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ACCESSION OF ESTONIA

Memorandum on the Foreign Trade Regime

As foreshadowed in document L/7421, the Memorandum on the Foreign Trade Regime submitted by the Government of Estonia is reproduced hereunder.

OUTLINE

I. Introduction

On 20 August 1991, Estonia regained its independence and was faced with the massive task of transforming itself both politically and economically. Now, only two years later, Estonia is a democracy that is well on the way to developing a free market economy in which the play of competitive market forces determines prices. It has also begun to reestablish its position in the world market.

On 17 September 1991, Estonia was accepted as the 166th member State of the UN. On 28 June 1992, the new Constitution of the Republic of Estonia was adopted, and in September 1992, the first free presidential and parliamentary elections since its loss of independence were held.

The economic changes which have already largely transformed Estonia have taken place despite many, probably inevitable difficulties that faced the country. The prerequisites for these changes were the successful monetary reform and the establishment of a sound national currency. The Estonian kroon (crown) was introduced on 20 June 1992. It is completely backed by gold and convertible currency reserves held by the Bank of Estonia, is the only legal tender in Estonia, and is fully convertible into other currencies within the Estonian territory.

The Government has worked out a programme to create conditions which would guarantee the stabilization of the kroon, consistent with general stabilization and reform processes. The main points of the stabilization programme are as follows:

- Completion of the price reform processes;
- Restrictive fiscal policies aimed at balancing general government accounts (including the state budget, and the budgets of extrabudgetary funds and local governments);
- Strict adherence to the provisions of laws and decrees associated with currency reform;
- Income policy aimed at containing excessive wage increases in order to avoid an inflationary spiral;
- Further liberalization of the exchange and trade system;
- Comprehensive structural adjustment efforts 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.

This memorandum gives specific factual and statistical information on the Estonian economy and on these policies, in particular, trade policies. It reflects the situation only at the time that it was complied. Many laws are currently being drafted or have yet to be passed by the Riigikogu (parliament).

Estonia is a small country which is dependent on international trade. The success of the transformation programme is, therefore, not dependent only on the efforts of the Estonian Government and the Estonian people. A favourable external environment is essential. Estonia must integrate more fully into the international community and into the world economy if it is to realize the full potential of its reforms. Estonia is already a member of many international organizations, including the United Nations, the International Monetary Fund and the World Bank. It must also join GATT and is in a position to do so on the basis of mutually beneficial rights and obligations.

II. Economy and foreign trade

(1) Economy

(a) General description

Estonia is the smallest country in the Baltic Sea region. The territory of Estonia occupies 45,100 sq. km. The northern part of Estonia is a coastal plain. Towards the south, terrain becomes more variable, at its highest point 318 metres above sea level.

In the territorial waters of Estonia there are over 1,500 islands, the largest of which are Saaremaa and Hiiumaa. The total length of the Estonian coastline is over 3,800 km.

According to the last census, held in 1989, the population of Estonia was 1,565,662, of which 963,281 or 61.5 per cent were Estonians.

The largest cities are: Tallinn, the capital, with 500,000 inhabitants; Tartu, the university town (115,000); Kohtla-Järve, the chemical industry centre (90,000); Narva on the border of Russia (86,000), and Pärnu, a resort town with a long history, (57,000).

Industry in pre-war Estonia was primarily focused on food processing, although textile and food-based industries were also significant. These sectors also remain among the most important areas of industrial activity today. Industrial activity is concentrated in three sectors, the food processing industry and light industry (mainly textile industries) accounting for about one quarter of the value of Estonia's industrial output. The engineering industry is next in size in terms of the value of output (about 18 per cent of the total).

The structure of industry that was established by the Soviet occupation did not correspond to the needs of Estonia. 1989 marked the last year of the Soviet economic system. During 1990 and 1991 the output declined, and in 1992 a structural crisis broke out. The aftermath of the same structural crisis is evident through 1993. From January-September 1993 industrial production without VAT and excise taxes was 10,362.6 million Estonian kroons (EEK), the State-owned and municipal enterprises accounted for 6550.8 million EEK (63.2 per cent) of this amount. In comparison to the same period of 1992, the volume of output was smaller by 32.4 per cent, among State and municipally-owned enterprises the decline was 34.8 per cent. The volume of industrial output for September 1993 was 1,256.7 million EEK, 19.2 per cent smaller than September 1992.

Since 1991, trade volume with the former Soviet Union has not reached the level of previous years. The reorientation of Estonian foreign trade from East to West has had a remarkable influence on the speed of economic reforms and the development of national economy.

The period of relative stability that we enjoyed in the last months of 1992 continued during the period of January to June 1993. Strict fiscal and monetary policy has successfully put an end to the decline of economic conditions in Estonia.

The stabilization of economy can be observed in the relatively low inflation and the stabilization of real income of the citizens of Estonia.

At the same time it is to be pointed out that the current positive changes do not guarantee their own irreversibility. The present achievements are due mainly to a strict retrenchment policy and economic duress upon the people.

The industrial private sector has developed more slowly than expected. It has grown mainly because of newer small-capacity enterprises. The bulk of the large state-owned enterprises, on the other hand, are in unfavourable condition due to delayed privatization. The sales volumes in manufacturing industries, agriculture, and construction continue to decrease. Present capital expenditures are still insufficient to guarantee sustained growth of industrial output. The operations of Estonian companies suffer from low domestic demand and the consequent shortage of financial resources to purchase capital equipment and supplies, the main obstacle to taking bank loans is the relative unpreparedness of the feasibility studies of the financing proposals. At the same time, greater foreign investors are leery because of the pronouncement of the Estonian economic situation as too unstable and the incomplete framework of laws regulating the economic issues.

Regional unemployment, as well as the reported slowdown in property and land reforms, aggravate the present unfavourable economic conditions.

Nevertheless, the prognosis for 1994 calls for moderate improvement in the economy on the whole, and in particular in the level of consumption and the volume of investment into Estonian economy. The tendency towards the rise of foreign demand for Estonian exports and the rise of domestic demand for foreign imports is clearly evident. However, the small size of the Estonian domestic market shall remain a stumbling block on the way to development of Estonian industries, unless foreign (European) markets become freely accessible for Estonian goods.

Development of leading branches of economy

Traditionally, industry plays an important rôle in the Estonian economy. Estonian industrial output reached an acme in 1989. Since then, there has been a great decline due to structural changes.

The structural crisis is not an all-encompassing phenomenon. Though industrial output has decreased by about 60 per cent since 1989, the rates of decline in different sectors vary. And despite numerous problems, the present situation is far from being hopeless: the developments of 1993 show a trend towards stabilization, not of the forcible type of the Soviet occupation period, but rather a slowdown in the decline of output and development of a new structure based on the possibilities of market economy.

After a decline from January 1993 to February 1993 of 17.2 per cent, the industrial output of Estonia increased for the next four months. In March the increase was 26.5 per cent, in April the figure was 5.8 per cent, in May 7.0 per cent, in June 4.9 per cent. In July and in August the volume of production declined, but that probably was due to the annual collective paid vacations.

Compared to September 1992, in September 1993 more medicines, peat briquettes, electrode coke, synthetical resins and plastics, measuring apparatus, agricultural machines, plywood, fibreboard, skis, construction bricks, linen yarn, silk fabrics, carpets and other floor coverings, cheese, skimmed milk powder, tinned fish and milk, fish, liqueur and other distilled alcoholic drinks, non-alcoholic beverages, mineral water, syrup, cigarettes, synthetical detergents, lacquers, and paints were produced.

Approximately one fifth of the observed 300 large-scale enterprises have succeeded in finding a rôle in the current economic and political conditions. According to the data for nine months of 1992, out of 168 State-owned and municipal enterprises 138 (82.1 per cent), had a decreased volume of production.

Because of structural changes, Estonian industries have already been able to reorient to western markets. Trades with the CIS accounted for 90 per cent of the total trade volume at the end of the 1980s, and only 25 per cent for the first nine months of 1993.

Although many of the aforementioned difficulties are presumably going to persist in 1994, a further slowdown of economic decline can be expected and if certain problems find positive solutions, a rise of up to 5 per cent from 1993 can be predicted.

The main areas of economic specialization

The turnover of the **fuel and energy complex** has stabilized, presently accounting for about 55 per cent of the level of 1989. Realistic predictions of growth for 1994 in this sector are generally around 5 per cent.

Foods industries' production has stabilized and the production levels for 1994 are presumably going to remain on the level of 1993. The main objective for the businesses operating in this field is to improve the quality of their products and its packaging to maintain their competitive edge in competition with the foreign food producers.

Light industry (textiles, footwear, etc.) has been able to adjust itself more quickly and successfully to the conditions of market economy than other sectors of industry. This success is attributed to the better technological basis and skilled labour that was inherited from the Soviet system. In this area, a 10 per cent rise in the volume of output is expected.

