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Report Highlights:

After a slowdown in 2015 the Estonian economy is forecast to grow steadily. In 2015 U.S. exports of agricultural and fish products to Estonia totaled U.S. $17.3 million. This report provides U.S. food and agriculture exporters with background information and recommendations for entering the Estonian market.

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General Information:

SECTION I. MARKET SUMMARY

In 2015 the Estonian economy slowed down as compared to the previous year. The slower pace of GDP growth resulted mostly from weak external demand, especially from Russia and Finland. Lower interest rates, falling unemployment and wage increases supported the private consumption that was the major economy driver in 2015. Experts expect that consumer spending will continue to grow substantially in 2017 due to these factors continuing on. Annual disposable income per household is forecast to increase by 83 percent between 2015 and 2030 which will place the country right behind Lithuania, Georgia and Romania in terms of the pace of disposable income growth in Eastern Europe.

Table 1. Estonia Forecast Summary

	2016[a]	**2017**[b]	**2018**[b]	**2019**[b]	**2020**[b]	**2021**[b]
GDP	1.7	2.6	2.5	2.8	2.5	2.3
Gross agricultural production growth	4.5	2.5	2.1	3.1	3.0	2.8
Consumer price inflation (ave; EU harmonized measure)	0.4	2.7	2.8	2.7	2.4	3.5
Exports of goods fob (US$ bn)	12.1	12.7	13.4	14.2	15.1	16.3
Imports of goods fob (US$ bn)	13.3	14.2	15.0	16.1	17.3	18.6
Exchange rate EUR:US$ (ave)	0.90	0.90	0.91	0.88	0.87	0.85

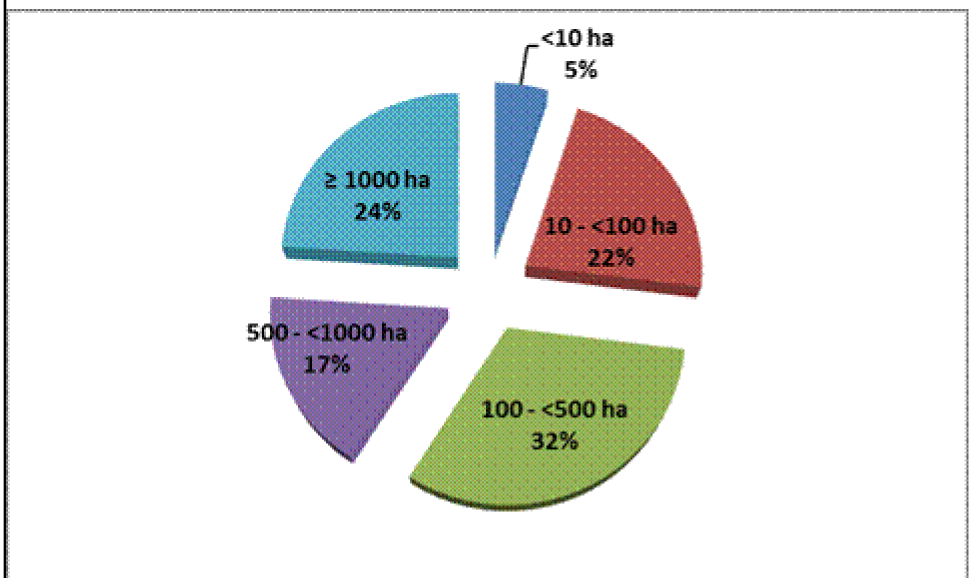
Source: Economist Intelligence Unit [a] estimates and [b] forecasts.

The service sector is an important component of the Estonian economy. According to the Estonian

Research Council, 64 percent of the country's workforce is employed in the service sector. Other leading sectors of the Estonian economy are: information technology, electronics, machinery and metal processing, transport and logistics, the timber industry and the food processing industry.

Agriculture is not a sizeable sector of the Estonian economy. In 2014 the share of agriculture, forest management and fisheries in total employment was 3.9 percent. In 2014 the total usable agricultural area in Estonia was 974,820 hectares covering 21.5 percent of the country's territory. Farms of more than 100 hectares control most of the arable land. However, small farms prevail. The agricultural sector is based mostly on livestock rearing, with dairy farming an important component. According to Statistics Estonia, milk, cereals, pigs, fodder crops and oil seeds contributed the highest value of agricultural production in 2008-2014.

