



Estonia



Business Support on Your Doorstep

Enterprise Europe Network London Country Profile February 2006



ESTONIA



Country's full name: Republic of Estonia (Eesti Vabariik).

Capital city: Tallinn (population 430,000).

Population: 1.4 million. There are Russian, Ukrainian, Belarusian and Finnish ethnic minorities.

Official language: Estonian.

Currency: Estonian kroon of 100 sents.

Religion: Predominantly Lutheran, plus Orthodox and Baptist.

Area: 45,227 square km (17,462 square miles).

Terrain: Marshy lowlands; hilly in south, flat in north.

Climate: Maritime, wet and moderate winters, cool summers. Annual rainfall: 500 - 700mm.

Administrative divisions: 15 counties, 47 towns and 207 rural municipalities.

Weights and measures: Metric.

Time zone: GMT plus two hours.

International dialling code: 00 372.

RECENT HISTORY

Estonia achieved national independence after the First World War, following centuries of successive rule by Denmark, Sweden, Germany and Russia. In 1940 Estonia was annexed by the USSR and the country only regained its independence in 1991 with the break-up of the Soviet Union. Estonia, along with the other Baltic States, subsequently joined the United Nations. Since independence, Estonia has restructured its economy for eventual integration into the European Union. In 1995, Estonia formally applied for EU membership. In acknowledgement of the progress made in its transition towards democracy and the establishment of a market economy, Estonia was initially the only Baltic state invited to start formal membership negotiations with the EU, with talks beginning in March 1998. A deal to invite ten new countries, including Estonia, into the EU by 2004 was finalised at the Copenhagen Summit in December 2002. Following a referendum on 14 September 2003, 66.9% of Estonians (out of a turnout of 63% of the electorate) voted in favour of Estonia joining the European Union.

During 2002, Estonia, along with six other Central and East European states, including Latvia and Lithuania, was also invited to join the North Atlantic Treaty Organisation (NATO). Estonia joined in April 2004. On 1 May 2004, Estonia became a full Member State of the EU.

GOVERNMENT

Estonia has a multi-party democratic political system. The supreme body of state power is the 101-member Riigikogu (State Assembly), elected for four year terms on the basis of universal suffrage for citizens over 18 years of age. The President is the Head of State and is elected by the State Assembly in a secret ballot for five-year terms. The President represents the country on the world stage, declares regular parliamentary elections, is the Supreme Commander of the armed forces, and is responsible for initiating any constitutional changes. Executive power in Estonia is held by the Council of Ministers, which is headed by the Prime Minister. The President nominates a candidate for Prime Minister who is charged with forming a new government. Among other duties, the Prime Minister is responsible for the implementation of national, domestic and foreign policies. The current President is Arnold Ruutel and the Prime Minister is Andrus Ansip. Judges are independent and administer justice in line with the national constitution. A three-tier court system functions with the State Court operating as final court of appeal and a constitutional court. The President appoints city and district judges, while the State Assembly appoints state court judges.

ECONOMIC OVERVIEW

Between 2003 and 2004 the Estonian economy grew on average by 7.8%. At the end of 2005, the inflation rate in Estonia was 4.1%, while unemployment stood at 7.5%. Estonia has received over 3.96 euro billion of foreign direct investment (FDI), which amounts to about 50% of GDP. In terms of inward investment per capita, this sum represents the second highest FDI figure in the ten new Member States, behind only Hungary. Close geographical proximity to the Nordic countries has benefited the country in a number of ways, with Finland and Sweden together accounting for 70% of total FDI in Estonia.

The country is a member of the World Trade Organisation and enjoys free trade arrangements with a number of countries and blocs. Rapid economic restructuring and growth has been possible as a result of a number of macroeconomic initiatives, including price liberalisation, privatisation, the removal of state subsidies, free trade policies, a stable currency, and the introduction of effective bankruptcy legislation.

ECONOMIC INDICATORS	
Population (2005)	1.4 million
Unemployment (2005)	7.5%
GDP per head (euro) (2004)	9,043
GDP average growth rate (2003-2004)	7.8%
Inflation rate (2005)	4.1%
Total exports (billion euro) (2004)	4.8
Total imports (billion euro) (2004)	6.7
Internet usage rate	39% of the population

Source: Eurostat

Labour Costs

According to statistics from the EU's statistical office (Eurostat), Estonian labour costs approximately 7.5 times less than the average across the 'old' 15 Member States of the European Union. Of the new Member States, only Latvia and Lithuania have cheaper labour costs. The Estonian labour force is also well educated with more than 20% of the total labour force with higher education qualifications.

