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# fOCUS



ECONOMICAL  
CHANGES  
p. 17-30

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Estonia's Prime Minister  
**Andrus Ansip** addressing  
more than 100 international  
businessmen in Tallinn,  
April 20th

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**Anders Hedman**  
Chairman  
SCCE

## Dear Reader,

Since last **focus** a lot of things have happened in Estonia. We have a new Government and Aljoshka has changed address.

These two facts have taken up most of the talking and gossiping during the last months. A lot of people I have spoken to are very happy with the fact that the new government has taken office. The biggest surprise here was of course the fact that Estonia's most known and in the rest of the world most admired politician, Mart Laar was not chosen for the position of Foreign Minister. Prime Minister Ansip has also repeatedly have had to explain why he did not offer that position to Mr. Laar. Mr. Ansip's answer is that he wishes that the Foreign Minister and he share the same values. Honestly, I cannot see where Mr. Laar and Mr. Ansip would have different views on foreign policy.

Personally I believe that it's more about the personal chemistry between the two gentlemen and the fact that both Mr. Ansip and the Estonian EU commissioner Mr. Kallas see Mr. Laar as a very serious competitor for the next commissioner election in 2009.

I would personally not be surprised if we in the next EU commission would find the two old friends, Mr. Laar from Estonia and Mr. Bildt from Sweden - two politicians with a strong international reputation. Not a bad 'radarpar' as we say in Swedish.

Mr. Ansip's problem with the non-appointment of Mr. Laar was however a light breeze from the west compared with the storm, or should we rather say hurricane, the relocation of Aljoshka from Tõnismäe to a Tallinn Military Graveyard. Like many other 'sundüürnikud', Aljoshka, or shall we today better call him Kristjan after Kristjan Palusalu who stood model for the sculptor, has found himself a new place of living, just like very many others in the city these days.

I however think that Kristjan should have been moved long time ago, because the timing was not very good. I think that Mr. Ansip actually was saved by the extreme reaction the move created, not in Tallinn, but in Moscow. Mr. Ansip should actually send some flowers and a letter of thankfulness to both Vladimir Vladimirovitch Putin and as well to the Youth Movement Nazhi in Moscow.

Without their activities and statements towards both Swedish and Estonian Ambassadors, the western leaders might have joined both the statements of the Norwegian Foreign Minister and as well the former German Chancellor Schröder. Mr. Schröder's credibility today is however so low, that I think his comments belongs on the comic pages in newspapers.

Hopefully, these events made the Estonian politicians realize that the Integration of the Russian population has still a long way to go. As long as the Russian minority is not too motivated to learn Estonian language they will continue to read Russian books and newspapers and watch Russian TV channels from Moscow. The youngsters will continue to shout Rossija and USSR as a sign of protest. The Government must start a dialog with the Russian community in Estonia on an equal basis. A good

start could be to publish an Estonian History book in Russian language instead of trying to get them to read one in Estonian language because many Russians still seems to have books from the Soviet era.

Maybe a joint history commission should be created to agree upon what happened in the past. If this is done with mutual respect, I think we can reach a national consensus about the history. World War II and the following Soviet era was a tragedy for both Russians and Estonians, so I think people here should stop calling each

other occupants or fascists and instead maybe borrow some good things from Finland. In Finland there are Finns and Finnish-Swedes so you can differ them by saying Finns and Swedes but together they are called Finländare in Swedish and that would be Finlander in English.

In Estonia we could then speak about Estonians, Russians, Swedes etc, but together we could say that we are Estlanders, when we want to include all people living in the Republic of Estonia.

When it comes to business and the economy, it's like always; business as usual which you also can see from the very symbolic photo on this page - Oleme Avatud, we are open! I think that demonstrates the strengths of the Market Economy or shall we say like Adam Smith put it once: The invisible hand!

Enjoy reading **focus** nr 2!

Anders Hedman  
Chairman  
SCCE



## FOR OUR FOREIGN READERS



**Andrus Ansip**  
The current Prime Minister of Estonia and chairman of the Estonian Reform Party (Est: Reformierakond).

### Mart Laar

Estonian politician and historian. He was the Prime Minister of Estonia 1992 - 1994 and 1999 - 2002. Former chairman of the conservative Pro Patria Union (Est: Isamaaliit), which in 2006 merged with the more technocratic Res Publica Party.



### Aljoshka

Also known as The Bronze Soldier (Est: Pronkssõdur) and originally a Soviet World War II war memorial located at Tõnismäe in central Tallinn. The monument was unveiled in 1947 and has significant symbolic value to

many people in Estonia's minority community of ethnic Russians symbolising not only Soviet victory over Nazi Germany in the Great Patriotic War, but also their claim to rights in Estonia. Many Estonians however considers the Bronze Soldier as a symbol of Soviet occupation and repression. The statue and the remainings of soldiers buried at the site was moved to the Cemetery of the Estonian Defence Forces in Tallinn April 27 - 30, 2007 following mass protests and two nights of the worst rioting Tallinn and Estonia have seen.



### Sundüürnikud

Refers to people living in flats and estates nationalized by the Soviet regime and following Estonia's regained independence returned to the rightful owners.

### Kristjan Palusalu

Kristjan Palusalu (until 1935 Kristjan Trossmann, 1908 - 1987) was an Estonian heavyweight wrestler and Olympic medalist. Aljoshka - the Bronze Soldier monument, is supposed to have been modelled on Palusalu. Possibly because Palusalu was in disgrace with the Soviet authorities, the sculptor denied this and said he used 'a young worker who lived nearby'.





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# The Swedish Chamber of Commerce in Estonia

The Swedish Chamber of Commerce in Estonia – SCCE – is a non-profit association registered in Estonia. Since its foundation 1991 the SCCE has grown considerably and today the Chamber unite close to 130 member companies headquartered in Estonia and Sweden.

SCCE is in many ways a mirror of the intensity in Swedish-Estonian commerce and trade. Sweden is by far the biggest foreign direct investor in Estonia and in terms of export and import Swedish-Estonian business is among the top three.

A main task of SCCE is to create an environment for networking and exchange of information. The Chamber act as a meeting place by arranging seminars, business lunches, company visits, hosting business delegations as well as arranging social events for the members.

Special and unique SCCE member benefits also include listing in the SCCE Trade Directory, the opportunity to further market introduction in the

Member in HighLight section of the Chambers website as well as taking advantage of a steady flow of Special Offers.

The fee for basic membership in the Swedish Chamber of Commerce in Estonia is EEK 5.900:- per year and EEK 20.000:- per year for Partner- and Sponsor-membership. Membership is only granted to legal entities.

For more information about SCCE, please visit [www.swedishchamber.ee](http://www.swedishchamber.ee). You are also welcome to take a direct contact with SCCE's Ombudsman Kristiina Sikk: [kristiina@swedishchamber.ee](mailto:kristiina@swedishchamber.ee) or tel. (+372) 501 9813.

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# Media relations

At a May Business Lunch, SCCE discussed media relations with **Igor Rõtov – Äripäev**, **Hasse Olsson – the man who built up Dagens Industri in Sweden and took the concept to the Baltics** and **Aive Levandi – Board member of the Estonian PR Association**.

Media relations are closely connected to public relations as one important component in an organizations market communication mix. **Aive Levandi** gave a definition on the different components included:

- I will use a definition on market communication originally made by M. Booth and Associates, Inc. in their classical work 'Promoting Issues and Ideas', began Aive Levandi.

- When you see a downtown poster saying that the Big Circus is coming to town – that's advertising.

If the poster also is put on one of the Circus' elephants and the elephant is walking up and down the city streets displaying it – that's promotion.

Now, if the elephant happens to walk through the city mayor's rose garden carrying the sign – that will create publicity.

And, if the mayor laughs about it – that's public relations.

Finally, if the city people visits the circus and spends some money on entrance fees, candy, balloons, popcorn and sodapops – that's sales!

- Though being related to media relations, publicity and public relations are two different components in market communication, continued Aive Levandi. Publicity is about distributing information to gain public awareness of a product or a service - it is one technique used in public relations.



Aive Levandi

- Public relations (PR) is a complex part of market communication, said Aive Levandi. Typically PR includes a tailored and appealing message sent to a defined target group through communication channels used by this group. PR supports the understanding of an organization and its products or services. Furthermore, PR is an ongoing communication process focusing on actualities and news with the aim of building and ensuring a solid positive public image of the organization. PR is often regarded as one of the prime activities within sales promotion.

- What sells in media, asked Aive Levandi. From a general point of view it would be stories delivering a feeling of freshness, novelty, strangeness, neighbourhood, intimacy, importance, significance, unusualness, extravagance and prominence. And, of course sex and crime.

- Analyzing articles, reports on financial and political trends and a window to the international world is probably a better description in our case, said **Hasse Olsson**. **Äripäev** sells in 21.700 copies equalling a penetration of 1,6% on the Estonian market and reaching some 71% of the Estonian decision-makers. ►



Hasse Olsson





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► - From a marketing point of view it is important to understand that the journalists' job is to inform, while the task of PR is to persuade and create understanding, concluded Aive Levandi.

- A business newspaper like Äripäev is independent, but not politically neutral, replied Igor Rõtov. We are building our editorial content on news from the business, financial and political sectors and we prefer to do that being in direct contact with the organizations or authorities we are writing about.

In a comment to the media relations discussion, **Göran Brodén** – chairman of Market Communication Management OÜ, says:

- No agency or any internal information department within an organization can replace a direct media contact with the person or persons directly involved. It is interesting to note that news considered important are immediately lifted to top management levels.

On the other hand this requires support to the management. It takes some

charismatic skills to make a factory closing sound like an improvement and a long term insurance for financial survival. And it takes some skills to communicate a new product, service or concept. What comes first; the product name, its features or its end user benefits?

It isn't really a major task for the top management to keep track on these issues or to know what specific areas a certain journalist is covering or how to formulate a press release, an article or kicking off a debate that has any potential for reaching the pages of the papers or getting attention in TV and radio.

There are many recipes around on how to create good media relations, but basically it is as the American agency McCann-Ericsson once put it in their slogan – Truth, well told.

Text: Megazine – Tallinn  
Photos: Kadi Asmer



Igor Rõtov

# focus

## on legalities

Dear reader,

In the last issue of **focus** I explained the structural differences of the boards of Estonian and Swedish limited liability companies.



### In this issue I will try to explain to you why a Management Board Member is not employed.

This is again an issue that I have to deal with a lot, both due to foreigners' not knowing Estonian law and surprisingly enough, Estonians too are not so familiar with the legal relationship between a company and its management board members either.

I will try to guide you through the legal rules as well as explain the logic behind the system.

#### Employment protection laws

Let's start with the logics behind employment law. The Estonian Employment Contracts Act (Est: Töölepingu seadus) is a law aimed at protecting employees from random and unfair treatment from the employer. A company cannot dismiss employees as it wishes, but every termination from the employer's side needs to have a legal ground as specified in the Employment Contracts Act. Such grounds may be redundancy, a breach of contract from the employee's side, long-term illness and so on.

If there is a legal ground for termination, a notice period and usually severance pay obligations must be observed. In addition to the Employment Contracts Act, there are several other legal acts aiming at giving employees rights and protection that the employer must follow, such as rules regarding vacation and salary payments. An employer must provide its employees with written employment contracts. The management board member signs these as the employer.

#### A position of trust

A management board member is not just any other employee with whom to sign an employment contract. A management board member is elected to his/her position by the shareholders or the supervisory board (depending on the structure of the company). This position is a position of trust as the

management board member is executing the day to day work of the company and should follow the instructions and wishes of the shareholders/supervisory board in doing so.

The shareholders have a just cause to be able to freely choose who this person should be.

To be a management board member includes a lot of responsibilities under law. For example, all signatory powers lie with this person and he or she must lead and organise the day-to-day work including the bookkeeping, prepare the annual reports and so on. Usually the remuneration paid to a management board member reflects the level of responsibility.

In case the owners (or the supervisory board, depending on the organisation of the company) would lose its trust in this person, or for any other reason believes it is better that someone else fulfils these responsibilities, it is often crucial that they can smoothly and quickly make a change of the board members.

As can be understood from the above, in a situation like this, the owners should not be forced to justify the dismissal with the legal grounds as is the case for an employee. You cannot say that there is a case of redundancy or any fault of the management board member has been made.

## LEGAL NEWS

### Some remarks regarding pension

A large number of employees of SCCE members are Swedes who have started their working careers in Sweden and then worked for some years in Estonia. SCCE received some questions regarding pension rights; when do you qualify for pension in Estonia if you only have worked here for some years? Has the system changed since Estonia joined the EU?

The SCCE Council decided to take a look at this issue. A letter was sent to the Estonian Social Insurance Authority (Est: Sotsiaalkindlustusamet). Here is a summary of what we learned:

Under the Estonian system, a person needs to work for 15 years to qualify for pension. Since Estonia became an EU member in 2004, the following system applies. ▶



## The legal bases

The Employment Contracts Act states in its § 7, section 10) that “The Employment Contracts Act does not apply to: /.../ 10) the members of the boards of legal persons and foreign companies’ Estonian branch managers /.../. So, if the relationship between a company and its management board member is not regulated by the Employment Contracts Act, which act is?”

The answer is twofold. First of all, the Commercial Code (Est: Äriseadustik) that states the rights and obligations of the board member, but the contractual relationship between these parties is regulated by the Law of Obligations (Est: Võlaõigusseadus). If there would be no other agreements between the parties the following would apply:

- the management board member shall receive a fair compensation for his/her work;
- the management board member has no right to vacation or vacation pay;
- the management board member has no working hours;
- the management board member can be dismissed upon a decision by the shareholders or the supervisory board (depending on the structure of the company) at their own discretion;
- there is no notice period or no severance pay payable upon termination.

## Service Agreement

Due to the above, it is common that the parties will make a written agreement between them to regulate the issues of remuneration, vacation rights, notice periods and severance pay. Such an agreement is often referred to as a Service Agreement or Management Board Member Agreement. Due to the nature of the assignment to be a management board member, the company should always reserve its right to dismiss a board member at its own discretion. Please note that there are some formal requirements as when it comes to who can sign the Service Agreement on behalf of the company.

### Is there any situation when a Management Board Member should have an employment agreement?

Looking at the Estonian case law, it is clear that there are some circumstances when a management board member also should have an employment contract. This is the case for example when he or she in addition to the managing duties also fulfils other tasks that would fall out of the definition what a board member normally would do. This is the case when a board member also is doing the bookkeeping for the company. In such a case, it can be argued that the management board member should have an employment contract covering these tasks only.

## The reality

In my work I have seen all kinds of strange combinations of management board member contracts. Sometimes there is only an employment agreement, sometimes both a service agreement

## Karolina Ullman

Karolina holds a Master of Laws from Stockholm University from 1998. She did her Swedish court practise 1999-2001 in Bollnäs District Court.

In 2001 she joined MAQS Law Firm’s Stockholm office as an associate, assisting MAQS Law Firm’s clients with an interest in Estonia.

Since 2002 she has worked part time in Estonia and as from 2004 full time. In October 2005, MAQS Law Firm opened its full service law firm in Estonia where Karolina is one of five partners.

Karolina speaks Swedish, Estonian and English. She is a member of the Swedish Bar Association and an associated member of the Estonian Bar Association.

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and an employment agreement with different conditions and sometimes no written agreements at all.

As long as the business goes well and the shareholders do not have any wishes to change the board composition, there are usually no problems anyway. But if there are some changes, the situation is likely to become complicated.

### How to avoid future problems?

If you by reading this article realise that there might be some uncertainties with the management board member contracts in your company, I suggest to raise this issue before any problems have started. It is always easier to agree to a new correct contract while the parties still want to continue their co-operation. Later, it may be impossible.

Up until some years ago, many thought that it was better to have an employment contract than a service agreement as employees are better protected under law. To have an agreement that does not fit with the legal relationship and thus not with the intention of the law, is a bad idea that leads to long and costly disputes.

### Karolina Ullman

Partner MAQS Law Firm

Member of the Swedish and Estonian Bar Associations





## LEGAL NEWS

▶ The 15 years qualification can be met by working in total at least 15 years in any EU member state (it is not relevant if these were worked before or after 2004).

If, for example, Mr. Svensson (as Mr. Jones is usually called in Sweden) has worked 4 years in Estonia and 14 years in Sweden, he qualifies for Estonian pension, but the actual money received from the Estonian state will be adjusted due to the number of years worked in Estonia. Sweden, will in this case pay pension for the years worked in Sweden.

