

## Press Information

For immediate release

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FICE met with Prime Minister Andrus Ansip:

## Now is the time for Estonia to fertilize the ground for SME's



**Wednesday, June 10<sup>th</sup>, FICE - Foreign Investors' Council in Estonia, met with Prime Minister Andrus Ansip for a second round table dialogue on FICE's proposals for the Estonian Action Plan for Growth and Jobs 2008-2011.**

Headlined 'Investor Friendly Estonia' the dialogue focused on the priorities FICE identifies as major issues for the community of foreign investors in Estonia.

During the 1,5 hour dialogue FICE and Prime Minister Ansip came to a mutual understanding that Estonia has a good potential to grow as an attractive EU country for small and medium

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sized enterprises because of its simple tax system as well as its flexibility and readiness to make necessary changes in today's economical recession.

„We suggest that we no longer hunt for the iconic Estonian Nokia, but rather focus on making the country a 'modern days trading post' and the region's paradise for SME's", said FICE's Chairman Martin Breuer.

SME's that serve the region will generate an inflow of know how, best practice and human capital. SME's are known to generate above average employment and work as a catalyst for development. An attractive proposition will attract SME's to Estonia, either as start-ups or as SME's that have been enticed to relocate.

Breuer also pointed out areas in need of improvements; Air-connections are the lifeline of international business, the situation that sees Tallinn Airport turning into a provincial airport needs to be addressed urgently. Landing and service fees at Tallinn Airport must be reduced to create further incentives for more direct flight connections to and from major European cities. FICE also identified tax issues that need to be addressed to secure Estonia's presence on an ever more internationalized marketplace. To attract foreign professionals, experts and entrepreneurs to choose Estonia as a location of choice, Estonia has to increase efforts to become an open and welcoming international business environment

“Estonia's situation today is rather good compared with our neighboring countries. We are ready to make necessary cuts and changes to bring our country out of the economical recession. Things are possible in Estonia!”, said Prime Minister Ansip as he thanked FICE for an interesting and mutually beneficial second round table dialogue.

FICE's letter to Prime Minister Ansip, preceding Wednesday's dialogue, is attached to this press information.

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*FICE - Foreign Investors' Council in Estonia is a lobby group acting on behalf of the American, Austrian, British-Estonian, Danish, Finnish, German-Baltic, Holland, Norwegian and Swedish Chambers of Commerce, Business Clubs and Marketing Offices in Estonia.*

*Together, the nine countries represented in FICE account for more than 80 % of the total foreign direct investments in Estonia.*

*[source: Eesti Pank].*

## To The Government of the Republic of Estonia

For the attention of Prime Minister Andrus Ansip

Tallinn, June 10, 2009

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## Investor Friendly Estonia

FICE – Foreign Investors' Council in Estonia appreciates to be invited to continue the dialog with the Estonian Government regarding the Estonian Action Plan for Growth and Jobs 2008 – 2011.

The ideas and proposals that FICE outlines below are based on our earlier contribution of August 17, 2008, taking the economical circumstances into account that have developed since then.

The ideas and proposals that are being presented below are not necessarily new; the Government of Estonia is implementing some at the moment, while others might be under discussion or consideration.

Ideas and proposals reflect the priorities that FICE identifies from the viewpoint of foreign investors in Estonia.

FICE ideas and proposals to the Estonian Action Plan for Growth and Jobs 2008 – 2011 are listed below for the Government of the Republic of Estonia to consider and evaluate.

### General

#### Development Focus

FICE recommends focusing on the development of Estonia as a location of choice for SME's in the advanced technology, financial-, IT-, creative- and business-service industry. Envision this proposition as a modern-day 'trading post' and SME paradise in the region.

SME's that serve the region will generate an inflow of know how, best practice and human capital. SME's are known to generate above average employment and work as a catalyst for development.

An attractive proposition will attract SME's to Estonia, either as start-ups or as SME's that have been enticed to relocate.

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We suggest that we no longer hunt for the iconic Estonian Nokia, it's a rare species that once in a while happens to evolve. A large and thriving SME community is in our opinion the 'industrial' base that a relative small and open country as Estonia suits best.

For that to happen we have to become more open, more welcoming, agile and better accessible. The Estonian proposition for establishment of SME's should be superior to that offered by the countries that surround us.

### **Accessibility**

FICE is very much worried about the development of direct air connections to and from major European cities. The role of Tallinn Airport is at fast pace being reduced to that of a provincial airport. Good air connectivity is a vital element in any investors' decision to establish a business.

Accessibility should have highest government priority; it is an issue of national importance and urgency. Contributing to a solution could be:

1. Reduction of landing and service fees of Tallinn Airport
2. Increased support of Estonian Air as partly government owned carrier with strategic importance

### **Increase the talent pool**

Create circumstances for multinational talents all over the world to live and work in Estonia. Make the necessary formal procedures quicker.

### **Improve support for potential foreign investors**

Create an easy to access network of fluent English speaking contact persons in governmental offices that can assist potential investors

## **Tax System**

Taxation policy has to be consistent and predictable. Foreign investors operate along a long term planning horizon. Sudden changes in employers' obligations that seriously affect their competitive position are highly disturbing.