INFRASTRUCTURE

Railways

Estonia has 958 km of track of which 132 km are electrified. Principal domestic lines link the capital to Narva, Pärnu, Tartu and Valga. Principal international lines link Tallinn to Saint Petersburg and Pskov (Russia) and Riga (Latvia). Estonia is well established as a transit centre between east and west with its railways handling 41% of the export-import rail transit traffic and 95% of all rail transit cargo between Russia and western markets. AS Estonian Railways handles most of this traffic.

Roads

The density of Estonia's road network is comparable to Scandinavia. The country has 56,849 km of roads, including 99 km of motorways. Principal routes connect the country to Russia (St Petersburg and Moscow) in the east and Latvia in the south. An upgraded 1000 km (620 mile) motorway called Via Baltica has recently been built to link the principal cities of the Baltic States, including Tallinn, Vilnius and Riga, to Finland in the north and Poland in the south.

Waterways

There are 500 km of navigable inland waterways in the country.

Civil Aviation

Estonia has 29 airports, including 12 with paved runways. The main international airport is located at Tallinn (Ulemiste) and this is also the largest airport in the Baltic States, both in terms of passengers and cargo volume. An extensive number of destinations across Europe are served from Estonian airports. A new terminal at Tallinn Airport increases capacity to 1.4 million passengers a year. A daily feeder service operates with Helsinki and Stockholm airports. Estonian Air is the national airline.

Ports/Shipping

There are a number of easily navigable deep-water ports in Estonia, including Tallinn, Pärnu and Kunda, all of which offer good ice conditions. Tallinn is geographically well positioned to handle shipping between Western Europe and Russia. During 2004 Estonian ports handled a total of 46.3 million tonnes of goods, an increase of 4.4% over the previous year. The first free trade zone in Estonia is located at the deepwater port of Muuga, which is well suited for handling oil products, grain and perishables and roll-on/roll-off traffic. A daily ferry service connects Tallinn to Helsinki and Stockholm, and frequent cargo ferries also run to a number of European ports including Antwerp, Hamburg, Kiel, Copenhagen, and Harwich.

Energy

In 2003 electricity production stood at 9.017 billion kWh, with most electricity produced from fossil fuel sources (oil shale).

Telecommunications

An extensive network of fibre optic cables covers Estonia. The country also benefits from close geographical proximity to Finland and Sweden, with undersea telecommunication connections to the Nordic neighbours. Mobile telephone user penetration in Estonia stands at 93%. A government initiative aims to provide all schools with computers and link them to the Internet.

Environment

The quality of drinking water in Estonia is good and meets EU standards, with certain exceptions. During the Soviet era, focus was given to production, and excess waste, including dangerous waste, was generally dumped directly into the environment. As a result, some large waste deposits have built up, particularly with regard to the oil-shale and phosphorite mining industries. Recognition of the importance of the issue of waste disposal increased when the Ministry of the Environment took on responsibility for waste management. A series of initiatives have been activated in order to improve the management of waste. With regard to the production of greenhouse gases, such as carbon dioxide (CO₂), Estonia produces a number of fossil fuels including oil shale, peat, wood timber, wastes and biogas. Coal, natural gas and oil derivatives are also imported. A National Environmental Strategy has been approved by the Parliament in order to minimise negative environmental impacts of the energy industry, with focus given to a reduction of greenhouse gas emissions, increased use of renewable energy resources and projects promoting energy efficiency.

The Estonian Ministry of the Environment Narva mnt. 7a, 15172 Tallinn, Estonia.

Tel: 00372 6262802. Fax 00372 6262801. Email: min@envir.ee

Website: www.envir.ee

MAJOR SECTORS OF THE ECONOMY

Agriculture, Forestry & Fishing

As a sector, the percentage of the gross national product accounted for by agriculture has fallen from 15% at the beginning of the 1990s to around 3.3%. Around 6% of the population are employed in the sector. Principal crops include potatoes, barley, wheat and oats, rye, rapeseed, fruit and vegetables. Livestock include chickens, pigs, cattle and sheep.

Forests, including 600,000 hectares of privately owned forests, cover around 2,143,000 hectares of land in Estonia. Sawn-wood export came to a total of 1,032 million cubic metres in 2004. The Estonian fishing industry is centred upon sea fishing. The active fishing industry employs some 4,870 people, with a further 4,870 employed in the fish-processing sector.

