Executive Summary

Estonia is a safe and dynamic country in which to invest. The Estonian business climate is very similar to the United States. As a member of the EU, the Government of Estonia (GOE) maintains liberal policies in order to attract investments and export-oriented companies. Creating favorable conditions for FDI and openness to foreign trade has been the foundation of Estonia’s economic strategy.

Estonia is among the leading countries in Eastern and Central Europe regarding foreign direct investment per capita. As of the end of 2013, Estonia has attracted in total 20.7 billion USD of investment, of which 24% was made into the financial sector, 16% into manufacturing, another 16% into real estate activities, 13% into wholesale and retail trade and 9% into professional, scientific and technical activities.

The overall freedom to conduct business in Estonia is well protected under a transparent regulatory environment.

The Estonian income tax system, with its flat rate of 21%, is considered one of the simplest tax regimes in the world. Deferral of taxation shifts the time of taxation from the moment of earning the profits to that of their distribution. Undistributed profits are not subject to income taxation, regardless of whether these are reinvested or merely retained.

Estonia offers key opportunities for businesses in a number of economic sectors like ICT, chemicals, wood processing and biotechnology. Estonia has strong trade ties with Finland, Sweden, Russia and Germany.

The main concern is a shortage of labor, both skilled and unskilled. The GOE has recently made amendments to its immigration law allowing easier hiring of highly qualified foreign workers. The problem with unskilled labor is currently addressed at the Ministry of Economic Affairs and Communication as forecasts say that starting in 2016, more people will be leaving the labor market in Estonia than are entering.

While the GOE still seeks to attract foreign direct investment (FDI) into Estonia, finding new export markets for Estonian goods and services is the GOE’s current priority.

1. Openness to, and restrictions upon, foreign investment

Estonia is open for FDI and foreign investors are treated on an equal footing with local investors.

Estonia’s government does not screen foreign investment, nor has it set limitations on foreign ownership. It does, however, establish requirements for certain sectors. As a member of the EU, the Government of Estonia (GOE) maintains liberal policies in order to attract investment and
export-oriented companies. Creating favorable conditions for FDI and openness to foreign trade has been the foundation of Estonia's economic strategy. These requirements are not intended to restrict foreign ownership but rather to regulate it and establish clear ownership responsibilities.

 Licenses are required for foreign investors to enter the following sectors: mining, energy, gas and water supply, railroad and transport, waterways, ports, dams and other water-related structures and telecommunications and communication networks. The Estonian Financial Supervision Authority issues licenses for foreign interests seeking to invest in or establish a bank. Additionally, the Estonian Competition Authority reviews transactions for anti-competition concerns. Government review and licensing have proven to be routine and non-discriminatory.

Estonia's judiciary is independent and insulated from government influence. Estonia is part of the Continental European legal system (civil law system). The most important sources of law are legal instruments such as the Constitution, European Union law, international agreements and Acts and Regulations. Major laws affecting incoming foreign investment include: the Commercial Code, Taxation Act, Income Tax Act, Value Added Tax Act, Social Tax Act, Unemployment Insurance Payment Act. More information is available at https://www.riigiteataja.ee/en/

Estonia's privatization program is now complete. Only a small number of enterprises remain wholly state-owned. Examples include the country’s main port, national air carrier, power plants, the postal system and the national lottery.

Some general facts concerning foreign direct investment inflows into Estonia include:

- There is a trend towards cross-border acquisitions;
- Greenfield investments are increasingly rare;

Estonia by international indexes/rankings:

<table>
<thead>
<tr>
<th>Measure</th>
<th>Year</th>
<th>Index/Rank</th>
<th>Link</th>
</tr>
</thead>
<tbody>
<tr>
<td>TI Corruption Index</td>
<td>2013</td>
<td>28 of 177</td>
<td><a href="http://www.transparency.org/policy_research/surveys_indices/cpiHeritage">http://www.transparency.org/policy_research/surveys_indices/cpiHeritage</a></td>
</tr>
</tbody>
</table>

2. Conversion and Transfer Policies
On January 1, 2011, Estonia joined the euro currency area. The euro has no restrictions on its transfer or conversion. Similarly, there are no restrictions, limitations or delays involved in converting or transferring funds associated with an investment (including remittances of investment capital, earnings, loan repayments, or lease payments) into other currencies at market rates. There is no limit on dividend distributions as long as they correspond to a company’s official earnings records. If a foreign company ceases to operate in Estonia, all its assets may be repatriated without restriction. These policies are all long-standing; there is no indication that they will be altered in the future. Foreign exchange is readily available for any purpose.