Lumber and wood processing (including furniture) is considered to be one of the most promising sectors of national economy in Estonia. It is based on abundant natural resources and relatively skilled local labour. For 1994 an increase of 10 per cent is expected. Unfortunately, at present, the production of cellulose has ceased in Estonia, and the revitalization of the pulp and paper industry would be the main concern of the industry.

The **chemical industry** was the most Eastern-oriented in 1989, - depending on the CIS for both raw materials and a market. Hence the structural change in this branch has been particularly sharp: many chemicals are no longer produced and instead new product lines are being introduced. The development of the production of lacquers, paints and medicines has been especially rapid. A 5 per cent rise in the output of this sector has been forecasted.

The **construction industry** is based on local materials and local markets, though the actual volume of production is dependent on the sums allocated to construction in different budgets, that have become more modest because of the general lower availability of financial resources. In construction it is most important to service the demand of the domestic market.

The **engineering industry**, like the chemical industry, was oriented to eastern markets and suffered a deep structural crisis. It has been reoriented towards subcontracting for Western firms to guarantee employment. According to predictions, while production by engineering industries will not increase, this sector will remain stable.

Main economic indicators

The prices of goods and services were 1.5 times (49 per cent) greater in September 1993 than in September 1992.

The Producer Price Index in September 1993 was 99.4 per cent (-0.6 per cent) in comparison to August 1993. The drop occurred mainly in energetics (-6.4 per cent) as the price of heat dropped.

According to the estimates made by the Macroeconomics Division of Statistics Board of Estonia, the Gross Domestic Product continues to decrease. In the 2nd quarter of the current year, GDP decreased by 6.4 per cent from the 1st quarter. Quarterly estimates are only accurate within +/- 2 per cent, because coefficients for compensation of changed output due to seasonal changes have not yet been calculated for Estonia, mainly because estimates of GDP were made on a quarterly basis for the first time in 1993.

The GDP for the first half of the current year was 9,396.6 million EEK, of which 4,761.8 million EEK was estimated GDP in the first quarter.

In comparison with the 1st quarter, the share of private consumption has grown (from 51.2 per cent to 61.6 per cent) as well as the share of government final consumption expenditure (from 16 per cent to 18.8 per cent). The huge amounts of goods that used to be stored in enterprises' warehouses are diminishing.

There has been a decrease in the share of enterprises manufacturing or providing non-financial services (from 71.8 per cent to 67.0 per cent).

The share of wages and social insurance has increased (from 47.1 per cent to 52.7 per cent), whereas the share of operating surplus (margin) has decreased (from 35.0 per cent to 27.5 per cent). This can be partly attributed to the inflation rate resulting in a decrease of capital gain.

The total revenue of the State budget was 2,701.2 million kroons (66.3 per cent of the planned annual amount). The revenue excluding foreign loans and residual income to cover the expenses exceeded the total expenditure by 98.6 million kroons. The income from taxes was 2,534.8 million kroons (67.9 per cent of the annual planned amount), whereas transfer from local budgets was 166.3 million kroons. The bulk of income was received from the VAT (1,200.6 million kroons), from the corporate income tax (781.0 million kroons) and from the excise taxes (222.2 million kroons).

As of 1 September 1993 the total expenditure of the State budget was 2,504.1 million kroons, of which 2,030.7 was allocated to budgetary institutions and 379.1 million kroons to subsidize local governments. The total expenditure was 61.4 per cent of the planned annual amount.

The Gross Domestic Product in 1992 was 13.7 billion EEK. It is comprised of the total production of the following branches of economy:

	1989 %	1992 %	1993 1st half %
Manufacturing	36	30	26.9
Agriculture	23	18	8.9
Services	15	17	25.6
Trade	7	16	11.0
Construction	9	9	6.4
Transport and Communication	7	7	15.3
Energy	2	2	3.9
Forestry	1	1	2.0

(b) Main directions of the ongoing economic policies, tactical and strategical goals etc.

Estonian economic policy is based on establishing an internationally open economy to transform Estonia into a modern industrialized nation, via systematic reforms.

The main directions of the ongoing economic policies are as follows:

- Structural rearrangements;
- Liberalization of trade regimes, reliance on open international competition;
- Privatization and development of the private sector;
- Elimination of barriers to competition;
- Reforming the banking sector, strengthening the central bank and commercial banks;
- Restrictive economic policy in order to retain domestic economic balance and reduce inflation;
- Development of a legislative base, promoting necessary changes in the economic environment.

Pricing policy

The aim of price reform was to liberalize prices and to minimize subsidization. By late 1992, virtually all enterprises were free to set their own prices. Public services such as housing, electricity, heating, and public transport remain subject to price controls.

Trade policy

Estonia has established a highly liberal external trade regime with virtually no tariff or non-tariff barriers. The essence of trade policy is that Estonia, as a small country, must rely on open international competition to establish rational prices, ensure competitiveness in its markets and provide for long-time growth.

Selective import duties are imposed ad valorem on furs (16 per cent) and motor vehicles (10 per cent); export taxes are imposed on objects of cultural value (100 per cent).

Foreign exchange arrangements have also become totally liberalized after the implementation of the currency reform in mid-June 1992. The new currency, the Estonian kroon, was introduced under a currency board type of arrangement: Eesti Pank (Bank of Estonia) has pegged the kroon to the German mark and wiil only issue kroons against inflows of hard currency. The currency reform also involved the introduction of the convertibility of the kroon.

Restrictive economic policies

As a result of the monetary reform, Estonia obtained an independent monetary system. Introduction of the national currency made it possible to apply Estonia-centred monetary and economic policies.

During the period of more than a year since the monetary reform, the internal balance of the economy has been preserved in Estonia. This is testified to by the balance of the State budget and the fact that inflation has come under control.

The monetary reform provided prerequisites for balancing the fiscal system. Thanks to the effective currency board type of system, a budget deficit cannot be covered by issuing more money.

The monetary reform was accompanied by fiscal policy changes, such as a tax increase, cuts in administrative expenses, education, culture, the private sector; control of wages in the public sector.

Development of the private sector

Developing a strong private sector is the cornerstone of Estonian economic policy. Private activities will be initiated through promoting investments - both domestic and foreign - as well as by transferring State-owned assets into private hands.

Privatization

The Law on Privatization of the Republic of Estonia was enacted in July 1993. The Law stipulates the procedure for the privatization of both small- and medium-sized and large enterprises.

The following State property shall be subject to privatization:

- Assets of State enterprises and their structural units.
- Stocks or shares owned by the State or municipalities.
- Shares of enterprises of joint property owned by the State or municipalities.

A major part of small enterprises has already been privatized, and large-scale privatization is well under way. The Estonian Government Agency for Privatization organized two rounds of tenders - the first in November 1992, included 38, and the second in June 1993, 52 large enterprises.

The privatization process in Estonia is administered by the Privatization Agency - a Governmental institution established by the Law and subordinated to the Ministry of Finance.

The third round of tenders, starting in November, includes 40 enterprises in the field of timber industry, construction, transportation and trade. The deadline for tenders is the end of December 1993. The third round of tenders also includes 25 agricultural enterprises (meat processing, dairies, granaries and mills).

Approximately 80 per cent of State-owned companies are slated for privatization. The enterprises that are not intended to be privatized mainly include enterprises in the fields of energetics and transportation.

According to the data of 1 November 1993, 1,016 objects with the total worth of 266.3 million EEK have been sold on the terms of the binding commitments of all the investors to further invest a total of 96 million EEK, have been sold to the private sector. The buyers are also obliged to guarantee 3,872 jobs.

In large-scale privatization the so-called German model is being followed.

Competition policy

In order to promote competition in Estonian economy, the Law on Competition was passed by the Riigikogu (Parliament) on 6 June 1993 and became effective on 1 October 1993. This Law protects free competition in the territory of the Republic of Estonia. In case the Law is not in accordance with the foreign treaties ratified by Riigikogu before 1 October 1993, the conditions stated in these treaties shall be effective

(c) The division of authority between central and sub-central governments

Local governments shall have independent budgets (Constitution Article 157).

Local budget revenues during the first half of year 1993 derived from:

- Personal income tax	89.0 per cent
- Stamp duty	3.8 per cent
- Contributions from national resources	0.3 per cent
- Acting licence tax	0.3 per cent

Taxes are collected by the local authorities. The rates of personal income tax, stamp duty and contributions from national resources are established by the local authorities. The maximum rate of the personal income tax is 33 per cent. The non-taxable portion of an individual's income is 270 EEK.

From 1 July 1993 land tax came into force. It consists of local and State land tax. The local land tax rate is 0.3 - 0.7 per cent. In 1993 and 1994, the State rate is established by the law at the rate of 0.5 per cent.

Local governments shall have the right, in accordance with the law, to impose and collect taxes and to impose fees (Constitution Article 157).