As a minimum, Mr. Svensson needs to have worked one full year in Estonia to be able to receive any pension from Estonia. As from 2004 when Estonia joined the EU, the citizenship is not a factor for the right to receive pension. The main factor is if the person has worked in Estonia, and that social contribution has been properly paid on the salary.

In addition to the Estonian state pension, Mr. Svensson may also have joined the second pillar pension (state financed) and/or the third pillar pension (self-financed) in Estonia and shall receive additional pension according to these system rules.

When it is time for Mr. Svensson to retire, the following applies. If he by then is living in Sweden, he should turn to the Swedish Social Insurance Agency (Sw: Försäkringskassan) and apply for pension. The application should contain his employment agreement or his employment record book (Est: Tööraamat) for the years worked in Estonia up until 1 January 1999, if any. For years worked in Estonia after that date, the information about employments is available in the Estonian databases. The Swedish Social Insurance Agency will then contact the Estonian Social Insurance Authority and receive the information needed to pay out the correct pension.

If Mr. Svensson stills lives in Estonia at the time of retirement, he should make his application to the local Estonian Pension Authority (Est: kohalik pensioniamet) who will contact the Swedish Social Insurance Agency to receive the information needed to pay out the correct pension.

### Time to submit the Annual Report!

Within six months from the end of a company's financial year, it is time to submit the company's annual report to the Estonian Commercial Register (Est: Äriregister). For most companies this means that the deadline is 30 June. The management board of the company calls the shareholders' meeting for approval of the annual report. If the company has a supervisory board, this board shall prepare a written report over the annual report.

Together with the annual report, the company is to indicate its main area of activities for the last year as well as the main area of activities intended for the following, current year, using the Estonian Classification of Economic Activities (EMTAK).

In case the company will not meet the term for submission, there will be a warning of deletion together with a new term issued by the Commercial Register.

# What is your Eastern European strategy?

Eastern Europe has become a vital region for most Nordic and Western European companies. Still it is surprising how many companies and management teams haven't worked out an Eastern European strategy, and how many think that they have, but in fact haven't.

The Nordic countries have during the last years experienced quite an economic upswing. This rise has partly been driven by domestic demand, but to a large extent the drivers can be found abroad. While some of the global giants have mostly China and India to thank for this growth, increasingly many companies are growing in transitional economies closer to home.

Companies like Swedbank and Finnish Stockmann and Fazer are examples of companies creating a large part of the shareholder value in Eastern Europe. Still it seems that these companies in the forefront have not attracted others to look eastwards, or at least not to look far enough East.

Many companies claim that they have an Eastern European strategy, something which in many cases is disputable. What companies typically want to communicate with this is that they are active in one Baltic country.

The most courageous companies may also be looking into expanding into a second Baltic country, or maybe even the St. Petersburg region in Russia. Such limited strategies can also be presented under the name "Baltic Sea Strategy".

A proper, pragmatic Eastern European strategy considers the whole region as a portfolio of markets. Here it is relevant to look also at countries like Russia (beyond the St. Petersburg region...), Ukraine and even Belarus. There are Nordic companies operating successfully in all of these countries, and as such the markets should not be overlooked in the analysis.

Needless to say, however, that an Eastern European strategy is not only about deciding to make aggressive investments into e.g. Ukraine. The key

Martin Seppälä





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A proper Eastern European strategy will besides market entry options also consider proper strategic management issues in the target markets. An issue to consider here is for example the critical aspect of time. Establishing green field operations can easily take up to 18 months.

Such a time is an eternity in countries like Ukraine, where the competitive landscape is changing radically already over one year. A solution for this can be an acquisition or finding a local joint-venture partner. Also decision making centralization (local vs. head quarters) has to be carefully considered because of the same issue.

A Western company may also have to take a quite different value chain role in a country, where there is not an effective market in e.g. supply of raw materials or logistics services.

The list of important issues to consider when formulating an Eastern European strategy is long, and the implications are usually significant. Rightly formulated these growth strategies can, however, reward both the management and the owners generously.

Martin Seppälä

The writer has a Ph.D. (Econ.) in strategic management and is a partner at East Partners, Estonia.



# A lawyer's advice on establishing business in East Europe

Many Nordic companies are experiencing growth of revenue, a sign of what is reflected for instance in increasing sales of luxury products in the Nordics.

Whether the positive situation is based on domestic demand or global sources, it is advisable to think about reassuring future growth by establishing and developing market presence in prospective areas. For Nordic companies the Baltics, the CEE countries, and NW Russia are naturally the closest. While accessing to and expanding in these locations, besides financial/ economic considerations legal issues and culture are of great importance as well.

A first thing to remember is that although the target countries seem to be close both in terms of geography and sharing common history, legal matters might be materially different throughout the region. For instance, when establishing a pledge or purchasing real estate, courts might have a different approach about rules that seem to be identical at the first sight. Therefore, experience from conducting business in a Baltic country is not transferable to other countries.

An important factor is the efficiency and credibility of the functioning of the public sector. Getting the relevant licenses can require different time schedule even in the Baltics, not to mention the CEE. That in turn might have a strong impact on simultaneous launch of a new product for example. Furthermore, although corruption and other similar factors daunting fair competition are growing less and less, the situation is diverse across the countries. Countries closer to the Nordics are likely to have similar business culture, while especially Russia and CIS having a rather different environment.



**Valdo Põldoja,**  
an attorney at  
Advokaadibüroo  
Paul Varul  
(Attorneys-at-law),  
Tallinn

Since the differences in national legal and administrative systems, there is an obvious need for local counsels as guides through the maze. For larger projects, it is important to have lawyers with international transaction experience that could manage sometimes very tight schedules. In that connection, the legal market seems to be rather competitive in the Baltics and CEE, with many higher-end local firms having established ties to international players or international law firms being present on the market to meet even the most demanding criteria.

To sum it up, country-specific knowledge is essential for successful expansion in the Baltics or CEE. When relying on trustworthy advisors, furthering activities to these areas could provide for a soft landing in case the growth cycle in the Nordics should become slower.

Valdo Põldoja

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Paul Varul



# How company cars are taxed: A comparison between Sweden and Estonia

In the first issue of **focus**, we compared the taxation systems of Sweden and Estonia. We found that although tax policy is quite different, the mechanics of tax filings in Estonia and Sweden are surprisingly similar.

In this issue and in forthcoming issues of **focus**, we will respond to frequently asked questions comparing Sweden's and Estonia's taxation systems. In this issue we shall examine how Sweden and Estonia tax company cars. We shall see that the two countries have radically different approaches. We would suggest that one of the reasons why there are so many luxury cars on the streets of Tallinn is the low amount of taxes paid on luxury company cars.

However, before turning to how the two countries tax company cars, let's briefly review how the two countries treat personal car use for company purposes. In this article, an exchange rate of SEK 1 = EEK 1.7 is assumed.

## Use of a personal car for business purposes

In other words, the assumption is that an individual owns his or her own car. The company does NOT own this car. The individual is an employee of the company for whose benefit the employee uses his or her own car.

### Sweden

If a personal car, irrespective of brand or age, is used for business, the Swedish state sets out an amount per kilometre that the employee can charge the company without any additional tax implications. For 2007, this amount is SEK 1.80 per kilometre. As the employee has the burden of proof, both against the company that employs him and against the tax authority, it is mandatory that the employee keeps satisfactory documented records of business mileage, which in most cases is solved by keeping a travel log or journal. For cash flow reasons, the employee presents his business mileage claims together with other travelling expenses without delay. The employee multiplies the determined-by-the-state amount per kilometre by the amount of kilometers that he or she has driven. That is the amount the company can pay their employee for using his or her own car (for the purposes of this article, we ignore if the car is owned by the employee or by the spouse of the employee).

The employee receives this amount tax free – meaning it is treated as a reimbursement of an expense incurred on behalf of the company. If the reimbursements from the company exceeds

this set amount of 1.8 SEK per kilometre, the exceeding amount will constitute taxable income for the employee and be liable for social charges for the company.

### Estonia

If an individual uses his or her car for company business, a company can pay up to EEK 1,000/month (or approximately SEK 588/month) tax free for use of his or her car for business purposes. No travel log book or journal needs to be kept.

If a journal or travel log book is used to record the kilometres that were travelled for business purposes, then a company can pay a person up to EEK 2,000/month tax free (SEK 1,176/month) as compensation for business travel. In this case, the company and the employee agree a fee per kilometre that the employee can charge the company. This per kilometre fee is not regulated or set by the state or Ministry of Finance. If a company decides to pay an individual more than EEK 2,000/month compensation for business travel, any amount over EEK 2,000/month will be taxed as a fringe benefit, which in Estonia means that it will be taxed at approximately 70%. This fringe benefit tax is payable by the company.

## Company car – how it is taxed

### Sweden

The facts assume that a company has purchased or leased a car and then given an employee the right to use the car privately. Normally, the company will pay for all car related expenses except gas/petrol. If the company pays for gas/petrol, partially or in full, this constitutes a new fringe benefit for the employee. His taxable income is increased by the market value of the consumed fuel multiplied by 1.2. The company must pay social charges on the gas/petrol at the market value without the 20 % mark-up and the employee will benefit from a somewhat higher pension when he retires.





The use of this car is treated like an addition to the gross salary of the employee. The state or an individual would simply look at a chart which shows the size of the addition to salary that must be made. This chart is prepared annually by the tax authority based on the basic market value of each model or brand of car, with additions for extra equipment (based on the market value of the extra), the current interest rate, and the Swedish basic amount ( in Swedish „basbelopp”).

Reductions in the chart values of cars are made for „enviromentally friendly” cars, extensive business driving (if the employee drives more than 30,000 km/year for business purposes), partial reimbursement of car related expenses to the company by the employee, if the employee uses the car for only part of the year and for special reasons (e.g. large amounts of tools and equipment must be transported in the car).

The more expensive a car is, or the newer it is, the higher will be the addition to salary. Also, an individual must estimate how much he or she will use the car for personal use, and formally, they are required to use a journal or travel log where they record their personal trips. The more the employee estimates that he or she will use the car, the higher the additional gross salary will be. The fewer kilometers an employee claims to use the car for personal use, the more likely they are to be audited on this point by the Swedish tax authorities. If one assumes that one uses this company car a significant amount for personal use, and shows these numbers for the Swedish tax authorities, the less likely one will be asked to prove how much was the car used for personal purposes. The addition to salary is just added to salary which increases the amount of tax an individual must pay to the state. It is worth mentioning that due to this higher salary, an individual earns a higher pension that he or she will receive once they retire.

The purchase or the leasing of the car by the company is just a regular expense of doing business. The Swedish company pays no extra tax because it purchased the car.

Just to give an idea of the taxable amounts of fringe benefits to the employee, we have chosen two 2007 cars to illustrate the amounts. One is a Toyota Corolla 1.6 sedan (i.e. four door)

and the other is a BMW 330xi sedan. To both cars, we have added, to their standard or basic prices, SEK 10,000 for extra equipment( which is quite normal).

The amount that is added to the salary of an employee and taxed, for the Toyota, is SEK 34,400 and SEK 68,300 for the BMW (both amounts per annum). These amounts do not include a fuel benefit. The company would pay social taxes on this amount that is added to the salary.

### Estonia

When a company purchases or leases a car, it becomes an asset of the company, except in the case of an operating lease. It is interesting to note that in Estonia, 70% of cars acquired are acquired by leasing.

If an employee has use of a car, or responsibility for it, and claims that they do not use it at all for personal purposes, one must prove it. Meaning that the car must be kept at some compound or security area where the movements of it are tracked, and one can prove that one does not use it for personal reasons or for going to work and returning home.

The major difference with Sweden is that the individual employee does not pay one cent of tax by being given a company car. In other words, an individual’s personal taxes do not increase at all by being given the use of a company car. The company that has given the car to the employee must pay all of the relevant taxes. Let’s explore this in some detail.

The state assumes that an employee will benefit a fixed amount per month by being given a company car to use. This amount is EEK 2,000/month (SEK 1,176/month). The Estonian tax authorities do not ask what make of or the mark of the car the company purchases, what it cost or how new it is. Also, the state does not differentiate whether the leasing package includes gas/ petrol, insurance of the car and maintenance of the car. The state simply states that the employee has received a benefit of EEK 2,000 (SEK 1,176) per month. In other words, regardless of whether a person has received a used Lada, or a brand new Ferrari, they are deemed to receive a EEK 2,000/month benefit.



**Hillar A. Lauri**

**2004 -**  
Near-Shoring OU, Tallinn, Estonia  
Founder and Managing Director

**2002 - 2004**  
NA Power LLC,  
Director of Business Development

**1996 - 2002**  
NRG Energy, Inc. (HQ in USA),  
Tallinn, Estonia  
Executive Director Business Development,  
Nordic Region

**1993 - 1995**  
The World Bank (HQ in Washington, D.C.),  
Tallinn, Estonia  
Manager of Branch Office, Estonia

**1992**  
Ministry of Finance,  
Government of Estonia, Tallinn, Estonia  
Legal Advisor (western trained  
lawyers were not to be found in Estonia)

**1990 - 1991**  
The Mortgage Insurance Company  
of Canada, Toronto, Canada  
Solicitor

**1988 - 1989**  
Fitzsimmons & MacFarlane  
(Barristers and Solicitors),  
Toronto, Canada  
Associate Lawyer

**Languages**  
English: Native language  
Estonian: Fluent  
French: Fair  
Russian: Marginal



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## In the next issue of focus

In the next issue of focus, we shall compare Estonian and Swedish tax treatment of business expenses.

On this EEK 2,000, the state calculates a fringe benefit tax plus VAT, which comes out to approximately 86%, or approximately EEK 1,715/month (or SEK 1,009/month). In other words, the company pays a tax per month of EEK 1,715 for each company car that an employee of their's drives. To repeat the above, there is no addition to the gross salary of an employee due to being given the use of a company car.

It should be added that the additional taxes paid by the company are „general” fringe benefit taxes. They are not attributed to the gross salary of an employee and the employee is not shown as having a higher gross salary from which they would receive a higher pension later in life.

### Summary

For an individual, the tax treatment of having the use of a company car is clearly much more beneficial in Estonia than in Sweden. An individual in Estonia does not pay any income tax on a company car. From a company's point of view, a Swedish company pays more taxes on a luxury company car than does an Estonian company (for regular cars, the taxes are of similar size).

In other words, Estonia's tax treatment of company cars is more favourable than Sweden's for both the company and the individual employee.

If someone reading this is an employee of an Estonian company and is negotiating a compensation package, that person should ask for company car as opposed to a salary increase. That person could receive a much greater benefit without having to pay any extra personal taxes.

*The author would like to thank **Ruut Mägi** and **Mart Nõmm** for their invaluable comments. Any errors remain the sole responsibility of the author.*

**Hillar A. Lauri**

**Near-Shoring OÜ**

Founder and Managing Director





# The Baltic Sea might become too small for us



The same day as Tallink put their latest new vessel, the MS Star, into traffic between Tallinn and Helsinki, **focus met Enn Pant, Chairman of the Management Board of AS Tallink Grupp.**

- MS Star is not only a new vessel, she actually represents a totally new concept, said Enn Pant. We have branded the new concept Tallink Shuttle and you can actually say that MS Star is three ferries combined into one. She is a cruise ferry offering a high and comfortable passenger capacity with a large variety of restaurants and

shops. She is also a cargo vessel with a large cargo and car deck. And – she is a high-speed vessel making the Tallinn – Helsinki journey in just two hours, three times per weekday.

## Tallsinki

- As far as we are concerned Tallsinki has been a fact for some years by now, said Enn Pant. The demand for high-speed ferries between Tallinn and Helsinki originates from business travelers and commuters – you live in Tallinn but work in Helsinki or vice versa. Up until the launch of MS Star we have been able to serve this market segment 8 months per year. Our former high-speed fleet, the Autoexpress vessels now being gradually phased out from the route, is not capable of handling the ice situation in the Finnish Gulf during a normal winter. But with MS Star and a second high speed vessel, now ordered and already under construction at the Fincantieri shipyards in Italy, we will be able to offer year round high speed services for some 12.000 passengers and 12.000 lane meters of vehicles per day on the Tallinn-Helsinki route. By the way, those 12.000 lane meters for vehicles equal either 720 trucks or 1.350 cars per day.