3. Expropriation and Compensation

Private property rights are observed in Estonia. The government has the right to expropriate for public interest related to policing the borders, public ports and airports, public streets and roads, supply to public water catchments, etc. Compensation is offered based on market value. Cases of expropriation are extremely rare in Estonia, and the Embassy is not aware of any expropriation cases involving discrimination against foreign owners.

4. Dispute Settlement

Investment disputes concerning U.S. or other foreign investors in Estonia are rare. Estonia’s judiciary is independent and insulated from government influence; however, some business leaders complain the courts are overburdened and too slow. Property rights and contracts are enforced by the courts.

Estonia’s commercial law has proven extremely effective and is often cited as one of the most successful components of Estonia’s economic reforms. The Commercial Code, the central part of the overall commercial law system, is consistently applied. The Law of Obligation Act, enacted in 2002, is the basis for all commercial agreements. A Bankruptcy Act was adopted in 2004. The full text of these laws can be found at https://www.riigiteataja.ee/tutvustus.html?m=3 The EBRD Insolvency Sector Assessment (the “Assessment”) completed in late 2009 rated Estonia as being in “high compliance” with international best standards.

Estonia has been a member of the International Center for the Settlement of Investment Disputes (ICSID) since 1992 and a member of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards since 1993.

Recognition of court rulings of EU Member States is regulated by EU legislation.
The Arbitration Court of the Estonian Chamber of Commerce and Industry is a permanent arbitration court which settles disputes arising from contractual and other civil law relationships, including foreign trade and other international economic relations.

5. Performance Requirements and Investment Incentives

A fundamental principle of Estonia’s economic policy is equal treatment of foreign and domestic capital. No special investment incentives are available to foreign investors, nor is any favored treatment accorded them. Similarly, there is no specific performance requirements for foreign investments that differ from those required of domestic investments.

Estonia continues to refine its immigration policies and practices. U.S. citizens are exempt from the quota regulating the number of immigration and residence permits issued, as are citizens of the EU and Switzerland.

Estonia has a long-standing system of low, simple, flat-rate taxes, including a flat 21 percent income tax. To encourage companies to expand their operations in Estonia, all reinvested profits are exempted from corporate income tax. However, any distributed profits, such as dividends, are taxed at 21 percent. This tax strategy was designed to promote business and accelerate economic growth by making additional funds available for investment.

Generally, the government does not impose “offset” requirements on major procurements. There are no government imposed conditions to invest.

6. Right to Private Ownership and Establishment

Private ownership and entrepreneurship are respected in Estonia. In most commercial fields, participation by foreign companies or individuals is unrestricted. As provided for by the Law on Foreign Investments, foreign investors have the same rights and obligations as Estonian citizens. Foreign investors may purchase buildings and land for production purposes and establish, buy, and fully own companies.

7. Protection of Property Rights

Secured interests in property are recognized and enforced. Mortgages are quite common for both residential and commercial property and leasing as a means of financing is widespread and efficient.

The legal system protects and facilitates acquisition and disposition of all property rights, including land, buildings, and mortgages. The long and complicated process of property restitution (begun when the Principles of Ownership Reform Act came into force June 20, 1991) is almost complete, including the area of non-residential real properties. More info http://www.doingbusiness.org/data/exploreeconomies/estonia/registering-property/

Estonia maintains a robust IPR regime. The quality of IP protection in legal structures is strong, enforcement is good and infringements and theft are uncommon. The Estonian legal system
adequately protects property rights, including most intellectual property: patents, trademarks, industrial design, and trade secrets. Enforcement of copyright protections is improving, but digital piracy of movies, games, music and software is widespread. Estonia adheres to the Berne Convention, WIPO and TRIPS, the Rome Convention and the Geneva Convention on the Protection of the Rights of Producers. Estonian legislation fully complies with EU directives granting protection to authors, performing artists, record producers, and broadcasting organizations.

