Organising for EU Enlargement
A challenge for member states and candidate countries

NEGOTIATING EUROPEAN ISSUES

National Strategies and Priorities

EU Accession Negotiations
Chapter 10 – Taxation

OEUE PHASE I
Occasional Papers 2.2 – 11.03

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University of Tartu

FIFTH FRAMEWORK PROGRAMME

Dublin European Institute
A Jean Monnet Centre of Excellence

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ORGANISING FOR EU ENLARGEMENT:

Challenge for the Member States and the Candidate Countries

The Dublin European Institute, University College Dublin,[1] was awarded, in 2001, a research contract under the EU's Fifth Framework Programme[2] to carry out a comparative study of the impact of the EU on the structures and processes of public policy in six small countries: **Ireland**, **Greece**, **Finland**, **Estonia**, **Hungary** and **Slovenia**. The Project's partnership, under the direction of Professor Brigid Laffan, Dublin European Institute, University College Dublin[3], includes: Professor Dr. Wolfgang Drechsler, University of Tartu; Professor Teija Tiilkainen, University of Helsinki; Professor Calliope Spanou, University of Athens; Professor Attila Ágh, Budapest University of Economic Sciences and Public Administration; and Professor Danica Fink-Hafner, University of Ljubljana.

The aim of the research project was to deepen our understanding of the processes of Europeanisation in a number of the existing member states and some of the candidate states.

The research project encompassed the following three objectives:

- The conduct of research which offers immediate policy relevance to key stakeholders in the enlarging Union;
- The conduct comparative, theoretical and empirical research on the management of EU public policy making in three existing member states – Ireland, Greece and Finland – and three candidate states – Estonia, Hungary and Slovenia;
- The shedding light on the capacity of smaller states to adjust and to adapt to the increasing demands of Europeanisation on their systems of public policy-making and thus to identify the barriers to effective, efficient and accountable management of EU business.

Research Strategy

The research design consisted of two phases and within each phase, two levels of analysis. **Phase I** analysed the management of EU business at the macro level of the core executive and was complemented by a micro case study of a recent policy negotiation using decision analysis. **Phase II** of the research broadened the analytical focus to encompass other levels of government – the EU and sub-state – through multi-levelled governance. Here attention was centred upon the emergence of policy networks and the interaction between public actors and the wider civil society in specific, discrete policy sectors.

[1] National University of Ireland, Dublin (University College Dublin).
[2] European Commission, Community Research Fifth Framework Programme (Socio-Economic Research).
[3] This project forms part of the Governance Research Programme, Institute for the Study of Social Change, University College Dublin, www.ucd.ie/issc/ and www.ucd.ie/govern/intex.htm.

Methodology

The study employed two specific methodologies: historical institutionalism and rational institutionalism in a new and innovative fashion. The use of combined perspectives provided a theoretically innovative and new approach to the study of the Europeanisation process. Both approaches could be used as they were applied to different elements of the empirical research.

Academic and Policy Implications

This study's findings provide insight into the manner in which diverse state traditions, institutions and political and administrative cultures influence national adaptation to EU governance and how the interface between national policy processes and the Brussels arena is managed. It is expected that these findings will assist those making and managing policy, thus facilitating adjustments to the changing European Union while also contributing to the growing academic debate on Europeanisation.

At various stages during the course of this project the research findings and analysis were presented to a range of stakeholders and academics to facilitate feedback and enhance the analytical process. Further details about the Organising for EU Enlargement (OEUE) project are available on the project web site www.oeue.net, along with i) the Project Report, ii) the OEUE Occasional Papers and iii) a selection of papers by the research partners which draw on various aspects their project research.

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INTRODUCTION

Estonia's integration into the European Union started right after regaining its independence in 1991. During the same year, Estonia was accepted as a member state of the Organisation on Security and Co-operation in Europe (OSCE) and United Nations. Estonia also joined the work of the North Atlantic Treaty Organisation (NATO) in 1991 and the West European Union (WEU) in 1994. Estonia was among the first countries to be invited to start the accession negotiations in March 1998. The first chapters were already opened by September 1998. The accession negotiations were closed in 2002 and in December 2003 at the Copenhagen Summit, Estonia officially finished its accession negotiations. This research presents the results of a case-study analysis of Estonia's European Union accession negotiations of taxation issues (Chapter 10). The taxation chapter was opened in March 1999 and was provisionally closed on 28th June 2002.

Decision context, key institutional structure

Estonia's rapid integration to the European Union has been the result of the strong and consistent commitment of different Estonian Governments and government offices over the period leading up to and during the accession negotiations. Although the attitude towards the integration process was sometimes negative, especially among civil servants, because of the enormous workload, on the whole the work has been completed without major problems. Competition with other accession countries cannot be underestimated in that process. The whole process of the European integration has been quite painless, as Estonia did not apply for extensive transition periods except from the areas that were economically or politically sensitive such as energy, agriculture or taxation. Due to the shift in Estonia's strategy in 2002 for the integration process that emphasised the need to close as many negotiation chapters as possible, the process moved towards closure even more rapidly.

Different interest groups were mainly passive during the integration process but did get more actively involved in the end of accession negotiations. There were two main reasons for this. The first reason was that interest groups were only developing over these years and therefore gained more knowledge about the process and also about the opportunities to influence the process. The second major reason was that at the beginning of the integration process the consequences of joining the EU were extremely unclear and the actual joining seemed to be very far away. As the accession process neared completion, the possible consequences became clearer and the actual date of joining the EU was approaching fast. Therefore the process became more interesting and real to the interest groups. However, as the accession negotiations drew to a close, the process of informing societal interest groups was still one of the most important fields of work in the process of European integration.