Table 2. Structure of agricultural land in Estonia in 2013 by size of agricultural holding (thousand hectares)



Source: Estonian Ministry of Rural Affairs

Estonia is predominantly an urban country. It is estimated that by 2030 approximately 73 percent of the population will live in urban areas.

The total population of Estonia reached 1.2 million in 2015. The median age of the population in 2015 amounted to 40.5 years and is expected to increase steadily to 41.5 in 2020. It is forecast that by 2030, foreign citizens will only comprise 14.7 percent of the Estonian population. In 2012 the percentage of foreign citizens in Estonia reached 16.1 percent and was similar to Latvia (15.9 percent). Estonia had more resident foreigners than the neighboring Eastern Europe countries such as Lithuania and Poland where the percentage of foreign citizens reached 1.0 and 0.1 percent respectively.

In 2015 Estonia imported U.S. $ 1.9 billion worth of agricultural and fish products. Imports originating from the United States amounted to U.S. $17.3 million which is a 0.9 percent share of total import value. Total imports of consumer oriented agricultural products in 2015 amounted to U.S. $922 million, with U.S. $ 2.1 million originating from the United States. Leading U.S. products imported to Estonia in 2015 include almonds, dried onions, food preparations, grapes (including raisins) and wine. Estonia imported U.S. $155.1 million worth of fish and seafood products in 2015, and U.S. $3.4 million worth originated from the United States, a 2.2 percent share of total imports within this product category. Main U.S. fish and seafood products imported by Estonia in 2015 were caviar substitutes, Alaska pollock and Pacific salmon.

Estonia is increasingly dependent on exports. In 2015 the total value of exports represented over 50 percent of the country's GDP. Major trading partners are primarily other member countries of the EU. Experts predict that Estonian exporters are gradually moving away from Russia as a customer and are shifting their attention to other faster growing markets. Estonia's major agricultural export products include fish and fish products, milk products and eggs, meat and meat products. In 2015 fish, dairy, and bakery products constituted over 60 percent of the total food exports of Estonia.

Since 1 May 2004, when Estonia joined the European Union, trade relations between Estonia and third countries are based on the EU Common Commercial policy.

Table 3. Estonia Imports and Exports 2015 – major destinations

Major export destinations	**2015 Share (%)**	**Major import sources**	**2015 Share (%)**
Exports (fob) to Europe	88.5	Imports (cif) from Europe	90.7
Exports (fob) to North America	3.8	Imports (cif) from Asia Pacific	6.2
Exports (fob) to Asia Pacific	3.7	Imports (cif) from North America	1.5
Exports (fob) to Africa and the Middle East	2.2	Imports (cif) from Other Countries	0.9
Exports (fob) to Latin America	0.8	Imports (cif) from Latin America	0.4
Exports (fob) to Other Countries	0.7	Imports (cif) from Africa and the Middle East	0.3

Source: Euromonitor

Table 4. Advantages and challenges for American products in the Estonian market.

Advantages	**Challenges**
Economic growth supported by private consumption	Small market, population of only 1.2 million people
Tallinn is close to Sweden and Finland. Large ferries bring tourists from these countries and elsewhere all year long	Estonia is highly reliant on Europe and Russia when it comes to foreign trade
Geographical location, well-developed ports and infrastructure make Estonia a perfect base for	Increasing wages potentially lead to reduced competitiveness of the economy

production and distribution	
Estonia is a politically and socially stable country which attracts foreign investment	There is a tendency among Estonians to prefer locally produced, fresh food
Estonia is one of the most attractive Eastern European countries when it comes to business environment with a government open towards foreign investment	Aging population leading to skill shortages. Many skilled young people choose to migrate to other countries due to lack of employment opportunities
Estonia ranked 16 out of 189 countries in the World Bank's Ease of Doing Business 2016 report	Estonia looks to Finland and Sweden for new ideas and investors due to cultural similarities
Estonian companies have a highly qualified staff as well as business culture focusing on timely delivery of results	Some importers responsible for supplying Estonia are based outside the country, usually nearby

SECTION II – EXPORTER BUSINESS TIPS

In order to get the best understanding of the Estonian market, it is recommended to visit and meet importers and distributors. Trade Shows organized within the European Union present U.S. companies with the opportunity to establish contacts with regional buyers. A list of USDA/FAS endorsed Trade Shows is available at www.fas.usda.gov – *Exporting Trade Shows* link.

