniture production and in the paper and cellulose industry.

The Construction Materials Industry, also based on local raw materials, has been in a state of depression for an extended period of time. Recently, the first signs of recovery in this industry have been visible and industry's export capacity is quite considerable.

The Construction Industry, however, is coming to a stand-still due to the economic crisis. Construction has been greatly affected by the relationship between supply and demand, as demand has dropped dramatically due to the drop in purchasing power and the decline in construction projects ordered by the State.

Communication and Transportation employs some 17,000 people. With the restoration of Estonian independence, a dual reorientation of these industries is taking place: to serve local rather than all Soviet needs on the one hand, and to provide a better international transportation and communication system on the other.

1.3. Liberalization of the Economy

1.3.1. Price Liberalization and Inflation

Over the past two years, Estonia has moved rapidly to liberalize prices and to reduce or eliminate subsidies. Consequently, price levels have risen rapidly since 1990. Moreover, inflation in late 1991 accelerated as Russia began to sharply increase the price of energy exports, which had previously remained at extremely low levels. Monthly inflation reached an average rate of 80 per cent in January and February of 1992, with Russia continuing to raise energy prices, prices which moved to near world market levels during this period, and the introduction of widescale liberalization of prices.

The monthly inflation rate subsequently declined to an average rate of 7.5 per cent in April and May, before picking up again in June to 11 per cent (reflecting the lagging effect of the reduction in subsidies in May). Since the introduction of the national currency unit kroon on 20 June prices increased by 24 per cent in July and 17.6 per cent in August. The inflation was in September 6.6 per cent, in October 7.7 per cent, in November 9.5 per cent and in December 3.3 per cent.

The Government has largely completed the process of price liberalization. Commodities still subject to control are mainly limited to those produced by State enterprises and include land, natural resources (including oil shale), precious metals and gems, electricity, natural gas, liquid fuel, wood products, tobacco goods, vodka and other alcohol, postal and telecommunication services, transportation services and medicines. A number of services provided by municipalities and public enterprises, including rent, public utilities, and public transportation also remain subject to control. Price controls will remain in place temporarily in cases where monopolistic price policies could lead to abuse of the consumer position (price control is implemented through establishing the maximum price level for definite goods and services).

1.3.2. Privatization

Estonia began to define and establish property relations in 1991, with the adoption of the Law on Property. Developments in property relations will include the following:

1. The return or compensation of illegally expropriated property to Estonian residents (illegal expropriation of properties started right after the Soviet Union occupied Estonia on 17 June 1940),
2. Municipalization of State-owned property,
3. Reform of co-operatives and community organizations,
4. Agricultural reform and land reform,
5. Privatization of residential space,
6. Privatization of State-owned enterprises.

For the purposes of this document, privatization of State-owned enterprises is perhaps the most important of these points.

Although the process of restructuring and privatizing State-owned enterprises began with the 1989 Law on Enterprises and the 1991 Law on Privatization of State-Owned Trade and Service Enterprises, the process of privatization has been mainly confined to smaller enterprises, of which approximately 750 or 40 per cent have been privatized. Seven larger enterprises have also been privatized.

Many different means have been carried out for privatization, including the use of stock market transactions, auctions, public sales of stocks, sale of property to joint-stock companies consisting of employees of the enterprise being privatized, and various combinations of the above.

On 17 November 1992 the State-owned "Government Agency for Privatization of State Property" announced public sale of thirty-eight of Estonia's largest industrial enterprises. Tenders were to be received by 22 December 1992, being open to both domestic and foreign buyers. The general conditions of the public sale are as follows: bids for State-owned stock companies must be for the total shares of the company, bids for State-owned enterprises must be for its total operations and bids for plants must be for its total assets (buildings, leasehold, equipment and inventory).

1.4. Fiscal Policy

Despite substantial declines in output and real incomes, overall governmental budget surpluses were recorded in both 1990 and 1991, and a balanced position was maintained through February 1992. The success in avoiding budgetary deficits can be attributed to expenditure restraint, especially the reduction of subsidies, as well as to changes in the tax structure made since 1990, particularly the modernization of income and corporate taxes, and the introduction of the VAT, which together have increased the responsiveness of the tax system to growth in nominal income. However, in March 1992, the budget moved sharply into deficit, as milk subsidies were reintroduced and heating subsidies rose reflecting higher prices charged for imported energy. Moreover, there has been an increase in the corporate and value-added tax payment areas, which amounted to about 8 per cent of total assessed taxes. The Government took remedial measures in May, mainly through the elimination of milk and heating subsidies as well as by profit pre-payments by selected enterprises, which returned a balanced budget by mid-1992.