## Sweden

- Paldiski – Kapellskär represents Tallink's first route to Sweden, continued Enn Pant. We started our traffic there 1998 and today we have two ro-ro ships in operation on the route, MS Kapella and MS Regal Star. It is an 11,5 hours journey and the vast majority of our revenues on the route originates from cargo.

- Tallink started operations on the Tallinn – Stockholm route 2001 and today we operate MS Victoria I and MS Romantika between our two capitals, told Enn Pant. The traffic is branded Tallink Cruise and our revenues mainly originate from onboard sales in the restaurants, bars and shops as well as from passenger ticket sales. Though Sweden has become more and more interesting for the Estonian market still some 70% of the passengers here are Swedish.

## AS TALLINK GRUPP

AS Tallink Grupp is the holding company of a corporate group including some 60 different companies active in ship owning, ship operations, crewing & manning, supply of goods for ships, entertainment on ships, technical ship management, stevedoring services, public customs warehousing, travel services, hotel operations, sales & marketing, media & advertising, legal services and hardware & software services.

AS Tallink Grupp is also the operator of Tallink's traffic between Estonia and Finland and has the responsibility for sales and marketing in Estonia as well as general administration of the activities of the Group.

Toivo Ninnas is the Chairman of the Groups Supervisory Council and Enn Pant is the Chairman of the Management Board.

The history of AS Tallink Grupp is for natural reasons closely connected to two main brands of the Group – Tallink and Silja.

## The Tallink brand

### 1989

- A company named Tallink was founded as a Finnish-Soviet joint venture with the intention of transporting tourist passengers between Helsinki and Tallinn.

### 1990

- The first year of operation saw one chartered vessel, the Tallink ferry, transporting some 166.000 passengers on the Helsinki—Tallinn route.

### 1993

- Following Estonia's regained independence 1991 the country's appeal as a tourist destination rapidly increased, especially among the Finnish public. To respond to the growing demand Tallink chartered the Georg Ots ferry, which had previously been in competition with the company's own ferry.

- The state-owned Estonian Shipping Company ("ESCO") acquired all shares in the company and Tallink passed the 1.000.000 passengers/year-milestone.

### Mid-1990's

- Market demand for quicker sea-transport between Helsinki and Tallinn evolved and Tallink introduced high-speed ferries on the route. With these ferries the travel time decreased to 1hr40min compared to the conventional cruise ferries which need 3hrs30min on the route.

### 1996

- A new operating company named AS Hansatee commenced operations under the Tallink brand.



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- Tallink's Riga – Stockholm traffic was introduced more or less simultaneously with last year's world championship in ice hockey held in Riga, said Enn Pant. The traffic has picked up quite nicely and recently we put a second vessel on the route as MS Regina Baltica was joined by MS Vana Tallinn.

- Tallink's purchase of Silja last year has equaled out the positions in terms of our traffic volumes to Finland and Sweden, continued Enn Pant. Before the Silja acquisition Estonia - Finland dominated substantially, but as per our March 2007 figures our traffic from Estonia, Finland and Latvia to Sweden counts for around 60% of the total number of passengers carried, while Estonia – Finland counts for close to 38%. The remaining 2% are passengers carried on our Rostock route.

- There have been rumors that Tallink would participate in the tender on the ferry services between Gotland and the Swedish mainland, said Enn Pant. I can confirm that we have met with Rikstrafiken (authors note: a Swedish State Agency procuring public transports by air, sea, rail and bus as one of its main tasks) and following these meetings we have decided not to participate in the tender.

### Germany

- Continental Europe is of course interesting for Tallink, said Enn Pant. As far as cargo is concerned, you can naturally say that we are feeding the surface transport market with our traffic Helsinki – Tallinn; Via Baltica, the E67 starts in Helsinki and runs to Warsaw through Tallinn, Riga and Kaunas. However, an alternative by sea is highly interesting and we actually extended our Rostock – Helsinki route to Tallinn in January this year.



- Tallinn – Helsinki – Rostock is operated with our high-speed Superfast vessels, continued Enn Pant. We purchased three Superfasts last year and with their speed capability of over 30 knots, 1.900 lane meters of vehicles and a capacity for more than 700 passengers they are highly suitable for this route.

### Internationalization

- It is kind of strange that our acquisition of Silja last year sometimes was referred to as a trend breaking Estonian investment abroad, said Enn Pant. The fact is that Tallink has been investing abroad years before we purchased Silja, a purchase that actually happened six years after Silja gave us an offer to buy Tallink. We started to purchase and own our ships, instead of chartering them, back in 1997 and since then I can say that we have been a substantial Estonian investor abroad.

- As far as our current ship fleet is concerned our purchases has brought us in contact with several shipping lines and shipyards abroad, continued Enn Pant. Several of our new buildings have been purchased from Aker Finnyards in Finland. We have a new ship under construction at the Fincantieri Shipyards in Italy. Our Superfast vessels used on the Tallinn – Helsinki – Rostock route were purchased from the Greek Attica Group last year.

▶ - A new management team headed by the current Chairman of AS Tallink Grupp Management Board Enn Pant was brought in to improve performance. This was accompanied by a change in ownership and a fundraising of approximately EUR 13 million, whereby the management and certain companies related to Eesti Ühispank became shareholders. AS Tallink Grupp's principal shareholder, Infortar, was formed in connection with this management buy-out.

#### 1997

- Tallink acquired its first own three vessels thereby marking a policy change decided by the new management – the operating model changed from chartering ships to ship ownership.

- The present Group structure was introduced and AS Hansatee became Aktsiaselts Hansatee Grupp (subsequently renamed Aktsiaselts Tallink Grupp).

#### 1998

- Tallink passed the 2.000.000 passengers/year-milestone.

- The first Tallink route between Sweden and Estonia (Kapellskär—Paldiski) was launched.

#### 2001

- The Tallink Stockholm—Tallinn route was introduced in January 2001.

- Tallink continued to implement its growth strategy by acquiring additional cruise and high-speed ferries and by starting to invest in new vessels. Two high-class cruise ferries were ordered and the first of them, Romantika, was delivered in 2002.

#### 2003

- A group of international institutional investors became shareholders of Tallink through an international private placement transaction. The private placement amounted to EUR 37 million in total and consisted of both an issue of new shares by Tallink and the sale of existing shares by Tallink's largest shareholder, Infortar. This transaction enabled Tallink to continue the growth strategy.

#### 2004

- Tallink acquired two additional high-speed ferries, a second ro-ro cargo vessel and Romantika's sister vessel, Victoria I was put into traffic.

#### 2005

- Tallink placed orders for two new high-speed ro-pax ferries intended to improve the high-speed service between Helsinki and Tallinn.

- Tallink is listed on the Tallinn Stock Exchange after launching an initial public offering of shares for retail investors in Estonia and Finland and a private placement for international institutional investors.

- Tallink placed an order for a new cruise ferry (sister vessel of Galaxy).

#### 2006

- Tallink introduced its new cruise vessel Galaxy, which started operating between Helsinki and Tallinn.

- Tallink started operations between Riga and Stockholm. ▶



- Tallink acquired three Superfast ferries and started operating between Finland—Germany.
- Tallink acquired part of Silja's business from Sea Containers.
- Tallink extended the Rostock-Helsinki traffic to Tallinn.

#### Up until April 2007

- Tallink put a second vessel into traffic on the Riga-Stockholm route. Regina Baltica was joined by Vana Tallinn on the route.
- Tallink's new generation high speed vessel Star was put into traffic between Tallinn and Helsinki. Operating under the sub-brand Tallink Shuttle, the ferry is unique in the world by being the fastest vessel ever built for such a short distance route.
- Tallink placed an order for a new large cruise ferry. The ferry will be a new development of the Galaxy and her already ordered sister vessel.

#### The Silja brand

##### 1957

- "De samseglande" (the co-sailing) forms a daughter company called OY/AB Siljarederiet in Turku, Finland. The history of "De samseglande" dates back to 1894 when Finska Ångfartygs AB – FÅA (The Finnish Steamship Co.) started scheduled sea traffic between Stockholm and Hanko. Later on Bore Line started to cooperate with FÅA on the Swedish traffic and after world war I Svea Line joined the cooperation. These three shipping lines formed "De samseglande".

##### 1972

- The Stockholm-Helsinki route is operated year round (traffic on Helsinki was seasonal before this, while Stockholm – Turku had been operated year round since several years back).

##### 1980

- Bore Line leaves the cooperation.

##### 1989

- Effoa (former FÅA) and Johnson Line (where Svea Line was incorporated) merge their passenger traffic in EffJohn International.

##### 1990

- EffJohn International becomes EffJohn AB.

##### 1995

- EffJohn AB becomes Silja Oy AB (though the substantial changes in terms of legal entities through the years, the brand name Silja was kept and used since 1957).

##### 1999

- The British shipping line Sea Containers buys 51% of the stocks in Silja.

##### 2002

- Sea Containers buys the remaining shares in Silja.

##### 2006

- Silja becomes a subsidiary of AS Tallink Grupp July 19th.

- As a mean of optimizing our asset utilization we are open for chartering out some of our vessels from time to time, said Enn Pant. Currently MS Fantaasia and MS Meloodia are on charter in the Mediterranean manned with technical crew from us.

- AS Tallink Grupp is definitely an Estonian company, said Enn Pant. The biggest single owner is the Estonian company AS Infortar (authors note: with Enn Pant as Chairman of the Supervisory Council) owning close to 40% of the shares. The remaining 60% is traded on the Tallinn Stock Exchange and in addition to many Estonian private share holders you will also find international institutional investors like Citigroup and Danske Bank.

#### Priorities

- The financial year 2005/2006 was eventful for us, said Enn Pant. We acquired three Superfast vessels, we acquired Silja, we took delivery of MS Galaxy and we opened up the Riga – Stockholm route. And this spring we opened a second hotel in Tallinn, the Tallink Spa & Conference Hotel located in the port area of Tallinn. And, this very day we put our newest vessel, MS Star into traffic on the Tallinn – Helsinki route. All this calls for some priorities.



- One of the more significant priorities is of course the continued integration of the Silja operations, explained Enn Pant. We have estimated the potential cost-saving synergies to 20 million EUR during the first year in areas connected to a reduction of the onshore manning, simplified organizational structures, reduced headquarter expenses, coordinated marketing, advertising and promotion activities. Additionally we will also take advantage of our increased purchasing power, improve our ticket yield management and reduce the overall vessel maintenance costs. The increased purchasing power has a certain impact as the shipyard business is booming all over the world right now. Prices of new buildings have gone up with a factor close to 2,5 – partly explained by increased prices on steel. Previously we and other ship buyers were in a position where we could choose between Caterpillar, Wärtsilä and other engine manufacturers for equipping our ships engine rooms. Today we are almost in a position where we have to accept what is available on the market.

- The continued development of the Riga – Stockholm route and the Tallink Shuttle concept are two other important items on our priority list, continued Enn Pant. Our hotel business with two hotels in operation in Tallinn now and plans for a third hotel in Riga also calls for special attention.

#### The future

- Naturally we also have a list of things we want to do, said Enn Pant. Today Tallink and Silja are operating out of two separate terminals and port basins in Stockholm. We have a good relation with the Port of Stockholm and we intend to merge our Stockholm-operations to one place in the port. St. Petersburg is on our list of additional destinations. However our calculations show that the cost of a tourist-visa will be higher than our ticket price so we will definitely wait for a while with the re-introduction of this destination.

- We have been and still are investing aggressively, concluded Enn Pant. As per our annual report 2005/2006 (authors note: AS Tallink Grupp fiscal year runs from September 1st to August 31st) our net profit increased more than three times and our sales increased with 56%. I wouldn't be surprised if we some day in the future reach a point where the Baltic Sea might become too small for us.



# ECONOMICAL CHANGES

With one exception **focus** is addressing the potential subject of changes in the Estonian economical environment in this issue of the magazine. We have collected material from interviews, business lunches and seminars this spring and have now put it together as a collection of articles with the current major economical topics as a common theme.

Andres Sutt, Deputy Governor of Eesti Pank – Bank of Estonia, is addressing the soft landing option for the Estonian economy. Alf Vanags, Director of the Baltic International Centre for Economic Policy Studies, is introducing an economical crisis as a way out for a state in times of policy paralysis. Maris Lauri, Hansabank’s economical macro analyst, presents Hansabank’s economical outlook. The lack of labour situation in Estonia is highlighted in an article based on a recent series of presentations on the issue in Tallinn. Being the magazine of the Swedish Chamber of Commerce in Estonia **focus** also presents some highlights from the recent budget bill proposed by the new Swedish Government.

What about the exception? Well, the exception is covered in the article on Prime Minister Andrus Ansip’s address to more than 100 international businessmen, April 20th in Tallinn; “We do not plan any dramatic changes in the near future policy”, said Andrus Ansip at this event.



Frank Svenhard

**Frank Svenhard**, ALD Automotive’s Managing Director Baltic Countries and a member of SCCE, gives his opinion on the presentation Eesti Pank gave SCCE this spring:

- The soft landing of the overheated economy is politically correct and I don’t think that you can expect a more controversial statement from a central bank, says Frank. However, when I asked Andres Sutt of Eesti Pank if the presumptions aren’t a bit tougher this time, he agreed. A considerable part of the low cost advantage that has been a competitive asset for Estonia is on its way to disappear considering the prevailing pace of salary increases.

**Anders Hedman**, SCCE’s Chairman, comments on the current Estonian economical situation:

- The Baltic economies are clearly overheated, everybody agrees on that, says Anders. High economical growth, high wage increases, high

## Inflation, taxes and the EURO



Reidi Strandberg

- In the early autumn 2005 I did a presentation on how to prepare a budget for 2006, says Reidi Strandberg – Associate Partner of Rödl & Partner OÜ, Tallinn. I started like this: The 2006 budget will probably be the last one we will do in Eesti kroon because January 1st 2007 we will change to the EURO. But I added: If our inflation will be not more than appr. 2.1%.

- May 23rd this year we celebrated the 15th birthday of the Estonian kroon. Will we celebrate the 20th birthday of the EEK as well?

- The main problem behind not changing over to the EURO is inflation. With the current Estonian economical growth it is quite difficult to get down to a low inflation. According to Statistics Estonia, the prices of goods and services April 2007 were, on average, 5.5% higher than in April 2006. The highest price increases were in housing with 13.8%, in hotels, cafés and restaurants with 8.8% and in food and non-alcoholic beverages with 8.7%. The only commodity group where the prices decreased is in the communication sector -1.9%.

- Estonia’s economic growth, which has been above 10% since the second half of 2005, is slowly calming down now.

- Bank of Estonia forecasts an economic growth of 8.4% for 2007, 6.5% for 2008 and 5.6% for 2009. Even with such growth indicators, Estonia is still going to be one of the fastest expanding economies within the European Union. ▶

Average salary 1st Q’s (Source: [www.stat.ee/statistika](http://www.stat.ee/statistika))

Year	2004	2005	2006	2007
Average monthly gross wages (salaries), Estonian kroons	6,748	7,427	8,591	10,322
Growth	6.55%	10.06%	15.67%	20.15%



► - 2004, when the average salary was 6,748 EEK, about 18% of the Estonian employees was paid their monthly salary in an interval from 6,001 to 8,000 EEK. 27% got more than 8,000 EEK and 55% got less than 6,000 EEK.

- If more than half of all the employees get less than the average salary, then we can think about how many people there are, who are able to take a loan for purchasing an apartment or a house. This means that the prices in real estate can not grow endlessly and there are now some signs on a cool down in this sector.

- According to the statistics, over 13,000 purchase-sale contracts of real estate and contracts of building rights were notarized during the 1st quarter 2007. Their total value was about 16 billion kroons. The number of all notarized purchase-sale contracts decreased with about a fifth compared to the 1st quarter previous year as well as compared to the previous quarter. That means about 3,000 contracts less. Although a smaller number of contracts in the beginning of a year is characteristic for the real estate market, the decline is faster than usual and probably indicates the calming of the real estate market - high prices and decrease of potential borrowers have reduced the demand and stabilized the prices.