To determine what new products may become profitable on the Estonian market, it is necessary to conduct market research. Businesses that want to enter the Estonian market are advised to contact the Office of Agricultural Affairs in Warsaw, Poland for guidance. It is also advisable to visit Estonia as Estonians highly value personal contacts in business relationships.

Following European Union accession in 2004, Estonia changed imports requirements including documentation, sanitary and phytosanitary requirements as well as labelling, to adhere to EU regulations. Detailed information regarding certificates required for exporting products to the European Union is available in the *EU-28 Food and Agricultural Import Regulations and Standards – Certification (FAIRS)* report. The report is available via **www.fas.usda.gov – *Data and Analysis – GAIN Reports Category* link.**

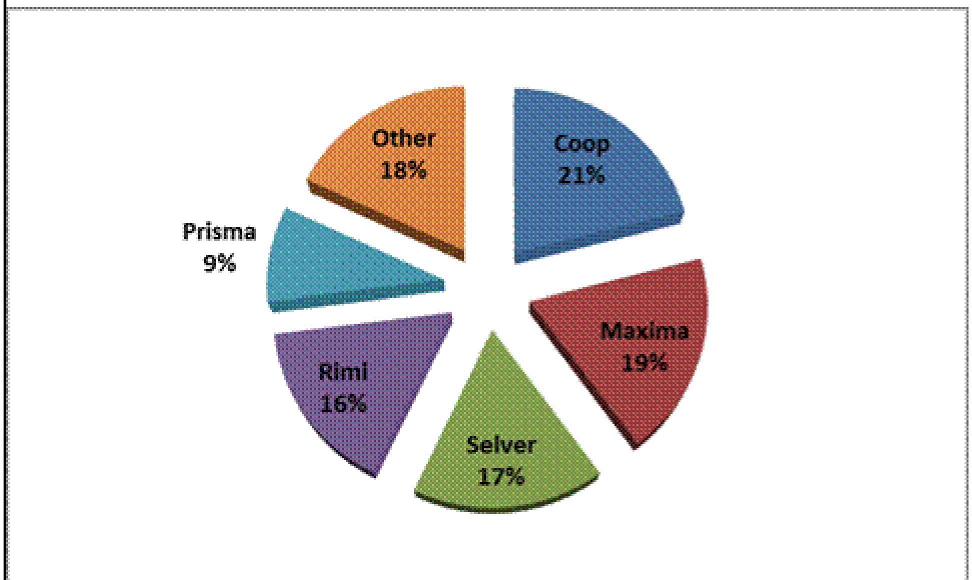
Estonian, the official language in Estonia, is the native language of 68.5 percent of the population. Around 29 percent of people in Estonia speak Russian, most especially in the eastern part of the country.

SECTION III – MARKET SECTOR STRUCTURE AND TRENDS

Retail Sector

Food and beverage sellers constitute 45% of all retail in Estonia. The key players among grocery retailers are Coop Estonia, Maxima Eesti OU, Selver AS, Rimi Eesti Food AS and Prisma Peremarket AS. Coop Estonia has the widest network of stores, especially in rural areas.

Table 5. Grocery retailers in Estonia – market share.



Source: Industry sources.

Positive forecasts regarding the pace of economic growth along with a falling unemployment rate and wage increases have contributed to growing consumer confidence. However, price remains a very important factor driving consumers' purchasing decisions. It is not unusual for Estonian customers to visit different supermarkets in search of better prices. Despite preferences for local items and organic products, as well as strong price sensitivity, Estonian consumers are open and willing to experiment with new products. Product sampling is a common practice used by retailers to acquaint customers with new products.

Intense competition between the retailers, along with consumers' price sensitivity, results in discounting being the main strategy of attracting Estonian customers. Given that the assortment of products is similar across various grocery retailers, restoring a regular price for a discounted product seems risky if other retailers do not decide to do so as well. As a consequence, prices remain stuck at low levels.