The institutions and structures of the accession negotiations were quite uniform and steady over the integration process. Some changes took place, but they did not affect the day-to-day work. The whole administration of the integration process could be described as being small, quick and flexible. Estonia benefited from its limited size of the public administration that enabled flexible arrangements and fast agreements in case of problems. The arrangements and agreements were heavily based on informal and personal contacts of the top administration responsible for the European integration. The most effective instrument for solving problems between the ministries was the Council of the Senior Civil Servants.

The main communication lines were the Prime Minister's Office, the Ministry of Foreign Affairs, the Office of European Integration (OEI) and the structural units of European integration in the line ministries. At the beginning of the European integration process there was the tendency that all the EU related activities were concentrated in the unit responsible for the European integration. However, over time the integration activities became inseparable from other activities and therefore the European integration units became more concentrated on co-ordinating activities. This tendency improved the whole co-ordinating process of the EU integration.

General co-ordination of the everyday European integration activities became the responsibility of the Office of European Integration (OEI) who informed the Prime Minister Office on almost daily bases about the progress and problems. The Prime Minister brought the information which usually consisted of general overview and the progress of legislative activities to the Cabinet meetings together with the Minister of Foreign Affairs and the Head of the OEI. These were the main meetings where the line ministers report to the Prime Minister about the problems and shortcomings in legislative activities on the bases of the overviews prepared by the ministerial officials.The division of co-ordination work was satisfactorily divided between the Prime Minister's Office the main tool of which the OEI and the Ministry of Foreign Affairs. The responsibility of the latter was much more formal than that of the OEI. The Ministry of Foreign Affairs was concentrated on formation of negotiation position, preparing negotiation rounds and accession agreement to the EU. The OEI was more committed to daily European integration activities such as monitoring the process of harmonising the legislation.[4]

Theoretical Approach and Research Design

The main aim of this research is to conduct an in-depth case study analysis of a particular set of negotiations at the core executive level and test the applicability of the collective decision-making models on the European accession negotiations. The case study is of Estonia's European Union accession negotiations on Chapter 10: Taxation. In particular, we are interested in identifying what were the main issues in the Estonia's taxation chapter and who were the main stakeholders involved in making the decisions and influencing Estonia's final positions in the taxation chapter?

The data analysis of this case-study analysis is guided by a quantitative modelling approach to collective decision-making (Bueno de Mesquita and Stokman, 1994, Stokman et al, 2000). A number of decision models are tested in this research, the compromise model, the Exchange model (co-operative strategy) and the Conflict model (non co-operative strategy). Each of these

[4] See Appendix 2 for the graph of Estonian core-executive.

models requires the same input variables: quantitative estimates of actors' power and policy positions and the salience they attach to each of the issues to be analysed.

The collection of the model input data is based on a specification of the problem to be analysed in terms of issues and interviews with key informants (Payne, 2002). The collection of data started with an extensive literature and policy documentation review. Preliminary specification of issues was based on several sources. The main sources included the reports of the Ministry of Foreign Affairs on the EU accession negotiations; the archives of the main newspapers (*Postimees, Päevaleht, Äripäev*) and the scientific reports on taxation and changes needed on joining the EU. After research of the official documents and media articles (interviews, official press releases etc), several preliminary interviews were conducted to determine the most important issues and their scope. The preliminary interviews were conducted with experts in different ministries. The choice of the interviewees was based on their position within Estonian public service and their involvement in EU accession negotiations or their preparation within working groups. Based on preliminary interviews, the key expert was chosen. The key expert is characterised by in-depth and first-hand experience in being involved in EU accession negotiations.

Issue Selection

There are several reasons for choosing the Taxation chapter for the micro case-study analysis. First, the Estonian taxation system in exceptional in several aspects: e.g. proportional income tax (26 %), several lower VAT rates for different goods, lower excise taxes compared to the EU member states etc. Second, as taxation is one of the most important chapters in the EU accession negotiations, the identification of issues and the negotiations themselves are sources of important and interesting questions. Third, looking at the history of the negotiations of Chapter 10, it shows very clearly the way Estonia handled the negotiation process and increased or changed its demands.

During more than three years of negotiations on the Taxation chapter, Estonia revised its position several times adding new demands (see Table 1 for more specific time-line of negotiations on Chapter 10). In the end, five important requirements for transition periods or exceptions were made. These included the ttransition period for VAT for hydroelectricity and wind energy (until 31.12.2007); the preservation of 5% VAT on distant heating sold to the private individuals (until 30.06.2007); the exception on compulsory VAT registration for small and medium enterprises (increase in turnover volume from which registration is compulsory); the harmonising the tobacco excise tax gradually, reaching the EU level in 31.12.2010) and the tax and duty free sales on board of ships for 6,5 years (until 30.06.2010).

In the early stages of the accession negotiations, Estonia's position was to accept the *aquis communautaire* from the date of accession, with two required exceptions. First, Estonia asked for a transition period for VAT for hydroelectricity and wind energy. However, the EU did not accept any of Estonia's reasons – many of them the justified expectation of producers and clients and importance to the environmental policy. This requirement was never accepted by the EU, although the history of the negotiations showed that Estonia did not give it up until the provisional closing of Chapter 10. Second, the issue of transition period for tobacco excise harmonisation was required and also for harmonising the excise taxes for gasoline. The latter was given up almost immediately when EU said no. However the requirements concerning tobacco excise were extremely important for Estonia: the main reasons for the requirement included difficult administration if the increase was very steep compared to the neighbouring countries, the probable decrease in tax revenue due to that and the danger of sharp increase in smuggling. The EU opposed that requirement as well, but as a result of Estonian pressure the requirement was almost achieved – EU granted the transition period until 2009, i.e. Estonia lost only one year.