1.5. Monetary Policy and the Banking System

In the period since independence and up to the introduction of the Estonian national currency on 20 June 1992, monetary policy was mainly focused on the development of a two-tiered banking system and measures to alleviate shortages of rouble banknotes that emerged in late 1991 and persisted through mid-June 1992.

The Bank of Estonia was established in December 1989, and the effective merger of the Tallinn branch of the Gosbank with the Bank of Estonia, which was made official on 1 January 1992, has now been completed. Although as a legal matter, the Bank of Estonia's commercial banking functions were transferred in their entirety to the Northern Estonian Bank in June 1992, as a practical matter, a substantial overlap in management, administration and operations remains.

At the present time the commercial banking sector comprises of fourty-one licensed commercial banks, not including the Savings Bank and the Agrobank.

Kroon, the national currency unit, was introduced in the context of a modified currency board and was fixed to the deutsche mark at an exchange rate of 8 EEK = 1 DEM (the limit of the technical fluctuation of EEK is 3 per cent). The only convertibility commitment assumed by the Bank of Estonia was to stand ready to convert cash and reserves of commercial banks at this rate (with no spread between sales and purchases). Exchange rates to other currencies are published daily by the Bank of Estonia as information for the commercial banks and to establish purchase and sales limits in foreign exchange trading. At the outset of the reform, foreign exchange holdings by the Bank of Estonia were adequate to capitalize the currency board under the convertibility commitment described above. As per regulations governing currency board operations, future changes in the issue of kroon notes by the commercial bank reserves held with the Bank of Estonia will be fully backed and reflected in the currency board's reserves. At the same time, the Bank of Estonia has fully guaranteed deposits at the Savings Bank, pending its reorganization.

1.6. Internal Taxation System

The current taxation system includes personal income tax, corporate income tax, land tax, operation licence tax, social security tax, value added tax, excise, customs and State duties.

Personal income tax

Annual personal income is taxed on a progressive scale at the rate of 16, 24 and 33 per cent, whereby 25-30 per cent of the projected average monthly wage is tax free. As of August, monthly income exceeding 2,000 EEK is taxed at the rate of 50 per cent. Due to recent high inflation, the personal income tax scale has lost its progressive effect as the majority of incomes fall into the category taxed at the rate of 33 per cent.

Operation Licence Tax

Operation licence tax is paid by individuals active in small commercial ventures where income is received and expenditures are covered primarily in cash, and where the calculation and monitoring of income tax is therefore complicated. Income gained from the commercial venture is not subject to further taxation.

Corporate Income Tax

Currently, a unitary income tax rate of 35 per cent is imposed on taxable income, which is defined as the net profit calculated by deducting expenditures made for production and services as well as other financial expenditures from net turnover and financial incomes. Up to 25 per cent of allocations to the enterprise's fixed capital fund and up to 15 per cent of grants to non-profit organizations (not enterprises) may be deducted from taxable income. Tax concessions are also provided for agricultural enterprises, enterprises in which over 50 per cent of the employees are invalids and for regional considerations.

Social Security Tax

Enterprises pay social security tax on all sums paid to employees and other individuals. Twenty per cent of taxable sums is paid into the out-of-budget Social Security Fund and 13 per cent is paid into a health insurance fund.

Land Tax

Land tax is not currently imposed. Corresponding legislation has been drafted which would establish the rate of land tax at 1 per cent of the value of the land.

Value Added Tax

The value added tax (VAT) implemented in Estonia corresponds to the VAT of European countries, based on the principle of tax credit. The rate of the VAT has been set at 18 per cent of the price of goods and services (without the VAT), and the taxation period has been set at one month.

Excises

Excises are imposed on furs manufactured in Estonia (16 per cent), tobacco (40 per cent) and tobacco products (70 per cent) imported into Estonia by legal entities, as well as on spirits produced in Estonia or imported into Estonia, alcoholic beverages and beer.