- May 24th the Estonian Government approved a package of tax amendments, consisting mainly of changes in the income tax and excise duty. I will not talk about changes in income tax this time. Changes in the excise duty will have a main influence on the inflation. It is difficult for the Government to gain popularity by increasing the prices on alcohol, but it is already approved to increase the excise for alcohol 20% and tobacco 1002 kroons per 1000 cigarettes. Additionally there will be increases in gas and electricity prices. The increase of excise duties would have taken place anyhow, but the initial plan was to do it step-by-step. According to a forecast from the Ministry of Finance, an abrupt increase of excise will result in a 6% inflation 2008. Future inflation will decrease and 2010 the estimated inflation will be 3.3% and 3.1% 2011.

- There is a saying that it's easier to cut the dog's tail only once, concludes Reidi Strandberg. We can only hope that we are able to survive the expected price increases successfully and that we can change over to Euro before the 20th birthday of the Estonian kroon.

Text: Reidi Strandberg

private consumption, foreign trade has a negative balance, a big share of foreign direct investments, small economies, the Estonian Kroon has an exchange rate connected to the Euro but the country can't join the Euro-zone for the next couple of years.

Something has to be done, especially in Latvia. But, as always there is a risk for a domino-effect.

- A devaluation will not solve the problems, but it might cool down the economy, continues Anders. It would make exports cheaper while imports would be more expensive. Some structural actions have to be taken in the economies.

- We are in a period of transition from a low cost labour country for Scandinavian companies, but a transition to what?, asks Anders. The Baltic Countries have been successful with EU and NATO thanks to clear and sharp objectives. But what about the present situation? Where is that Estonian Nokia everybody is talking about?

- In many ways this reminds of the IT-hype in Sweden 1999, says Anders. There was a golden future ahead, but there was no real substance in the concept and I am concerned that the same thing might happen here.

- Andres Sutt talks about a soft landing and of course, this is what we all hope for but we have experienced crash landings as well, says Anders. Sweden and Finland during the early 1990's, Thailand 1999.

- A problem is that there aren't really any comparable economical studies to fully rely on, concludes Anders. The Baltic countries are small and neighbor economies are booming right now - maybe we will get out of this simply by surfing along more or less invisible in the background. We from Western-European countries have been wrong before in our forecasts and judgments. The time for wonders might not be over, or...?



Anders Hedman

Text: Magazine - Tallinn  
Photos: Kadi Asmer



# In the approach pattern for a soft landing

ECONOMICAL CHANGES

- The Estonian business cycle is past its peak, said **Andres Sutt**, Deputy Governor of Eesti Pank – Bank of Estonia, at a presentation on Estonia's economy for SCCE. A soft landing means that the growth rate will not fall much below 7%.

- It was the bold reforms of the 1990's that created the basis for the Estonian success story, said Andres Sutt. The fixed exchange rate, an early liberalization, economic openness, a prudent fiscal policy, the privatization and protection of private property. Further contributing factors include the Estonian integration with the fast growing Nordic markets, the EU membership and an optimism based on strong profitability, expectations on high income growth and favorable borrowing conditions.

- Estonia's economy is highly integrated with the Nordic economies, continued Andres Sutt. Our biggest trade partner 2006 was Finland with a 21% share, Sweden had a 9% share and so had Germany. Latvia ended up with a 7% share, Lithuania 5%, CIS 13% while the remaining 36% was shared between other countries. In terms of foreign direct investments in Estonia Sweden is by far the biggest investor with their 53% share. Finland comes as number second with 21% and the remaining 26% is shared between other countries.

- The integration with the Nordic powerhouse has played a role in our continued economical development, said Andres Sutt. During the 2000's the GDP growth in Sweden and Finland has been twice the Euro area average and there has been a technology transfer between the countries.

- We can see that the Estonian domestic demand is still strong, fuelled by expectations of further wage growth and easy access to credits, said Andres Sutt. Supported by the global cycle our exports have been strong but imports have grown faster, our current account deficit reached 13,5% of the GDP in 2006.

- The employment growth is estimated at 6,5% in 2006, said Andres Sutt. The tightening labour market has brought along a strong wage growth and the current gap between productivity and wage growth has to be temporary. The value added per person employed ended up just above 4% in 2006 while the average real gross wages ended up at 12%.

- We have clear signs now that the Estonian business cycle is past its peak, said Andres Sutt. Following the all time high 11,8% growth in 2006 we now estimates the potential growth at 7 – 8% per annum the next few years. And a soft landing means that the growth rate will not fall much below 7%.

- The expected slowdown in output growth will cool the inflationary pressures,

## EESTI PANK

The mission of Eesti Pank is to ensure price stability in Estonia and its main tasks in carrying out the mission are:

- 1) Participating in the national economic policy through the implementation of an independent monetary policy, consultancy to the government, and international cooperation;
- 2) Ensuring financial stability in Estonia by creating policies for the financial sector and operating well-functioning settlement systems;
- 3) Arranging the circulation of cash in Estonia;
- 4) Making preparations to become one of the policy-makers among other national central banks of the euro area who design the coordinated economic policy and single monetary policy in Europe.

Eesti Pank was established 1919. According to the Statutes of the Bank at that time, the Estonian currency should have been on a par with the gold frank (1 mark = 0.29032 grams of gold). However, as the central bank did not have any real reserves backing the money issued, the banknotes put into circulation were actually just paper money without any support.

The attempts made by the central bank to cover the ever-increasing credit demand and the state budget deficit by issuing more banknotes increased the demand for foreign currency. In order to maintain the exchange rate of the mark, the Bank was forced to use the national gold reserves, which decreased from 15 million gold rubles to 2.5 million. This led to the continuous devaluation of the mark.

Eesti Pank was reformed in 1927 and it became an independent note-issuing central bank with limited functions.

The currency reform carried out in 1928 laid the foundations of an up-to-date monetary system in Estonia. According to the new Currency Law, the ▶





Andres Sutt

▶ banknote issued by Eesti Pank - the Estonian kroon became the legal tender. Each kroon was made up of 100 sents and each sent was equal to 1 former mark. The Estonian kroon was considered equal to the Swedish krona.

In June 1933, under the pressure of the overall economic depression and after heated internal policy disputes, Estonia was forced to devalue the kroon by 35%. During the following years Eesti Pank was able to maintain the stability of the kroon's exchange rate, which raised the prestige of the Bank as a social institution.

Devaluation and the improved set of circumstances in the foreign markets had a stimulating effect on the country's production and export activities. The economic upturn that had begun in 1934 continued at a high rate. The outbreak of World War II somewhat disturbed economic life but was not initially able to endanger the operations of Eesti Pank and the development of the economic life of the country as a whole. In June 1940, after the Soviet annexation of Estonia, Eesti Pank was nationalized and its shareholders' assets expropriated.

The puppet government helped into power by the foreign conquerors forced Eesti Pank to fund the activities of the occupiers with an interest-free loan. The Bank was obligated to transfer all the gold in its possession (kept in Sweden, Great Britain and the United States of America) to the State Bank of the Soviet Union by means of a compulsory sale. Of this gold, Moscow only succeeded in obtaining about 10 million kroons, the amount that was held in the State Bank of Sweden.

The incorporation of Estonia into the Soviet Union in 1940 was followed by the reorganization of Eesti Pank into the Estonian Republican Office of the State Bank of the USSR. The ruble was introduced in Estonia at the rate of 1 kroon = 1.25 rubles (the actual value was 1 kroon = 8-10 rubles).

1941, after the outbreak of war between Germany and the Soviet Union, the Estonian Office of the State Bank of the USSR was evacuated to Moscow. Although Eesti Pank had been liquidated, i.e. actually despoiled, some of Eesti Pank's assets still remained untouched in foreign banks.

After Tallinn was taken by German troops, Eesti Pank was nominally restored to operation. In 1943 Eesti Pank, under the name Gemeinschaftsbank Estland, was reorganized into a sub-agency of Gemeinschaftsbank Ostland, situated in Riga. The Bank operated under that name until Estonia was re-occupied by the Red Army in 1944.

Throughout the period of 1944-1990 banking in Estonia was once again re-oriented to the monetary and banking system of the Soviet Union and the central bank as an institution was completely absent.

The Soviet Union indeed tried very actively to acquire the assets of Eesti Pank from the independence period that had been deposited in foreign banks, but all those attempts failed (excluding those kept at the State Bank of Sweden, as mentioned earlier).

1987 provided a clear indication of the upcoming crisis in both the economy of the Soviet Union and in its banking system. It was on 15 December 1989 that the Supreme Council of the ESSR passed the resolution on the re-establishment of Eesti Pank. A public competition for the design of new banknotes was proclaimed.

Eesti Pank recommenced operations on 1 January 1990 after an interval of 50 years, though not yet as the central bank of an independent country. The fact that it was possible to restore the central bank in spite of the fact that Estonia was not yet independent was simply a paradox of that time. ▶

continued Andres Sutt. The credit growth is moderating and the housing market shows some signs of stabilization in that respect that supply has increased and the sales periods have lengthened.

- A soft landing also means a return to a sustainable growth path the next few years, said Andres Sutt. We forecast the real GDP growth to end up at 8,3% this year and at 7,6% 2008. This is supported by expectations on a sustained productivity growth and a strong labour market with a deceleration of wage growth. We forecast the growth of employed to go down from the 7,1% in 2006 to 1,9% 2007 and 0,4% in 2008 while we forecast the productivity growth to go up from 4,4% 2006 to 6,3% 2007 and 7,2% 2008. As for gross wage growth we forecast this to go down from 15,8% 2006 to 15,1% 2007 and 14,1% 2008.

- A return to a sustainable growth path requires a change in expectations in the private and public sectors, continued Andres Sutt. Conservative expectations on return on investments, slower growth in borrowing as well as moderate expectations on wage growth. Our policy-makers need to keep the economy flexible and strengthen factors that are the key to sustainable long term economic growth like a prudent fiscal policy with a targeted fiscal surplus, a flexible labour market and an education policy that considers the long term needs of the economy.

- Adopting the Euro is unlikely to happen before 2010, said Andres Sutt. It is still a top economic policy priority and Estonia is technically prepared for the Euro adoption. A main risk with an Estonian policy of 'indefinite' postponement is a loss of credibility.

- There are some policy challenges ahead, concluded Andres Sutt. Estonia needs to maintain the economic stability with a strong fiscal policy and market flexibility. Compared to our peers, countries with similar credit rating level, Estonia's fiscal policy is among the strongest and our government debt the lowest. We need to keep the markets competitive and flexible. Estonia has room to promote entrepreneurship and productivity growth. We need to make improvements in the educational system, further improve the quality of public administration, have a strong financial system and support investments in new technology and training.

Text: Magazine - Tallinn

Eesti Pank

Bank of Estonia's Autumn 2006 forecast for 2006-2008

	2006	2007	2008
GDP (EEK bn)	205.5	236.1	268.3
Real GDP growth (%)	11.8	8.3	7.6
HICP growth (%)	4.4	4.5	4.7
Current account (% of GDP)	-12.5	-13.5	-13.3
Real private consumption growth (%)	15.4	12.5	8.8
Real investment growth (%)	14.7	12.0	9.7
Real export growth (%)	13.1	11.0	10.0
Real import growth (%)	14.9	12.6	9.8
Unemployment rate (%)	5.7	5.1	5.1
Change in the number of the employed (%)	7.1	1.9	0.4
Productivity growth (%)	4.4	6.3	7.2
Real wage growth (%)	12.0	10.6	9.3
Average gross wage growth (%)	15.8	15.1	14.1
Nominal credit growth (%)	45.5	34.9	21.1
External debt (% of GDP)	81.8	90.4	98.5

Andres Sutt. An overview of Estonia's economy

# An economical outlook

Photo: acce



Maris Lauri

▶ Eesti Pank took over the Tallinn Branch of the Foreign Trade Bank of the Soviet Union, re-organizing it into the Foreign Currency Operations Centre of Eesti Pank. The central bank also attempted to take other steps within its ability for the liberalization of the economy and in order to make the transition to a market economy: it began organizing currency auctions, publishing quotations of the number of rubles in circulation, issuing licenses for foreign payments and settlements, etc.

In April 1990 the date was set for the introduction of the national currency - December 1990. Contracts with American and British companies were concluded for printing the banknotes. A certain rival attitude and opposition between the Government and Eesti Pank appeared concerning the question of the introduction of the national currency by November 1990, although their ideas were quite similar. The sides indicated the problems and recognized the dangers involved, but both concepts still remained as overly general documents, with rather obscure tenets and no definite operation plan to be used as a possible basis for the preparation of the future monetary reform.

In September 1991 Siim Kallas was nominated to the post of President of Eesti Pank. He proposed the implementation of the monetary reform no later than the first half of 1992. Estonia had re-established its independence, which was the most important precondition for the introduction of the national currency. The necessity for rapid monetary reform was also connected with the cash deficit caused by the central bank of Russia and to the continually intensifying hyperinflation.

The formation of reserves backing the kroon was commenced. After the recognition of Eesti Pank as the legal successor of the central bank of the Republic of Estonia, established in 1919 during the independence period, the Government of Great Britain decided to return the gold that had belonged to the pre-war Eesti Pank to Estonia. The restoration of the membership of Eesti Pank in the Bank for International Settlements was accompanied by the restoration of its rights to the gold and other assets deposited there. Reserve felling areas from the State Forest Fund worth 150 million dollars were also included in the balance sheet of Eesti Pank as an additional foreign currency reserve (this had more a moral and an emotional value for the general public than a practical one).

The new banknotes reached Estonia in April 1992. In May it was decided to select the German mark as the anchor currency and the German Bundesbank was informed of this.

The monetary reform took place on 20 June 1992. The Estonian kroon was declared the sole legal tender in circulation and Eesti Pank the only regulator of monetary relations in Estonia. The official exchange rate of the Estonian kroon against the German mark was set at 1 DEM = 8 EEK. Within three days 1500 rubles were exchanged to kroons for each resident natural person at the rate of 1 kroon = 10 rubles. Almost the entire amount of rubles in circulation in Estonia was exchanged to kroons at the same rate (deposits, money held by enterprises, etc.).

The necessary reserves backing the kroon were composed of gold and foreign currency. In addition to the actions of the Bank of England and the Bank for International Settlements, the State Bank of Sweden also compensated for the gold deposited there in German marks.

In the May 2007 issue of their Baltic Economical outlook, Hansabank Markets analyzes the current economical situation in the Baltic countries. **Maris Lauri**, Hansabank's economical macro analyst summarizes:

## Imbalances in the economies

- Early this year we can point to several major imbalances, which were present in all three Baltic Countries, albeit to a different extent.

- First of all, increasing shortage of labour and rapidly growing wages (real wage growth 11-15.5% in 2006) are putting increasing pressure on the production costs and competitiveness of local producers, particularly on those working for export markets.

- Second, high and growing external imbalances (current and capital account deficits reached 12.3% of GDP in Estonia, 19.9% in Latvia, and 9.7% in Lithuania).

- Rapid price growth in all areas of the economy, particularly in the construction and real estate sectors, has resulted in accelerating inflation (CPI in March was 4.6% in Lithuania, 5.7% in Estonia and 8.5% in Latvia), which is further delaying euro zone membership.

- The current situation of rapid domestic credit growth, fears of the bubble in the residential real estate sector and relatively undisturbed of all it governments, led to a first break out in February in Latvia, where imbalances were the biggest.

## Turbulence in Latvian financial markets triggered action

- The situation was (and still is) most difficult in Latvia, where the current account deficit, inflation and wage growth are the biggest, credit growth stabilized only in the 4th quarter and exports straggled in 2006.

- The situation in Estonia has been slightly better – credit growth has already been slowing from mid 2006, the real estate market has clear signs of calming, and inflation, wage growth and current account deficit are smaller than in Latvia. ▶



- ▶ - Due to the general elections and change of the government, nothing particular besides discussions happened in Estonia in March. Still, the new government has promised to keep the budget in surplus and handle the long-term problems of the economy (labour supply, education etc). However, a more detailed short-term action plan would be good for avoiding unnecessary nervousness in markets.

**Estonian soft-landing harsher than expected previously**

- Our new forecast for Estonia expects that the soft landing of the economy will be a bit harsher than we expected in winter, because of stronger than expected results in the 4th quarter of 2006.

- Strong profits, which allowed wage increases and higher bonuses than expected, and the lengthy process of the government change after the general elections supported domestic demand and kept spending at high levels longer than we expected.

- We forecast the Estonian economy to grow ca 8.6% in 2007 (9% previously), but then the growth will slow reaching 6.6% in 2009, which will be the year of stabilisation and recovery of growth rates.