Online retailing is an increasing trend in Estonia. Most of the leading grocery retailers, except for Rimi, operate online. The fast development of online retailing results in price sensitive Estonian customers spending more time researching for the best offer. Therefore, store based retailers need to constantly look for the ways to emphasize their advantage over online outlets. In order to increase customer loyalty, currently relatively low in Estonia, retailers are constantly improving the quality of customer service to make shopping experience more convenient for customers. Despite intense competition, Estonian retailers are growth oriented and constantly looking for new expansion possibilities.

There are 1,400 food stores in Estonia and the number continues to grow. An increasing number of small supermarkets and convenience stores are opening up in industrial areas. These are mostly small shops offering specialized, fresh products as well as ready food. Also organic, eco-label products are popular in Estonia.

Due to the current oil price and excise tax level in Estonia, petrol stations are increasingly active in promoting their foodservice sections offering ready to eat foods, snacks, coffee and other beverages.

Cash and Carry

Cash and carry outlets are very limited in Estonia. The intense competition between grocery retailers results in a wide selection of products and attractive prices that attract customers. Therefore, cash and carry outlets focus mainly on business customers, with the exception of the port of Tallinn, where a constant flow of Finnish tourists presents a strong selling opportunity for alcoholic beverages that are considerably more expensive in Finland.

Key cash and carry players in Estonia are Kaupmees & Ko and Aldar Eesti (alcoholic beverages).

Food Processing Sector

The Estonian food processing sector is rapidly developing. Food and drink production is the most significant industry when it comes to production volume. In 2015 the food industry constituted 15.4 percent of total Estonian industrial output. Big producers are accompanied by a large number of smaller entities that actively operate on the market offering healthy and ecologically-friendly products.

Fish processing industry is very well-developed in Estonia. Processed fish products, mostly from the Baltic, primarily sprats and herring, are destined for export. There are over 80 companies in Estonia that deal with fish processing. Fish processing companies that are members of the Estonian Association of Fisheries produce 85 percent of total fish products produced for exports.

The key player in processed meat and seafood in Estonia is HKScan Estonia AS. The prices of meat are relatively low due to overproduction. Despite the preference for locally produced goods, Estonian customers are more often looking for premium products as incomes have grown. New imported processed meat brands have begun to appear on the market. It is also not unusual for domestic manufacturers to offer meat and seafood of foreign origin. Due to a large portfolio of products available on store shelves, in-store promotions including tasting are used to attract customers.

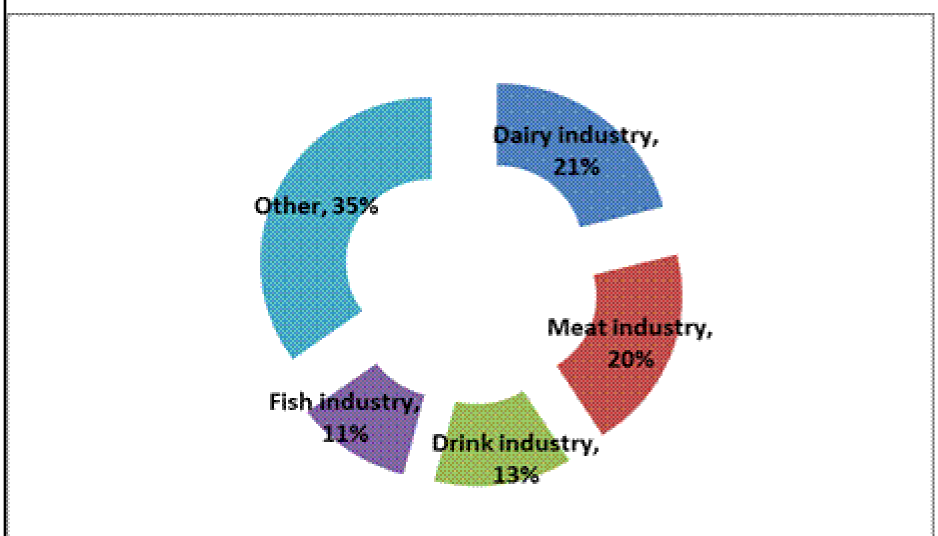
For more detailed information regarding seafood industry in Estonia, please see FAS/ Warsaw Fish and seafood market in Estonia report.

