



Weekly Briefing

**Estonia Economy briefing:
A multi-faceted October
E-MAP Foundation MTÜ**

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A multi-faceted October

Having already touched upon the Estonian Government-approved draft legislation for the 2019 state budget (see our ‘Political briefing’ for October), it is worthwhile having a glance at some other important topics, which have direct relevance to the country’s economic development and are receiving special attention in Estonia, this month. Those are on **Rail Baltica** and the **Employer’s Manifesto 2018** that was issued by the Estonian Employers’ Confederation.

A breakthrough for the Rail Baltica project?

Conceptually, the Rail Baltica initiative is of monumental significance for the region of the Baltic States and beyond. This infrastructural project is to directly interlink **Estonia**, Latvia, Lithuania and Poland (with an indirect extension to Finland) by an 870 km of environmentally friendly high-speed railways. Location wise, the line is drawn to connect Helsinki, **Tallinn**, **Pärnu**, Rīga, Panevežys, Kaunas, Vilnius, and Warsaw¹. Evidently, it is the largest Baltic-region infrastructure project in the last 100 years², while becoming an integral part of the EU’s North Sea Baltic TEN-T corridor³. In accordance to an official estimate, the projects will require 13,000 people working on its construction with additional 24,000 people to be hired in related industrial areas⁴.

Since the project’s commencement in 2010, the process of its implementation has been widely criticised for being slow and heavily bureaucratised. In a significant addition, it has been constantly featured by a

¹ ‘Rail Baltica – Project of the Century’. Available from [<http://www.railbaltica.org/about-rail-baltica/>].

² ‘Rail Baltica – Project of the Century’.

³ ‘North Sea-Baltic’. The European Commission. Mobility and Transport. Available from [https://ec.europa.eu/transport/themes/infrastructure/north-sea-baltic_en].

⁴ ‘Baiba Rubesa addressed representatives of Latvian ports, transit and logistics industries’. 23 August 2018. Available from [<http://www.railbaltica.org/baiba-rubesa-addressed-representatives-of-latvian-ports-transit-and-logistics-industries/>].

high number of disagreements and misunderstandings existing between different stakeholders, sometimes even within the same country. Having been approved at the time of the Second José Manuel Barroso Commission⁵ – keeping in mind that its Estonian representative, Siim Kallas, was the aforementioned Commission’s Vice-President, holding a strategically important Transport portfolio – the Rail Baltica project went into an initial period of uncertainty, which was followed by a relatively stable period of structural and institutional development.

From 2015, **RB Rail AS** (it is the joint venture’s official name) was chaired by Baiba Rubesa, a Canadian-born Latvian top-executive, whose appointment as the company’s CEO and Chairperson of the Board ended with her own resignation handed over on 27 September 2018. The latter move was not a surprise, since it was already known that the joint venture started searching for its new executive. On 11 September, Riia Sillave, Chairperson of the RB Rail AS Supervisory Board and CEO at **Rail Baltic Estonia**, publicly announced that “[t]he contract with the current CEO of RB Rail AS terminates as of end of October [...] [while] [t]he supervisory board of the company has initiated the process of executive search”⁶. As reported, back in February 2018, the company’s Estonian and Lithuanian shareholders “expressed no-confidence in Rubesa, saying that they were not satisfied with her performance and wanted change [...], [but] the supervisory board did not consider dismissing Rubesa [then]”⁷.

At the same time, it would be impossible to argue that the whole grand-process is not featured by any significant achievements, and many of those were

⁵ ‘Who is who – Barroso Commission – European Commission’. 8 December 2014. Available from [http://ec.europa.eu/archives/commission_2010-2014/members/index_en.htm].

⁶ Riia Sillave in ‘Sources: New head of Rail Baltic joint venture likely to come from Poland or Finland’. 11 September 2018. Available from [https://www.baltictimes.com/sources__new_head_of_rail_baltic_joint_venture_likely_to_come_from_poland_or_finland/].

⁷ ‘Sources: New head of Rail Baltic joint venture likely to come from Poland or Finland’.

made during the Rubesa era. **Firstly**, as confirmed by Catherine Trautmann, the European Coordinator for the TEN-T North Sea-Baltic Corridor, the company “has grown from a start-up sized organisation to a professional team of over 50 members of staff, who is steering the Rail Baltica project through the planning and now the design phase”⁸. **Secondly**, on the EU level, the third Connecting Europe Facility Grant Agreement was drafted and then signed, showing the €800 million commitment to the project’s needs⁹. **Thirdly**, a comprehensive list of the project-bound trusted suppliers is formed and will be significantly enhanced soon, with 26 new tenders already planned by the end of 2018 and about 60 tenders drafted for 2019¹⁰.