-Our expectations regarding inflation have grown (4.9% for this, 5.2% for next year) as the impact of expected administrative increases will be stronger than presumed previously.

- We are more pessimistic regarding wage growth – the labour market situation makes it hard to believe that wage growth will decline significantly in the next years. However, we are of the opinion that current imbalances between wage and productivity growth will diminish already this year and, hence, we expect quite good developments in foreign trade.

- We are more pessimistic regarding the fall of the current and capital account deficit due to slower than expected processing of EU funds.

ECONOMICAL CHANGES

# No drama



**- We do not plan any dramatic changes in the near future policy, said Prime Minister Andrus Ansip as he addressed more than 100 international businessmen in Tallinn, April 20th.**

That might be perceived as a reassuring statement or a statement well in line with the Laissez Faire economical theories or, maybe even better - a statement allowing space for future political maneuvering pending the definition of the word dramatic.

- Last year was a great year for Estonia, said Andrus Ansip. The 2006 budget surplus was 3,8% from the GDP representing an all time high in Estonia and it will most likely also be the highest surplus among the EU countries. The growth rate was remarkable but it is absolutely clear that we cannot continue with the same rate.

**The new Government**

- I am of the opinion that it is of the utmost importance that the Prime Minister and the Minister of Foreign Affairs have the same values and that there is a 100%-level of trust between them, said Andrus Ansip as a comment to the recent coalition negotiations between Reformierakond, Res Publica, Isamaaliit and Sotsiaaldemokraatlik Erakond. Currently Portugal, Spain, Malta, Poland, Lithuania, Latvia and Sweden share the same opinion.

- Our corner stones in terms of Estonian foreign policy and security policies are our memberships in the EU and NATO, continued Andrus Ansip. We regard the EU as a strong Union and we will intensify our pro-European cooperation with the Union.

# atic changes

As for NATO we will continue as a good partner and our missions abroad – like in Afghanistan and Iraq – will continue as long as our help will be needed there.

- On a local Estonian level our County Governors will not play a major role in our everyday life compared to 6-8 years ago, said Andrus Ansip. Local municipality administrations will continue their work as per today, but issues on education and schools will be handled by the Ministry of Education, environmental issues will be handled by the Ministry of Environment and so on.

## The future tax system

- We would like to continue with the existing corporate tax system and I want you to know that reinvested earnings will not be taxed after 2009, said Andrus Ansip. We will also continue to decrease the corporate and personal income tax rates by 1% per year down to an 18% level 2011. We don't like to put heavy taxes on entrepreneurship but we would like to tax bad habits as pollution and over-consumption.

- Estonia has a very transparent and easy-to-understand taxation system and we intend to keep it that way, continued Andrus Ansip. Some adjustments in the excise taxation on alcohol and tobacco will be implemented following the conditions of the EU accession.

## Labor

- Six years ago, in 2000 we faced one problem; a 14% unemployment rate, said Andrus Ansip. Today the unemployment rate is down to 4,2% according to EuroStat and we are facing hundreds of problems connected to the present huge lack of labor; lack of skilled workers, lack of construction workers, lack of teachers, lack of nurses.

- However, there is still room for improvement, continued Andrus Ansip. Some 65.000 – 70.000 workers are still available in Estonia and we need to get them to the labor market. We need to use flexible working hours. We know that less than 8% are part-time workers in Estonia, while Denmark's figure is three times higher. We have a lot of handicapped people that very well would fit in on the labor market. We need to focus more on higher professional education to get more skilled workers and we have to support people working in declining sectors by re-training them for other tasks.

- Generally we can't continue with low cost workers, said Andrus Ansip. We need to get more know-how into production. More

money needs to be invested in the Research & Development sector. However, the current situation is that we lack the expertise – we need at least 600 more PhDs in Estonia.

## Real Estate

- Looking back we are now reaching the flat and house building levels of 1991, said Andrus Ansip. And we are still even behind the levels of the years before World War II. However, the real estate prices have increased with a very high rate and are with all right deemed to be high right now. We can see some signs of cooling down at this time – we expect a 26% increase in mortgage loans this year compared to a 50% increase in 2005 and 2006.

## Energy

- The Ukraine gas crisis was a wake-up call for Europe, but here in Estonia we remember how Russia was using energy as a foreign policy argument in 1992 and 1994, said Andrus Ansip. We can't control

Gazprom and their gas prices, which actually rose with 52% last year.

- Estonia can produce energy enough for herself and what's more – we can sell electric power from our country, continued Andrus Ansip. We have an interconnection with the Baltic region and now also with Finland through the new Estlink cable.

- We use oil shale energy for producing electric power and that means that the CO2 emission quotas are engaged to 99%, said Andrus Ansip. Those emission quotas will be reduced considerably after 2012 and that is the reason behind our interest in taking part in the nuclear power plant projects in Ignalina. We would like to produce 25-30% of our electricity needs down there and we hope for a full Baltic consensus on the project including a cooperation with Poland.

## Eesti Kroon

- The Eesti Kroon will continue to be fixed to the EURO at the 15,64666-rate, concluded Andrus Ansip. This policy has proved itself valuable, both for Estonia and the international business environment.

"We don't like to put heavy taxes on entrepreneurship but we would like to tax bad habits as pollution and over-consumption."





# On the top for more than three centuries

The 17th century was restless in Sweden. Wars were fought and the army needed more and better equipment. In 1689 King Karl XI decreed that a small-arms factory should be built at the southern end of Lake Vättern in Sweden. Thus Huskvarna became the town that supplied the royal army with modern small-arms.

The Husqvarna weapon foundry - named after the town - operated for nearly two centuries until 1872 when sewing machines entered the product range. From that year on, most of the factory's capacity was used for peaceful purposes. Sewing machines were followed by mincers followed by bicycles towards the end of that century.

In 1903 motor bikes entered the production line and the first batch was launched only a few weeks before Harley Davidson's. Motorbikes, bicycles and several household products remained the basic items of the factory for nearly half of the last century. Lawn movers were manufactured

from 1956 and chainsaws from 1959. Today chainsaws have probably become the synonym of Husqvarna though 67 MC-championships has been won by Husqvarna motorbikes up until 2005.

Husqvarna of today is the world's leading manufacturer of landscaping equipment and the products are mostly developed for commercial and personal use. Effectiveness, user-friendly handling and eco-friendly are basic features giving Husqvarna products their competitive edge on the market.

Husqvarna's wide range of chainsaws includes models for surmounting rain forests to cutting sauna firewood. The latter models are for obvious reasons very popular in Estonia.

Lawn maintenance equipment represents the widest product range of Husqvarna including small garden trimmers for less than 2.500 kroons' up to big lawn movers priced at 250.000 kroons'.

Husqvarna as a company is not only about sales and profit. During the three hundred years the company has developed a clear understanding of its role in the society and as a good citizen Husqvarna contributes to a smoother, easier and better life. The home decoration contest, initiated by President Lennart Meri in 1997, has been supported by Husqvarna for years now as well as the related contest „Estonia's Beautiful

School“ organized by Estonia's Home Decoration Society and the Estonian Teachers' Union. Additionally, Husqvarna in Estonia also has a close cooperation with the Botanical Garden of the University of Tartu and the Estonian Evangelical Lutheran Church.

Husqvarna is convinced of its values and contributing for making Estonia even more beautiful is one of our top priorities.



Husqvarna's four-wheeler easily handles mowing grass on hilly land or a lakeside with wet and slippery grass and shoving snow during winter on frozen and slippery paths.



## **UNIQUE DESIGN ENSURES OUR RIDERS ARE IN A CLASS OF THEIR OWN.**

The Rider is a perfect example of our commitment to developing professional solutions which also benefit the leisure user. Its patented articulated steering wheel and floating cutting deck offer virtually unlimited manoeuvrability allowing you to work

almost anywhere – unbeatable features in areas with limited cutting access. Further complimented by a wide range of accessories such as trailers, moss rakes, brushes and snow blades your Rider can tackle many other jobs, all year round. [www.husqvarna.ee](http://www.husqvarna.ee)



# An economical crisis as a way out

- An economical crisis might represent a way out for a state in times of policy paralysis, said **Alf Vanags**, Director of the Baltic International Centre for Economic Policy Studies (BICEPS), as he addressed SCCE on the theme; Is the party over?

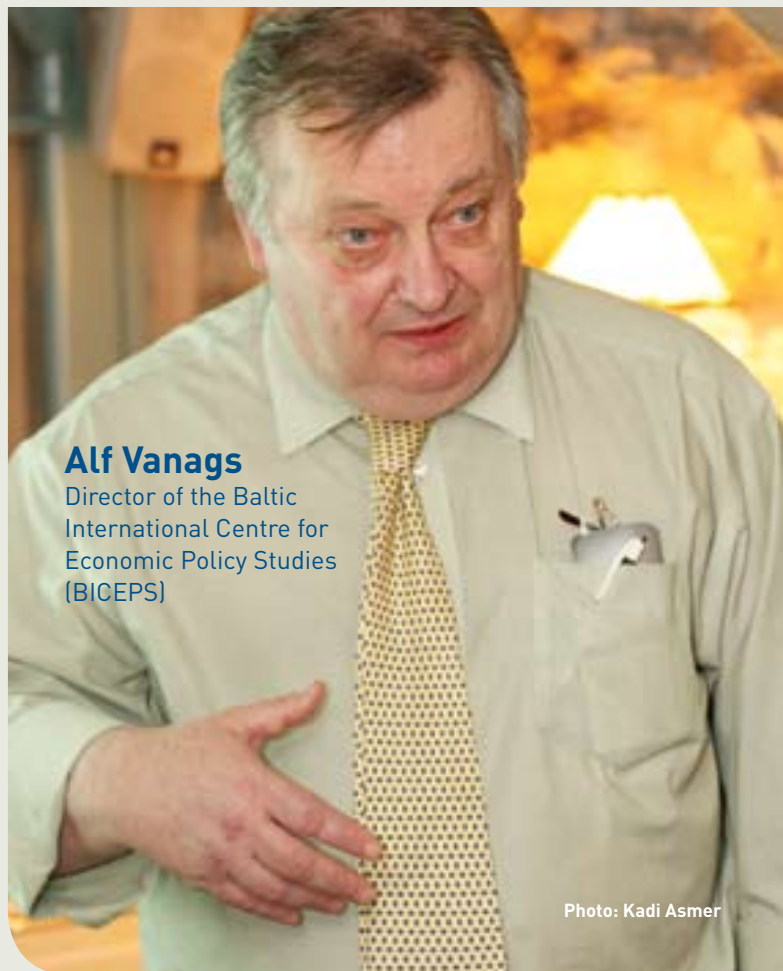
- All three Baltic Countries have experienced a tremendous economical development, said Alf Vanags. It could be explained by the fact that the countries had a lower starting point which implies a faster catch-up. Growth equations have under predicted the performance of the Baltic Countries and the investment rates have been high.

- The employment growth 2003 – 2006 put Latvia on top with 9,2%, Estonia as number two with 8,8% and Lithuania as number three with 4,3%, continued Alf Vanags. The same order applies for the rate of inflation; in March 2007 Latvia was on top with 8,5% followed by Estonia on 5,7% and Lithuania 4,6%.

- The property boom is of course contributing to the inflation, said Alf Vanags. Looking at the Knight-Frank listing on World Wide House Prices is enlightening. Being among the Top10 countries on this list means that houses are

expensive and the Q3 2006 list ranks the countries in this order; Latvia (Riga), Bulgaria, Denmark, Lithuania (Vilnius), Ireland, Norway, Belgium, South Africa, Greece and on 10th place Estonia (Tallinn). Compared to Q3 2005 it is interesting to note that Latvia stayed on the first place, Lithuania advanced from a 6th to a 4th place while Estonia dropped from 3rd to 10th place.

- There have been rumors on a coming Latvian devaluation this spring, said Alf Vanags. I don't think it is the right policy at the moment. A devaluation would overheat the economy even more and the net result would



**Alf Vanags**

Director of the Baltic International Centre for Economic Policy Studies (BICEPS)

Photo: Kadi Asmer

be an even higher inflation. The current account points to a lack of competitiveness and a devaluation needs unutilized domestic resources which we don't have at this time.

- Comparing the economical situation in Latvia and Estonia I would say that Estonia seem to be in a little bit better shape than Latvia, said Alf Vanags. The Estonian inflation is lower, the current account is not so bad, the fiscal stance is better, the labour market is marginally better and the property boom seem to be cooling down a few degrees. Anyhow, Estonian analysts are flagging up a warning for a possible economical crisis in 2009.

- However, an economical crisis might represent a way out for a state in times of policy paralysis, concluded Alf Vanags. It provides the opportunity to solve a loss of competitiveness through devaluation though it may require a new post-crisis government to engineer the devaluation. Finally – a post-crisis recovery is typically quite fast.

Text: Megazine, Tallinn

## BICEPS

The Baltic International Centre for Economic Policy Studies is an independent research centre located in Riga, Latvia. The aim is to undertake and promote high quality policy-oriented research in economics and other social sciences and to provide informed advice and consulting services for both government and businesses in the Baltic States and elsewhere.

BICEPS, located in the Stockholm School of Economics in Riga, started operations in 2001 with a grant from the Swedish Foreign Ministry and with assistance from the Stockholm Institute of Transition Economics.

BICEPS has a broad and expanding portfolio of projects and a young and dedicated staff that includes some of the first returning PhDs from doctoral programmes abroad.

The activities include academic research, commissioned work for local ministries and international institutions as well as participation in EU-wide networks. ▶

# ECONOMICAL CHANGES

# Labour

► BICEPS is part of an integrated network of research centres and universities in the region with partners in the Baltic States, Sweden, Russia, Poland and Ukraine.

BICEPS has an especially close collaboration with the Stockholm School of Economics in Riga – some of BICEPS researchers are also lecturers at the school and a joint seminar series are run.

Together with SSE Riga BICEPS publish Baltic Economic Trends (BET) which reports on the latest research in the Baltic States and offers commentary on economic developments.

BICEPS growing participation in international programmes such as the 6th Framework Programme and the Global Development Network contributes to another important BICEPS objective, namely to promote the integration of the Baltic economics profession into the European and world community of economists.

**Estonia has a labour shortage, wages are going up, analyst's claim that the situation will ease up a bit but definitely not disappear in the near future. How bad is it? Can anything be done and, if so – what can be done? focus has taken part of a series of recent presentations in Tallinn on the subject.**

## Active labour market policy

**Janno Järve** – Deputy Secretary General on Labour Policy at the Ministry of Social Affairs of Estonia, recently introduced the Ministry's concept on active labour market policy. He explained that the labour market board is interested in a close cooperation with employers in Estonia and that the board wants to raise the awareness on inactive and unemployed people available for the labour market.

With an Estonian unemployment rate at 4,2% and forecasted to stay around 4% 2007 – 2011, nominal wage increases at close to 16% in 2006 and forecasted to land just above 15% in 2007, 12% in 2008 and around 11% in 2009 – 2011 there is definitely a market for innovative labour initiatives.

Janno Järve said that all together 206.700 persons between the age of 16 – 67 years could be defined as an Estonian labour reserve. Some 16% of these individuals are unemployed, 3% has lost the hope of finding a job, 43% are studying, 16% are ill or disabled, 5% need to take care of other family members, 10% are pregnant or on maternity leave, 3% are retired and 4% have stated other reasons for their inactivity on the labour market.

As a major mean of getting this labour reserve in work Janno Järve pleaded for more part-time jobs to be created. Less than 8% are currently part-time employed in Estonia – three times less than in Denmark and Sweden and way behind the Netherlands with their 45% share of part-time workers.

Longer working hours doesn't seem to be an alternative for Estonia, according to Janno Järve. He presented the IV European Working Conditions Survey on the average weekly working hours, where Estonia ended up in the middle among the European countries at a level of 40 working hours per week. But – Estonia didn't show any flexibility in the amount of hours worked per week. Turkey was on top in this survey with a working week averaging 55 hours and a flexibility from 40 up to

70 working hours per week. The EU27 average was 40 hours per week and the flexibility was rated from 36 up to 44 working hours per week.

As for migrated labour Janno Järve repeated the well known mantra of the political Estonian establishment; There is a free movement of labour inside the EU, including Bulgaria and Romania. Any significant increase in labour from countries outside the EU is not very likely to happen, though the aim of the new government is to make the procedures of hiring persons from countries outside the EU less bureaucratic.