(2) Foreign trade

Half a century of forcible orientation of the Estonian economy to the Eastern market had produced extreme dependence on this market and a decline in the quality and competitiveness of Estonian products compared to the world market.

The current foreign trade policy of Estonia is aimed at:

- Rapid decrease in its dependence on the East;
- Increase in all around Western export;
- Integration into world economy and into the international division of labour;
- Attraction of foreign capital to modernize production and renovate the infrastructure;
- Diversification of the form of foreign investment and increase of its volume.

The following is a recap of Estonian foreign trade in 1992 and in the first half of 1993.

In 1992, merchandise exports from Estonia accounted for 5,548 million Estonian kroons (EEK) in f.o.b. prices, while merchandise imports to Estonia reached 5,412 million EEK in f.o.b. prices, thereby resulting in a balance of + 136 million EEK. Merchandise imports includes merchandise received as foreign aid, listed according to world market prices, which last year accounted for 745 million kroons. If merchandise received as foreign aid is deducted from merchandise imports, the positive foreign trade balance is over 800 million kroons.

During the first half of 1993, the total foreign trade volume of Estonia was 8,747.0 million EEK, comprised of the export worth 4,295.2 million EEK and the import of 4,451.8 million EEK. The trade balance was negative by -156.6 million EEK.

Although comparison with 1992 is slightly complicated, (the statistics for the first half of 1992 are in roubles, the customs statistics became possible only in April, and the credibility of the customs data was high only by the end of 1992) there is an observable tendency towards growth in foreign trade volume. In 1993, the volume of foreign trade was greater than in 1992. The export in the first half of 1993 is 77.4 per cent of the total export of 1992, a still larger growth has been in imports - 82.3 per cent.

Exports

The general division of Estonian exports in the first half of 1993 is as follows:

European countries	-	66.0 per cent
CIS	-	27.0 per cent
Africa	-	2.9 per cent
America	-	2.6 per cent
Asia	-	1.6 per cent

From 1992, the share of European countries has risen 5.8 per cent, Africa 1.9 per cent and Asia 0.2 per cent. At the same time the shares of CIS and America have declined by 7.7 per cent and 0.2 per cent respectively.

On a local international scale tl major partner has been EFTA with 35.0 per cent (within EFTA the biggest have been Finland and Sweden, accounting for 65.1 per cent and 31.2 per cent respectively of the total for EFTA). EFTA is followed by CIS with 27.0 per cent (in which Russia accounts for 69.8 per cent and Ukraine 12.4 per cent). Exports to the countries of European Community figure 18.6 per cent (the total exports to EC break down as follows: 42.2 per cent for Germany, 28.8 per cent for Netherlands and 11.8 per cent for Denmark). The Central and East European countries (including Latvia and Lithuania) account for 12.4 per cent (inside this group the leaders are Latvia with 56.3 per cent and Lithuania with 19.3 per cent).

In comparison to 1992 the share in Estonian total exports has risen +4.7 per cent for EFTA and 4.9 per cent for EC. There has been a decline in the shares of CIS (-7.7 per cent) and the countries of Central and Eastern Europe (-3.8 per cent).

When comparing the top ten countries in Estonian export in 1993 to the data of 1992, one can observe that Poland (in 1992 the ninth) is now absent, instead Lithuania is at present the eighth. The greatest growth in comparison to 1992 is that of Germany (+4.8 per cent). Also, the shares of exports into Sweden (+3.2 per cent), Finland (+1.7 per cent) and Lithuania (+0.9 per cent) have increased. On the other hand Latvia and Ukraine have declined (both -3.6 per cent) and also so has Russia (-2.0 per cent). The first ten countries account for 82.7 per cent of total Estonian exports.

Imports

The general division of Estonian imports in the first half of 1993 is as follows:

European countries	-	63.5 per cent
CIS	-	26.7 per cent
Asia	-	6.2 per cent
America	-	3.0 per cent

From 1992, the share of European countries has risen by 10.6 per cent; Asia by 1.8 per cent: America by 0.8 per cent. Imports from CIS have declined by 13.4 per cent.

In the Baltic Sea region, the biggest share of Estonian imports goes to the countries of EFTA with 36.1 per cent (within EFTA Finland accounts for 70.1 per cent and Sweden for 25.6 per cent). Then follows CIS with 26.7 per cent (within CIS Russia accounts for 78.8 per cent and Byelorussia for 10.2 per cent); EC with 20.7 per cent (within EC Germany 47.2 per cent, Netherlands 16.6 per cent and Denmark 12.6 per cent); Central and Eastern European countries (including Latvia and Lithuania) account for 6.7 per cent; within this group Lithuania (44.3 per cent) and Latvia (36.3 per cent) are the greatest.

From 1992, the importance of EFTA in overall Estonian imports has increased by 5.8 per cent, EC by 5.4 per cent and Central and East European countries by 0.1 per cent. CIS has had a notable decline by 13.4 per cent.

In the ten most important countries Russia has fallen behind Finland; Ukraine (the seventh in 1992) and the USA (the tenth in 1992) have fallen out of the list. New entries to the list are the Netherlands (now the sixth) and Latvia (the tenth). Other changes: Sweden (+3.3 per cent), Finland (+2.7 per cent), Japan (+1.6 per cent), Germany (+1.5 per cent), Denmark (+0.9 per cent) and Latvia (+0.8 per cent), Russia (-7.4 per cent) and Byelorussia (-3.5 per cent). The first ten countries account for 83.3 per cent of total Estonian imports.

Considerable changes have taken place in the export of meat, dairy and fish products (+2.5 per cent) (owing mostly to increases in dairy and fish products export), in the export of vehicles (+3.7 per cent), in the export of prepared foodstuffs (+1.8 per cent) and +1.1 per cent of metals.

The main export is meat, dairy and fish products (13.7 per cent). Then come the export of metals (12.3 per cent), textiles (12.1 per cent), vehicles (10.5 per cent), wood and articles of wood (8.7 per cent).

A positive aspect is the more economic use of fuel. The import of mineral products of which the majority is fuel dropped by 6.8 points as compared to the last year, accounting for 25.8 per cent of total import.

The import of vehicles has grown constantly: more new and used cars are brought to Estonia from central Europe. (Used cars are often imported with the intention to resell them to Russia at a profit.)

Laws and regulations affecting foreign trade are published in the State Gazette (Riigi Teataja).

III. Foreign trade regime

(1) Import regulations

(a) The evolution of the customs tariff regulation

At present, the Ministry of Finance is elaborating the Law on Customs Tariffs of the Republic of Estonia. Per the Government regulation, a temporary commission for elaboration of the customs tariffs was established. The National Customs Board presented the tariff application project to the Government for validation, which should come into force at 1 January 1994.

(b) Customs tariff nomenclature, types of duties, general description of the customs tariff structure, weighted average level of duties on main customs tariff groupings

The Estonian customs tariffs are based on the Estonian Nomenclature of Goods, which in turn is based on the Tariff and Statistical Nomenclature and the Common Customs Tariff.

The following import taxes are levied by the Estonian customs:

- Customs duties;
- Value Added Tax (VAT);
- Excise taxes.

The Estonian customs tariff table consists of seven columns:

Column I:	The description of the goods by the HS, i.e. in accordance with the EEC nomenclature;
Column II:	The nomenclature positions of the Estonian Nomenclature of Goods;
Column III:	Units of measure. The units of measure are the same as in the EEC nomenclature;
Column IV:	The general customs duty rate. In the next year the non-protective duty is expected to be established. For the goods, whose production is not grounded in Estonia on natural or economic reasons, the customs duty rate would be "free". The base of the taxation would be the c.i.f. value;
Column V, VI:	For the tariff preferences. The special box is for the EFTA countries, the Column VI is for perspective trade agreements (for example with the EC countries);
Column VII:	For the other taxes and for special requirements. It is an informative column, concerning VAT and excise taxes (K - VAT, A1...A13 - excise taxes). The dumping rate, derived from the Anti-Dumping Law (at present under the elaboration) is also provided in this Column.

Customs duties

Customs duties and taxes (except excise) are levied ad valorem. Value, for customs purposes, is the transaction value of goods, which is the price actually paid or payable for the goods with the addition of certain costs as insurance and freight up to the Estonian border (as laid down in the Agreement on Implementation of Article VII of GATT).