Estonia is not listed in USTR’s Special 301 report or in the Notorious Market report. For additional information about treaty obligations and points of contact at local IP offices, please see WIPO’s country profiles at [http://www.wipo.int/directory/en/](http://www.wipo.int/directory/en/).

IP rights, except for copyright, must be registered and enforced in Estonia under local laws. Estonia adheres to the Berne Convention, WIPO and TRIPS, the Rome Convention and the Geneva Convention on the Protection of the Rights of Producers. Estonian legislation fully complies with EU directives granting protection to authors, performing artists, record producers, and broadcasting organizations. Equal protection against unauthorized use is provided via international conventions and treaties to foreign and Estonian authors. The level of IP enforcement has not changed in the past year. Companies should recognize IP is protected differently in Estonia than in the U.S. and your U.S. trademark and patent registrations will not protect you in Estonia. Registration of patents and trademarks is on a first-in-time, first-in-right basis, so companies should consider applying for trademark and patent protection even before selling products or services in the Estonian market. It is vital that companies understand that intellectual property is primarily a private right and that the U.S. government generally cannot enforce rights for private individuals in Estonia. It is the responsibility of the rights’ holders to register, protect, and enforce their rights where relevant, retaining their own counsel and advisors. Companies may wish to seek advice from local attorneys or IP consultants who are experts in Estonian law.

Estonia is currently undergoing a major structural IPR reform which involves re-codification of all IPR laws. The draft language of the new Copyright and Related Rights Acts is completed and open for public comments to be followed shortly by completion of the Industrial Property Act. Adhering to all international treaties and EU directives, the new laws will improve protection of IP rights in Estonia. Also, a major penal review, the aim of which is to ensure systematic synchronization of penalty provisions, proportionality and avoid over-criminalization, has been submitted to the Parliament.

Resources for Right holders:

**Contact at Mission:**

Brett Makens  
Economic/Commercial Officer  
+372 6688107  
MakensB@state.gov

Country/Economy resources:
A wealth of information on protecting IP is freely available to U.S. rights holders. Some excellent resources for companies regarding intellectual property include the following:

- Estonian Organization for Copyright Protection: [http://www.eako.ee](http://www.eako.ee)
- Estonian Association of the Phonogram Producers: [http://www.efy.ee](http://www.efy.ee)

A general reference list is available on the embassy website at [http://estonia.usembassy.gov/local_attorneys.html](http://estonia.usembassy.gov/local_attorneys.html).

### 8. Transparency of the Regulatory System

The Government of Estonia has set transparent policies and effective laws to foster competition and establish "clear rules of the game." However, due to the small size of Estonia's commercial community, instances of favoritism are not uncommon despite regulations and procedures designed to limit these practices.

All proposed laws and regulations are published for public comment on the website [http://eelnoud.valitsus.ee](http://eelnoud.valitsus.ee). Also, the public can comment on draft laws and propose changes to government regulations at [www.osale.ee](http://www.osale.ee).

Estonia’s widely-praised "e-governance" solutions and other bureaucratic procedures are generally far more streamlined and transparent than those of other countries in the region and are among the easiest to use globally.

International institutions and organizations give Estonia’s economic policies high marks. The U.S.-based Wall Street Journal/Heritage Foundation’s 2014 Index of Economic Freedom ranked Estonia 11th in the world. The index is a composite of scores in monetary policy, banking and finance, black markets, wages and prices. Estonia scores highly on this scale for investment freedom, fiscal freedom, financial freedom, property rights, business freedom, and monetary freedom.

### 9. Efficient Capital Markets and Portfolio Investment

Estonia’s financial sector is modern and efficient. Government and Central Bank policies facilitate the free flow of financial resources, thereby supporting the flow of resources in the product and capital markets. Credit is allocated on market terms and foreign investors are able to obtain credit on the local market. The private sector has access to an expanding range of credit instruments similar in variety to those offered by banks in Estonia’s Nordic neighbors Finland and Sweden.