## Migrant Workers

Human Resources OÜ presented the prerequisites for migrated labour;

- Labour from the EU obtains the right of a temporary residence and will, after 5 years obtain the right of a permanent residency and will be equipped with an Estonian ID-card.

- Labour from non-EU countries needs a work-permit before entering Estonia. If the work will last for up to six months a short term work permit is needed but not a residency permit. Longer work periods – more than six months – requires work permit, residency permit and a visa.

Though these basic prerequisites might seem simple and straightforward, the reality offers some major problems;

- The current Estonian bureaucracy process imposes problems in terms of the handling times for getting the necessary permits.



- Finding accommodation for foreign labour might be problematic in the bigger urban areas.
- The Estonian salary levels for some specialized professionals might be less tempting for them to accept.

### Attracting future and present employees

Money and the job itself will be inadequate said MPS Eesti in their presentation on attracting future and present employees. The competition on getting and keeping the 'good guys' will increase, key employee turnover will increase, the values of a good working environment is not recognized.

Work and salary is being offered by every employer – so, how to differ from the others?

## The Estonian Labour Market Situation 2004 – 2007

The Estonian labour market has gone through some radical changes during the past few years. The lack of labour is currently the main threat for the future continuation of the Estonian economic success story. The economic growth, based on increasing production volumes and exports, requires constantly more labour to increase the output from the industrial sector.

Currently the availability of the free labour has simply ended and employers are now forced to consider alternative solutions to ensure a future continued growth. And there are a few possible production resources available:

- Improved efficiency and productivity in the industry sector; Although the volume of the Estonian industry has been growing constantly, the pressure on salary increases for the employers has also grown rapidly - but the productivity level has not followed with the same speed. One solution for the labour shortage is consequently to focus on increased efficiency and future automatization in the industry sector.

- To utilize the share of inactive human resources; About 200.000 are not active on the labour market and the largest groups are people who are studying (43%), maternity leave (appr. 10%) and people being ill or disabled (16%). Unemployed labour within the total group of inactive human resources counts to some 16%.

- An increased share of part-time workers; Estonia is a traditionally full-time working country. The share of persons working part-time is only appr. 7-8% of the labour-force while the average share of part-time employment in Europe is 15% of the population. The efficiency of utilizing the part-time working alternative may depend on and may also demand more administration for shift and working time planning but, it might also be motivating for the inactive part of the Estonian labour force. ▶

Asked to choose the main attraction for key employees, Estonian companies answered:

- Interesting work (34%)
- The career and development opportunities offered by the employer (27%)
- Competitive income level (21%)
- Company brand and reputation (10%)
- Stable and secure employment (5%)
- Comfortable working environment (2%)
- Other benefits offered by the employer (1%)

Compensation not related to the business strategy is a useless investment continued MPS Eesti and also said that 62% of Estonian companies states that the compensation of their key employees has been clearly connected to their respective business strategy.

However, in every 3rd company the compensation does not promote cooperation or sharing skills among the employees and it is not competitive compared to other companies in the same business. In every 4th company the compensation does not promote achieving the strategic goals and in

every 5th company it is not at all connected to the strategy and the compensation system is not perceived as being fair.

Demanding commitment from the employees requires investments said MPS Eesti and 65% of Estonian companies answers that they have developed long term compensation methods for committing their key employees.

Well-being leads to good results continued MPS Eesti and put further light on the issue as they presented the answers from Estonian companies on the question what they expect from a key employee:

- Work outside normal hours (84%)
- Regularly exceed set goals (73%)
- Be available continuously (44%)
- Work on weekends (35%)

Human values has to be introduced for attracting future employees, concluded MPS Eesti. Money isn't the number 1 issue. The company image and reputation are important values and so is the organizational culture in terms of values, having an established working community, exciting motivation programmes and an international approach.

In many ways PerCapita connected to MPS Eesti in their presentation. They talked about the pessimistic, optimistic and realistic management attitudes, where the pessimists state that they can't pay enough, money is everything and by the way, there are no good people out there anyway. The optimists focus on soft motivation as being most important and they do a lot of employee talks while paying salaries below market average. The realists are trying to find a balance between paying a market salary and soft motivation programmes for building long term employee commitment.

Recognizing the employee's contribution is not only about cash. Career development and training are two important parameters, not only as components in a soft motivation package but also for achieving increased performance and productivity. Recognizing and showing the appreciation for an employees individual initiatives, loyalty, responsibility and (not or) length of service are basic further components in the soft motivation package.

- Basically, there are no new tricks, concluded PerCapita. It is all about delivering good management practice;

- Make sure that the HR strategy is aligned with the corporate strategy

## Straightforward recruiting

Johan Aschan, General Manager and Evelin Jenk, Human Resource Manager at Tallinn's Radisson SAS Hotel have found a new way for recruiting.

- You meet talented people more or less every day, says Johan Aschan. It could be at social events, restaurants, bars, shops, conferences, meetings, travels. Some of them have the potential we are looking for so we produced a card, same size as a business card, which simply says I am impressed! on one side. On the other side of the card we say that You have great potential! Send your CV to us, we need your talent! together with contact information to me and Evelin Jenk, our Human Resource Manager.

- That's about as straightforward you can get on a labour market where the demand has a clear tendency to exceed the supply, concludes Johan Aschan.

- Reward achievements for reaching or exceeding the strategic and productivity goals
- Provide a path for the employee's career development
- Financial rewards should be provided at fair market rates

**Ain Niineste** of InBro & Partners talked about insurances as a natural part of employee compensations and rewards. An accident insurance provides economical safety in case of death

or dismemberment and a term life insurance provides an economical security for the family of a deceased. A health insurance is a necessity when an Estonian company might recruit foreign labour and when a daughter company is established abroad with key employees from Estonia. Travel insurances provides security during business trips in terms of medical expenses, lost or damaged baggage, transport cancellations and missed connections. Saving plans is an excellent long term (5 years or more) tool for loyalty bonuses.

- The insurance policies chosen should correspond to the factual needs, concluded Ain Niineste. And - the employees should be well informed on the benefits he or she receives from the employer.

**Recruiting Tarvo Jürimäe** presented alternative channels for recruiting with special attention on the Internet as an effective channel. In addition to traditional recruitment advertising

in newspapers and on the corporate website, alternative media like TV, radio, outdoor advertising on billboards and buses, shopping trolleys, food and beverage packings shouldn't be forgotten. Neither should friends, friend's friends, people around you, current employees, career fairs, competitors and universities be neglected.

Internet recruitment portals and CV OnLine websites have proved themselves as effective channels for recruiting said Tarvo Jürimäe. The portals attract people to sign up and there are loads of interesting people registered. Search engines make the process of finding CV's with the right profile easier. Some portals offer opportunities for online interviewing and group-mailing. And all of them offer the opportunity for recruitment advertising.

There are risks involved with making the complete recruitment process via the internet. There are people around us with limited reading and comprehension skills and the internet is an anonymous media channel. Nothing can replace a personal final recruitment interview concluded Tarvo Jürimäe.

Text: Megazine, Tallinn

▶ Immigrated foreign labour resources has recently also been one of the main topics argued about among Estonian politicians and in the Parliament. It is unlikely that there will be any major breakthrough on this subject. The process of granting work permits for non-EU citizens to work in Estonia is still quite difficult and time consuming to get.

Another factor influencing the current labour situation in Estonia is the image of the job title and this is one of the new aspects! It is not 'popular' to work as a cashier or as a secretary anymore. The rapid economical growth, leading to improved purchase power and an overall better living standard, has influenced the values and expectations for job titles and tasks. The expectations are high and in most cases the work experience or the education levels do not meet the desired job profile. Most of the recently graduated job seekers entering the labour market expect to start to work at a management position without any prior work experiences.

The current Estonian education system also supports the 'soft profession' education (business managers, marketing professionals, hotel and tourism sector managers), despite the fact that there is not enough labour with a vocabulary education background.

Salaries are expected to increase on a 10%-level per year or more and the labour shortage is increasing. Competition for labour force is expected to increase in Estonia and human resource management is going to be a major key for success in the future as the market demands more resources and alternative approaches.

The author of the article, **Väino Tälli**, is the Estonian country manager of the VMP-GROUP - Varamiespalvelu OÜ



Johan Aschan



Väino Tälli



# Meanwhile in Sweden

On April 10th the Alliance for Sweden – the four political parties forming the Swedish Government since last autumn's elections – presented their proposal for the Swedish national budget.

Some of their major assumptions for their budget proposal are presented below – with some equivalent figures put in for Estonia as these were presented to SCCE in connection with a SCCE business lunch at Eesti Pank March 7th.

Year	2006	2007	2008	2009	2010
GDP - Worldwide *	5,2%	4,6%	4,5%	4,7%	4,5%
GDP - The EURO-area *	2,6%	2,2%	2,1%	2,0%	2,0%
GDP - Sweden *	4,4%	3,7%	3,3%	2,1%	2,3%
GDP - Estonia **	11,8%	8,3%	7,6%	n/a	n/a
Inflation - Sweden *	1,4%	1,8%	2,3%	2,7%	2,5%
Inflation - Estonia **	4,4%	4,5%	4,7%	n/a	n/a
Productivity - Sweden *	4,0%	2,7%	2,7%	2,3%	2,2%
Productivity - Estonia **	4,4%	6,3%	7,2%	n/a	n/a
Unemployment - Sweden *	8,4%	6,7%	6,2%	6,1%	6,2%
Unemployment - Estonia **	5,7%	5,1%	5,1%	n/a	n/a
Export growth - Sweden *	9,1%	7,0%	6,3%	6,3%	6,0%
Export growth - Estonia **	13,1%	11,0%	10,0%	n/a	n/a
Import growth - Sweden *	7,8%	7,6%	6,7%	6,7%	6,7%
Import growth - Estonia **	14,9%	12,6%	9,8%	n/a	n/a

\*) Source: The Swedish Governments proposition 2006/07:100;  
The economical spring proposition 2007

\*\*) Source: Eesti Pank's presentation for SCCE 07.03.2007

## From the Swedish national budget proposition 2007

- Effective 2008 the state tax on private villas and land will be replaced with a fee equal to 1% of the assessed value of the estate, however maximized to SEK 4.500:-/year.
- The tax on net profits connected to sales of real estate will be increased from 20% to 30%, effective 2008
- The income tax will be decreased 2008 by an increased standard deduction from the assessed yearly income and the abolishing of a 5% special tax on incomes above SEK 39.725:-/month
- The tax on private fortunes and capital will be abolished 2008
- A 50% tax deduction on household services provided – cleaning, laundry, baby-sitting, gardening – will be introduced July 1st 2007
- Deductions for private savings in pension funds will be limited to SEK 12.000:-/year effective 2008
- A 32% tax on the traffic insurance fee will be introduced July 1st 2007

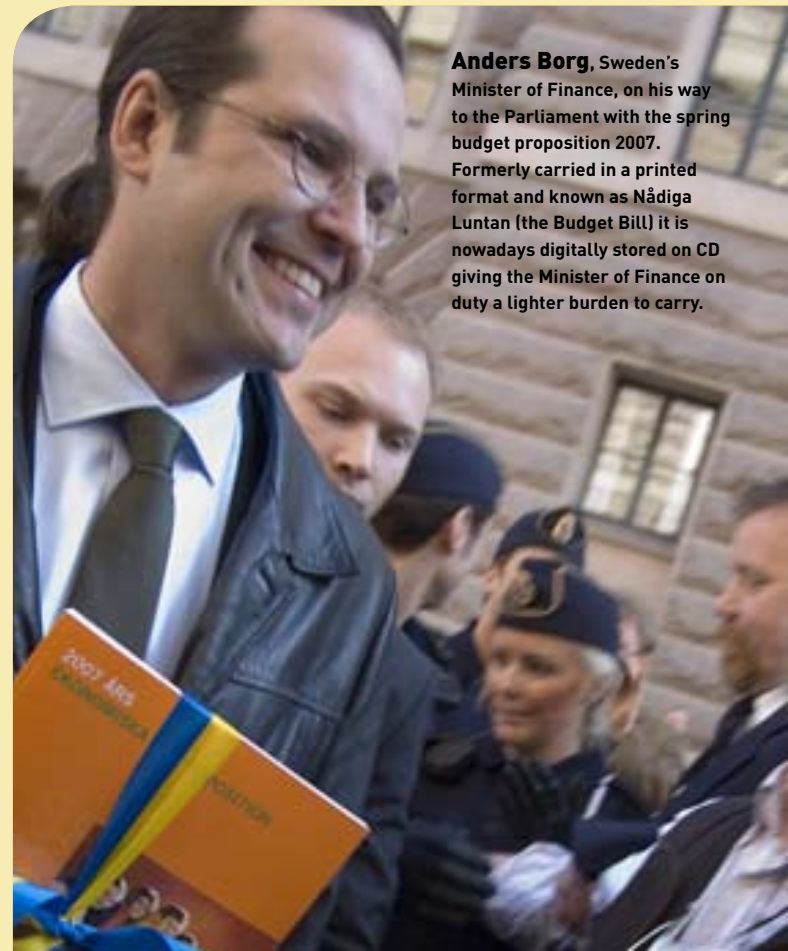
- Toll fees for vehicles entering the central Stockholm area will be reintroduced August 1st 2007. Toll fees vary between SEK 10 – 20:- per passage and are maximized to SEK 60:-/day. The amount paid will be deductible for companies and private individuals using their vehicle in their duty and for transports to and from work. Miljöbilar – cars classified as environmental-friendlier – are exempted from toll fees.

- Buyers of a miljöbil – a car classified as environmental-friendlier – will get a state-financed cash bonus equaling SEK 10.000:- introduced April 1st 2007

- Effective 2008 the State will finance 50% of the costs for dental treatments in the cost interval SEK 3.000 – 15.000:-. More expensive dental treatments will be State-financed with 15%. Young people up to 20 years of age have free dental treatments. People between 30 and 74 years of age will get a SEK 300:- discount on examining their dental status once every second year and for people between 20 and 29 years of age and people older than 75 years the discount will be SEK 600:-.

- The Government expects the reporänta – the interest rate decided by the Swedish Central National Bank having an impact on, for example the interest on loans for housing and accommodation – to increase with some 1,5 percentage units up until 2009. That is substantially higher compared to the expectations announced by the Swedish Central Bank.

Text: Megazine - Tallinn



**Anders Borg**, Sweden's Minister of Finance, on his way to the Parliament with the spring budget proposition 2007. Formerly carried in a printed format and known as *Nådigaluntan* (the Budget Bill) it is nowadays digitally stored on CD giving the Minister of Finance on duty a lighter burden to carry.

# The business of business is business?

At a recent SCCE seminar arranged in cooperation with the Estonian Agrenska Foundation on their creation of a Family Counselling and Rehabilitation Centre for Estonian children with disabilities and their families, Katrin Isotamm - Head of Communications at Hansapank, made a presentation on Corporate Social Responsibility from a corporate standpoint.

It has become a general trend in the corporate world nowadays. Making money is not enough and the business of business is not only business. With reach and power comes responsibility and showing responsibility creates a publicly perceived licence to operate!

- More and more organizations are indeed implementing corporate social responsibility (CSR) in their strategic plans, said Katrin Isotamm. CSR represents a long term investment for the future and for a sustainable development of the society where the organizations are conducting their core business. From a tactical viewpoint CSR demonstrates an organizations moral obligation and contributes to goodwill and a good and solid reputation.

- As for Estonia, we didn't see a very conscious approach to CSR in the 1990's and even later. The concept has appeared to our everyday business just lately. The same goes for a systematic and strategic approach to company's support and sponsoring activities in general. CSR and supporting decisions are not so hectic - nor only based on the management's personal preferences, for example - anymore. As for private citizens, their thinking and acting towards CSR and charity was logically more passive when the living standard in Estonia was lower and more unstable during the 1990's. Things have changed considerably in relation to the fast-growing economy.

- Today and onwards we can see clear signs of a more conscious and systematic CSR approach by many companies, said Katrin Isotamm. Long term planning and strategic partnerships are launched as larger financial funds are available. The Estonian living standard has improved and therefore people are 'moving to the next levels of the Maslow pyramid. People are thinking and acting towards charity on a more active way today.

- According to different research in Europe, the socially responsible thinking of companies actually influences people's purchase decisions more and more. In Estonia, it's still mostly about price and quality, the main two factors that are considered when buying something, but many people already think about the company's overall reputation and responsible attitude towards its environment as well when making their choices between different companies' products. The trend will definitely continue in the upcoming years.