Therefore, there is a likelihood that RB Rail AS is currently experiencing a positive breakthrough that may lead the project towards ‘jumping’ over the bureaucratic hurdle to eventually see this 1435mm gauge double-track railway line getting built.

The Employer’s Manifesto 2018 as an attempt to ‘design’ the future

As specified before, the document¹¹ was issued by the Estonian Employers’ Confederation (*Eesti Töandjate Keskliit*), a powerful lobby-type organisation that aims, according to its own vision, at “representing employers in social partnership”¹². Either directly or via different industrial bodies, it represents 1,500 odd companies, which employ 145,000 people¹³ (a bit more than 11% of the Republic of Estonia’s population). Considering the Manifesto’s title – *Race*

⁸ Catherine Trautmann in ‘Statement by Catherine Trautmann, North-Sea Baltic TEN-T Corridor Coordinator’. 1 October 2018. Available from [<http://www.railbaltica.org/statement-by-catherine-trautmann-north-sea-baltic-ten-t-corridor-coordinator-2/>].

⁹ ‘Supervisory Board of RB Rail appoints Ignas Degutis as an interim CEO’. 27 September 2018. Available from [<http://www.railbaltica.org/supervisory-board-of-rb-rail-appoints-ignas-degutis-as-an-interim-ceo/>].

¹⁰ ‘Commencing Detailed Technical Design of Rail Baltica – priority for the newly appointed interim CEO of the RB Rail AS’. 3 October 2018. Available from [<http://www.railbaltica.org/commencing-detailed-technical-design-of-rail-baltica-priority-for-the-newly-appointed-interim-ceo-of-the-rb-rail-as/>].

¹¹ ‘The Employer’s Manifesto 2018’. Available from [<https://www.employers.ee/wp-content/uploads/Manifest-ENG-compressed.pdf>].

¹² ‘History’ in Eesti Töandjate Keskliit. Available from [<https://www.employers.ee/en/history/>].

¹³ ‘About us’ in Eesti Töandjate Keskliit. Available from [<https://www.employers.ee/en/>].

against the clock – and in the light of the 2019-associated budgetary requirements, the document should be treated as **a noticeable attempt to give a professional advice** to the current as well as the next Estonian Government on how to ‘design’ the country’s future in a better way. Thus, there is a necessity to give the Manifesto a brief overview, focusing on the main segments of its narrative.

Firstly, the country’s **labour market** was given a harsh prognosis – in 20 years, Estonia “will be lacking 20% of the current working age population [...] [that will be] necessary to keep the same amount of public services for dependents as provided by today’s tax burden”¹⁴. With that, the document argues that Estonia has too many of public sector employees, – 133,000 people or about 21% of the workforce, – even though they are well qualified¹⁵. These and some other bits of the document-summarised data are followed by a set of concrete proposals to the state¹⁶ that should:

- revise [...] decisions on labour market and social benefits, as well as social protection;
- reduce the number of public sector workers by 3,000 per year over a period of 10 years;
- turn Estonia into a talent magnet;
- eliminate the immigration quota for specialists (people earning more than the average wage) in order to facilitate their official employment in Estonia;
- have a uniform Estonian school system, and not have several parallel school systems in different languages;

¹⁴ ‘The Employer’s Manifesto 2018’, p. 12.

¹⁵ ‘The Employer’s Manifesto 2018’, p. 15.

¹⁶ Proposals to employers are omitted in this overview, but can be found in the document.

- allow employment contracts to define the workload in the range in order to encourage better employment, and especially part-time work.¹⁷

Secondly, **on economic development of the country**, the Manifesto argued that “Estonia is becoming more and more constrictive for employers”, whilst companies in Estonia “invest little in research and development activities [...] [having] [t]he ratio of business sector expenditure to GDP in this area is two times lower than the average of the EU”¹⁸. In such a context, the Government is advised that it should

- agree upon the long-term content, goals and schedule of state reform;
- consider increasing the volume of investments of companies with high added value as a priority for government on a local and national scale [and] [g]ive government agencies and municipalities greater powers to make decisions that attract investments;
- continue the privatisation and transfer of public services to the private sector;
- not be Estonia’s largest IT-company, but a smart contractor;
- make an agreement across the parties that the state will increase the funding of research and development activities to 1% of GDP within 3 years, and will continue to maintain this level.¹⁹

Thirdly, **on taxes**, the document criticised the Government for “constant tax changes over recent years [which] have led all taxpayers to become confused by and mistrust the state”, arguing that such a process of perpetual changes

¹⁷ ‘The Employer’s Manifesto 2018’, pp. 15 and 17.