Textiles & Clothing

With a total production value of £1.5 billion, the textiles and clothing industry in Estonia is the country's second largest industrial sector, employing 14,000 people. Exports of clothing in particular have been expanding at a rapid rate, with Western Europe a leading target market. Cheap labour and infrastructure costs, as well as good local reputation, have attracted and continue to attract foreign investors.

Food & Food-processing

The food and food-processing sector has traditionally been one of Estonia's largest industry sectors, employing 5% of the country's workforce or 21,500 people. The output of this sector represents 25% of total Estonian industrial output, with approximately one third of this production exported. The main export products include meat, fish, dairy products and beverages. The domestic food product market is worth about £750 million, with local brands popular for their value for money and lack of preservatives.

Chemicals

The chemical industry, and in particular oil shale processing and fertiliser manufacturing, has long been one of Estonia's most important industrial sectors, accounting for 4.4% of manufacturing output in 2003. 76% of chemical production was exported in 2003, with the main export articles including dyes, fertilizers, pharmaceutical products and organic/inorganic chemicals. The chemical industry has attracted the fourth largest stock of foreign direct investment stock, after the food processing, wood and textiles industries.

The following website is a useful source of information:

The Federation of Estonian Chemical Industry:

Website: www.keemia.ee/eng

Transport & Logistics

Approximately 7.5% of the labour force in Estonia is employed in the transportation and road management sectors, and the share of national GDP generated by the transportation and telecommunications sectors now stands at 10.5%. The cargo sector is dominated by railway transport, which accounts for 70% of all carried goods, domestic and international. Road transport accounts for 90% of all passengers.

Timber Processing

In common with other industrial sectors, the Estonian wood processing industry experienced extensive restructuring in the early 1990s. In 2003, 22.2% of sales of all Estonian enterprises came from the sales within this sector. Wood processing companies are located all over the country, with principal concentrations located near Tallinn, Tartu, Pärnu and Rakvere.

A good price-quality ratio ensures the competitiveness of products supplied by Estonian wood processing companies in developed markets. As a result, products are cheaper than those of Western competitors. The quality of Estonian wood products compares favorably to competitors in other Central or Eastern European countries.

Engineering & Metalworking

Estonian engineering is a developing modern industry with comprehensive ties to engineering clusters in Scandinavia and Western Europe. In 2004, the Estonian engineering and metal working industry had an out put of over 740 million euro, which represents about 17% of total national output. More than 20,000 people are employed by about 300-400 companies, the majority of which are small and medium-sized enterprises (SMEs). In terms of sector turnover, however, the largest companies dominate. Industry focus is increasingly on the more complex and value-added production, such as machine building and special tooling.

The following website is a useful source of information:

The Federation of the Estonian Engineering Industry:

Website: www.etc.ee/engineering

Electronics

The electronics industry is one of the fastest growing sectors in Estonia and a number of foreign multinationals have relocated, which has moved production towards less-labour intensive production and complex operations.

About 300 companies currently employ approximately 13,000 people in this sector. Most of these companies are SMEs, which account for more than 50% of sector turnover. In 1994 around 3.4% of total Estonian manufacturing production was accounted for by the electronics industry, a figure that had grown to 6.9 % by 2003. This growth is forecasted to continue.

The following website is a useful source of information:
Association of Electronics and Instrument Engineering Enterprises:
Website: www.etc.ee/engineering

Construction

The construction industry is an important branch of the Estonian economy, contributing about 6.7% to total GDP. This makes construction the fifth largest contributing sector to the Estonian national economic output.

The following website is a useful source of information:
Estonian Association of Construction Entrepreneurs:
Website: www.eeel.ee

BANKING AND FINANCE

Banking

A private banking system and the Bank of Estonia were re-established in 1990. In order to provide finance for private companies, the Estonian Investment Bank was set up in 1992.

Bank of Estonia (Eesti Pank)

Estonia pst.13, 15095 Tallinn, Estonia.

Tel: 00372 6680719. Fax: 00372 6680836. Email: info@epbe.ee

The Bank of Estonia is the central bank and bank of issue. The mission of the Bank of Estonia is to ensure confidence in the stability and integrity of the Estonian currency and the monetary system in general.

Website: www.eestipank.info (information in English)

Major commercial banks in Estonia include the Estonian Credit Bank, Esttexbank, Hansapank, Sampo Bank, Tallinn Business Bank Limited, and the Union Bank of Estonia. The two largest commercial banks, Hansabank and the Union Bank of Estonia, control 80% of the sector.