The excise established as an absolute rate on imported engine fuel, ca. 0.5 per cent of the purchase price, has become more or less symbolic as prices have increased over 100 times. It is likely that a higher excise rate will be introduced in the near future.

Customs duties

Customs duties are detailed in Chapter 2.2.

1.7. Outline of the Government Programme

The Estonian kroon was introduced on 20 June 1992 and was completely backed by gold and convertible currency reserves held by the Bank of Estonia. Consequently, the Government set forth a programme to provide conditions which would guarantee the stabilization of the kroon, within its general stabilization and reform processes.

The main elements of the stabilization programme are as follows:

- completion of the price reform process;
- restrictive fiscal policies aimed at balancing general Government accounts (including the State budget, and the budgets of extra-budgetary funds and local governments);
- strict adherence to the provisions of laws and decrees associated with currency reform;
- an income policy aimed at containing excessive wage increases in order to avoid an inflationary spiral;
- further liberalization of the exchange and trade system;
- a comprehensive structural adjustment effort covering privatization, improvement of financial discipline of enterprises, financial sector reform, fiscal reform, improvement in the operation of the social safety net, and restructuring or closure of non-viable enterprises and banks.

In September 1992, elections for the new parliament - Riigikogu and the President were held, and a new government was formed. In accordance with the coalition agreement signed by the Estonian National Independence Party, "Pro Patria" and "Moderates", the Government coalition has set the goals of stabilizing the economy and creating conditions necessary for the development of a free market economy and integration into Europe.

In order to guarantee Estonia's economic stability, the agreement notes that exports shall be increased and the Government shall assist enterprises in locating Western markets. It also notes that support should be given to an Export Institution, based on private capital, to gather and provide information to Estonian enterprises.

The agreement also reaffirms that an attempt to maintain a balance of trade does not mean the abandonment of the principles of an open market economy. Estonia's customs policies should be as liberal as possible.

The Government realizes the importance of generally abstaining from protectionist measures. To protect Estonian producers, the Government is weighing the option of providing subsidies for certain products with the requirement of economical and successful production. A higher import tax may be applied to some luxury goods. The Government also believes that any excises must be paid on goods at the time of their arrival in Estonia.

II. ESTONIAN FOREIGN TRADE POLICY

2.1. The Objectives of Foreign Trade Policy

Estonia is pursuing an open foreign trade policy in its conversion to a market economy. The following is required to achieve this:

1. To produce goods in Estonia which can compete on the world market, to raise Estonia's export potential and to avoid imposing significant restrictions on imports.

   In order to raise Estonia's export potential a system of export credits needs to be developed and fiscal policies which promote exports must be implemented.

2. To promote the participation of foreign capital in the privatization process.

3. To accede to international trade agreements and conventions and to conclude bilateral trade agreements with other States.

4. To bring tariffs and customs regulations up to European standards.

2.2. Export and Import Policy

The unstable economy and the shortage of some goods on the domestic market have made it necessary to institute certain export restrictions. The list of restricted goods is periodically examined with the goal of shortening the list. Currently, export quota have been imposed for the export of oil from oil shale (HS heading No. 2706.0000). Export of gravel (2517.10101), fireproof clay (2508.40001) and quartz sand (2505.10001) is prohibited.

Export tariffs are only imposed on rape seed oil, certain items of cultural value and metal and scrap metal as a percentage of their value.

The import and export of goods subject to quotas is carried out under licence provided by the Department of Commercial Licensing. Export licences for agricultural products must be co-ordinated between the applicant and the local county government.

Specific legislation regulates the systematic purchase and export of black and non-ferrous metals.

Until now, the licensed purchase and exportation of copper, copper alloys, aluminium, aluminium alloys and their scraps has been granted only to the State company "Eesti Metallieksport" "Estonian Metal Exports") and on a toll-free basis.

Licences for the export of black and non-ferrous metals, classified in HS headings 72-81, Chapter XV and sub-heading 8909, heading 89, Chapter XVII, their products and metal scraps are valid until the end of this year, however these licences will not be extended or renewed. New laws for purchasing and exporting metals will be examined in the beginning of next year.

Imports have been completely liberalized. No quotas are imposed on imported goods. As of 14 August of this year, a licence is required for the importation of alcohol and tobacco, which are also subject to excises. Customs duties are still in effect for imported furs, automobiles, bicycles and yachts.