The customs duties (the base of the taxation is the c.i.f. value) on imported goods are the following:

- Fur and goods made of fur (group 43)	16 per cent of the value
- Car, motorcycle, launch, yacht (groups 87 and 89)	10 per cent of the value

Excise duties

The excise duties are imposed on the following goods:

- Raw tobacco	40 per cent of the value
- Cigarettes, cigars, cigarillos	70 per cent of the value
- Beer	80 per cent of the value
- Sparkling wine and other grape wines other Fermented beverages (< = 15 per cent alcohol)	8 EEK per litre
- Vermouth, grape wines and other fermented beverages (> 15 per cent alcohol)	12 EEK per litre
- Cognac, brandy, armagnac	25 EEK per litre
- Whisky	20 EEK per litre
- Other distilled beverages	50 EEK per litre
- Petrol (gasoline)	0.40 EEK per litre
- Diesel fuel	0.25 EEK per litre
- Jet fuel	0.50 EEK per litre
- Lubricating engine oil	0.05 EEK per litre

Note: 1 DEM = 8 EEK

Value-added tax

Nearly all imports, as well as domestic production, are subject to the value-added tax (VAT). The present rate of VAT is 18 per cent of the sum of the transaction value of imported goods and any charges on imports.

The VAT is collected by customs upon clearance of imported goods.

Legal entities of Estonia subject to VAT and which paid the sum of VAT on imported goods, shall be refunded from the State budget in the next taxation period.

Transit

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

(c) Import charges and fees

At present the Ministry of Economics and the Ministry of Agriculture are elaborating the Anti-Dumping Law.

(d) Taxation regime

The taxation of all goods is based on the same tax rates. For legal entities all imports, except the exemptions provided by the law, are subject to the VAT of 18 per cent. If the VAT is levied on imported goods, all taxes paid before the VAT are added to the purchase price.

Both legal entities and natural persons have to pay the same rates for import taxes. Exceptions are cars imported by natural persons, in which case the value of the car shall be established by a special table by its volume and its year of production.

Import taxes are not imposed on the basis of transit consignments, origin, or in other cases specified by the Customs Law.

(e) Tariff preferences

Exemptions from customs duties shall be granted (with the EUR.1 certificate) for goods imported from countries having a free-trade agreement with Estonia (Sweden, Norway, Switzerland, Finland).

(f) Non-tariff measures, quotas and licensing system

Non-tariff measures and quotas are not applied for imported goods in Estonia.

Only expressly licensed importers and exporters can trade in the:

- Metals;
- Spirits;
- Tobacco and tobacco goods;
- Medicaments;
- Weapons, ammunition, explosives.

Licences must also be obtained by their Estonian counterparts.

(g) Customs valuation

The project of the Valuation Law was proposed by the National Customs Board to the Ministry of Finance for presentation to the government. The project was drafted in accordance with Article VII of the GATT.

(h) Rules of origin

Estonia does not yet have laws regarding the origin of goods; however, their preparation has begun.

As a general rule, information on the origin of imported goods is not required. The country of origin is considered to be the country where the product was prepared or manufactured. If the product, for instance, contains components from various countries, the country last listed is considered the country of origin. Origin of products is not contingent on simple manufacturing, such as packaging, sorting, and preservation.

For the application of customs preferences in free-trade agreements with Finland, Sweden, Norway and Switzerland, common regulations regarding origin are used and form an integral part of the agreements. They are similar to the European Community GSP system of regulations regarding origin. (EC Commission Regulation(EEC) 693/88 04.03.1988).

Duty-free entry is granted provided that the product originates in the exporting country. The origin of the products shall be certified by the exporter.

The certificate of origin "Movement Certificate EUR.1" should be issued by the Customs authorities of Estonia or Sweden or Norway or Finland or Switzerland.

The Customs authorities in Sweden, Norway, Finland and Switzerland may authorize an "approved exporter" to issue the EUR.1 certificate or the invoice bearing the exporter's declaration.

In trade between countries under the GSP treatment the certificate of origin, Form A is used.

These certificates of origin are issued in Tallinn (Estonian Customs Board) and in regional Customs Offices.

(i) Sanitary and phytosanitary measures

Government Regulation 300 of 19 October 1992 and 340 of 15 December 1992 regulate the import and export of plant and plant products (including wood) which are permitted only with an accompanying phytosanitary certificate issued by the Estonian Plant Guarantee Inspection or competent foreign authorities. The said goods may be imported or exported only at specified border crossings.

The import and export of livestock, fowl, fish, aquatic organisms, animal and poultry products, animal feed, its components, and veterinary and bio-preparations, are subject to State control enforced by the Estonian Veterinary Control Border Inspection.

(2) Export regulations

(a) Customs tariff nomenclature, types of duties, customs tariff structure, weighted average level of duties on main customs tariff groupings

The only export tax levied by the Estonian customs is the customs duty, which is imposed on the following goods (per cent of the f.o.b. value):

- Items with cultural value
  (Group 97 and goods from the other groups having antique value) 100 per cent

(b) Export licensing system

Only expressly licensed exporters and importers can trade in:

- Metals;
- Spirits;
- Tobacco and tobacco goods;
- Medicaments;
- Weapons, ammunition, explosives.

Licences must also be obtained by their Estonian counterparts.

(3) Export incentives

The Estonian Export Credit Fund has been established for promotion of export. For that purpose, the Government of the Republic will provide refundable credit from the resources of the Fund to legal entities registered in Estonia.

The financial resources of the Fund are comprised of:

(1) funds allocated by the State budget of the Republic;
(2) foreign loans granted to the Republic of Estonia;
(3) interest on loans from resources of the Fund;
(4) donations;
(5) other resources.

The Minister of Finance guarantees that the financial resources provided in Sections (1) and (2) are remitted to the account of the Fund.

Loans are issued from the Fund to legal entities registered in the Republic of Estonia and active in Estonia, for the following purposes:

- Application of new, internationally competitive products or manufacturing processes which would permit the rapid and necessary increase in the export production of enterprises (production development loan);
- Development of the marketing of export products.

Loans are given for the purpose of increasing the capacity to manufacture new export products, broadening the variety of products and raising profitability; as well as for market research, advertising and preparations for and publicity for export activity (participation in expositions; expenses related to patents and trade marks as well as experiments and reception related to production etc.)

A loan may be made out up to an amount of 75 per cent of the total planned expenses, and for a maximum of 1 million Estonian kroons, to be used within one year.

Interest rates on loans are decided by the term of the loan, the risk, and the efficiency of the object of the loan. The maximum interest that may be charged is 18 per cent.

The Fund shall regularly control that the loan is being used efficiently for the purpose intended and that it is being repaid on time.

(4) Regulations of trade in transit

Goods in transit on the territory of the Republic of Estonia are not charged customs, customs operation charge, sales tax, or excise tax.

Estonia joined the "Convention on Customs for Goods in International Transit under the TIR Carnet" on 5 April 1993. All border customs inspection stations are customs institutions for the purpose of completing departure and arrival formalities in the TIR Carnet.

IV. Other policies affecting foreign trade

(1) Industrial policy

The primary goal of Estonian industrial policy is to restructure the industry that was created in order to serve the needs of the industrial policy of the FSU and to enhance the competitiveness of Estonian products in the international market by:

- Capitalizing on Estonia's comparative advantage in natural and human resources, in geographical position and traditions;
- Restoring historical trade links;
- Promoting foreign investment;
- Creating investment incentives for the establishment of new private enterprises.

Due to the shortage of budgetary resources, the bulk of privatized enterprises is to be sold to international capital - requiring investment guarantees.

The structure of Estonian industry must change through continuous creation and development of new viable enterprises and through restructuring, or in case the latter is impossible, through liquidation of unprofitable businesses.

The use of the budget of the Republic of Estonia to restructure the industry is limited. Therefore, the bulk of the State-owned enterprises have been intended to be privatized - everything that can be achieved by private capital, should be left to private capital.

The quick resolution of current property issues is crucial - if they are solved quickly, there would be a better chance to start tackling problems of the same sort, and hence, improve the economic climate of Estonia and strengthen the basis for joining the EEC.

The Government does not favour subsidization of any private enterprises. The opinion is that free access to the Western market and the gradual growth of foreign investments in these enterprises are better than passively received aid, which does not encourage local economic initiative or guarantee the irreversibility of economic and political reforms in Estonia.

A structural policy is being created, considering the following aspects as principal objectives:

- Improvement of international competitiveness;
- Stable growth of living standards;
- Focusing public investments resources on providing the infrastructure needed for efficient production;
- Continuing reforms of banking system so that viable enterprises have ready access to adequate credit;
- Encouraging export growth by maintaining an open trade regime.

In the medium future, such branches of industry as the clothing industry, forestry, the lumber and furniture industry, and the liquor and alcoholic beverages industry, which are based on existing technology and have quick turnover, will be primarily developed. The comparative advantage in labour-intensive goods that require good quality will be utilized.

(2) Agricultural policy

In the Ministry of Agriculture, a work group has been assembled to formulate the agricultural policy and it should be completed by February 1994.

Agriculture would operate according to the same rules as other branches of the economy. A very liberal regime is being established for agricultural export and import products, with no restrictions. Direct subvention of agricultural products has been ended. For the main agricultural products, the anticipated level of the year 1994 is about 60 per cent greater than the level of 1992.

