l. Openness to, and restrictions upon, foreign investment

As a member of the EU, the Government of Estonian (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. Foreign investors are treated on an equal footing with local investors. 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.

Estonia's government does not screen foreign investments, nor has it set limitations on foreign ownership. It does, however, establish requirements for certain sectors. 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 privatization program is now complete. Only a small number of enterprises remain wholly state-owned. Examples include the country's main port, the 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:

Measure	Year	Index/Ranking
TI Corruption Index	2012	32
Heritage Economic Freedom	2013	13
World Bank Doing Business	2012	21

More on rankings:

TI Corruption Index: http://www.transparency.org/policy_research/surveys_indices/cpiHeritage Economic Freedom: http://www.heritage.org/index/Ranking.aspxWorld Bank Doing Business: http://www.doingbusiness.org/economyrankings/

2. Conversion and Transfer Policies

As of January 1, 2011 Estonia is a member of 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 in the case of public interests 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 and 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. 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/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 are 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.

Government approval is required for foreign investment and participation in only a handful of sectors (see section A.1).

Competitive equality is the official standard applied to private enterprises in competition with public enterprises. Private companies do not face discrimination in relation to state-owned 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.

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.

Protecting Your Intellectual Property in Estonia

Several general principles are crucial for effective management of intellectual property (IP) rights in Estonia. First, it is important to have an overall strategy to protect your IP. Second, companies should recognize IP is protected differently in Estonia than in the U.S. Third, rights, except for copyright, must be registered and enforced in Estonia under local laws. In Estonia, equal protection of copyright is provided via international conventions and treaties to foreign and Estonian authors. Your U.S. trademark and patent registrations will not protect you in Estonia. Protection against unauthorized use depends on Estonian normative regulations that adhere to international laws and directives of the European Union.

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

It is also recommended that small and medium-size companies understand the importance of working together with trade associations and organizations to support efforts to protect IP and stop counterfeiting.

IP 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 Patent Office: http://www.epa.ee/
- Estonian Organization for Copyright Protection: http://www.eako.ee
- Estonian Association of the Phonogram Producers: http://www.efy.ee

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. Also, the public can comment on draft laws and propose changes to government regulations at 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 2013 Index of Economic Freedom ranked Estonia 13th 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 24 billion in 2012. 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 75 percent of the population between the ages of 16-74 uses the internet. Some recent reports have indicated that banks are considering to refuse to open accounts for U.S. companies due to administrative costs associated with FATCA. These restrictions do not apply to U.S. companies who have registered as a local business entity in Estonia.

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.

Takeovers in Estonia are regulated by the EU Takeover Directive 2004/25/EC. More information is available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:32004L0025:EN:HTML.

10. Competition from State Owned Enterprises (SOEs).

Public enterprises operate on the same legal bases as private enterprises without any advantages. 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.

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 (CSR)

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. 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 2012, Transparency International (TI) ranked Estonia 32th out of 174 countries on its Corruption Perceptions Index.

In 2004, the GOE instituted the "Honest State" program, an anti-corruption platform that included specific policies to reduce the risk of corruption in government. These included auditing local governments (widely seen as the greatest source of corruption in Estonia), requiring public servants to file electronic declarations of their economic interests, setting up a National Ethics Council, increasing the number of specialized investigators and prosecutors who focus on corruption, and setting up an anonymous hotline for people to report corruption cases. The principles of the "Honest State" program continue to be an embedded part of GOE best practices.

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.

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 - 1.34 million people. The average monthly Estonian salary at the end of 2012 was about USD 1,110 and is expected to increase slowly in coming years. At the end of 2012, the unemployment rate was 9.7 percent. Unemployment is forecast to remain around 10 percent in coming years. Despite the relatively high level of unemployment, employers report difficulty finding skilled workers in a number of sectors.
More on labor market: http://www.eestipank.ee/sites/default/files/publication/en/LabourMarket/2012/labor_market_review_2_2012_eng.pdf

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. Improving labor efficiency is a key focus for Estonia in the short-to-mid term.

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.

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 Statistics

According to the Bank of Estonia (see the link below), by the end of the third quarter of 2012, the cumulative stock of FDI in Estonia amounted to EUR 14 billion or USD 18 billion. Roughly 25 percent of FDI has been invested into financial intermediation, 17 percent into manufacturing and about 15 percent both in real estate activities and wholesale and retail trade.

Nordic countries are the largest foreign direct investors in Estonia. Sweden has 27 percent of the total, followed by Finland with 23 percent, and the Netherlands with 10.6 percent. The United States accounts for 2.4 percent of foreign direct investment stock (8th overall). The inward FDI stock in Estonia is currently about 80 percent of GDP. In the third quarter of 2012, Estonian direct investment abroad was about EUR 3.94 billion (approximately 5 billion USD).

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

Some examples of the largest FDI companies in Estonia in terms of total investment and influence on the Estonian economy are:

SEB Pank AS
Foreign Shareholder: SEB AB
Country of origin: Sweden
Sector of operation: banking

Swedbank AS
Foreign Shareholder: Swedbank
Country of origin: Sweden
Sector of operation: banking

Eesti Telekom AS
Foreign Shareholder: TeliaSonera AB
Country of origin: Sweden
Sector of operation: telecommunications

ABB AS
Foreign Shareholder: The ABB Group
Country of origin: Switzerland
Sector of operation: power and automation technologies

Ericsson Eesti AS
Foreign Shareholder: Ericsson
Country of origin: Sweden
Sector of operation: telecommunications equipment

Skype Technologies OU
Foreign Shareholder: Microsoft
Country of origin: USA
Sector of operation: telecommunication

Stockmann AS
Foreign Shareholder: Stockmann
Country of origin: Finland

Sector of operation: retail

Eastman Specialties AS
Foreign Shareholder: Eastman Chemical Company
Country of origin: USA
Sector of operation: chemicals

Balti Spoon AS
Foreign Shareholder: Mohring Group of Companies,
Country of origin: USA
Sector of operation: veneer

Estonian Cell AS
Foreign Shareholder: Heinzel Group
Country of origin: Austria
Sector of operation: pulp mill

Molycorp Silmet AS
Foreign Shareholder: Molycorp Inc.
Country of origin: USA
Sector of operation: rear earth metals

NASDAQ OMX Tallinn AS
Foreign Shareholder: NASDAQ OMX Nordic OY
Country of origin: USA
Sector of operation: exchange company

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