- In Hansapank, we think of CSR in the following ways: First of all, we want to be open, honest and transparent in our core business. Equally important is the goal to be the best employer in the Baltics and take very good care of our own employees. A third aspect is a socially responsible attitude towards the environment - including sorting our garbage, using digital documents instead of paper, green energy, etc. And then of course we engage ourselves into a lot of supporting activities.

## The Estonian Agrenska Foundation



Photo: Sandra Sikk

Founded by Tartu University, the Estonian Board of Disabled People, the Foundation of Tartu University Clinics, Ågrenska Foundation (Sweden) and Stenströms Skjortfabrik Eesti OÜ, the Estonian Agrenska Foundation is creating a Family Counselling and Rehabilitation Centre aiming at offering programs leading to enhanced quality of life for children with disabilities and their families.

The Centre is located to Tammistu Manor, situated 15 km from Tartu and will target not only to children with special needs but also to their families. The main groups of disabilities include children with intellectual disabilities (e.g. Down's syndrome), cerebral palsy, autism, other neuropsychiatric disorders, multifunctional/combined disabilities, the development of speech language disorders and chronic diseases.

The Family Counselling and Rehabilitation Centre at Tammistu Manor will open in October 2007 in the presence of H M Queen Silvia of Sweden as the Estonian Agrenska Foundation is working under the patronage of H M the Queen.

Further information on the Eesti Agrenska Foundation is available at:  
[www.agrenska.ee](http://www.agrenska.ee).

Further contributions for the renovation of Tammistu Manor as well as contributions for setting up and running the programmes at the Family Counseling and Rehabilitation Centre are both welcomed and needed. Donations to the Eesti Agrenska Foundation can be made to their bank account:

**Account holder: SA Eesti Agrenska Fond**  
IBAN EE812200221021519207, Hansapank  
SWIFT/BIC: HABAEEXX



- Our CSR definition supports a sustainable development of the society we live and act in, said Katrin Isotamm. We invested up to 6 mln EUR into different supporting projects in Hansabank Group in 2006. In addition to financial support, we help with free services, our know-how and people resources.



- In CSR, we've tried to move into more strategic partnerships in recent years. Of course we will always have traditional sponsorships - supporting financially well-known and important initiatives and organisations, e.g. Estonian Skiing Association or Estonian Concert or Estonian Art Museum Kumu - but in addition to those we engage more into CSR projects where we are actively involved in the launch as well as the overall life cycle of the particular project. Our first steps include co-op with Estonian Good Deeds Foundation and common projects as Teach First Estonia or raising HIV awareness in the society. "Active involvement" means that we dedicate our managers' and specialists' time and know-how - consult the management of the project, provide technical help if needed, help to set clear measurable goals and reporting principles, etc.

- Today Hansabank is active in supporting four main supporting fields, told Katrin Isotamm. Sports is one of them including skiing, jogging, bicycling and many others, both on a professional and an amateur level. Education is the second covering scholarships, universities and TF Estonia. The Social Sphere is the third and is today focusing on the 'Let's make stars shine' project, the Cancer Association and the fight against HIV. The fourth field covers Culture, especially Estonian Concert, Kumu and the HBG Art Award.

- Our reasons why to invest in CSR are several, continued Katrin Isotamm. Hansabank wants to change or improve something of importance for all of us living in the same society, thus meeting the high expectations set on us. We want to maintain a strong connection with the local society and our clients and we want to enhance a general socially responsible thinking in the region.

- As some final remarks on CSR based on our experiences I would like to highlight the following, concluded Katrin Isotamm. Make sure that your CSR activities:

- Are in line with the organization's overall strategy
- Fit the organisation's core values
- Enable maximum usage of the organization's core competencies and involve its people
- Your top manager(s) are prepared to dedicate their time and know-how
- The project has clear objectives and is measurable
- The team of the project you intend to support is motivated, competent and oriented towards solutions
- Take into account your clients' view to the world - what do they value, what do they consider important

Text: Katrin Isotamm and Megazine, Tallinn

# Traffic safety - a main priority for Scania

Showing no signs of improvement, traffic safety continues to be a major problem in Estonia. Recent statistics from Maanteeamet - the Estonian Road Administration, comparing January - April 2006 with the same period 2007 reveals that the number of accidents have increased from 585 to 692.

The number of people killed in traffic accidents have increased from 40 to 52 persons and people injured have increased from 775 to 929 January - April 2006/2007.

- Road safety is one of Scania's main priorities and we endorse the United Nation's World Report on road traffic injury prevention, says Janno Karu - Managing Director, Scania Eesti AS. As part of a long-term commitment to improve traffic safety and the status of truck drivers, we quizzed 9,000 car drivers in nine countries across Europe - and found that over half (63%) of European car drivers confess to driving over the speed the limit, 41% are guilty of eating while they are on the road, and almost half (45%) say they have switched off and lost concentration when driving.

- To a large extent, traffic safety is about having the right attitude to driving, says Janno Karu. Speeding, tight and



Janno Karu

aggressive over takings and driving on the very edge of your own and your vehicles performance capabilities belongs to the race tracks and not to our roads and drunk driving doesn't belong anywhere.

- It is frustrating that our research revealed that European car drivers admit to speeding and eating while driving, but still claim they are 'good drivers', says Janno Karu. And that also reveals that it is not only in Estonia we have a problem with the attitude among drivers – it is obviously a European problem.

- Our research also found that over half (67%) of European car drivers are aware of an unwritten 'highway safety code' among truck drivers and 63% say that they do sometimes adopt truck driver customs, such as flashing to let an overtaking truck pull in front of them, continues Janno Karu. Despite this, 65% view truck drivers as a hindrance to road safety, but almost four out of ten (38%) say that truck drivers could teach car drivers a thing or two about safe driving.

- These findings come as we continue with the regional heats for the Young European Truck Driver competition 2007, concludes Janno Karu. The competition promotes safe, economical and skilled truck driving and offers male and female truck drivers aged 35 or below a chance to demonstrate road safety skills – and win a Scania truck worth 100,000 euros. It is my firm belief that the competition promotes driving with the right attitude and that truck drivers indeed are capable of teaching many car drivers a thing or two about safe driving.

Text: Megazine, Tallinn  
Photo: Kadi Asmer



## The Young European Truck Driver competition 2007

The Young European Truck Driver competition 2007 (YETD) is part of Scania's long-term drive to improve traffic safety and the status of professional truck drivers. It is also designed to complement the European Commission's safety target of halving the number of traffic fatalities by 2010.

YETD 2007 is set to be the biggest ever, with truck drivers from 27 countries participating. As for Estonia 62 young truck drivers aged 35 or below applied for the competition.

The first competition step was to complete theoretical tests with the 15 best competitors continuing to economical driving tests. This test is performed under totally equal circumstances for all 15 participants – the same road and distance is used and fuel consumption as well as the average speed are important factors for a winning drive.

The 10 best Estonian competitors have now been elected and they will compete in the mid-June field test at Ülemiste Center in Tallinn. This test includes challenging precision manoeuvring and technical skills in driving a truck.

The Estonian winner will take part in the European final together with the other international young truck drivers qualified for the September 2007 finals in Södertälje, Sweden.

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# Norden - the Top of Europe

- We had a successful joint labour market at an early stage and the Nordic passport union was a reality light years before there was talk on the Schengen Agreement, said Stefan Wallin, Finland's Minister for Nordic cooperation and the Environment in connection with a Nordic Council of Ministers meeting in Turku, March 6th.

Today there are numerous Nordic agreements in different sectors. In their time, the labour market agreement (1954), the passport union agreement (1954) and the social security convention (1955) were trailblazing achievements. They have been followed by the Nordic agreements on the right to vote and eligibility in municipal elections, the cultural agreement, the environmental agreement and the language convention.



Carita Pettersson

Since 1991 Estonia as well as Latvia and Lithuania are part of the Nordic cooperation as the Nordic Council of Ministers opened up local offices in Tallinn, Riga and Vilnius.

Norden – the Top of Europe is not only the name of a newsletter from the Nordic Council and the Nordic Council of Ministers. It also seems to be a good name for a solid cooperation among countries in a winning region.

## From support to partnership

**focus** recently met **Carita Pettersson**, Director of the Nordic Council of Ministers (NCM) office in Estonia, for a talk on the activities of NCM.

- The first years after Estonia regained independence the Nordic Council and the Nordic Council of Ministers focused on support, says Carita Pettersson. Following the Baltic countries membership in the EU, our cooperation developed to a partnership and on a Pan-Baltic level we are now focusing on a cooperation in the interests of mutual Nordic-Baltic benefit, a regional cooperation for increased effect, a reinforced cohesion between the eight countries (Iceland, Norway, Denmark, Sweden, Finland, Estonia, Latvia and Lithuania), promotion of sustainable development in environmental, economic and social areas as well as cultural cooperation.

- As for Estonia specifically, our NCM-offices in Tallinn and Tartu focus on developing networks with national authorities, non-governmental organisations, other national and international players, implementing programmes and projects of the Nordic Council of Ministers and providing information about Nordic cooperation, continues Carita Pettersson.

## Widening the area of cooperation

- I joined the Nordic Council of Ministers office in Estonia in August last year, says Carita Pettersson. And I am proud to say that I joined an extremely well-run organisation, both in terms of a professional and dedicated team as well as solid and well-established Nordic cooperation activities created and directed by our offices here in Estonia. My predecessor Kalli Klement had done a marvellous job.

- One of my major tasks today is to make the area of cooperation wider, tells Carita Pettersson. In addition to our well-known and well-established cultural events we are now also focusing on putting the spotlight on innovations in the society. Not only in terms of technological innovations but also in terms of economical and financial innovations. It is an exciting field for us to enter and as a launch event we will arrange an Innovation Seminar in Tallinn in the beginning of May.

- Being based in Estonia I am also happy to announce that the annual Göteborg Book Fair will have an Estonian profile this year, says Carita Pettersson. President Toomas Hendrik Ilves will open the fair September 27th and as the fair closes September 30th I hope that the Estonian profile on the fair will turn out to be an important contribution to the further strengthening of our cooperation.

- Cross-border cooperation is an important issue for us, continues Carita Pettersson. Last autumn the Nordic Council of Ministers launched a special programme on research, innovation, education, IT, social and health care as well as the environment and sustainable development with non-governmental organisations in the Nordic countries, the Baltic countries, Poland, Belarussia and North-West Russia.

- One of the most interesting and important activities we are carrying through right now is the university for Belarussian students which we support and administer in Vilnius, concludes Carita Pettersson. This university is intended for students not allowed to study in Minsk due to their political opinions. This way we are contributing to influencing the Belarussian regime towards democracy. Additionally there are also some ten Belarussian students at the Tartu University right now and their studies are supported by the Estonian State.

Text: Megazine – Tallinn

Photos: Kadi Asmer



**The NCM team in Tallinn (left to right):** Madis Tilga – Information Adviser, Eha Vain – Cultural Adviser, Merle Kuusk – Adviser, Carita Pettersson – Director, Grete Kodi – Administrative Coordinator and Liina Kabel – Economical Adviser. Additionally the team also includes Madis Kanarbik – Adviser and based at the NCM Tartu office.

## THE NORDIC COUNCIL

The Nordic Council is a cooperation body for parliamentarians from the Danish, Finnish, Icelandic, Norwegian and Swedish national parliaments.

The council was established in 1952. Members were all the Nordic countries except for Finland, which joined in 1955. The self-governing territories Faroe Islands and Åland Islands got a representation of their own in 1970 and Greenland in 1984.

The chairmanship in the Nordic Council rotates so that each country holds the chairmanship every five years. Norway is holding the chairmanship 2007 and Finland will hold the chairmanship 2008.

The secretariat of the Nordic Council is located to Copenhagen.

### The Nordic Council of Ministers

The Nordic Council of Ministers was established in 1971 as an intergovernmental cooperation body for the Nordic countries and the boards of the self-governing regions.

The Nordic Council of Ministers follows up the recommendations of the Nordic Council and reports to them, but they can also take their own initiatives.

The overall responsibility for the activities of the Nordic Council of Ministers belongs to the Prime Ministers of the five countries.

The chairmanship rotates between the Nordic countries and lasts for one year at a time. Finland is holding the Presidency 2007.

The secretariat of the Nordic Council of Ministers employs about 80 people and is located to Copenhagen.

### Nordic-Baltic cooperation

The first formal contacts between representatives of the Baltic States and the Nordic Council began in 1989 and the following year a delegation of the Nordic Council visited the capitals of all three Baltic States. Nordic Council of Ministers offices opened in all three Baltic States 1991.

The format of the meetings between Baltic and Nordic Prime and Foreign Ministers used to be called "5+3" up until 2000. That year the Estonian Foreign Minister of that time, Toomas Hendrik Ilves, took an initiative for a closer Nordic-Baltic cooperation named with a term expressing the enhanced unity "Nordic-Baltic-Eight" (NB8).

The role of the Nordic Council of Ministers (NCM) is important in the Nordic-Baltic cooperation. NCM's information offices in Estonia, Latvia and Lithuania are coordinating the framework of the NB8 cooperation programme covering educational, cultural, social, as well as economical issues.

At the NB8 Prime Ministers' meeting in Oslo 2003, Estonia, Latvia and Lithuania got an invitation to become members of the Nordic Investment Bank (NIB) as of 01.01.2005.

As a member in NIB Estonia now shares the responsibility of ensuring continued economic growth in the NB8 countries.

A further step for Estonia as a NB8 country was to join the NordForsk project in the fields of education and research and with the aim of creating a Nordic-Baltic common space for education and research.



# casefiles

## INTERNATIONALIZATION

It is almost like a mantra in Estonia nowadays – Go international if you want to make success! There are several good reasons behind it. Though the Estonian home market is still going on top speed in many areas, Estonia is still a small country with a resulting limited local market. Economical booms don't last forever, labour is a rare resource and inflation is nagging the profits.

Advanced Interior Solutions – AIS, located in Loo just outside Tallinn, is a young company going for the international concept from the very beginning. Formed in 2006 by an all Estonian team and managed by Jaago Schmuul, AIS is a manufacturer of custom made interior solutions and specially and smart designed furniture for private homes and public interiors.

- The current Estonian building boom is of course an engine for our custom made interiors, says Jaago Schmuul, CEO of AIS. This business area of ours includes tailor made solutions for kitchens, living rooms, dressing rooms, bathrooms, offices, secondary rooms and even complete solutions for shop interiors.

- We are perfectly aware of the fact that an economical boom like Estonia's doesn't last forever and that is one reason behind our decision to diversify our production and include production of designed furniture for the international B2C and B2B markets, continues Jaago Schmuul.

- This business area, the designed furniture produced in bigger series, forms the basis for our export market, says Kurt Söderström, Export Manager at AIS. While the main market for our custom made interior solutions is in Estonia, our serial production of shelves, tables, TV-stands, sideboards, sofas and armchairs has a huge potential on the export market. Though being very young on the market, we have already signed up for distribution of our products in Finland and Sweden.

- Being a Swede myself, I guess you can say that I am one of the international team members in the company, continues Kurt Söderström.

But I do have some other international colleagues in the company as well. One of our three designers is Swedish and the other two are from France and Estonia. And just recently we signed up a Chinese specialist with the aim of providing made in China details for our production.

- We have a big need of more labour in our factory and like everybody else we are facing problems getting the needed labour from Estonia,



Kurt Söderström and Jaago Schmuul

says Jaago Schmuul. Though the policy on migrated labour is tough in Estonia we are looking abroad and right now we are focusing on recruitment options from Bulgaria and Romania.

- There are several reasons behind our interest for these two countries, explains Jaago Schmuul. First of all, it doesn't seem to be too hard to find the skilled labour we need in Bulgaria and Romania. Quality is a must in our trade and even if the production is on an industrial scale, we definitely need skilled and talented craftsmen on the factory floor. Secondly, the Estonian salary levels are perfectly in level to be attractive for labour coming from Bulgaria and Romania. Further and as a third good reason for our strategy; Loo - where our production is located, has the accommodation capacity needed for additional labour and the community is conveniently located just outside Tallinn. As a fourth reason we have the language issue. Bulgarians and Romanians, just like Estonians, know Russian so we don't foresee any problems in our internal communications when getting our new team members up here.