The following website is a useful source of information:
Estonian Banking Association, Ahtri 12, Tallinn 10151, Estonia
Tel: 00372 6116567. Fax: 00372 6116568
Website: www.pangaliit.ee (information in English)

The Tallinn Stock Exchange

Tartu mnt. 2, Tallinn 10145, Estonia

Tel: 00372 6408800. Fax: 00372 6408801. Email: tallinn@omxgroup.com

The Tallinn Stock Exchange opened in 1996 and has been owned by the HEX Stock Exchange of Finland since 2001.

Website: www.hex.ee (information in English)

OPPORTUNITIES FOR UK EXPORTERS/INVESTORS

UK Exports to Estonia

UK exports to Estonia had a monetary value of £105.1 million in value in 2004.

Transport

Given the highly developed infrastructure network, excellent opportunities exist for transport and logistics related investments. 15% of national gross domestic product is currently generated by transport and logistics related activity, a figure that has increased in recent years.

The transportation and logistics industry is made up of transportation services, transit trade, distribution centers and value-added logistics. The constituent parts of the cargo sector have undergone mixed fortunes over the last ten years. As a result of privatisation, turnover from sea transportation has, for example, decreased more than seven times since 1992. On the other hand, the volume of goods carried by road and by railway has more than doubled.

Timber/Wood Processing

With wood prices 30% cheaper than in Scandinavia, future growth prospects and levels of competitiveness in the wood processing industry look promising. Good opportunities for both pulp and wooden board production exist, given that wood resources are generally under exploited. That said, the Estonian market is considered highly competitive and new players must compete alongside established players.

Engineering & Metalworking

Companies from the United States, the United Kingdom, Sweden, Finland, Germany, Switzerland and Denmark have all recently invested in the Estonian engineering and metalworking industries. Operations cover a range of operations including metal construction, tooling, fine-mechanical devices, shipbuilding, and machining of precision metal parts for instruments.

Electronics

The Estonian electronics industry has benefited from foreign investment. Investors have been able to combine the know-how and technology of foreign companies with a cost-effective and skilled Estonian labour force. ISO-certification is increasingly becoming the standard in the industry.

Companies supplying the automotive, electronics and telecommunications industries in Estonia enjoy the benefits of short delivery times and competitive costs.

The following areas are considered priority development sectors by the Estonian authorities: the assembly of PCB products and cables; office machinery assembly services for local and neighbouring markets; value-added logistics and customisation of electronics equipment and R&D activities.

Construction

The Estonian construction industry has only received relatively modest levels of foreign investment. As a result, good investment opportunities exist in the industry. Larger companies have targeted the civil engineering market but additional financing for the development of new technologies and/or markets is required.

BUSINESS CULTURE

Business Hours

Businesses are generally open between 09.00 - 17.00 Mondays to Fridays and banks open at 08.30 - 17.00 Mondays to Fridays. As a rule, government offices open between 08.30 - 09.00 and close at 17.00 Mondays to Fridays. Retail outlets in Estonia are usually open between 08.00 - 19.00 on Mondays and 08.00 - 21.00 Tuesdays to Saturdays.

Public Holidays

(Dates given are for 2006)

- New Year's Day (1 January)
- Independence Day (24 February)
- Good Friday (14 April)
- Spring Day (1 May)
- National Flag Day (4 June)
- Victory Day (23 June)
- St John's Day (24 June)
- Restoration of Independence (20 August)
- Christmas Day (25 December)
- Second day of Christmas (26 December)

Business Etiquette & Dress

Suits or smart clothing are expected for both men and women when conducting business. It is the custom to shake hands and exchange business cards with all contacts during meetings. Estonian is the official language of the country, although many business people and Government officials have a working knowledge of English.

SETTING UP A BUSINESS IN ESTONIA

Under the Estonian Commercial Code, there are five types of business entity that are created by entry into the Commercial Register: General Partnership; Limited Partnership; Private Limited Company; Public Limited Company; and Sole Proprietorship. Foreign investors can also set up a branch office. At least half of the management board of a public limited company must be resident in Estonia. In order to register a company, the founders must compile a Memorandum of Association which must be signed by those setting up the company and notarised in Estonia or at an Estonian diplomatic mission. A bank account in the name of the newly formed company must also be established and the minimum share capital requirement deposited before registration. Registration departments of municipal or circuit courts maintain the commercial register.