Customs tariffs on IMPORT goods are as follows:

Type of goods	Rate of duty (% of value)	Rate of excise (% of value)
Fur and goods made of fur	16	
Cars, bicycles, launches, yachts	10	
Tobacco		40
Cigarettes, cigars, cigarillos		70
Beer		80
Spirits		100
Champagne, quality fruit wines		20
Brandy		70
Special brandy		40
Vodka, gin, whisky		100
Special whisky		50
Liquor		70
Sherry, spirituous wines, vermouth, cocktails		50

Customs tariffs on EXPORT goods are as follows:

Rapeseed oil	100
Objects of cultural value (e.g. vintage cars and other motor vehicles from before 1950)	100

Estonian Customs also collects a customs operations tax, which is an internal tax, fiscal in nature, and charged at the rate of 0.5 per cent of the value of the goods.

On 1 November 1992 a law entered into force, whereby Estonian Customs may collect 18 per cent of the value of goods as VAT at the border, including from individuals who import goods in excess of the personal allowances.

Transit through Estonia is duty-free, free of excise tax, procedure tax and VAT.

Estonia does not apply any technical barriers, anti-dumping or countervailing measures to trade.

2.3. Overview of exports and imports in 1991 and 1992

The forced orientation of the Estonian economy to the eastern market over a period of fifty years has produced dependence on this market and a decline in the quality and competitiveness of Estonian products in relation to the world market.

The following analysis reflects imports and exports of Estonia in 1991 and the first nine months of 1992. Unfortunately, it is impossible to compare any previous years to 1992 in monetary amounts, as statistics from 1991 and earlier are expressed in roubles and statistics from 1992 are in Estonian kroons.

During the last ten years, the volume of exports has remained relatively stable and has amounted to 200 million roubles in domestic prices. The 1991 data on exports and imports shows certain changes in the tendencies of foreign trade. For example, Cuba and Mongolia have vanished from the list of Estonia's top ten foreign trade partners. For exports, first place is occupied by Finland, whose share has increased considerably (in 1990 17.4 per cent, in 1991 - 44.4 per cent). Sweden, the Netherlands, and Germany follow in importance.

Overall Exports and Imports by Country in 1991

Exports

Country	Volume (millions of roubles)	Percentage (of the export market)
Finland	119.4	44.4
Sweden	26.7	9.9
The Netherlands	14.5	5.4
Germany	9.7	3.6
Hungary	7.2	2.7
Poland	7.0	2.6
China	6.9	2.6
Denmark	6.2	2.3
United States	5.7	2.1
Austria	5.3	2.0
Czech and Slovak Federal Republic	3.0	1.1
Great Britain	2.6	1.0
Others	54.9	20.3
TOTAL	269.1	100.0

Imports

USA	157.1	23.1
Finland	88.9	13.1
France	61.3	9.0
India	46.0	6.8
Germany	37.4	5.5
Sweden	35.0	5.2
Czech and Slovak Federal Republic	28.3	4.2
China	28.2	4.1
Poland	23.4	3.5
Italy	13.0	1.9
Romania	10.6	1.6
Bulgaria	9.7	1.4
Others	140.2	20.6
TOTAL	679.1	100.0

Major exports in 1991 were from the chemical industry (21.1 per cent), textiles (20.8 per cent) and timber and timber products (16.7 per cent).

Exports by Category of Goods in 1991

Category of goods	Volume (millions of roubles)	Percentage (of the export market)
Chemical products	56.6	21.1
Textiles	56.0	20.8
Timber and timber products	44.9	16.7
Livestock and animal products	24.4	9.1
Mineral products (cement, peat, limestone, resins, oil shale, etc.)	13.1	4.9
Products of the food industry, (beverages, ethyl alcohol, tobacco)	12.8	4.8
Services	10.8	4.0
Non-precious metals and goods made from them	9.2	3.4
Plastics, synthetic resins, rubber and products made from them	3.7	1.4
Others	37.6	13.8
TOTAL	268.1	100.0

Goods exported from Estonia in 1991 outside the rouble zone amounted to 186.9 million roubles. In 1990, this figure was 131.1 million roubles. Due to the continuous increase in wholesale prices since 1990, the rise of exports in monetary terms does not necessarily reflect a rise in export volume, which actually decreased for most goods. In the coming years it is expected that there will be an increase in exports earning hard currency. In the building of a new export infrastructure, local natural resources (forests, oil shale, peat, cement, fish, alcohol, agricultural products) must be utilized. Estonia's export potential in 1992 has been estimated at up to US$280 million.