¹⁸ ‘The Employer’s Manifesto 2018’, p. 20.

¹⁹ ‘The Employer’s Manifesto 2018’, pp. 23 and 25.

“destroyed morality and badly affected the nationwide tax compliance”²⁰. In order to fix the issue, as argued, the state should:

- correct the clear mistakes and analyse whether the tax system in Estonia requires significant and extensive amendments or not;
- restore the uniform tax free income threshold and lower the rates of excise duty to such a level that excise goods are again bought from Estonia, not from neighbouring countries;
- reduce the minimum social tax rate so that part-time workers can get jobs more easily;
- establish a maximum social tax with the aim of making Estonia more attractive to top specialists;
- share the payment of social tax between the employee and the employer in such a way that the employee’s net salary does not decrease;
- apply social tax incentives to trainees and apprentices in order to motivate cooperation between employers and educational institutions;
- analyse the impact of all tax changes on both the budget as well as the behaviour of people and companies, and disclose all impact analyses on such changes;
- create a strategy for reducing EU subsidies and prepare for a possible economic downturn, including increasing reserves during economic booms and creating financial discipline for the worst times;
- draw up the state budget every ten years from a zero basis, i.e. without taking the costs incurred in the past into account.²¹

²⁰ ‘The Employer’s Manifesto 2018’, p. 28.

²¹ ‘The Employer’s Manifesto 2018’, pp. 28, 30, and 32.

Finally, on the **education**-related segment, the Estonian Employers' Confederation underscored that teachers in Estonia is an aging group (for example, 48 years old in elementary school), also specifying that “the situation is critical with regard to science and mathematics teachers” – “every fifth mathematics, chemistry, geography and biology teacher, and every fourth physics teacher is at least 60 years old”²². What is even more important, as argued, “[t]he teaching occupation is not attractive enough”²³. In this respect, the Estonian state should

- make a national order for all school levels depending on the needs of the state;
- introduce a paid higher education, which is financed by the student with a student loan [but] [i]f the student completes the studies successfully within the prescribed period, the state will wipe off the student loan;
- support the mentoring of internships necessary for the development of effective vocational education, including exempting the salary paid to interns and apprentices from social tax;
- increase the proportion of results in the vocational education financing model to one third;
- increase the teachers' salaries in four years to at least 1.5 times the Estonian average, and the salaries of teachers of life sciences and vocational education to at least 2 times the Estonian average;
- stop the division of the mathematics syllabus into narrow or extensive mathematics;

²² ‘The Employer’s Manifesto 2018’, p. 34.

²³ ‘The Employer’s Manifesto 2018’, p. 34.

- increase the rigour with regard to compliance with the new learning approach described in the lifelong learning strategy, which is focused on the student.²⁴

Remarkably, the Employer's Manifesto 2018 was, in general, well received by the Estonian political elites²⁵. The most positive expression on the document arrived from the country's former Prime Minister (2014-2016), Taavi Rõivas, who metaphorically stated that his "soul is just signing"²⁶. Building on this metaphor, it could be argued that only the outcome of the March 2019 parliamentary elections will answer a question on whether or not the Estonian Employers' Confederation-issued Manifesto will be leading to a particular political melody of change.

²⁴ 'The Employer's Manifesto 2018', pp. 35-37.

²⁵ Ildar Nizametdinov, 'Эстонские политики положительно оценили манифест работодателей'. 28 September 2018. Available from [<https://rus.err.ee/862333/jestonskie-politiki-polozhitelno-ocenili-manifest-rabotodatelej>].

²⁶ Taavi Rõivas in 'Рыйвас: от предложений Союза работодателей поет душа'. 18 September 2018. Available from [<https://rus.err.ee/862273/ryjvas-ot-predlozhenij-sojuza-rabotodatelej-poet-dusha>].