Legal, regulatory, and accounting systems are transparent and consistent with international norms.

The Security Market Law complies with EU requirements and enables EU securities brokerage firms to deal in the market without establishing a local subsidiary. The NASDAQ OMX stock exchanges in Tallinn, Riga and Vilnius form the Baltic Market, which facilitates cross-border
trading and attracting more investments to the region. This includes sharing the same trading system and harmonizing rules and market practices, all with the aim of reducing the costs of cross-border trading in the Baltic region.

Estonia's banking system has consolidated rapidly. Total assets of the commercial banks were approximately USD 28 billion in early 2014. More information is available at: http://www.fi.ee/?lang=en.

The Scandinavian-owned Estonian banking system is modern and efficient, encompassing the strongest and best-regulated banks in the region. These provide both domestic and international services (including internet and mobile banking) at very competitive rates. Both local and international firms provide a full range of financial, insurance, accounting, and legal services. Estonia has a highly advanced internet banking system: currently 98% of banking transactions are conducted via the internet. In Estonia over 80 percent of the population between the ages of 16-74 uses the internet.

The Central Bank and the government hold no shares in the banking sector.

In 2001, the Estonian government created a consolidated Financial Supervisory Authority (FSA) under the auspices of the Central Bank. The FSA conducts financial supervision independently on behalf of the state and has a separate budget. The FSA was established to enhance the stability, reliability, transparency, and efficiency of the financial sector, to reduce system risks, and to prevent the use of the financial sector for criminal purposes.


10. Competition from State Owned Enterprises

Public enterprises operate on the same legal bases as private enterprises without any advantages. There are 27 SOEs in Estonia. The full list of SOEs is available at: https://www.eesti.ee/eng/contacts/riigi_osalusega_ariuhingud_1/riigi_osalusega_ariuhingud_2.

SOE Management in Estonia report to independent supervisory boards consisting of government officials, politically-affiliated individuals and also prominent members of the business community.

The OECD has a positive overall view of Estonia’s corporate governance framework in relation to the core corporate governance features and to the recommendations in both the Principles and Guidelines by OECD. More info: http://browse.oecdbookshop.org/oecd/pdfs/product/2611071e.pdf.

There are several sovereign wealth funds (SWFs) in Estonia. They have similar corporate governance to SOEs.
Both SOEs and SWFs are required to publish their annual reports (usually available on the internet in English) and submit their books for independent audit.

11. Corporate Social Responsibility

The majority of OECD Guidelines for Multinational Enterprises are incorporated into Estonian legislation. The non-profit organization, Responsible Business Forum in Estonia, aims to further CSR in Estonia. Responsible Business Forum in Estonia is a partner in the CSR360 Global Partner Network. CSR360 (www.csr360gpn.org) is a network of independent organizations, which work as the interface of business and society to mobilize business for good. More info on the CSR in Estonia: http://www.csr.ee/estonian-context/. The American Chamber of Commerce in Estonia also maintains a CRS committee.

12. Political Violence

Civil unrest generally is not a problem in Estonia, and there have been no incidents of terrorism. Large public gatherings and demonstrations may occur on occasion in response to political issues, but these have proceeded, with few exceptions, without incident in the past.

13. Corruption

Estonia has laws, regulations, and penalties to combat corruption and while corruption is not unknown, it has generally not been a major problem faced by foreign investors. Both offering and taking bribes are criminal offenses which can bring imprisonment of up to five years. While “payments” that exceed the services rendered are not unknown, and “conflict of interest” is not a well-understood issue, surveys of American and other non-Estonian businesses have shown the issue of corruption is not a major concern. In 2013, Transparency International (TI) ranked Estonia 28th out of 177 countries on its Corruption Perceptions Index.

The Estonian government approved in October 2013, the anti-corruption strategy for 2013-2020 which seeks to increase the transparency of the public sector's decisions and activity, awareness of corruption and the quality of investigating corruption crimes.

The anti-corruption policy and the implementation of the strategy is coordinated by the Ministry of Justice and the strategy will be implemented by all ministries and local governments.