Until recently, imports exceeded exports by three and a half to four times. Under command economy production, capacities were created to serve the domestic market of the former USSR by production which was based largely on imported raw materials. At the same time, the monetary value was distorted by the pricing structure of the command economy. Economic activity in 1991 was still dominated by the old import-reliant industries. In comparison to previous years, imports from Eastern European countries decreased in 1991, as the import from these countries of the majority of Estonian public transport vehicles (trolley buses, buses, trams) and agricultural machinery was discontinued. Imports from Finland and Sweden have increased dramatically, mainly thanks to newly established joint ventures.

Estonia exported goods worth 3,277 million EEK and imported goods worth 3,138.1 million EEK in the first nine months of 1992. Due to incomplete statistics, only data from April to September are used for the following table of imports and exports in Estonia.

Estonian Exports from April to September 1992

Order	HS heading	Category	Value in million EEK	Percentage of total
1.	52	Cotton (yarn, fabrics etc.)	247.7	9.1%
2.	04	Milk, dairy products, eggs, natural honey, animal by-products not mentioned elsewhere	238.6	8.7%
3.	44	Timber and timber products	234.9	8.6%
4.	49	Books, newspapers, prints and other printed matter, manuscripts, printed texts, blueprints (also securities and banknotes)	186.9	6.8%
5.	74	Copper and copper products (primarily metal scraps)	130.0	4.8%
6.	75	Nickel and nickel products	128.6	4.7%
7.	16	Meat, fish and seafood (including molluscs) products	125.6	4.6%
8.	94	Furniture, mattresses, box-springs, pillows and other stuffed furniture auxiliary materials, lamps and lighting fixtures not mentioned elsewhere, pre-fabricated buildings	124.5	4.6%
9.	87	Land transport vehicles (not including railway stock and parts), their parts and other spare parts	100.4	3.7%

The total value of exports between April and September equalled 2,734.1 million EEK.

The above listed nine categories of goods accounted for 55.5% of this total at EEK 1,517.2 million.

Estonian Imports from April to September 1992

Order	HS heading	Category	Value in million EEK	Percentage of total
1.	27	Mineral fuels, mineral oils, their distilled by-products, bituminous products, mineral wax	654.0	26.8%
2.	84	Nuclear reactors, boilers, equipment and mechanical fixtures, their details and junctions	395.4	16.2%
3.	87	Land transport vehicles (not including railway stock and trams, their parts and spare parts)	325.8	13.4%
4.	85	Electric motors and equipment, their parts, audio recording and reproduction equipment, television audio and reproduction equipment, other parts	155.2	6.4%
5.	17	Sugar and confectionery goods	55.4	2.3%
6.	90	Optical, photographic, cinematographic, medical or surgical instruments and equipment, measurement, control and precision instruments and equipment, parts and spare parts	45.0	2.0%
7.	52	Cotton (yarn, fabrics, etc.)	45.0	1.9%
8.	62	Clothing and accessories, not made of knitted fabrics	42.9	1.8%
9.	73	Iron and steel products	42.6	1.8%

These 9 categories of goods account for 72.4 per cent or 1,764 million EEK of the total Estonian imports of 2,437.8 million EEK during the six-month period.

Estonian Imports and Exports by Country
(January-September 1992)

EXPORTS				IMPORTS			
	Country	Share	Total (in million EEK)		Country	Share	Total (in million EEK)
1.	Russia	24.7%	808.8	1.	Russia	31.8%	999.1
2.	Finland	19.1%	626.7	2.	Finland	27.6%	866.7
3.	Ukraine	9.5%	311.4	3.	Germany	5.9%	186.0
4.	Sweden	6.7%	218.8	4.	Sweden	5.5%	173.3
5.	Latvia	6.3%	204.8	5.	Lithuania	3.9%	122.1
6.	Netherlands	4.7%	154.3	6.	Ukraine	3.9%	122.0
7.	Germany	3.3%	107.3	7.	Byelorussia	3.6%	114.2
8.	USA	2.9%	94.1	8.	USA	1.9%	59.3
9.	Uzbekistan	2.0%	63.9	9.	Latvia	1.8%	57.3
10.	Byelorussia	1.9%	63.1	10.	Great Britain	1.8%	56.4
Total		81.0%	2,653.2		Total	87.7%	2,756.4
Total exports			3,277 mill.EEK		Total imports		3,138 mill.EEK