Then, in 2001 the Estonian government added three more requirements: the preservation of 5% VAT on distant home-heating until 2005 (extended until 2007 in 2002) and increasing the turnover volume (from 5000 Euros to 16025 Euros) from which registration of the company is required. These two requirements were almost at once accepted by the EU: only some additional information was required. The third requirement was made in 2001 concerned the tax and duty free sales on board of ships. This requirement was the most problematic. First, tax-free sales are not allowed in any member states, although it was abolished only after a transition period of 6.5 years – the same period Estonia required. Second, there was a very big difference of opinions between the various Estonian ministries. The Ministry of Transport and Communications was a supporter of the tax-free sales whereas all other ministries treated it as a requirement made only to broaden the area of negotiations. This difference of opinions could have been a result of two opposing "scientific" reports on the implications of abolishing tax-free sales on the shipping companies, tourism, and the service sector. There was mixed information about the initial source of the requirement: our research revealed that some stakeholders believed that the shipping companies and tourist associations were behind the inclusion of the requirement in Estonian position whereas others believed that the initiative came from the government. In the end, this requirement was treated more as means to broaden the negotiation area: the pressure from Estonian negotiation team was never very strong.

Table 1: Time-line of negotiations on Chapter 10 for Taxation.

Screening meetings:

- 26. and 29. March 1999 (multilateral meetings);
- 16. and 19.04.1999 (bilateral meetings).

Presentation of positions and their revisions:

1. Estonian position 02.08.1999
2. EU common position 10.11.1999
3. Chapter opened for negotiations 12.11.1999
4. Estonian position: Annex 1 15.11.1999
5. EU revised common position 07.06.2000
6. Estonian revised position 10.10.2000
7. Estonian position: Annex 2 05.12.2000
8. EU common position 16.05.2001
9. Estonian revised position 01.06.2001
10. Estonian position on complementary *acquis* 09.11.2001
11. Estonian position: Annex 3 29.11.2001
12. Estonian revised position 14.05.2002
13. EU common position 27.06.2002

Temporary closing of Chapter 10: Taxation on 28.06.2002

Stakeholders

The experts identified six main stakeholders involved in the negotiation of these issues and these included the Government, the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Transport and Communications, some societal business interest groups and the European Union. The key public sector players involved in negotiating and influencing the decisions in the taxation chapter included the government, and the Ministries of Foreign Affairs and of Finance. The government and the Ministry of Foreign Affairs were part of the core-core of the core executive on Estonian EU business management; they played a key role in the negotiations of every issue. The Ministry of Finance, which was one of the key ministries in the preparation of negotiations of Taxation chapter, belonged to the outer core executive. Finally, the Ministry of Transport and Communications was also involved but really only concerned with one of the four issues, which was extremely important to it.

Unlike the negotiation of many other accession chapters for Estonia, the negotiation of the taxation chapter involved societal business interest groups – namely the shipping and tourist companies. As one of the issues concerned their work directly, it was in their interest to be involved and try to influence the decisions. However, in general the role of societal interest groups in Estonia during the EU accession negotiations was limited, and the role of the business interest groups in the taxation chapter negotiations was no exception.

The European Union was the most powerful stakeholder of the six. On the one hand, its objective was to allow as few exceptions as possible to make all the members of the union function according to the same rules and principles. On the other hand, it aimed at integrating the new member-states into the Union as painlessly as possible, and therefore had to try to accommodate the transition periods and other exceptions that enable the new members to function successfully.

Issue Specification

During the more in-depth issue specification phase of this research, experts identified four of the five final requirements, which Estonia made, as truly controversial and these were selected for issue specification and further analysis in this case study. Issue specification means that each of the selected issues is presented on a one-dimensional continuum, where the stakeholders' policy preferences and the real decision outcome are represented. The most extreme stakeholder positions are presented at each end of the continuum and numerically assigned a position of 0 and 100. Other positions, where they exist, are located between these to extremes. The issue which concerned the increase in turnover volume was not selected by experts for issue specification, as there was no difference of opinion in Estonia and the EU satisfied the demand with no restrictions after requiring some additional information.

The final selection of issues for specification included four of the five issues identified above. Table 2 presents policy positions and real decision outcome on the issue continuum for each of the selected issues.

Table 2: Issue Specification and Continua

Issue no.	*Issue Description*	*Policy Positions and Real outcomes on the Issue Continuum*
1	Transition period for harmonising the VAT for hydroelectricity and wind energy for 3 years.	0= No transition period 100= 3 years transition period (until 31.12.2007) *0= Real decision outcome*
2	Transition period for harmonising excise tax on tobacco for 7 years	0= No transition period 100= 7 years transition period (until 31.12.2010) *90= Real decision outcome (transition period of 5 years)*
3	Transition period for tax and duty free sales on board of ships for 6.5 years	0= No transition period 40= No transition period, compensation mechanisms offered to entrepreneurs 70= 6.5 years transition period (until 31.06.2010) 100= 10 years transition period (until 2014) *0= Real decision outcome*
4	Preservation of 5% VAT on distant heating sold to the private individuals.	0= No transition period 100= Transition period of 3.5 years (until 30.06.2007) *100= Real decision outcome*