1. Do not make any radical changes to the rather simple and transparent tax system. Keep the Estonian model of simple, light and straightforward taxation intact. The 'Estonian model' is the best option available to guide us through recession. Times ask for evolution rather than revolution in tax system.
2. Keep it simple and attractive. Limit tax increases during the current recession period to the absolutely necessary and carefully weigh the impact of planned increases on Estonia's export earning capacity as well as on new FDI.
3. Cap (limit) the social taxes. The aim is to retain and attract skilled workers in Estonia and allow exporting companies to become more competitive. At the same time limit the benefits for those that fall under the cap.

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4. Provide an optional exemption for foreign employees working temporarily in Estonia from paying any social taxes and receiving any social benefits; if they do prefer so. The aim is to attract foreign professionals, experts and entrepreneurs.

### **Education and Labour**

Estonia currently lacks skilled labour and middle management. This makes it difficult for entrepreneurs and SME's to expand or locate their businesses in Estonia because the quality of the current workforce leads to lower quality output and lower efficiency in the production. Especially the production efficiency is an acute problem. The unemployment increases today but, when the economy starts to build up again, businesses will very soon see the same lack of a skilled labour force as during the 2005-2007 period. We advise to address these problems by:

1. Well-qualified vocational education. Vocational education does offer good employment and career opportunities as well as good salary opportunities, as data from other European countries indicate. We like to signal the problem that many young Estonians tend to favor university education and regard vocational education as second choice and even a dead-end alley because of its bad image and perceived lack of career opportunities. This is a worrisome development that needs to be addressed. We suggest Government to take active steps to make vocational education a cornerstone of its educational system. Vocational education (also in English language skills) has to become the education of choice again for many young Estonians.
2. A good system of dual education (combining work and school) is the fastest way for the Estonian society to attain higher levels of 'best practice'.
  - a. Enforce effective cooperation between vocational educational institutions that receive government support and future employers of students. Currently vocational educational institutions that deliver 'graduates' do not care enough about future employment chances and career success of their graduates. Each EEK spend by government on vocational education should ultimately result towards successful and sustainable integration of a graduated student in the labour market. Government can and should expect a contribution from the side of entrepreneurs in this as well.
  - b. Create serious qualification levels as part of the dual vocational education system. Qualification levels raise pride of graduates and bring esteem to a profession.
3. Increase foreign language skills -in particular English- throughout the education system and governmental services by

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- a. wider adoption and implementation of the Common European Framework of Reference in schools and colleges - particularly the vocational schools
  - b. the adoption of the CEFR purposes of training and development in the ministries, boards and agencies of the Estonian state
  - c. the adoption of the CEFR for the purposes of categorizing all state language examinations, not just Estonian
4. Make Estonia a country where professionals and entrepreneurs from various backgrounds and cultures will be excited to live and work, by choice! This will help Estonia to carve its niche as natural home to SME's serving the region. Provide necessary services for foreigner's families – kindergartens and schools for children (today there is only one international school in Tallinn and one in Tartu), open more faculties at the Universities with English as a working language. Relax some of the language law requirements.
  5. Cooperation with universities in Europe and around the world should be intensified to include studies abroad in the curricula and vice versa.

### **Energy & Environment**

Specific with regards to energy issues, FICE supports the general directions outlined in the current Estonian energy development programs

We suggest that government addresses the following issues to improve the current programs:

- a. It's necessary to set benchmarks between Estonian national energy framework and its neighboring markets including prices, taxation and financial support schemes.
- b. The Estonian energy market should be liberalized as soon as possible and price regulation should be avoided. Resulting higher revenues e.g. from taxes should be reallocated to industrial, commercial and private clients in order to improve energy efficiency related investments over a certain period.
- c. Necessary to elaborate a yearly time scheme concerning large scale power generation project implementation, in order to forecast whole sale price indication more precisely.
- d. Any formal limitation of the primary energy mix does not support competition.
- e. A free third party access to Estonian energy infrastructure should be practically guaranteed.

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Estonia is rather unique as a country with its relatively low level of pollution and low environmental pressure. Estonia's pristine countryside is an asset not only for tourism but also as a location for environmental friendly business and start-ups in the field of green technology.

Since much of Estonia is still largely undeveloped, we suggest government to take a pro-active lead to protect the long-term environmental situation by developing a framework of comprehensive legislation that addresses various related issues as horizon pollution, light pollution, noise pollution, sustainability of natural reserves and recycling.

### **Corporate Responsibility**

Estonia has shown major improvements in corporate responsibility during the past 18 years, but this issue needs continuous attention, especially in the light of the current economic situation.

1. Continue to take effective measures to reduce the black economy. The current economic conditions can be predicted to make the black economy grow
2. Continue to take measures towards a more effective implementation of the Bankruptcy Law. Currently entrepreneurs too often use bankruptcy proceedings as a technique to get rid of creditors -including the state- to then continue business as usual with the same shareholders
3. Continue to address political corruption. Make financial relations between politicians and companies more transparent. Make political parties independent from corporate sponsorship.

On behalf of FICE - Foreign Investors Council Estonia

Yours sincerely,



Martin Breuer

FICE Chairman

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