The main problems concerning imports in 1992 and the years to come will be the question of how to satisfy the minimum needs of the State infrastructure (medicines, chemicals, spare parts) and how to secure imports of grain and various oil products. Expenditures for these goods must come from the State budget, foreign credits and aid. Plans have been made to reorientate in enterprises which formerly used imported raw materials and produced for the Eastern market. In the future, more use of local raw materials will have to be made and production will be geared towards the Western market. These changes will be accompanied by the privatization of enterprises, with the involvement of foreign capital.

2.4. Customs System

Current customs policies are regulated in Estonia by approximately eighty different legal acts. The draft of the Customs Law has been reviewed by experts from the European Community and is expected to be adopted during this year.

Customs valuation

The Act on Customs Valuation is being drafted, based on the following:

1. The General Agreement on Tariffs and Trade
2. The Convention on Customs Value of Goods
3. The Agreement on the Implementation of Article VII of GATT and the Protocol to the Agreement on the Implementation of Article VII of GATT.

Experts from PHARE have also participated in this project.

Tariffs

Estonia lacks a unitary tariff system. The new Government has yet to express a clear position on tariff policy, although the introduction of import tariffs on certain agricultural goods has been debated.

Free Trade Zone

There are currently no Free Trade Zones in Estonia.

2.5. Preferential Treatment

Preferential treatment on the bases of GSP is extended to Estonia by the United States, the EEC and Canada. Rules of origin are based on regulations of the European Community No.693/88, 4 March 1988 and on the annexes D. 1, D. 2 and D. 3 of the Kyoto Convention.

III. FOREIGN INVESTMENTS IN ESTONIA

The Law on Foreign Investments has been in force since September of 1991. This law together with the Law on Tax Concessions for Foreign Capital Enterprises form the main pillars of the framework for foreign investments.

The main principles of the Law on Foreign Investments are as follows:

- the foreign investor has the same rights as an Estonian citizen or judicial person;

- foreign investments are guaranteed by the Republic of Estonia;

- the property of a foreign investor cannot be nationalized, expropriated or confiscated.

No spheres of activity are prohibited for foreign investors, however, licences are required to operate in the following fields:

- mining;
- energetics, gas and water supply;
- railway and air transport;
- waterways, ports, dams and other hydraulic structures;
- telecommunications, communication networks.

Commercial banks are also subject to licensing by the Bank of Estonia.

Foreign investors have the right to export foreign currency which is received as profit from the sale of their share of an enterprise's assets or from the dissolution of an enterprise.

The Law on Tax Concessions for Foreign Capital Enterprises provides the following concessions:

1. If the foreign investor's share in the fixed capital of the enterprise in the beginning and throughout the taxation period is at least 30 per cent, but not less than US$50,000 or the equivalent value in another foreign convertible currency, the enterprise is exempt from income tax for a period of two years, commencing with and including the first year a net profit is realized. In the subsequent two years, income tax will be decreased by 50 per cent.

2. If the foreign investor's share in the fixed capital of the enterprise at the beginning and throughout the taxation period is at least 50 per cent, but not less than US$1,000,000, or the equivalent in another foreign convertible currency, the enterprise is exempt from income tax for a period of three years, commencing with and including the first year a net profit is realized. In the subsequent five years, income tax will be decreased by 50 per cent.

Subsidiaries and affiliated branches of foreign capital enterprises are considered to be foreign capital enterprises, as defined by Estonian law.

There are currently 2,357 foreign capital enterprises in Estonia for a total amount of foreign investment of 457.8 million EEK. The main investors are as follows: Finland 264.7 million EEK, 1,669 enterprises; Sweden 40.1 million EEK, 292 enterprises; the Netherlands 36.8 million EEK, thirteen enterprises; USA 29.9 million EEK, sixty-eight enterprises; Germany 24.6 million EEK, sixty-three enterprises.

IV. INTERNATIONAL BILATERAL ECONOMIC AND TRADE AGREEMENTS OF ESTONIA

The conclusion of new trade and economic agreements with individual States and groups of States is an important factor in ensuring unhindered export and trade.