The first issue selected was the transition period for VAT for hydroelectricity and wind energy. This issue concerned the development of hydro- and wind-electricity which was closely related to the environmental policy in Estonia and the objective to increase the amount of energy produced from renewable sources of energy. The second issue was the harmonising the tobacco excise tax. The Estonian government argued that a gradual increase in tobacco excise was needed in order to maintain the revenue from taxation, to secure the administration and to avoid the possible smuggling due to the price difference in neighbouring states. The third issue concerned the tax and duty free sales on board of ships. The Estonian government argued that the tax and duty free sales were one of the main attractions for tourists and as a result of tax and duty-free sales on ships, the number of tourists had increased, considerably contributing to the services sector as well. The fourth issue concerned the preservation of 5% VAT on distant heating sold to the private individuals. It was argued that a transition period was necessary because the increase in VAT for distant heating is connected to the living standard in Estonia. As the sharp increase in prices would affect most of all the population with lowest income (especially families with children and single parents), the reason for the transition period had a strong social background. As it can be seen from Table 2, the majority of the issues identified (1, 2 and 4) were issues with only extreme policy positions initially specified. Only one of the issues, the transition period for tax and duty-free sales on board of ships, involved a range of positions between the two extreme positions at either end of the policy continuum.

Stakeholders' policy positions

The stakeholders' policy positions are discussed with regard to each of the four issues identified in the above Table 2 and in Table 3. As the European Union always preferred no transition periods in the case of each issue, these positions will not be separately repeated in each issue-stakeholder analysis.

Issue 1: Transition period for harmonising the VAT for hydroelectricity and wind energy for 3 years.

There were two stakeholders – the Government and the Ministry of Transport and Communications who preferred a transition period of 3 years, which was placed at position 100 on the issue continuum scale (see Table 2). The other stakeholders did not see the transition period as necessary. The main reason for the two stakeholders supporting the transition period was the importance of the issue to the Estonian environmental policy. As other ministries had neither policy objectives nor important financial gains to be expected from the transition period, the preferred policy position was 0.

Table 3: Stakeholders' policy positions

Stakeholder	Issue No.	Issue Topic	Policy Position
Govt*	1	Electricity	100
RM	1	Electricity	0.0
VM	1	Electricity	0.0
TSM	1	Electricity	100
Business interests	1	Electricity	0.0
EU	1	Electricity	0.0
Govt	2	Tobacco	100
RM	2	Tobacco	100
VM	2	Tobacco	100
TSM	2	Tobacco	100
Business interests	2	Tobacco	100
EU	2	Tobacco	0.0
Govt	3	Tax-free	0.7
RM	3	Tax-free	0.0
VM	3	Tax-free	0.4
TSM	3	Tax-free	0.7
Business interests	3	Tax-free	100
EU	3	Tax-free	0.0
Govt	4	Distant	100
RM	4	Distant	100
VM	4	Distant	100
TSM	4	Distant	100
Business interests	4	Distant	100
EU	4	Distant	0.0

*- The following abbreviations are used in the table:

Govt – Government
RM – Ministry of Finance
VM – Ministry of Foreign Affairs
TSM – Ministry of Transport and Communications
EU – European Union

Issue 2: Transition period for harmonising excise tax on tobacco for 7 years

The tobacco issue was one of the two issues that generated a uniform opinion in Estonia. Each stakeholder saw the transition period as necessary as it was feared that Estonia tax revenue would decrease as neighbouring countries would not be similarly constrained. Moreover, there was also the strong likelihood that smuggling would sharply increase and further decrease the revenue uptake. The consensus across the various stakeholders at the domestic Estonian level was extremely strong and therefore the policy positions were the same.

Issue 3: Transition period for tax and duty free sales on board of ships for 6.5 years

This issue was the most controversial across the various Estonian stakeholders. The Ministry of Transport and Communications was a supporter of the tax-free sales, while all other ministries treated it as a requirement made only to broaden the area of negotiations. This difference of opinions could have been a result of two opposing "scientific" reports on the implications of abolishing tax-free sales on the shipping companies, tourism, and the service sector. In addition to the governmental stakeholders, various private sector interests – namely the business interest groups were interested in achieving a transition period as well. Their role in influencing the decision is somewhat doubtful, but their opinion differed certainly from the others. In the opinion of the key-expert, the private business interests lobby, were the only one's who would have preferred to ask for a 10-year transition period. In the end the official position of Estonian government in the negotiations was to ask for a 6.5-year transition period – the same period that was given for transition for EU member-states.

Issue 4: Preservation of 5% VAT on distant heating sold to the private individuals.

The fourth issue, like the second issue, generated a wide consensus across the domestic level stakeholders in Estonia. As the social reasons behind this requirement were extremely important, there was no difference of opinions between different stakeholders within Estonia.

Stakeholders' salience across the issues

In Table 4 below, the level of salience which the stakeholder attributes to each of the four issues is presented. The salience which the Estonian Government attributes to each issue shows that its two most important issues are the tobacco excise tax issue and the distant heating issue. As mentioned above, this high level of salience can be explained by the social dimension of these issues. It is also clear that although the government decided to include the tax-free sale issue into the requirements, it was never regarded as important. The inclusion of this issue was rather seen as means to broaden the negotiation area. The salience of electricity issue is most controversial: the government tried to achieve the transition period to the very end of negotiations in the Taxation chapter; in the end, however, the requirement was given up. This can be explained by the change of the government and its wish to close the chapter.