The following websites explain the Estonian company registration procedure:

Ministry of Justice, Tõnismägi 5a, Tallinn 15191, Estonia

Tel: 00372 6208100. Fax: 00372 6208109. Email: info@just.ee

Website: www.just.ee (information available in English)

Tallinn City Enterprise Board

Vabaduse väljak 7, Tallinn 15199, Estonia

Tel: 00372 640 4218. Fax 00372 640 4208. Email: invest@tallinnlv.ee

Website: www.tallinn.ee (information available in English)

UK Trade and Investment

The data on Estonia on the website of UK Trade and Investment also contains useful information on setting up a business in the country:

Website: www.uktradeinvest.gov.uk

The Estonian Investment Agency

The website of the Estonian Investment Agency also gives advice on business law

Website: www.investinestonia.com

FURTHER SOURCES OF INFORMATION

Enterprise Europe Network London at London Chamber of Commerce and Industry

33 Queen Street, London, EC4R 1AP

T: +44 (0)20 74891992. F:+44 (0)20 72031812 E: europa@londonchamber.co.uk

The Enterprise Europe Network London brings together GLE, London Chamber of Commerce and London Technology Network. We provide practical, hands-on support and information for London's small and medium businesses seeking funding, hoping to expand their business into Europe, or wishing to develop (technology) partnerships with other European businesses.

W: www.een-london.co.uk

London Chamber of Commerce and Industry

33 Queen Street, London EC4R 1AP.

Tel: 020 7248 4444. Fax: 020 7489 0391. Email: lc@londonchamber.co.uk

London Chamber of Commerce's World Trade Team, Information Centre and Enterprise Europe Network can provide information on many topics relating to international trade and overseas markets, including Estonia. London Chamber of Commerce is a membership organisation but non-members can utilise certain of its services on a charged basis.

Website: www.londonchamber.co.uk

British Estonian Chamber of Commerce

Narva mnt 11D, Tallinn 10151, Estonia

Tel: 00372 56 622623. Fax: 00372 611 6954. Email: becc@becc.ee

Website: www.becc.ee

UK Trade and Investment

Kingsgate House, 66-74 Victoria Street, London SW1E 6SW

Tel: 020 7215 4735

Contact: Simon Denning. E-mail: simon.denning@uktradeinvest.gov.uk

UK Trade and Investment is a British government body responsible for helping UK firms secure overseas sales and investments. Their website has pages for each country of the world, including Estonia, which give useful information and contacts.

British Embassy

Wismari 6, Tallinn 10136, Estonia

Tel: 00372 667 4700. Fax: 00372 667 4724 (commercial enquiries)

Email: information@britishembassy.ee

Website: www.britishembassy.ee

Estonian Embassy

16 Hyde Park Gate, London SW7 5DG

Tel: 020 7589 3428. Fax: 020 7589 3430. Email: embassy.london@estonia.gov.uk

Website: www.estonia.gov.uk

Estonian Chamber of Commerce & Industry

Toom-Kooli 17, Tallinn 10130, Estonia

Tel: 00372 6460244. Fax: 00372 6460245. Email: koda@koda.ee

Website: www.koda.ee

Estonian Investment Agency

Roosikrantsi 11, Tallinn 10119, Estonia

Tel: 00372 627 9420. Fax: 00372 627 9427.

The Estonian Investment Agency (EIA) is a governmental body set up in order to develop the Estonian economy by promoting foreign direct investment into the country.

Website: www.investinestonia.com

Office in United Kingdom at:

Estonian Embassy, 16 Hyde Park Gate, London, SW7 5DG

Contact: Mr. Meelis Kuusberg

Tel: 020 7838 5390. Fax: 020 7838 5391. Email: london@eas.ee

Representation of the European Commission in Estonia

Kohtu 10, Tallinn 10130, Estonia

Tel: 00372 626 4400. Fax: 00372 626 4439. Email: press-rep-estonia@cec.eu.int

Website: <http://euroopaliit.ee>

European Bank for Reconstruction and Development (EBRD)

Roosikrantsi 11, 4th Floor, Tallinn 10119, Estonia

Tel: 00372 641 8548. Fax: 00372 641 8552

Head of Office: Timo Hartikainen

and at:

One Exchange Square, London, EC2A 2JN.

Tel: 020 7338 6000. Fax: 020 7338 6100

Set up in 1991 to provide project financing for banks, industries and businesses.

Website: www.ebrd.com

Statistical Office of Estonia

Endla 15, Tallinn 15174, Estonia

Tel. 00372 625 9300. Fax: 00372 625 9370. Email: stat@stat.ee

Website: www.stat.ee

Estonian Customs

Narva mnt 9j, Tallinn 15176, Estonia

Tel: 00372 683 5700. Fax: 00372 683 5709. Email: emta@emta.ee

Website: www.customs.ee



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