Iceland was the first country to conclude an MFN agreement with Estonia, followed by Sweden with a similar agreement in October, 1991.

The principle of free trade was first introduced in Estonia with the signing of the Protocol on Temporary Measures on Economic and Trade Co-operation between Estonia and Finland in February 1992, which provided an important step, not only economically but also politically.

In March, Estonia signed a similar agreement with Sweden, which further elaborated technical co-operation and provided for up-to-date rules of origin, which in turn have brought extensive co-operation in the field of customs administration, a reliable border régime and trade statistics.

A free trade agreement with Norway, similar to the one with Sweden, was signed in June of this year. A free trade agreement with Switzerland was signed on 21 December 1992.

Advantages in the trade of specific agricultural and fish products have been provided in separate agreements, concluded in the framework of the free trade agreements.

Our relations with EFTA are characterized by the joint declaration by EFTA member states and Estonia, signed on 10 December 1991, which calls the following:

1. determine possibilities for trade development and liberalization between Estonia and EFTA countries.

2. develop co-operation in the following areas:

   - customs, tariffs and other areas of trade policy;
   - technical barriers in trade and standardization;
   - trade information and statistics.

3. determine possible co-operation in establishing free trade.

Mutual investments have been protected under the provisions of investment promotion and protection agreements concluded with Finland, Sweden, Norway, France, Denmark, Netherlands and Germany.

The Estonian Government is currently negotiating with several countries for the completion of bilateral agreements for the avoidance of double taxation.

ANNEX

**List of Domestic Laws and Regulations
Concerning Foreign Trade**

1. Government Decree of 12 September 1991
"On Customs Regulations in the Republic of Estonia"
Amended 19 June 1992.

2. Government Decree No. 52 of 19 February 1992
"On Confirming the Regulations for the Levy of Customs Duties"

3. Ministry of Finance Decree No. 26 of 7 April 1992
"On Confirming the Guidelines for the Regulations for the Levy of Customs Duties"

4. Ministry of Finance Decree No.27 of 7 April 1992
"On the Levy of Excises on Imported Beer and Alcohol by Estonian Customs"

5. Ministry of Finance Decree of 23 July 1992
"On Confirming the Regulations for Collection of Payment for Customs Operations and Services"

6. Ministry of Finance Decree No. 62 of 28 August 1992
"On Amendments to the Rates and Regulations for Collection of Payment for Customs Operations and Services"

7. **Law on Fur Excise** of 11 November 1991
Amended 24 August 1992.

8. **Law on Beer Excise** of 27 January 1992
Amended 24 August 1992.

9. **Law on Alcohol Excise** of 19 March 1992
Amended 24 August 1992.

10. **Law on Tobacco Excise** of 8 July 1992

11. **Estonian SSR Law on Regulating the Import and Export of Goods** of 26 January 1990

12. Estonian SSR Government Decree No. 26 of 13 February 1990
"On Confirming the Regulations for the Implementation (Issue), Amendment and Voiding of Registration, Quotas and Licences for Imported and Exported Goods"
Amended 20 December 1990 and 4 April 1991

13. Government decree No. 243 of 14 August 1992
"On the Enactment of a State Monopoly on Alcohol and Tobacco"

14. Government Trade Regulation Committee Letter No. KM-14-44 of 30 March 1992
"On the Enactment of the List of Liquid Fuels and Lubricants Prohibited from Export from the State"

15. Ministry of Trade decree No. 59 of 1 July 1992
"On Regulating the Trade of Metal"

16. Ministry of Finance, Ministry of Economy and Ministry of Trade joint decree No. 50/20/60 of 1 July 1992
"On the List of Metals Subject to Customs Duties Upon Export from the Republic of Estonia and Rates of Customs Duty"

17. Government decree No. 183 of 17 July 1992
"On Organising the Trade of Metal"

18. Government decree No. 228 of 5 August 1992
"On Exempting the State Enterprise "Eesti Metallieksport" from Customs Duties"

19. Ministry of Trade decree No. 94 of 7 October 1992
"On Enacting Export Quotas on Goods"

20. Customs Department decree No. 20 of 27 October 1992
"On Confirming the Guidelines for the Application of Procedures for the Collection of Value Added Tax on Imports"