Table 4: Stakeholders' salience of policy positions

Stakeholder*	Issue	Policy position	Salience
Govt	Electricity	100	70
Govt	Tobacco	100	100
Govt	Tax-free	70	20
Govt	Distant	100	100
RM	Electricity	0	50
RM	Tobacco	100	100
RM	Tax-free	0	30
RM	Distant	100	90
VM	Electricity	0	40
VM	Tobacco	100	90
VM	Tax-free	40	10
VM	Distant	100	70
TSM	Electricity	100	70
TSM	Tobacco	100	100
TSM	Tax-free	70	100
TSM	Distant	100	70
Business interests	Electricity	0	10
Business interests	Tobacco	100	80
Business interests	Tax-free	100	100
Business interests	Distant	100	60
EU	Electricity	0	100
EU	Tobacco	0	30
EU	Tax-free	0	100
EU	Distant	0	20

*The following abbreviations are used in the table:

Govt – Government
RM – Ministry of Finance
VM – Ministry of Foreign Affairs
TSM – Ministry of Transport and Communications
EU – European Union

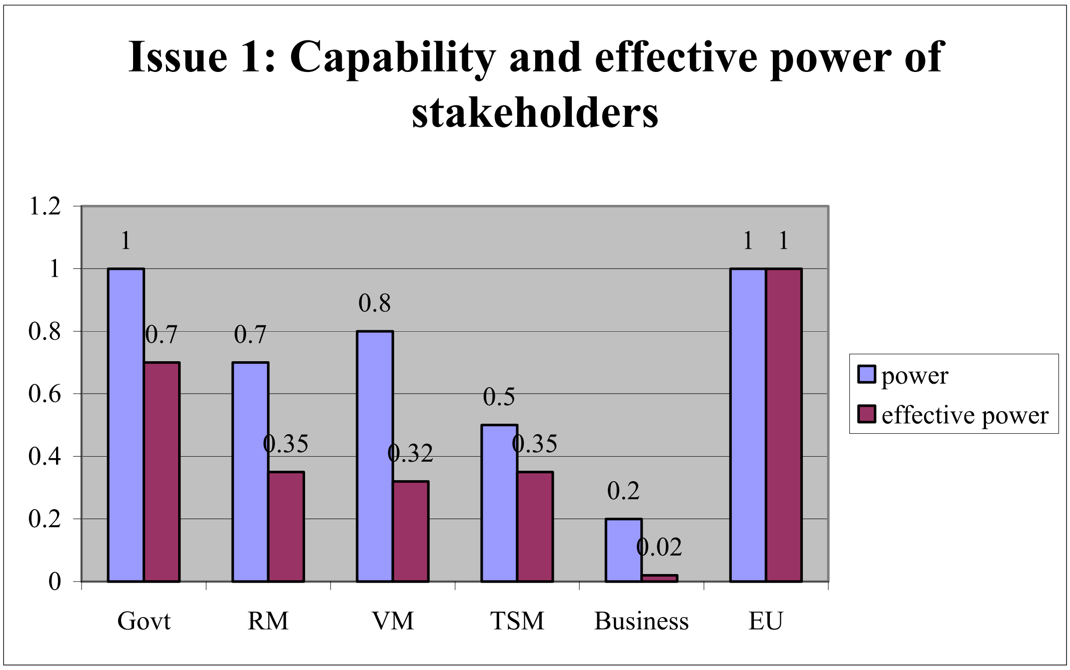
The Ministry of Finance shared the same general salience trends with the Government. The most important issues for the Ministry of Finance were the distant heating and the tobacco excise tax issues. However the other two issues were also relatively more important for the Ministry of Finance compared with the level of salience which the government attached to these same issues. The Ministry of Foreign Affairs took a somewhat different stance on the accession negotiations. In addition to being responsible for the preparation of several of the accession chapters, the Ministry of Foreign Affairs had a unique position as it was responsible for the tactics of the negotiations and decided when to come out with certain demands, what to disclose and so on. The Ministry of Foreign Affairs attached overall lower levels of salience to all four issues but was similar to both the Government and the Ministry of Finance in terms of how it rated the importance of the issues, relative to each other. However, the Ministry of Transport and Communications was quite different in terms of how much relative salience it attached to the four issues. The two most important issues for the Ministry were the tobacco and the tax-free sales issue, while the other two issues were relatively less important for this Ministry.

The private business groups representing the interests of the shipping companies and tourism related firms had completely different priorities. As can be expected, the most important issue for them was the tax-free sales issue: achieving or not achieving the transition period would directly affect their income. Still, as mentioned above there was a large consensus about the tobacco and distant heating issues, and these two rank quite high on the priority list of the private business interests as well. The least important of the four issues for the private business interests was the electricity issue. As mentioned above, the EU preferred the situation where the new member state would function successfully within the union without any exceptions and for all of the four issues, its preference was for no transition period or exceptions. However, the level of salience which the EU attached to each of the negotiation issues varied considerably. The two most salient issues for the EU were the issues of tax-free sales and the issue of vat on hydroelectricity and wind energy. Tax-free sale is not allowed in any of the EU member state and the EU argued that it was important for the EU to maintain the equality between the member states – the new and the old. Electricity issue was the second most important issue: the main argument on the EU's side was that the principle of taxing the same type of goods (in this case electricity) with the same tax-rate should be upheld with no regard to the origin or the way the electricity was produced. The EU attached the lowest levels of salience to the remaining two issues and the EU recognised the particular social reasons within the Estonian context for agreeing to transition periods for these two other issues.