Agriculture is undergoing privatization. The result of the first round was the liquidation of collective farms and State farms. However, the subsequent returning of land to the previous owners and selling to new owners will take years.

In the future, agriculture will be orientated towards utilization of preferences (grassland cultivation, ecologically safe production), keeping in mind a moderate export possibility. Traditionally, the market has been in the East, but a market for special products could also be seen in the West and in the Third World.

(3) Financial, budgetary and fiscal policy

Estonia has succeeded in restructuring its economy and trade in terms of rapidly establishing a highly liberal external trade regime with virtually no tariff or non-tariff barriers. The trade reforms were buttressed with a freely convertible national currency at a fixed exchange rate, and conservative fiscal and monetary policies. The continued success of the external trade regime depends heavily on privatization, restructuring and revitalization of enterprises in the agricultural and industrial sectors trying to escape tariff protection though their problems reside in their internal inefficiency, not in external competition.

Implementing most of the basic policies recognized as critical for successful transition from an inward-oriented economy to outward oriented and internationally competitive, Estonia has been successful in reorienting from the East to the West. Prior to independence, Estonia depended on trade with the Soviet Union (95 per cent of its exports). In 1992, well over half of Estonia's exports were to the West. Trade with the West increased by almost five times during 1992, thanks to the second half, when trade with the West reached over 60 per cent of the total. Today, exports to the West consist principally of resource-intensive goods such as wood and furniture, and also of labour-intensive products such as textiles and clothing. Imports from the West are mostly capital goods. Intra-Baltic trade has been widely discussed, but the total volumes remain small.

At the same time, there is a risk of fiscal pressures, opening the door to an erosion of Estonia's present duty-free trade regime. A balanced budget for 1992 has been reported, but budgetary pressures are evidenced by the fact that expenditures have been cut to keep them in line with available revenues and by the extensive arrears in payments to the Government, especially from public enterprises. The estimated cost of unemployment insurance alone could create the need to increase revenues by the equivalent of 2-5 per cent of the GNP at the same time.

As of the present time, the Government has eliminated all import licensing requirements, while export quotas and licensing requirements have all been removed except for shale oil, gravel, specialized clay, quarts, silicate sand. Import tariffs are levied only on furs and fur products, cars, bicycles, motorboats and yachts. Export taxes apply to antiques, art work and metals (including scrap). For an economy with essentially no import or export duties, taxes on trade would appear to be a logical source of increased government revenues. However, according to the World Bank, taxes on export should not be considered for revenue purposes, except temporary duties on selected raw materials, that are exceedingly cheap by world standards because of the current exchange rate. At the same time, the seemingly ideal solution of low import duties has problems, concerning losing credibility if Estonia's revenue actions would be interpreted as violating the spirit of its trade agreements (Estonia has entered into free trade agreements with a number of its most important trading partners - Norway, Sweden, Finland and Switzerland).

To have prospects for continued success in increasing exports to the West and to restore normal trade with the East, Estonia would have to maintain the current open trade regime, resisting all pressures to impose protective taxes or non-tariff barriers on exports or imports.

(4) <u>Foreign exchange and payments system, relations with the International Monetary Fund</u>

Estonia has a two-tiered banking system. As per the Law on the Central Bank of the Republic of Estonia, the Central Bank, Eesti Pank shall:

- Manage the currency circulation and is responsible for maintaining the stability of the legal tender;
- Be the sole legal issuer of currency for the Republic of Estonia;
- Hold all gold and precious metal and foreign currency reserves for the Republic of Estonia and provide direction as to their use;
- Carry out the monetary and banking policy and direct the credit policy of the Republic of Estonia;
- Supervise all credit institutions within the Republic of Estonia;
- Cooperate with international monetary, banking and credit organizations and maintain relations with the central banks of other countries;
- Compile the Estonian balance of payments.

Eesti Pank is independent from all governmental agencies and reports only to Riigikogu (Parliament). Eesti Pank is prohibited from directly or indirectly granting credits to the State and local budgets and from buying securities issued by government executive bodies.

The exchange rate of the Estonian kroon is pegged to the deutsch mark at a fixed rate of 8 Estonian kroon = 1 deutsch mark.

An importer can buy the foreign exchange he needs in unlimited quantity. Exporters can retain the foreign exchange they earn. They have two alternatives:

(1) to set up a foreign currency account in one of the Estonian banks or abroad;
(2) to keep their earnings in Estonian kroon accounts (in that case the foreign currency earnings are converted into Estonian kroon by a commercial bank); the Estonian kroons on a company's bank account can be immediately converted into any convertible currency the company might need for its export/import operations.

By 1 November 1993 there were 21 commercial banks fully authorized for foreign exchange operations in Estonia. One of the commercial banks (Põhja-Eesti Pank) is 100 per cent owned by the Government, the rest have private individuals, private-owned companies and State-owned companies in various proportions among their shareholders.

Basic legislative principles pertaining to the activities of commercial banks are included in the Law on Banks of the Republic of Estonia. Minimum capital requirements, reliability requirements like capital adequacy ratio, and solvency ratio, as well as licensing requirements and procedures for commercial banks, are set by the Board of the Bank of Estonia.

Estonia has been a member of the IMF since 25 May 1992.

(5) Foreign investment policy

It is estimated that the annual need for foreign investment is around 150 mio USD per year. Domestic investment flows are limited because of strict budgetary controls and increased need for social expenditures which restricts the Government from making larger public investments. In the private sector, the resources are also limited, and those that are available are allocated mainly towards setting up new private businesses - hence the need for establishing a favourable investment climate for attracting investments from abroad.

In the early stages, to make the environment more propitious, the Law on Foreign Investment was passed (September 1991).

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

- The protection of foreign investments is guaranteed by the Republic of Estonia,
- The foreign investor has the same rights as an Estonian citizen or legal entity,
- The property of a foreign investor cannot be nationalized, expropriated or confiscated.

The Law on Foreign Investment was followed by the Law on Tax Concessions on Foreign Capital Enterprises. The latter is now effected by provisions in the Corporate Income Tax Law.

Since the restoration of independence, the Government has created a sound legal framework, has stabilized the economy and introduced its own stable currency. These actions have aided reformulation of the principles of foreign investment policy which now are:

- Creating a stable economic and political environment;
- Conservative monetary and tight fiscal policies;
- Liberal foreign trade regime;
- Improvement of the infrastructure including transportation and telecommunications systems;
- Easing up procedures for setting up businesses in Estonia and minimizing governmental rôle in the private sector;
- Privatizing the large State-owned sector;

- Concluding basic international treaties with major Western as well as other countries on reciprocal investment promotion and protection and on avoidance of redundant taxation. Estonia has also become a member of the Multilateral Investment Guarantee Agency and the Washington Convention establishing the International Centre of Settling the Investment Disputes between States and Nationals of Other States. The aim of this policy is to satisfy Estonia's needs for economic transition and further economic growth through foreign capital.

Since the monetary reform in June 1992, the Bank of Estonia has eased the legislation on banking restrictions, and has introduced a set of economic ratios as an incentive for the banking sector to follow more sound policies in savings and loan activities.

For the following categories of economic activity, the Government requires a foreign investor to obtain a licence before starting his business in the country:

- Mining;
- Energetics, gas and water supply;
- Railway and air transport;
- Waterways, ports, dams and other hydraulic structures;
- Telecommunications and communication networks.

Eesti Pank licenses foreign banks interested in investing in Estonia. It also controls capital inflows and foreign exchange dealing, but as mentioned previously, the procedures of administrative control are being replaced by more economically-viable measures.

As of 1 July 1993, there were 4,052 enterprises with foreign capital participation in Estonia for a total capital of 6.9 million EEK, of which the share of the foreign capital totalled 2.24 million EEK or 32 per cent. The main investors were as follows: Sweden - 852.1 million EEK by 549 enterprises; Finland - 626.2 million EEK by 1,898 enterprises; CIS - 240.3 million EEK by 861 enterprises; USA - 114.1 million EEK by 142 enterprises; Netherlands - 76.8 million EEK by 29 enterprises; and Germany - 55.4 million EEK by 170 enterprises.

A new tax reform is expected to become effective in the beginning of 1994 which will reduce the tax burden not only on foreign, but also domestic companies.

(6) Government procurement

The legislation, system and structure of public procurement in Estonia will be specified in the Law on Public Procurement which will be elaborated in the nearest future.

Public procurement will be administrated by the Centre of Public Procurement, which is a federal agency. The procurements will be undertaken on the basis of prerogative rights or public competitions. The first competition, on the construction of State and municipal buildings, shall be arranged in accordance with Government regulation No. 120 of 26 April 1993. Tenders may be submitted by any legal entity or natural person, regardless of the nationality of an individual, the form of ownership or the country where the legal entity is registered. The contractors shall be the enterprises to which the corresponding licences have been issued. The tenders shall be granted equal rights and shall compete independently. The results of public competitions shall be published in at least two central newspapers or in special gazettes in Estonia, as well as other countries. The detailed requirements for arranging competitions on the construction of State and municipal buildings are based on corresponding instructions confirmed by the above-mentioned government regulation.