21. Government decree No. 92 of 20 March 1992
"On Organising the Sale of Forest and Forest Products from Forests under the Administration of the State Forest Department"

22. Government decree No. 97 of 24 March 1992
"On the Export of Liquid Fuels and Lubricants" (only Point 1 is in force)

23. Government decree No. 243 of 27 November 1991
"On Temporary Procedures for the Pricing and Export of Motor Fuels"

24. Government Trade Regulation Committee Letter No. KM-14-44 of 30 March 1992
"On the List of Liquid Fuels and Lubricants Prohibited from Export from the State"

25. **"Guidelines for Customs Procedures and Control of Goods and Property in Transit Through the Territory of the Republic of Estonia"**

26. Pricing Department letter No. 10-200 of 17 March 1992 **"On the Price List for Determining Customs Duties on motor Vehicles Imported into the State"**

27. Pricing Department letter No. 5-17/131 of 23 March 1992 **"On the Price Lists for Determining Customs Duties on Rape Seed Oil, Tobacco and Tobacco Products, Beer, Spirits and Alcoholic Beverages and Furs Imported into the State"**

28. Letter by the Chief Sanitary Doctor in Estonia of 5 February 1992 **"On Relations for the Safe Transport of Radioactive Substances in the Republic of Estonia"**

29. Customs Department letter No. 4-8/344 of 24 April 1992 **"On Veterinary Certificates"**

30. Telecommunications Inspection letter No. 11 **"On the Regulations for the Import and Export of High Frequency Equipment"**

31. Customs Department letter No. 4-8/804 of 27 August 1992 **"On Licensing the Import and Export of Explosive materials"**

32. Ministry of Finance decree No. 18 of 9 March 1992 **"On Temporary Regulations for the Import and Export of Precious Metals, Gama and Products Produced from Gems into and from the Republic of Estonia for Legal Entities and Individuals"**

33. Ministry of Culture decree No. 1 of 8 May 1992 **"On Regulations for the Import and Export of Objects of Cultural Value"**

34. Bank of Estonia directive No. 38 of 12 May 1992 **"On the Import and Export of Hard Currency in Cash by Estonian Banks into and from Estonia"**

35. Government decree No. 213 of 22 July 1992 **"On Regulations for the Customs Inspection of International Postal Consignments**

36. **Law on Taxation** of 28 December 1989

37. **Law on Licence Tax** of 25 September 1990

38. **Law on Value Added Tax** of 15 October 1991
Amended 24 August 1992

39. Ministry of Finance decree No. 1 of 6 January 1992
"On Confirming the Guidelines for the Application of Value Added Tax"

40. Ministry of Finance decree No. 75 of 16 October 1992
"On Amendments to the Guidelines for the Application of Value Added Tax"

41. **Law on Corporate Income Tax** of 15 October 1991
Amended 24 August 1992.

42. **Law on Personal Income Tax** of 11 October 1991
Amended 15 October 1991, 29 January 1992 and 24 August 1992

43. **Law on Foreign Investments** of 11 September 1991

44. **Law on Tax Concessions for Foreign Capital Enterprises** of 11 September 1991.

45. Supreme Council Resolution of 11 September 1991
"On the Application of the Law on Foreign Investments and The Law on Tax Concessions, for Foreign Capital Enterprises"

46. Council of Ministers Resolution No. 385 of 23 November 1989 and Government regulation No. 28 of 11 February 1991
"On the Statutes of Joint Stock Companies"

47. **Foreign Currency Law** of 20 May 1992

48. **Currency Law** of 20 May 1992

49. **Law on the Backing of the Estonian Kroon** of 20 May 1992

50. **Bank Law** of 20 May 1992

51. **Law on the Economic Border** of 22 October 1990

52. **Property Law** of 13 June 1990

53. **Law on Leasing** of 26 September 1990

54. **Law on Land Reform** of 17 October 1991

55. **Law on Bankruptcy** of 10 June 1992

56. **Law on the Arbitration Court of the Chamber of Commerce and Industry** of 16 August 1991

57. Government decree No. 238 of 10 August 1992
"On the Issue and Confirmation of Certificates of Origin for Goods"

58. Government decree No. 300 of 19 October 1992
"On Enactment of Border Control by the Plant Quarantine Inspection on Republic of Estonian Territory"