Stakeholders' capabilities

In this section we present the results of the expert estimation of each stakeholder's capability (power) and effective power in the accession negotiations. Four graphs are presented below which identify the stakeholder capability and effective power for each of the four issues. The capability (power) of a stakeholder is the total potential power which a stakeholder can use to try to influence the outcome of the collective decision making process. The effective power is the level of potential power which the stakeholder mobilises in the negotiation process and it is calculated as the capability of the stakeholder weighted by the salience level which the stakeholder attaches to the issue.

Graph 1: Capability and effective power for Issue 1.

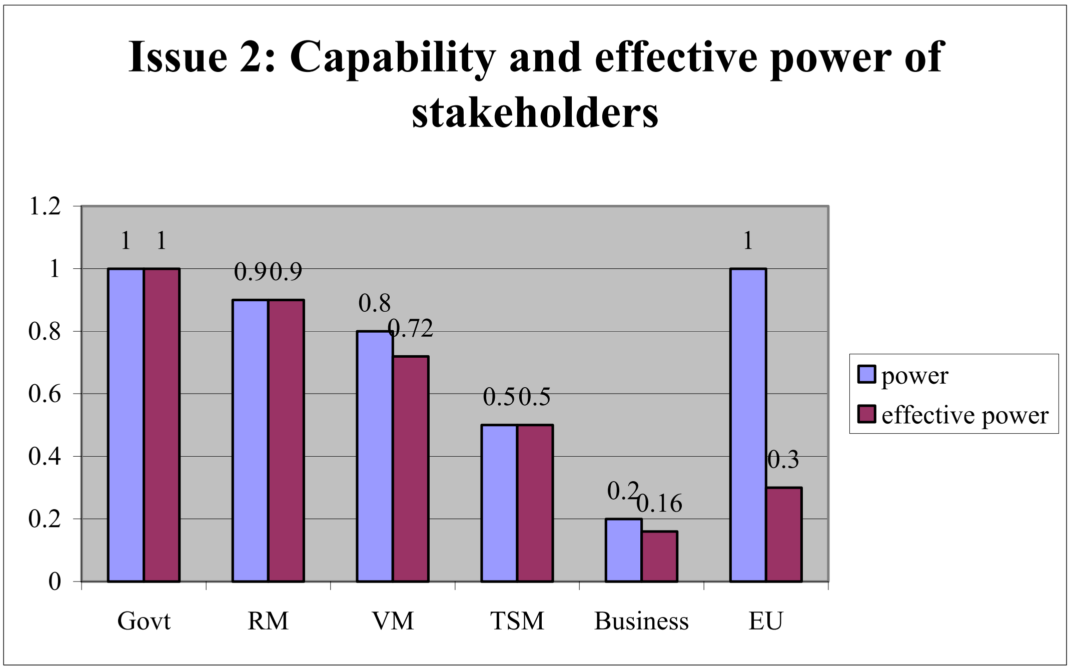


The following abbreviations are used in the graph

Govt – Government
RM – Ministry of Finance
VM – Ministry of Foreign Affairs
TSM – Ministry of Transport and Communications
EU – European Union

If we look across all four graphs, the most capable stakeholders are the Estonian government and the EU. The research indicated that these stakeholders have generally more information about the issues, more financial resources and more bargaining power than the other actors. However, Ministry of Foreign Affairs is almost equal in its capabilities, as it is directly responsible for the negotiation process and the meetings at the highest level. The same applies to the Ministry of Finance because of its role in the financial analysis and budgetary planning at the domestic level and with regard to the accession negotiations for Estonia. These two ministries also belong to the Estonian core executive of EU business management.