The dairy industry is an important sector of the Estonian economy. In 2015 dairy production constituted 21 percent of total food industry output. Due to the fact that Estonia is a small market, the dairy industry is mainly export oriented. In 2015 the share of dairy products in food product exports reached 28 percent. Main export destinations for Estonian dairy products are Lithuania, Latvia, Finland and Italy. Main export dairy products are cheese, raw milk and powders. In 2016 the total value of imports of dairy products decreased by 12 percent as compared to the previous year. Main import partners for dairy products are Lithuania, Latvia and Finland.
For more information regarding dairy industry in Estonia, please refer to FAS/Warsaw Estonian dairy industry report.

Due to consumers' preference for pork, Estonia is highly reliant on imports mostly from Germany, Finland, Denmark and Poland. In 2015 Estonia imported 23,197 MT of pork and the number is constantly growing due to increasing domestic demand.

Estonia is a net exporter of beef. Major importers of Estonian beef are Finland and Sweden. In 2015 Estonia imported 1,754 MT of beef mostly from Lithuania, Latvia and Poland. There is an increasing interest in developing pure bred, high value beef in Estonia. In order to successfully produce high value beef, Estonia needs to import genetics of beef cattle and educate farmers on beef production technology. For more detailed information regarding livestock and products in Estonia, please refer to FAS/Warsaw 'Livestock and Products Report'.

Table 6. Structure of Estonian food industry – share in total output of food industry 2015.



Source: Industry data.

Hotel, Restaurant & Institutional Sector (HRI)

In the years 2009-14 Estonia witnessed 42 percent growth in real terms in hotels and catering, along with an increasingly diverse choice of restaurants and increased outlays on accommodation. In 2015 a total of 3.1 million tourists stayed overnight in Estonia, out of which 1.93 million were foreign tourists.

The overall number of foreign tourists in 2015 recorded a decline as compared to previous years due to a decline in tourism from Russia, Finland and Sweden. However, the number of Latvian tourists has been steadily growing, increasing by 15 percent in 2015 as compared to 2014. The number of tourists from overseas, mostly the United States, Japan and China also recorded strong results in 2015.

The port of Tallinn is located within walking distance from the city center. Large ferries operate throughout the whole year bringing tourists from Sweden, Finland and other countries. These tourists are one of the drivers behind the growth in restaurants and high end groceries.

Table 7. Tourists overnights in accommodation establishments in Estonia (thous.).

	2012	**2013**	**2014**	**2015**
Latvia	152.0	158.0	170.0	196.0
Sweden	161.0	160.0	150.0	145.0
USA	67.0	64.0	74.0	110.0
UK	128.0	100.0	101.0	106.0

Source: Estonian Tourist Board, Enterprise Estonia

Cruise ships remain a very important element of tourism in Estonia. During the peak season, April/May – October, thousands of foreign passengers arrive in Tallinn aboard the ships. According to port statistics, the total number of cruise passengers in 2015 amounted to 252,100 compared to 243,300 in 2014. Germany, U.S. and the UK are the top three nationalities of tourists visiting Estonia via cruise ships.

Table 8. Cruise ship passengers by citizenship (thous.)

	2014	**2015**
Germany	118,265	140,133
USA	85,200	89,086
UK	65,004	62,668
Italy	24,031	25,722
Canada	21,756	20,284
Spain	21,578	26,569
Australia	14,739	15,264
France	13,699	12,552
Russia	11,014	5,913

Finland	8,645	12,442
Mexico	7,658	9,793
Israel	5,926	6,645
Holland	5,783	4,360
Denmark	5,780	4,346
Switzerland	5,120	5,878
Brazil	3,986	4,657

Source: Industry data.

The Estonian Hotel and Restaurant Association represents companies and associations of companies operating within the hotel and catering industry. As of February 2014, the Association has 103 members. The biggest international hotel chains present in Estonia include Tallink Hotels, Park Inn by Radisson, Radisson Blu, Hilton, Sokos Hotels and Meriton Hotels. Tallink Hotels is the largest hotel chain in Tallinn followed by Park Inn by Radisson and Radisson Blu.

As of summer 2017, Hotel Telegraaf located in Tallinn will join the Marriott International hotel chain and become the first Marriott partner hotel in Estonia.