(7) State trading enterprises

The number of State-owned commercial structures is continuously declining, while the number of private commercial structures is growing rapidly. A network of retailers is developing in Estonia.

In commerce, the private sector (data of 14 October 1993) accounted for 76.2 per cent of the total number of wholesale enterprises, 54 per cent of retail enterprises and 55 per cent of catering enterprises. Government-owned wholesale structures have been reduced significantly to the present 1.2 per cent, retail structures to 8 per cent and catering enterprises to 8.4 per cent of the total number of enterprises. If in January 1993 there were 5,015 private wholesale enterprises, 1,898 retail and 845 catering enterprises (these figures accounting correspondingly for 76.1 per cent, 37.5 per cent and 35.3 per cent of the total number of corresponding enterprises in January), then by 14 October 1993 there were 10,815 (76.2 per cent) private wholesale enterprises, 3,213 (54 per cent) private retail enterprises and 1,413 (55 per cent) private catering enterprises in business.

According to the data of 1 January 1993, the government-owned wholesale, retail and catering structures accounted respectively for 118 (1.8 per cent), 796 (15.9 per cent) and 435 (18.2 per cent) enterprises. Wholesale, retail and catering enterprises based on foreign capital were 474 (7.2 per cent), 28 (0.6 per cent) and 11 (0.5 per cent) respectively on 1 January 1993. Wholesale, retail and catering structures with a share of foreign capital were, on 1 January 1993, respectively 736 (11.2 per cent), 159 (3.2 per cent) and 63 (2.6 per cent).

By 14 October 1993 the number of foreign-owned wholesale, retail and catering enterprises were 1,261 (8.9 per cent), 56 (0.9 per cent) and 30 (1.2 per cent) respectively, the same numbers for Estonian-foreign jointly owned commercial property were 1,547 (10.9 per cent), 220 (3.7 per cent) and 94 (3.7 per cent), the corresponding figures for the Estonian domestic mixed capital were 74 (0.5 per cent), 30 (0.5 per cent) and 13 (0.5 per cent). The foreign-owned and Estonian-foreign jointly owned property, together with the Estonian-owned mixed property are presently 14.6 per cent of the total number of commercial property.

Under Estonian law all enterprises, regardless of their ownership structure can carry out foreign trade relations. State-owned enterprises have neither exclusive rights nor special privileges in their purchases or sales involving imports or exports.

(8) Free trade zones

There are currently no free trade zones in Estonia.

(9) Protection of intellectual property rights

A system of intellectual property rights is being established in cooperation with the relevant international organizations. The Law on Trademarks and the Law on Copyrights are already in effect. The Law on Patents is still a bill.

V. Institutional base for trade and economic relations with third countries

(1) Brief description of the bilateral trade and economic agreements and integration agreements

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

Free trade principles were first introduced into Estonian bilateral agreements with the signing of the politically and economically significant Protocol on Temporary Measures on Economic and Trade Cooperation between Estonia and Finland in February 1992.

In March 1992, Estonia signed a similar agreement with Sweden, which detailed technical cooperation and updated rules of origin, which have brought extensive cooperation to the field of customs administration, a reliable border regime and trade statistics.

A free trade agreement with Norway, similar to the one with Sweden, was signed in June 1993. A free trade agreement with Switzerland was signed on 21 December 1992.

The trade of specific agricultural and fish products has been provided in separate agreements, concluded within the framework of the free trade agreements.

In September 1993, the Prime Ministers of Estonia, Latvia and Lithuania signed the Free Trade Agreement between Estonia, Latvia and Lithuania.

Hereby attention is drawn to the specific nature of trade agreements Estonia has concluded so far. Because the domestic tariff level is established almost entirely on zero level, the MFN treaties and free-trade arrangements do not actually make any difference between our partners. However, the difference will become more clear once the stabilization of economy and domestic competition or for any other reasons tariffs will be introduced. The existing free-trade agreements foresee that then goods originating from countries with whom Estonia has free trade agreements will be treated more favourably than the general MFN regime.

Exports of certain goods to the European Union and the United States of America benefit from their respective GSP regimes.

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

(2) Multilateral economic cooperation, membership in the multilateral economic organizations

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

(1) to determine possibilities for trade development and liberalization between Estonia and EFTA countries;

(2) to develop cooperation in the following areas:

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

(3) to determine possible cooperation in establishing free trade.

Estonia is a member in the following multilateral economic organizations:

UNCTAD - United Nations Conference on Trade and Development (17 September 1991)

UNECE - United Nations Economic Commission in Europe (17 September 1991)

UNECE - United Nations Economic Commission in Europe (17 September 1991)

ILO - International Labour Organisation (13 January 1992)

IMO - International Maritime Organization (13 January 1992)

IAEA - International Atomic Energy Agency (16 January 1992)

EBRD - European Bank for Reconstruction and Development (20 February 1992)

ICAO - International Civil Aviation Organization (23 February 1992)

ITU - International Telecommunication Union (9 March 1992)

UPU - Union Postale Universelle (30 April 1992)

IMF - International Monetary Fund (25 May 1992)

IBRD - International Bank for Reconstruction and Development (28 June 1992)

WMO - World Meteorological Organization (23 July 1992)

IFC - International Finance Corporation (9 August 1993)

FAO - Food and Agriculture Organization (31 August 1992)

MIGA - Multilateral Investment Guarantee Agency (24 September 1992)

VI. Laws and legal acts

(1) Laws and legal acts regulating the activity of the customs authorities; responsible agencies

The activity of customs authorities is governed by the Law on Customs which prescribes the general rules for the transit and transport of goods into and out of Estonian territory and the rights and obligations of the customs authorities and other individuals responsible for the transit and transport of goods.

Chapter I of the Law prescribes the general concepts, the customs' jurisdiction, duty-free zone, customs inspection zone, symbols, language use;

Chapter II - Structure of the customs system, responsibilities of customs institutions, cooperation with other administrative institutions of State authority;

Chapter III - Declaration of goods;

Chapter IV - General directives for customs inspection;

Chapter V - Customs procedure;

Chapter VI - Customs forms;

Chapter VII - Customs preferences;

Chapter VIII - Customs duties;

Chapter IX - Infractions and sanctions with respect to customs regulations.

The responsible institution is the Estonian Customs Board.

(2) Laws and legal acts relating to non-tariff regulation of imports, exports and trade in transit, rules of origin, responsible agencies

There is no quota on the import of goods into Estonia. The Estonian Ministry of the Economy has the right, by the Regulation pertaining to it, to prescribe a quota for the export of certain goods. For example, in 1993, a quota was placed on the export of the following products:

HS code

2706.00000 - shale oil
2709.00000 - shale oil S1
2571.10101 - gravel
2508.40001 - hard-to-fuse clay
2505.10001 - quartz sand

The import and export of metals, drugs, arms, ammunition, explosives, alcohol and tobacco products is permitted only with the appropriate licences issued by authorities.

Government Regulation 423 of 14 August 1992 established a State monopoly on alcohol and tobacco in Estonia. Only legal entities possessing the appropriate licence issued by the Estonian Department of Commercial Licences may import and export those products. For the import and export of alcohol and tobacco a prior declaration is required.

Government Regulation 300 of 19 October 1992 and 340 of 15 December 1992 regulate the import and export of plant and plant products (including wood) which are permitted only with an accompanying phytosanitary certificate issued by the Estonian Plant Guarantee Inspection or competent foreign authorities. The said goods may be imported or exported only at specified border crossings.

The import and export of livestock, fowl, fish, aquatic organisms, animal and poultry products, animal feed and their components and veterinary and bio-preparations are subject to State control carried out by the Estonian Veterinary Control Border Inspection.

Estonia does not yet have national regulations regarding the origin of goods, however, their preparation has begun.

As a general rule the origin of imported goods is not required. The country of origin is considered to be the country where the product has been prepared or manufactured. If a number of countries have participated in the manufacturing, the last of the countries is considered the country of origin. The origin of the product is not contingent upon simple manufacturing such as packaging, sorting, preservation etc.

For the application of customs preferences in free-trade agreements with Finland, Sweden, Norway and Switzerland, common regulations regarding origin are used and form an integral part of the agreements. They are similar to the European Community GSP system of regulations regarding origin. (EC Commission Regulation(EEC) 693/88 04.03.1988)

(3) Laws and regulations relating to foreign investment, responsible agencies

1. Law on Foreign Investments of 11 September 1991.

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

- The protection of foreign investments is guaranteed by the Republic of Estonia;
- The foreign investor has the same rights as an Estonian citizen or legal entity;
- The property of a foreign investor cannot be nationalized, expropriated or confiscated;
- The foreign investor has the right to repatriate profit and other income in foreign currency received as a result of the activities in Estonia;
- Law enables foreign investors to acquire real property for their activities in Estonia.