- There are short lead times in our industry, says Kurt Söderström. We count on some 4 weeks from order to delivery of custom made interiors and some 2 weeks when it comes to designed furniture for distribution via retail. As an additional spice, interior solutions are like clothes – it's very much about fashion. What sells this year might be totally impossible to sell next year. Taking all this into account we will launch a two-shift production cycle in our factory and we have consequently dimensioned our need of labour on this set up.

- While Loo is an ideal site for our production and administration we have an additional need of a more centrally located locality for showing and selling our interior solutions, conclude Jaago Schmuul. This spring we will open our own showroom at Tallinn's Pärnu mnt 66, conveniently located for both the home market and our export market.



# A multinational company makes success on the Estonian market.



Karmo Kaares and Frank Svenhard

Operating in 36 countries around the world, ALD Automotive is indeed an international company. ALD Automotive has roots dating back to 1946 and the company came to Estonia 2005.

- I think our main concept and our way of operating fits with the conditions on the Estonian marketplace in many ways, says **Frank Svenhard** - ALD Automotive's Managing Director, Baltic Countries. First of all, our full service car leasing – gives our clients a lease without surprises with our TCO (total Cost of Ownership) concept, It was a new product as we entered the Estonian market 2005. To put it short, our clients just have to drive the cars thus enabling them to focus on their core business – we take care of the rest.

- Secondly, our needs for employees manning a local market office are not too big. ALD Automotive handles more than 680.000 cars worldwide and that gives us the advantage of having well proven operational business support systems available.

Know how and sales presence on the market is of course also very important and we achieved that by doing some strategically and tactically wise local recruitments from the very beginning. Looking at the Estonian labor market of today, I would definitely say that quality comes before quantity and since we need quality and not really quantity in terms of manning, I think that our operations fits with the Estonian case also in this respect.

- We just signed a contract including our 2.000nd car on the Baltic market and that means that we can look back at a business development where we have captured approximately 10% of the full service car leasing market since we entered the Baltics in 2005, concludes **Karmo Kaares** – Branch Manager at ALD Automotive in Estonia.

It takes something extra to get sales booming and capture market shares. In addition to our basic full service car leasing concept, which is unique on the market, it is worth mentioning that we also take the full economical risk for the operational costs of the vehicle during the lease period and additionally also the full risk for the residual value of the car when the time has come to sell it after the lease period.

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# newsflashes

## Tallinn's Hotel Telegraaf has opened

It was a very pleased **Michael Stenner**, General Manager of Tallinn's Hotel Telegraaf and The Three Sisters Hotel, who welcomed **President Toomas Hendrik Ilves**, **Mrs. Ilves**, **Mart Laar** and a number of specially invited guests to the Grand Opening of the new Hotel Telegraaf at Vene 9 in the Old Town.



In his opening address President Ilves said that Estonia needs more visitors and more quality tourism and he welcomed Hotel Telegraaf as an important contribution to reach these objectives.

**Mart Laar**, not only a politician but also a historian, turned out to be an excellent storyteller. In a highly appreciated address he told one of probably many stories from the history of the Hotel Telegraaf building.

As SCCE visited The Three Sisters Hotel for an After Business Hours Treasure Hunt in mid-February this



year, **Michael Stenner** launched an extra competition; He asked when the SCCE Treasure Hunters believed that Hotel Telegraaf would finally open. **focus** can now reveal that the winner of the competition was **Lena Söderström** and she and her husband **Kurt** – a member of the SCCE Council, have now enjoyed a dinner for two at Hotel Telegraaf's Restaurant Tchaikovsky.



More on Hotel Telegraaf at: [www.telegraafhotel.com](http://www.telegraafhotel.com).



## The Swedish Chambers of Commerce PanBaltic Golf Tournament 2007

Arranged in cooperation between the Swedish Chambers of Commerce in Estonia, Latvia and Lithuania, the first ever Swedish Chambers of Commerce PanBaltic Golf Tournament was held at Riga's lakeside Ozo Golf Club May 25th.

The tournament was arranged by the Swedish Chamber of Commerce in Latvia and SCCE was represented by Martin Seppälä - East Partners, Tallinn and also one of the Golden Sponsors for the tournament.

Tommy Eriksson - Vice President International Trade, the Chamber of Commerce of Central Sweden and headquartered in Gävle, joined Martin Seppälä for the tournament.

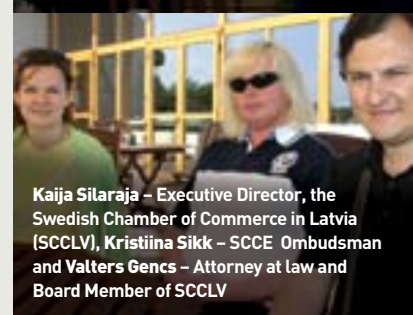
- It was great to see that this first ever Swedish Chambers of Commerce PanBaltic golf tournament collected participants from all three Baltic Countries, says Kristiina Sikk, SCCE Ombudsman.

The first prize - a glass sculpture provided by Rödl & Partner - was won by Monty Åkesson, a man with many years of experience from the Latvian market and nowadays working with Rödl & Partner in Sweden. Further prizes were provided by Sirowa, Goodyear Dunlop Tires Baltic, Nordea and Riga's Hotel Valdemars.

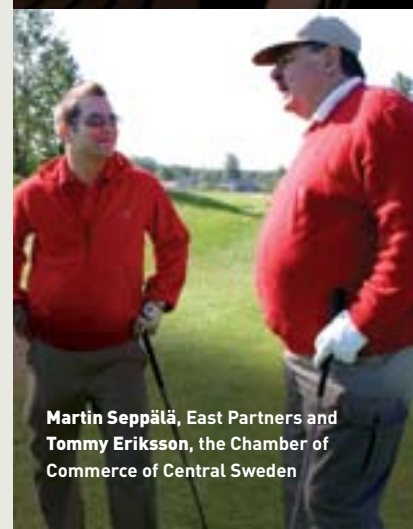


The Tournament leader **Aleksandrs Cakste** - General Manager Hotel Valdemars and the Golf Tournament Winner 2007; **Monty Åkesson**

- I think I can say that it was a solid consensus among the participants and sponsors that this PanBaltic Chambers of Commerce Golf Tournament should develop to a yearly event, concludes Kristiina Sikk. I proposed Estonia for next year's tournament and I believe I can say that there is a consensus on this proposal as well. A tournament like this is not possible without sponsors and I would like to take this opportunity and thank the SCCE members being Golden Sponsors of the Golf Tournament; East Partners, Tallink and SAS - Scandinavian Airlines.



**Kajja Silaraja** - Executive Director, the Swedish Chamber of Commerce in Latvia (SCCLV), **Kristiina Sikk** - SCCE Ombudsman and **Valters Gencs** - Attorney at law and Board Member of SCCLV



**Martin Seppälä**, East Partners and **Tommy Eriksson**, the Chamber of Commerce of Central Sweden



# Tuulingu Puhkemaja – nature, history and tradition



Ants Ale

**Tuulingu Puhkemaja – or holiday house - is located in the Matsalu National Park located just south of Haapsalu on the Estonian west coast. The National Park was founded in 1957 mainly for the protection of nesting, moulting and migratory birds. There are 275 species of birds, 49 species of fish and 47 species of mammals registered in the reserve together with 772 species of vascular plants. The landscape is unique with a mix of floodplains, reed beds, coastal and wooded meadows and islets.**

Approaching the Tuulingu holiday house in Haeska, you are greeted by Highland cattle, sheep and dairy cattle.

- Tuulingu farm is a place with traditions and history, says Ants Ale, owner and landlord of Tuulingu and operating the holiday house together with his wife Tiina. More than a hundred years ago my great-grandfather's family came to live here. The farm has seen Russian tsarist times, experienced improved prosperity during the times of the first Republic, witnessed the landlord hiding in the reed from being drafted to foreign troops and seeing young men leave for trying to protect their homeland from the Soviets.

- Today Tuulingu is a place caring for the natural harmony between nature and human activity, says **Ants Ale**. Tuulingu is on the migration route of tens of thousands of birds and you can observe the birds' activities during their migration, nesting and preparation for their southbound migration in the autumn. Among European ornithologists Tuulingu and our neighbouring Haeska observation tower are two celebrities. This is actually the place where the biggest number of different bird species has been observed during 24 hours.

- As for the Tuulingu holiday house we have renovated it with care, concludes Ants Ale. The thatched roof of the stone-wall house is made of self-harvested reed from the bay and using building techniques dating hundreds of years back. The urbanization of today has alienated many people from an everyday life close to the nature. I believe people might want to come back to the countryside and its natural environment if only for the summers and I want to contribute to that.

More on Tuulingu at: [www.tuulingu.ee](http://www.tuulingu.ee)

## A new Husqvarna Brushcutter for President George W. Bush



**As Sweden's Prime Minister Fredrik Reinfeldt met President George W. Bush May 15th for discussions on environmental and trade issues, the Prime Minister, as a matter of protocol, presented the President with a gift from Sweden: a new Husqvarna 335Rx brushcutter.**

Chosen from among many quality engineered Swedish products, the brushcutter features engine technology which reduces emissions by 60 % and fuel consumption by 20 % – making it an appropriate gift given the nature of the meeting. Considering President Bush's activities at his Texas ranch and his preference for outdoor exercise, the new brushcutter was a natural choice.

Husqvarna Estonia was established in 2005, employs 15 people and has a 10,5 million EUR turnover. Husqvarna Estonia supports Agrenska Foundation, Estonian Beautiful Homes movement, Beautiful School Garden competition, Estonian Ski team and Raul Olle, Estonian Evangelical Lutheran Church, Estonian Sport Society Kalev and TU Botanical Garden

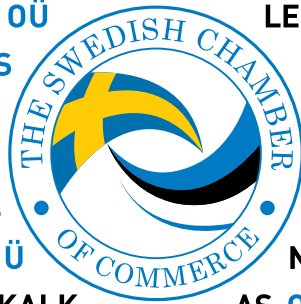
More on Husqvarna at: [www.husqvarna.ee](http://www.husqvarna.ee).





# Right in the midst of the business

ADVOKAADIBÜROO PAUL VARUL AS **ABB AS** AD VISIBLE OÜ ADVOKAADIBÜROO GLIMSTEDT STRAUS & PARTNERS ADVOKAADIBÜROO LEPIK & LUHAÄÄR LAWIN AS ADVOKAADIBÜROO LUIGA MODY HÄÄL BORENIUS ADVOKAADIBÜROO POHLA & HALLMÄGI OÜ ADVOKAADIBÜROO SORAINEN LAW OFFICES OÜ AIRLINE MANAGEMENT AIS FURNITURE ALD AUTOMOTIVE AB ALLANDO TRAILWAYS ALSTOM ESTONIA AS ALTENBERG REVAL AS AL ELECTRONICS ASIANAJOTOIMISTO HEDMAN OSBORNE CLARKE ASSABALT AS ASTLANDA HOTELLI AS **BANCTEC** BARONS HOLDING **BESQAB PROJEKT JA KINNISVARA OÜ** BLADHS EESTI AS **BOOMERANG SUBCONTRACTING OÜ** CITY AIRLINE **DHL ESTONIA AS** DPD EESTI EAST PARTNERS **E-BETOONELEMENT AS** EESTI AGA AS **ELECTROLUX EESTI AS** **EMBASSY OF SWEDEN** ERICSSON EESTI AS ESTNATURE OÜ ESTONIAN GOLF & COUNTRY CLUB EVATA BALTIC OÜ **FARM PLANT EESTI AS** FLEXENCLOSURE OÜ FONTES PMP AS FORS MW AS **HANSAPANK** HIT BALTIC HK INDUSTRIAL HUSQVARNA OÜ IF EESTI KINDLUSTUS AS IMPLEMENT BALTIC OÜ **INBRO & PARTNERS** KINDLUSTUSMAAKLER INCAP ELECTRONICS ESTONIA OÜ **INTEREXPRESS OÜ** JUS SUECANUM OÜ **KG KNUTSSON AS** KNT MEEDIAD AS **LASERTOOL OÜ** LEGEND MANAGEMENT AS **LINDORFF EESTI AS** LUNA EESTI AS **MAQS** LAW FIRM MANDATOR ESTONIA MBJ MCM - MARKET COMMUNICATION MANAGEMENT OÜ **MDH** PRODUCTIONS OÜ MEDIA MENU INTERNATIONAL **MEKANEX** MASKIN AB MERITON HOTELS **MORE REKLAAMIBÜROO OÜ** MPS EESTI AS **NEAR-SHORING OÜ** NORDEA BANK FINLAND PLC EESTI FILIAAL **NORDIC LINT OÜ** NORDKALK AS **OFFICE HOTEL** ORIFLAME EESTI OÜ **OLSTER** OUTOKUMPU BALTIC OÜ **PRIMUS EESTI OÜ** PROEKSPERT AS **PROPARTS OÜ** PÕLTSAMAA FELIX AS **PÕHJAMAADE MINISTRITE NÕUKOGU** **RAGN-SELLS AS** **RAPLA PLAST AS** **REVAL HOTEL MANAGEMENT OÜ** RIMI EESTI RMCONSULTING AB & PARTNERS RÖDL & PARTNER OÜ SANDHOLM ASSOCIATES **SAPA PROFILID AS** SAVOY HOTELL **SAS** SCANDINAVIAN AIRLINES SYSTEM SCANDITRON **SCANIA EESTI AS** SCHENKER AS **SEB** EESTI ÜHISPANK AS SCHLÖSSLE HOTEL GROUP **SEGERSTRÖM AUTOMOTIVE OÜ** SIEVERT SIROWA AS SLG THOMAS INTERNATIONAL EESTI OÜ **SSAB SWEDISH STEEL EESTI OÜ** STENSTRÖMS SKJORTFABRIK EESTI OÜ **STONERIDGE ELECTRONICS AS** STORA ENSO METS AS **STRAND AS** SVEBA-DAHLEN OÜ **SWECO ARCHITECTS** SWECON AS **SWEDISH TOOL** **SWEDISH TRADE COUNCIL IN ESTONIA** SVENSKA HANDELSBANKEN AB EESTI FILIAAL SWEDBANK AB **SÖDRA EESTI AS** TALLINK GRUPP AS **TARKON** TEDER GLIKMAN JA PARTNERID **TELIA SONERA AB** TIETOENATOR EESTI AS **V&S EESTI AS** WAHLQUIST OÜ **VARAMIESPALVELU OÜ** VAUXNER WENDRE AS WIGEN SINDI OÜ **VIKING MOTORS AS** WINDAK OÜ **VOGLERS EESTI OÜ** VOLVO ESTONIA OÜ **VÄVARAS OÜ** ÖRNPLAST EESTI AS



## The Swedish Chamber of Commerce in Estonia

# ps.

Some media get established on the market very quickly and it seems like **focus** is one of them. Following the launch of the first issue a couple of months ago SCCE immediately got requests for additional copies from Tallinn's leading hotels and also from Tallinn Airport who wants **focus** to be present at the airport's Business Lounges. Additionally, the distribution of **focus** to the Swedish Chambers of Commerce in Sweden, Latvia and Lithuania and to the bigger Swedish Chambers of Commerce throughout the world has created both a positive feedback and exciting new contacts for SCCE.

The main theme in this issue of **focus** is Economical Changes in Estonia. The majority of the seminars and business lunches we have had during this spring have focused on issues related to the Estonian economy and **focus** is now taking a closer look on the subject from several different perspectives. In this issue of **focus** we are launching a NewsFlash column with the aim of publishing news from the members of SCCE based on press releases and other press information material received.



Contributions to **focus** from the members of SCCE, both in terms of editorial content and advertising, are welcomed. If you haven't already done it - please do put us on the mailing list for pressreleases, articles as well as your point-of-view on issues of general interest for the commerce and trade between Estonia and Sweden. You can reach me at email: [kristiina@swedishchamber.ee](mailto:kristiina@swedishchamber.ee) or by phone: (+372) 501 9813. The **focus** advertising opportunities including sizes, prices and technical requirements are available at our website: [www.swedishchamber.ee](http://www.swedishchamber.ee).

As this issue of **focus** marks the start of yet another summer to come, I would like to thank you for an exciting winter and spring and look forward too seeing you all as SCCE takes off for the autumn in August. Latest news on events to come and reports on events passed are always found at: [www.swedishchamber.ee](http://www.swedishchamber.ee).

Sincerely,

**Kristiina Sikk**  
SCCE Ombudsman





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