Due to the improvement of living standards in the country, Estonians are more willing to dine out. In response to this trend, Estonia witnessed the launch of multiple food service venues, with most of them being small format establishments. AS Kaupmees&Ko and Sanitex OU are the two largest foodservice suppliers in Estonia. Largest foreign brands present in Estonia are McDonald’s and Hesburger. Pizza Hut and KFC are planning to open their first venues in Tallinn in 2018. Burger King is considering entering the Estonian market as well.

Each year, usually in the first week of November, Tallinn holds ‘Restaurant Week’ to celebrate food and restaurants. This event presents an excellent opportunity to meet Estonian restaurants representatives to understand the market and evaluate possibilities for cooperation, to do promotions and new product placements, etc.

Import of High Value Products

In 2015 the total value of agricultural products imported by Estonia amounted to U.S. $1.9 billion with U.S. $17.3 million worth originating from the United States. Exporters from the European Union (mainly Latvia, Finland, Lithuania, Germany and Poland) as well as Russia are the main competitors for U.S. food exporters.

Table 9. Estonia import of Agricultural Products (U.S. Dollars Thousands)

Estonia Import Statistics Commodity: ALL Ag, Fish, Forestry (HS4), BICO +WTO							
Calendar Year: 2013 - 2015							
Partner Country	**United States Dollars (000)**			**% Share**			**% Change 2015/2014**
	2013	**2014**	**2015**	**2013**	**2014**	**2015**	
World	2,454,412	2,414,748	1,929,475	100.00	100.00	100.00	-20.10
United States	23,712	26,981	17,300	0.97	1.12	0.90	-35.88

Source: Global Trade Atlas

Within the Consumer oriented products category, Estonia imported a total value of U.S. $922 million in 2015. Products originating from the United States reached a total value of U.S. $2.1 million, which constitutes 0.23 percent of the total consumer oriented products imports. Main products imported from the United States included: almonds, dried onions, food preparations and wine.

Table 10. Estonia import of Consumer Oriented Agricultural Products (U.S. Dollars Thousands)

Estonia Import Statistics Commodity: Consumer Oriented Agric. Total, Group 32(2012)							
Calendar Year: 2013 - 2015							
Partner Country	**United States Dollars (000)**			**% Share**			**% Change 2015/2014**
	2013	**2014**	**2015**	**2013**	**2014**	**2015**	
World	1,086,124	1,078,594	922,131	100.00	100.00	100.00	-14.51
United States	3,639	2,945	2,113	0.34	0.27	0.23	-28.26

Source: Global Trade Atlas

Table 11. Structure of import of agricultural and food products in 2014.

Product	**%**
Beverages and alcohol	22
Fish	9
Miscellaneous edible preparations	8
Meat and edible meat offal	6
Edible fruit, berries	6
Prepared animal fodder	6
Preparations of cereals, flour, starch or milk	5
Dairy produce	5
Preparations of vegetables, fruit	4
Coffee, tea, mate and spices	4
Cocoa and cocoa preparations	4
Vegetables	3

Other	18

Source: Estonian Ministry of Rural Affairs

Estonia has a high self-sufficiency rate when it comes to meat and dairy production as well as fish supply. However, there is still room for high quality or new products which are not produced in Estonia.

Best high-value product prospects

Products that have good sales potential in the Estonian market include:

- Beef
- Wine
- Bourbon
- Tree nuts (especially almonds)
- Dried garlic and onions
- Fish products (caviar, surimi)
- Craft beer
- Organic products.

Despite the fact that the share of meat and fish products in the total output of the Estonian food industry in 2015 reached 31 percent, Estonian hotels and restaurants seek opportunities to import high quality meat and fish products of all kinds. A steady supply of high quality products is an important factor driving the purchase decision making process, as locally sourced supplies can vary in quality and quantities availability.

Within the alcoholic beverages sector, the steady inflow of foreign tourists coming to Estonia on board cruise ships creates a potential for supplying the coastline stores with American wines and bourbon. However, there is a tendency towards a decrease in price of European wines available on Estonian market. As a consequence, good quality European wines can be purchased at a price similar to American products. Industry estimates show that the average Finnish ferry traveler buys about $150 in distilled spirits per visit.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

For additional information regarding the Estonian market please contact:

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Please also visit Foreign Agricultural Service website (www.fas.usda.gov – Data and Analysis link – GAIN Reports category) for more detailed information about exporting U.S. products to Latvia.

End of the Report.