2. Law on Tax Incentives for Companies with Foreign Capital of 10 September 1991.

By the Law on Tax Incentives for Companies with Foreign Capital, foreign investors have the following income tax allowances if the share of foreign capital in capital stock of the company is at least 30 per cent and not below USD 50,000:

- Minimum exemption from corporate income tax for two years;
- Next two years' income tax will be reduced by 50 per cent.

If the share of foreign capital in the company is 50 per cent or more and at least USD 1,000,000:

- Exemption from corporate income tax for three years;
- Next five years' income tax will be reduced by 50 per cent.

3. The Republic of Estonia regulations of 6 April 1992.

A foreign investment licence is required only in some branches of infrastructure - power engineering, railway, air and sea transport, telecommunications, broadcasting, and mining industry. The procedure of applying for and granting of licences is established by the Republic of Estonia regulations of 6 April 1992.

4. Law on Privatization of July 1993.

The Law stipulates the terms and conditions of the privatization procedure of State enterprises and other State property. The following State property shall be subject to privatization:

- Assets of State enterprises and their structural units,
- Stocks or shares owned by the State or municipalities,
- Shares of enterprises of joint property owned by the State or municipalities.

VII. Statistics and publications

(1) Foreign trade statistics, responsible agencies

The Foreign Trade Department of the State Statistics Board is responsible for statistics on foreign trade. It receives statistical data on exports and imports from the State Customs Board. The Statistics Board adds fuel (primarily gas from pipelines) to import statistics and exported electrical energy to export statistics. Similarly, the Statistics Board each quarter adds the sale of fish from fishing vessels in foreign waters to export statistics.

(2) Publications related to statistics

The following publications produced by the Statistics Board contain data on foreign trade:

- Statistical Yearbook 1993 (Estonian and English);
- Estonian Statistics, a monthly bulletin (Estonian and English);
- In 1993, publication began of a quarterly bulletin, the External Trade of Estonia. It contains cumulative data on the import and export of goods by category of goods and by country from the beginning of the year and with a comparison to the corresponding period of the previous year. A bulletin for the first quarter of 1993 has been published.

ANNEX 1

List of Trade Agreements with Third Countries

1. Agreement between the Republic of Estonia and the Republic of Iceland on Trade and Economic Cooperation of 26 August 1991.

2. Agreement between the Government of the Republic of Estonia and the Government of the Republic of Poland on Trade and Economic Cooperation of 20 November 1991.

3. Free Trade Agreement between the Government of the Republic of Estonia and the Kingdom of Sweden of 31 March 1992.

4. Agreement between the Government of the Republic of Estonia and the European Economic Community, on Trade and Commercial and Economic Cooperation of 11 May 1992.

5. Agreement between the Government of the Republic of Estonia and the Government of the People's Republic of China on Trade and Economic Cooperation of 12 May 1992.

6. Agreement between the Government of the Republic of Estonia and the Government of the Republic of Hungary on Trade and Economic Relations and Scientific and Technical Cooperation of 28 May 1992.

7. Free Trade Agreement between the Government of the Republic of Estonia and the Kingdom of Norway of 15 June 1992.

8. Agreement between the Government of the Republic of Estonia and the Socialist Republic of Vietnam on Trade and Economic Relations of 16 June 1992.

9. Agreement between the Government of the Republic of Estonia and the Government of the United States of America concerning the Development of Trade and Investment Relations of 17 September 1992.

10. Free Trade Agreement between the Republic of Estonia and the Swiss Confederation of 21 December 1992.

11. Agreement between the Republic of Estonia and the Republic of Austria on Bilateral Foreign Economic Relations of 20 August 1992.

12. Free Trade Agreement between the Republic of Estonia, the Republic of Latvia and the Republic of Lithuania of 13 September 1993.

13. Agreement between the Government of the Republic of Estonia and the Government of the Czech Republic on Trade and Economic Cooperation of 24 September 1993.

14. Agreement between the Government of the Republic of Estonia and the Government of the Republic of India on Trade and Economic Cooperation of 15 October 1993.

ANNEX 2

Laws and Regulations

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

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

3. **Law on State Duty** of 25 September 1990.

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

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

6. **Law on Personal Income Tax** of 11 October 1990. Amended on 15 October 1991; 29 January 1992 and 24 August 1992.

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

8. **Law on the Arbitration Court of the Chamber of Commerce and Industry** of 4 August 1991.

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

10. **Law on Value Added Tax** of 25 August 1993.

11. **Law on Corporate Income Tax** of 19 June 1992.

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

13. **Law on Fur Excise** of 11 November 1991.

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

15. **Law on Alcohol Excise** of 11 October 1993.

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

17. Government decree No. 112 of 6 April 1992 **"Activities where establishment of enterprises with foreign capital or the participation of foreign investors in an established enterprise occurs on the basis of a foreign investment licence".**

18. **Foreign Currency Law** of 20 May 1992. Amended on 26 January 1993.

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

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

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

22. **Estonian Constitution** of 28 June 1992.

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

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

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

26. **Law on Trademark** of 27 August 1992.

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

28. Government decree No. 300 of 19 October 1992 **"On Enactment of Border Control by the Plant Quarantine.**

29. **Law on Copyright** of 11 November 1993.

30. Government decree No. 53 of 27 February 1993 **"On Organizing the Trade of Metal"**.

31. Government decree No. 72 of 16 March 1993 **"On Application of Harmonized Commodity Description and Coding System"**.

32. **Law on the Central Bank of the Republic of Estonia** of 18 May 1993.

33. **Law on Securities** of 2 June 1993.

34. **Law on Competition** of 16 June 1993.

35. **Law on Privatization** of 17 June 1993.

36. **Law on Fuel Excise** of 17 June 1993.

37. Government decree No. 231 of 20 July 1993 **"Procedure on the Temporary Storage of Goods and the Customs Storage of Goods"**.

38. **Customs Law** of 15 September 1993.

ANNEX 3

Statistical Data

(a) Main economic indicators

GNP

Estonian GNP in 1992 was 14,619.4 miliion EEK and GNP per capita was 9,746 EEK.

Estonian GNP in the first half of 1993 was 9,396.6 million EEK and per capita was 6,264 EEK.

Budget

(thousand kroons)

	1992	1 July 1993
Enterprises' income tax	472,132	604,113
Sales tax	896,026	860,980
Excise duty	181,952	151,574
Contributions from national resources	1,640	3,399
Customs duty	15,468	16,688
Customs income	58,809	37,385
Stumpage	12,000	12,275
Revenue from State property	2,557	27,450
Other income	229,608	61,003
TOTAL INCOME	1,870192	1,774,867
Revenue from local budgets	176,847	79,555
Residual income to cover the expenses	1,100	-
TOTAL REVENUE	2,048,139	1,854,422
Finance of social sphere of which:	730,322	712,967
Education	234,563	314,155
Culture and art	98,387	67,373
Public health	84,471	41,210
Sports	14,086	5,919
Social security	298,815	284,310
Science	60,840	50,268

(thousand kroons)

	1992	1 July 1993
Finance of national economy of which:	388,390	263,611
Agriculture	212,435	62,493
Transport and Communication	146,179	177,612
Environmentalism	11,224	15,349
Communal economy	9,442	149
Other branches	9,110	8,008
Administration expenses	120,411	116,826
Law and order defence expenses	195,190	193,085
State defence expenses	61,055	115,254
Provision of foreign currency resources	150	-
Return of bank loans and bank rates	1,710	-
Election expenses	8,583	-
Other expenses	51,519	14,687
Subsidies from State budget to local budgets	321,723	219,046
Resources given to local budgets in the way of accountancy	71,059	-
Subsidies:		
To credit fund of agriculture	-	50,000
For students loans	-	4,799
Residue of loans from budget	15,182	-
Given short-term loans	-	10,927
TOTAL EXPENDITURE	2,026,134	1,751,470
Surplus/deficit (-)	22,005	102,952
Free resources	36,284	40,339
Given loans to local budgets		17,950

Note: 1 DEM = 8 EEK

Production and Consumption of the Basic Goods

Production in 1991-1993 (first half):