Graph 2: Capability and effective power for Issue 2

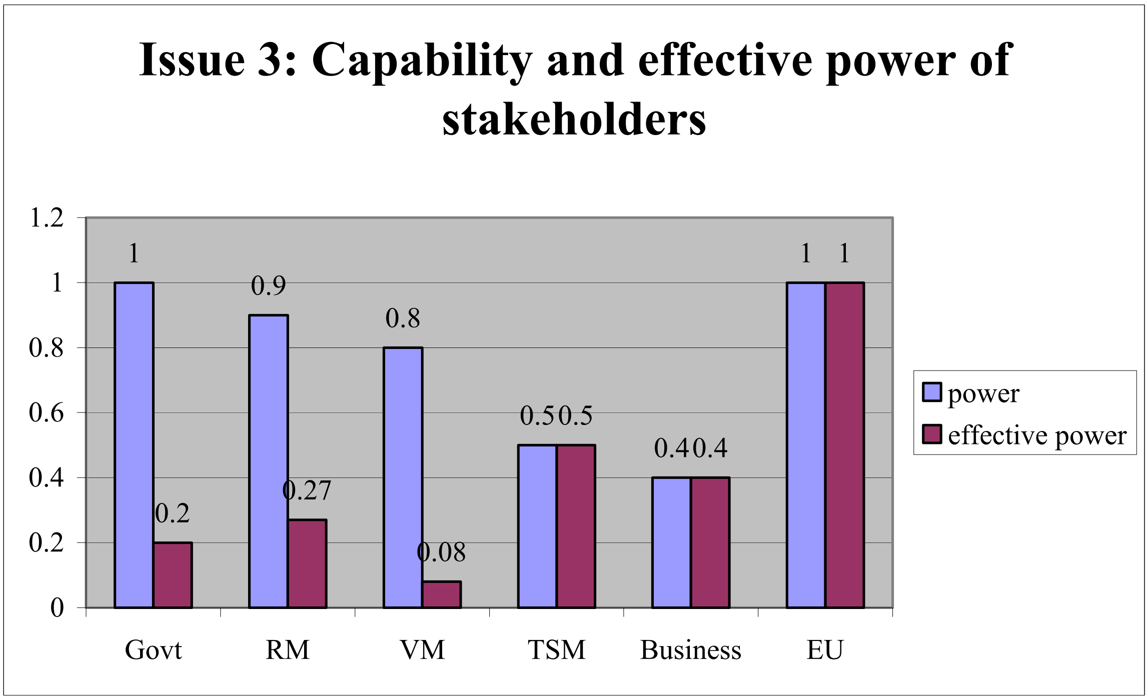


The following abbreviations are used in the graph

- Govt – Government
- RM – Ministry of Finance
- VM – Ministry of Foreign Affairs
- TSM – Ministry of Transport and Communications
- EU – European Union

Two remaining stakeholders – the Ministry of Transport and Communications and the private business interests are the weakest. Although the Ministry of Transport and Communications has the opportunity to influence the preparation of negotiations, its capability to influence the decisions remains less significant. The capability of the interest group representing private business interests is almost insignificant. Our research showed that this group was not very well organised, neither had any coordinated actions in trying to influence the decisions.

Graph 3: Capability and effective power distribution for Issue 3

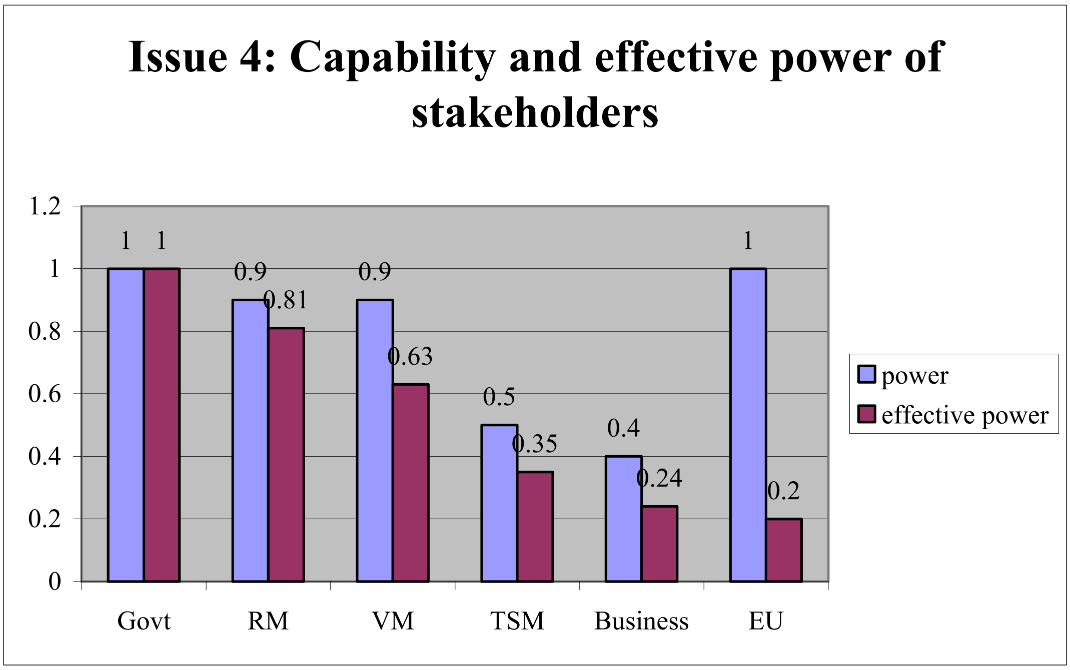


The following abbreviations are used in the graph

Govt – Government
RM – Ministry of Finance
VM – Ministry of Foreign Affairs
TSM – Ministry of Transport and Communications
EU – European Union

The four graphs also illustrate the varying effective power of the stakeholders in influencing the different issues. Although the capabilities of the stakeholders can be the same, the effective powers are quite different. This reflects the different levels of salience that stakeholders attach to the different issues being negotiated. The two main stakeholders – the Government and the EU differ greatly in terms of their effective power. In issues 1 and 3 the EU has considerably more effective power than the Government; in issues 2 and 4 the situation is reversed.

Graph 4: Capability and effective power distribution for Issue 4



The following abbreviations are used in the graph

Govt – Government
RM – Ministry of Finance
VM – Ministry of Foreign Affairs
TSM – Ministry of Transport and Communications
EU – European Union

Model predictions, Real outcomes and Error measurement

In this section we present the results of the different model simulations for each of the four issues identified in our analysis of the negotiations of the Taxation chapter (Chapter 10) of the Estonian accession negotiations.

Table 5: Model prediction, Real outcomes and Error measurement

Issue No.	Real Outcomes	Compromise Model	Exchange Model	Conflict Model
1	0	38	25	50
2	90	92	100	100
3	0	38	40	70
4	100	90	100	100
Error Measurement **-Mean Abs. Error** **-Mean Sq. Error**	*Na* *Na*	22 748	18.75 581.25	32.5 1875

Table 5 presents the model predictions, the real outcomes for each of the issues and the associated error measurements[5] for each of the models applied in this case study. Looking at

[5] The average error measurement for each model is given as both the mean absolute error and the mean

the Compromise model predictions, the predictions are more accurate on issues 2 and 4, the former having the most accurate prediction. The compromise model predictions are based on the mean of policy position, weighted by power by salience. In this model, stakeholders are not assumed to act strategically during the negotiations to try to influence each other's policy positions.