To have an overview of the implementation of planned activities, the state of the execution will be constantly assessed and several anti-corruption networks will be created, such as a network of healthcare facilities, a network of law enforcement authorities and local governments. Representatives of the networks will meet a few times each year to discuss current issues and pressing matters.

The Security Police Board has shown its capacity to deal with corruption offences and criminal misconduct, leading to the conviction of several high-ranking state officials.
Estonia co-operates in fighting corruption at the international level and is a member of GRECO (Group of States Against Corruption). Estonia is a party to both the Council of Europe (CoE) Criminal Law Convention on Corruption and the Civil Law Convention. The Criminal Law Convention requires criminalization of a wide range of national and transnational conduct, including bribery, money-laundering, and accounting offenses. It also incorporates provisions on liability of legal persons and witness protection. The Civil Law Convention includes provisions on compensation for damage relating to corrupt acts, whistleblower protection, and validity of contracts, inter alia.

Estonia has been a full participant in the OECD Working Group on Bribery in International Business since 2004 and the underlying Convention entered into force in Estonia on January 22, 2005. The Convention obligates the Parties to criminalize bribery of foreign public officials in the conduct of international business. The United States meets its international obligations under the OECD Anti-bribery Convention through the U.S. Foreign Corrupt Practices Act.

The UN Anticorruption Convention entered into force in Estonia on February 26, 2010.

**Resources to report corruption:**

+372 6121500 Security Police corruption hotline or  
+372 6123657 Central Criminal Police corruption hotline  
Or e-mail: korrupsioonivihje@politsei.ee

Transparency International in Estonia:  
[http://www.transparency.org/whoweare/contact#O_nc_estonia](http://www.transparency.org/whoweare/contact#O_nc_estonia)

14. **Bilateral Investment Agreements**

Estonia has investment promotion and protection agreements with the Belgium-Luxembourg Economic Union, Azerbaijan, China, Czech Republic, Denmark, Finland, Greece, Israel, Italy, Jordan, Latvia, Lithuania, Moldova, Montenegro, Netherlands, Norway, Poland, Spain, Sweden, Switzerland, Turkey, Ukraine, UK and the United States. A Bilateral Taxation Treaty with the U.S. came into force on January 1, 2000.

15. **OPIC and Other Investment Insurance Programs**

Estonia is a member of the Multilateral Investment Guarantee Agency.

16. **Labor**

Estonia has a small population - 1.31 million people. The average monthly Estonian salary at the end of 2013 was about USD 1,400 and is expected to increase in the coming two years by 6-7 percent annually. At the end of 2013, the unemployment rate was 8.7%. Unemployment is forecast to remain below 9% in coming years. Despite the relatively high level of unemployment, employers report difficulty finding workers in a number of sectors.

Trade union membership remains low compared to most countries in the EU. However, the influence of trade unions, which tend to take a cooperative approach to industrial relations, is increasing. Estonia adheres to ILO Conventions protecting workers’ rights.

With an aging population and a negative birth rate, Estonia, like many other countries of Central and Eastern Europe, faces demographic challenges affecting its long term supply of labor. Forecasts say that starting in 2016, more people will be leaving the labor market in Estonia than joining. Improving labor efficiency is a key focus for Estonia in the short-to-mid-term.

On 13 June 2013, the parliament approved amendments to the Aliens Act. The new regulations mean that the process of hiring foreign highly skilled specialists will take a week, instead of the three to six months that it took previously. The new regulations make it possible for a foreign national to begin work as soon as they have a short-term visa and the company hiring them has informed the police and the border guard agency. The employee can then submit an application for a long-term permit to live and work in Estonia and can bring their spouse and any children to live with them while the application is pending. It is hoped that this simpler process will motivate more foreign specialists to move to Estonia with their families.

Information on the free movement of labor within the EU is available at: http://ec.europa.eu/social/main.jsp?catId=458

17. Foreign Trade Zones/Free Ports

Estonia's Customs Act permits the government to establish free trade zones. Goods in a free trade zone are considered as being outside the customs territory. VAT, excise, import and export duties (as well as possible fees for customs services) do not have to be paid on goods brought into free trade zones for later re-export.