Production	Units of measure	1991	1992	1993 (1st half)
Oil shale	mio tons	19.6	18.9	7.5
Electrical energy	mio kwh	14,627.0	11,829.0	4,391.0
Mineral fertilizers	thousand tons	180.5	60.0	13.6
Electric motors (h = 63-450 mm)	thousand units	202.0	66.4	13.3
Particle board	thousand conventional m^3	123.7	61.1	11.2
Cement	thousand tons	905.0	483.0	213.7
Paper	thousand tons	77.5	33.4	0.6
Window glass	thousand m^2	1,600.0	784.0	437.1
Cotton fabric	mio m^2	167.5	111.3	32.1
Knitwear	mio units	22.4	16.3	2.5
Meat	thousand tons	128.3	95.0	28.2
Whole milk products	thousand tons	296.2	123.9	73.4
Butter	thousand tons	28.4	23.5	13.5
Cheese	thousand tons	13.8	9.7	3.5
Fish products	thousand tons	191.4	96.4	39.3

Turnover of retail trade, catering and repair of motor vehicles:

(thousand kroons)

	1992	1993 (1st half)
Retail sales	3,140,669	3,010,523
Goods turnover of retail businesses	2,990,983	2,975,652
Foods	1,491,235	1,638,908
Foodstuffs	1,162,277	1,318,838
Alcoholic beverages and tobacco products	328,958	320,070
Manufactured goods	1,499,748	1,336,744
Ready-made clothes, footwear, woven	318,492	219,839
Motor vehicles, spares and fuel for them	496,832	512,101
Other goods		
Retail trade of goods of other enterprises	149,686	34,871
Turnover of catering	572,046	261,387
Turnover of motor vehicles maintenance and repair	53,070	37,699

Annual changes in prices

The cost of consumer goods and services has risen from 1 January 1992 to 1 July 1992, 3.6 times, and from 1 July 1992 to 1 January 1993, 1.6 times; from 1 January 1993 to 1 July 1993, 1.1 times.

Employment in different industrial sectors

Industry	Number of people
Energetics Industry	9,122
Mining Industry	12,075
Food Industry	22,022
Meat Industry	4,833
Fish Industry	5,529
Dairy Industry	3,629
Textile Industry	11,572
Clothing Industry	6,424
Leather and Footwear Industry	8,306
Wood Industry	2,848
Chemical Industry	11,083
Construction Industry	5,776
Metal Industry and Machine Building	7,171
Production of Measurement Devices	11,437
Production of Means of Transportation	4,572
Furniture Industry	188,864
Total	154,450

Level of unemployment

The number of the unemployed as on 1 October 1993 was 15,274 people. The level of unemployment - 2.4 per cent.

Balance of payments

Estonian balance of payments for the year 1992 (million kroons):

CURRENT ACCOUNT	1,839
Merchandise export f.o.b.	5,548
Merchandise import f.o.b.	-5,412
Trade balance	136
Services: credit	2,345
Services: debit	-1,710
Services balance	635
Income: credit	5
Income: debit	-83
Income balance	-78
Private unrequited transfers	-3
Official unrequited transfers	1,149
CAPITAL ACCOUNT	-342
Direct investment	705
Portfolio investment	-
Other capital	1,047
Resident official sector	-490
Deposit money banks	-566
Other sectors	9
RESERVES	-820
Errors and omissions	-677

Foreign exchange

Balance sheet for the Estonian kroon 1 January 1993 - 1 November 1993 (million kroons):

	Gold, foreign reserves	Notes, coins in circulation	Bank deposits	Capital accounts
1.01	2,502.4	1,228.6	580.5	693.3
1.02	2,775.6	1,284.1	750.4	741.1
1.03	2,848.1	1,425.0	775.4	647.7
1.04	3,061.2	1,545.9	732.3	783.0
1.05	3,304.8	1,632.2	762.5	910.1
1.06	3,489.3	1,788.4	791.7	909.2
1.07	3,719.5	1,973.4	947.2	798.9
1.08	4,144.5	2,110.5	1,201.9	832.1
1.09	4,240.0	2,182.7	1,178.3	878.4
1.10	4,507.1	2,206.2	1,168.3	1,132.6
1.11	4,585.4	2,329.9	1,073.3	1,182.2

(b) Foreign trade statistics

Exports by category of goods in 1992 and 1993 (January-September):

No.	HS heading	Category of goods	Export in million kroons		% of total	
			1992	1993 Jan.-Sept.	1992	1993 Jan.-Sept.
1	50-63	Textiles and textile articles	778.6	893.4	14.1	12.5
2	72-83	Base metals and articles of base metals	627.8	822.3	11.2	11.5
3	01-05	Live animals, diary produce, fish etc.	622.5	862.9	11.2	12.1
4	25-27	Mineral products (fuels, oils, cement)	603.8	538.0	10.9	7.5
5	44-46	Wood and articles of wood	439.0	587.8	7.9	8.2
6	28-38	Chemical products	385.8	328.9	7.0	4.6
7	84-85	Nuclear reactors, electrical machinery	385.0	524.7	6.9	7.3
8	86-89	Vehicles	377.7	782.8	6.9	11.0
9	94-96	Furniture, bedding, toys	313.3	357.3	5.7	5.0
10	16-24	Prepared foodstuffs, beverages, spirits, tobacco	296.4	618.1	5.3	8.7
Together			4,830.0	6,316.0	87.0	88.4
Total exports			5,549.0	7,143.0	100.0	100.0

Imports by category of goods in 1992 and 1993 (January-September):

No.	HS heading	Category of goods	Import in million kroons		% of total	
			1992	1993 Jan.-Sept.	1992	1993 Jan.-Sept.
1	25-27	Mineral products (fuels, oils, cement)	1,397.0	1,239.0	27.2	16.5
2	84-85	Nuclear reactors, electrical machinery	939.3	1,252.0	18.3	16.7
3	86-89	Vehicles	653.3	1,066.0	12.7	14.2
4	50-63	Textiles and textile articles	424.0	861.4	8.3	11.5
5	28-38	Chemical products	321.2	468.2	6.3	6.2
6	16-24	Prepared foodstuffs, beverages, spirits, tobacco	293.5	790.1	5.7	10.5
7	72-83	Base metals and articles of base metals	238.7	364.5	4.6	4.9
8	06-14	Products of plant origin	175.4	195.7	3.4	2.6
9	39-40	Plastics and articles thereof	137.1	245.2	2.7	3.3
10	94-96	Furniture, bedding, toys	114.8	182.1	2.3	2.4
Together			4,694.0	6,664.0	91.5	88.8
Total imports			5,128.0	7,515.0	100.0	100.0

The main **export partners** in 1992 and 1993 (January-September):

No.	Country		Export in million kroons		% of total	
			1992	1993 Jan.-Sept.	1992	1993 Jan.-Sept.
1	Finland	(1)	1,172.7	1,574.6	21.1	22.0
2	Russia	(2)	1,156.0	1,420.3	20.8	19.9
3	Latvia	(5)	587.0	559.2	10.6	7.8
4	Sweden	(3)	429.1	712.3	7.7	10.0
5	Ukraine	(7)	383.0	269.5	6.9	3.8
6	Netherlands	(6)	282.3	361.0	5.1	5.1
7	Germany	(4)	216.3	620.0	3.9	8.7
8	Denmark	(9)	132.5	181.2	2.4	2.5
9	USA	(10)	104.2	140.8	1.9	2.0
10	Lithuania	(8)	84.4	205.5	1.5	2.9
Together			4,547.5	6,044.4	82.0	84.6
Total exports			5,548.6	7,142.6	100.0	100.0

The main **import partners** in 1992 and 1993 (January-September):

No.	Country		Import in million kroons		% of total	
			1992	1993 Jan.-Sept.	1992	1993 Jan.-Sept.
1	Russia	(2)	1,456.9	1,395.0	28.4	18.6
2	Finland	(1)	1,161.4	1,932.0	22.6	25.7
3	Germany	(3)	426.6	804.3	8.3	10.7
4	Sweden	(4)	301.1	664.5	5.9	8.8
5	Lithuania	(6)	185.8	286.9	3.6	3.8
6	Ukraine	(10)	163.0	128.1	3.2	1.7
7	Japan	(5)	136.1	325.6	2.7	4.3
8	USA	(8)	121.3	239.7	2.4	3.2
9	Netherlands	(7)	90.7	255.1	1.8	3.4
10	Denmark	(9)	88.7	181.2	1.7	2.4
Together			4,131.6	6,212.4	80.6	82.7
Total imports			5,127.7	7,514.9	100.0	100.0

The number of **Sales Enterprises** as for the data of 14 October 1993:

The number of enterprises according to their ownership	Wholesale	Retail	Catering	Total
State-owned property	177	477	217	871
Municipal property	17	121	24	162
Private property	10,815	3,213	1,413	15,441
Cooperative-owned	266	1,783	764	2,813
Non-government organizations' property	21	30	5	56
Religious organizations' property	0	1	0	1
Rent enterprises	13	18	9	40
Foundations' property	4	0	0	4
Foreign capital owned property	126	56	30	1,347
Estonian mixed property	74	30	13	117
Estonian-foreign joint capital property	1,547	220	94	1,861
Total	14,195	5,949	2,569	22,713