Overall the Exchange model predictions are the most accurate compared with the other two models tested. The exchange model predictions are more accurate on issues 2 and 4, which is the case also for the other two models tested. Our earlier analysis showed a strong domestic concensus on each of these two issues and during the Exchange model simulation results, there was no evidence that the EU was able o shift these domestic stakeholder positions much closer to its own preferred policy positions. It is also the case that the EU attached relatively lower levels of salience to these two issues (2, 4) and so was more likely to move on these issues closer to the domestic stakeholders in an exchange across all four issues negotiated.Table 5 also shows that while the Exchange model predictions for the remaining two issues (1, 3) are more accurate than the other two models tested, there is still a quite a substantial discrepancy between the real decision outcomes and the exchange model predictions for these two issues. The Exchange model predicts that there was very limited movement of domestic stakeholder positions towards the EU position and that no consensus across the different stakeholders was reached. Unlike the other two issues (2, 4) the EU would not agree to any transition periods whatsoever for these two issues, which were the most important of all four issues for this stakeholder. Effectively the domestic stakeholders had to agree to compromise to the EU position in order that the overall accession negotiations would proceed.

The Conflict model predictions are the most inaccurate overall across the three models tested. However, this model's predictions for the individual issues 2 and 4 are very accurate. The model simulations suggest the domestic stakeholders successfully challenged the EU on each of these two issues and that the EU quickly capitulated to these demands. In the model simulations of the negotiations of issue 1, it is assumed that the Government and the EU are the stakeholders with veto-powers (i.e. agreement is reached only if they both agree on the outcome), the conflict model predicts a stalemate. Moreover, the prediction of issue 3 is also problematic. The conflict model predicts that the outcome will be 70 (transition period of 6.5 years for tax-free sales). However, the real outcome is 0, which is interpreted as no transition period allowed. The conflict model predictions on issues 1 and 3 are highly inaccurate, which suggests that the level of veto-power assigned to the Estonian government is inappropriate. The overriding objective underlying the Estonian accession negotiations was the goal of joining the EU and no stakeholder at the domestic Estonian level was prepared to jeapordise this opportunity for any particular issue being negotiated, including the issues in the Taxation chapter.

CONCLUSION

This research shows that the main stakeholders in the negotiations for Chapter 10, Taxation, are drawn from Estonia's core-executive. The most important ministries – the Ministry of

Foreign Affairs and the Ministry of Finance had a key role in every chapter and the taxation was no exception in this respect. These stakeholders were better at achieving their goals and advocating their policy positions. While the government was very strongly committed to EU accession, the research also shows the weak role played in this political process by the Estonian societal interest groups, in this case the role that the business interests played in the taxation chapter.

For the stakeholders at the Estonian domestic level, the most important objective of the accession negotiations was to be accepted to join as a new Member state of the European Union and in this regard, Estonia was successful. From the outset, the European Union, its existing member states and the European Commission were unwilling to renegotiate the existing EU legislation, embodied in the *acquis communautaire*. The most that the new Member states could hope to achieve was the EU's agreement to the use of transition time periods in certain policy areas, before the EU legislation had to be implemented in the new Member state. In this research, we examined the Estonian-EU negotiation of the Chapter 10 (taxation) of the accession agreement. Our research showed that Estonia became more adept and confident in engaging in the negotiation process over time. In identifying its key negotiation issues, we learnt that over time Estonia identified and added more and more issues for negotiation. Estonia was successful in negotiating transition periods, which were salient to its stakeholders, but only in areas which were of limited importance to the European Union. On issues, which were salient to the EU and were also relatively important for Estonia, the European Commission was unlikely to compromise or agree to a transition time period. For the national stakeholders, the game became one of identifying areas where success might be possible and pushing home that advantage, but accepting defeat on issues which could jeopardise the overall objective of the accession negotiations for Estonia.

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Appendix 1

Chronology of Estonian-EU Relations

August 27, 1991	EC recognised Estonia's independence. Diplomatic relations established between the EU and Estonia
January 1992	Estonian Ambassador was accredited to the European Commission in Brussels
November 1994	Estonia became an associated partner to the Western European Union
January 1, 1995	Free Trade Agreement (signed without a transition period on July 18, 1994) between the EU and Estonia became fully operational
June 12, 1995	Estonia signed the Association Agreement with the EU
November 24, 1995	Estonia applied for the EU membership
January 1996	the European Commission Delegation was opened in Tallinn
July 16, 1997	The European Commission presented the avis and recommended the EU to commence accession negotiations with Estonia
December 13, 1997	At the Luxembourg Summit the European Council decided to begin EU accession negotiations in April 1998 with 6 countries, including Estonia
February 1, 1998	Estonia's Europe Agreement came into force
March 31, 1998	Estonia- EU Accession Conference was opened (as with other 5 "1st round candidate countries")
April 24, 1998	1st Accession Conference meeting at Deputies` level was held in Brussels
September 9, 1998	Beginning of essential negotiations - Estonia presented position papers on first 12 chapters to the Austrian Presidency
Autumn 1999	The major part of the screening of the *acquis* was completed
July 2002	Estonia has closed 28 negotiation chapters
December 2002	Estonia finishes the accession negotiations
May 1, 2004	Estonia's goal to join the European Union

Source: http://www.mfa.ee

Appendix 2

Estonian Core Executive on EU business