In Estonia, there are four zones including Muuga port (near Tallinn), Sillamae port (northeast Estonia), Paldiski north port (northwest Estonia) and in Valga (southern Estonia). All free trade zones are open for FDI on the same terms as Estonian investments.

The main supervisory authority responsible for monitoring the movement of goods in or out of free trade zones is the Estonian Tax and Customs Board (governed by the Ministry of Finance). There are ID requirements for companies and individuals using the zone. The U.S. Department of Homeland Security (Coast Guard) has inspected Estonia’s ports and determined that the Republic of Estonia has substantially implemented the International Ship and Port Facility Security (ISPS) Code at all facilities visited.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics
For the value of inward and outward FDI (position, stock, and flows in recent years by commodity group, as well as country of origin) please go to:  
http://statistika.eestipank.ee/?lng=en#treeMenu/MAKSEBIL_JA_INVPOS/146

TABLE: Key Macroeconomic data, U.S. FDI in Estonia

<table>
<thead>
<tr>
<th>Economic data</th>
<th>Bank of Estonia</th>
<th>USG or international statistical source</th>
<th>USG or international Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonian GDP (billion USD)</td>
<td>2013</td>
<td>24.5</td>
<td>2013</td>
</tr>
<tr>
<td>Total inbound stock of FDI as % host GDP</td>
<td>2013</td>
<td>84.4</td>
<td>2011</td>
</tr>
</tbody>
</table>

TABLE: Sources and Destination of FDI
Estonia, 2012

Direct Investment from/in Counterpart Economy Data
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)

<table>
<thead>
<tr>
<th>Inward Direct Investment</th>
<th>Outward Direct Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Inward</strong></td>
<td><strong>Total Outward</strong></td>
</tr>
<tr>
<td>18,846</td>
<td>5,942</td>
</tr>
<tr>
<td><strong>Sweden</strong></td>
<td><strong>Cyprus</strong></td>
</tr>
<tr>
<td>5,119</td>
<td>1,667</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td><strong>Lithuania</strong></td>
</tr>
<tr>
<td>4,474</td>
<td>1,231</td>
</tr>
<tr>
<td><strong>Netherlands</strong></td>
<td><strong>Latvia</strong></td>
</tr>
<tr>
<td>2,029</td>
<td>1,035</td>
</tr>
<tr>
<td><strong>Norway</strong></td>
<td><strong>Russian Federation</strong></td>
</tr>
<tr>
<td>916</td>
<td>336</td>
</tr>
<tr>
<td><strong>Russian Federation</strong></td>
<td><strong>Ukraine</strong></td>
</tr>
<tr>
<td>805</td>
<td>325</td>
</tr>
</tbody>
</table>

"0" reflects amounts rounded to +/- USD 500,000.

Data is consistent with the Bank of Estonia data (data is in euros):
http://statistika.eestipank.ee/?lng=en#treeMenu/MAKSEBIL_JA_INVPOS/146

**TABLE: Sources of Portfolio Investment**
Estonia, June 2013

<table>
<thead>
<tr>
<th>Portfolio Investment Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Top Five Partners (Millions, US Dollars)</strong></td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
<tr>
<td>World</td>
</tr>
<tr>
<td>Luxembourg</td>
</tr>
<tr>
<td>Ireland</td>
</tr>
<tr>
<td>Netherlands</td>
</tr>
<tr>
<td>Finland</td>
</tr>
<tr>
<td>Germany</td>
</tr>
</tbody>
</table>

More info on Portfolio Investments can be found:
http://statistika.eestipank.ee/?lng=en#treeMenu/MAKSEBIL_JA_INVPOS/146

More information on foreign investors is available at: http://www.investinestonia.com/

**19. Contact Point at Post**

United States Embassy, Political/Economic Section
Kentmanni 20, 15099 Tallinn, Estonia
Contact: Ms. Reene Sepp, Economic/Commercial Specialist
Tel: 372 668 8130
E-mail: seppr@state.gov

Brett Makens, Economic & Commercial Officer