

2018 REPORT

Estonian summary of 2017 Joint Session follow-up activities

The Estonian-Latvian Governmental Commission's summary in regard of the 2017 Joint Session agenda topics:

- **Taxation issues in border regions;**
 - A) Amendments to the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income
- **Healthcare and healthcare related public services in the cross-border regions;**
 - A) Emergency medical assistance
 - B) Cooperation in health emergencies and disasters
- **Cooperation in providing passenger traffic service on Riga-Tartu railway line.**

Taxation issues in border regions

- A) Amendments to the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income

The Estonian-Latvian Governmental Commission's proposals and summary in regard of the 2017 Joint Session agenda topic **"amendments to the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income"**:

- To initiate after the 2018 Joint Session the technical discussions on the amendment of the tax convention between Estonia and Latvia in order to clarify the options for the amendment;
- To keep the topic in the 2019 Joint Session agenda.

Estonian Ministry of Finance:

In 2017, the Joint Session decided to include the issue of taxation in border regions as a separate topic into the 2018 Joint Session agenda with the aim to facilitate the calculation of tax-free income for the residents of Estonia and Latvia working in the border regions, which would also facilitate cross-border labor mobility on both sides of the border.

By April 2017, both Estonian and Latvian relevant specialists had not yet come up with a contractual clause for the Convention in order to solve the border region workers issue. The Tax Policy Department of the Estonian Ministry of Finance proposed to continue working with the topic only in 2018 due to the approaching EU Estonian Presidency, which required significant amount of the working time and resources. In May 2017 a draft wording that would solve the border region workers issue was submitted to the Latvian Ministry of Finance. However, this was the Estonian Ministry of Finance's perception and it still requires a joint debate.

The wording was based on the input received from the previous conference calls and bilateral negotiations. It was agreed that both parties would find time in 2018 to start the negotiations on the amendments to the Tax Convention. At the same time the Tax Policy Department of the Estonian Ministry of Finance pointed out that there is also a need to amend the Convention in other sections as well in relation to the outcome of the OECD BEPS project action plan 6 "addressing base erosion and profit shifting".

Therefore it was seen wise to amend the convention only once not twice. Estonia signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS on 29th of June 2018 and that convention covers also the tax treaty between Estonia and Latvia once it will be ratified, so anti-BEPS measures will be applicable without amending the tax treaty itself. As of August 2018, no significant developments have occurred in order to solve the border region workers issue.

As the tax agreement can only be changed bilaterally, the Latvian consent is indispensable. The Latvian Ministry of Finance has informed the Estonian-Latvian Governmental Commission about the ministries proposal to exclude the issue from the Joint Session agenda as the priorities of the Latvian Ministry of Finance are now different.

Since the proposal was made in 2017, the calculation of the tax-free income of natural persons has changed considerably both in Estonia and in Latvia. As the application of the tax treaty is subject to national law in both countries, all technical details must be thoroughly discussed, so that the contractual provision in both countries would work properly. Technical discussions may also reveal that there is no need for a tax treaty amendment.

Unfortunately, these technical discussions have not yet taken place to make this clear. There are currently no indications whether the Latvian Ministry of Finance would be willing to continue resolving the issue outside of the agenda of the Joint Session. At the same time the issue continues to be important for the Estonian-Latvian Governmental Commission.

Therefore, Estonian Ministry of Finance is currently considering and analyzing the suitability and possibility of unilateral steps in order to resolve the situation.

Healthcare and health care related public services in cross-border regions

- A) Emergency medical assistance
- B) Cooperation in health emergencies and disasters

The Estonian-Latvian Governmental Commission's proposals and summary in regard of the 2017 Joint Session agenda topic "**healthcare and health care related public services in cross-border regions**":

- To continue coordinating Estonia's and Latvia's efforts in increasing and advancing the cooperation in the field of healthcare and healthcare related public services in the cross-border regions;
- To continue assisting (when necessary) the Medical Joint Expert Group in preparing the relevant agreements (both under A and B subtopics);
- To keep the theme in the 2019 Joint Session agenda.

Estonian Ministry of Social Affairs:

In June 2017, after a review of the relevant legislation, it was discovered that the current legal framework does not allow a contract directly between the Latvian authorities and Valga Hospital to treat high priority Latvian patients at Valga Hospital as originally intended.

By December 2017, the relevant Latvian authority had informed the ministry that with some small changes to their legislation, it is possible to sign a contract with Valga Hospital to treat high priority Latvian patients. Furthermore, they would like to involve the Estonian Health Insurance Fund as a go-between for the billing.

In January 2018, Estonia informed Latvia that it welcomed the good news and invited Latvia to go forward with the contracts (one with Valga Hospital and one with the Estonian Health Insurance Fund) when they were ready.

As of August 2018 there are currently no further developments on this topic.

Estonian Ministry of Social Affairs:

In June 2017, Estonia proposed concrete points of cooperation in preparing and responding to crises in the field of healthcare to Latvia. By March 2018, Latvia expressed its willingness to move forward with this topic and proposed to have a teleconference to discuss further details.

In May 2018, a teleconference took place between Estonian and Latvian authorities. After an analysis of the relevant legal framework, it was concluded that a new agreement is necessary as the trilateral agreement on cooperation in the field of rescue does not cover the field of healthcare.

Both sides agreed to move forward with a bilateral framework agreement between the relevant ministries that would allow the specific national competent institutions (for example, the Health Board for Estonia) to make further agreements on the specific details regarding procedures and contact points. Furthermore, it was agreed that Estonia would send the first draft of the framework agreement to Latvia at the beginning of June.

In June 2018 Estonia sent the first draft of the framework agreement to Latvia with a request for feedback by the

end of August. The agreement between Estonia and Latvia would cover healthcare related mutual assistance and cooperation in field of emergency prevention, preparation and response. Furthermore, both sides will also appoint on the basis of the agreement 24-hour point(s) of contact for submitting and receiving early warnings and requests for assistance.

Cooperation in providing passenger traffic service on Riga-Tartu railway line

The Estonian-Latvian Governmental Commission's proposals and summary in regard of the 2017 Joint Session agenda topic “**cooperation in providing passenger traffic service on Riga-Tartu railway line**”:

- To note that conditions in the field of regional passenger traffic service have improved to some extent;
- To recognize and encourage ELRON and Pasažieru Vilciens to continue the cooperation in synchronising regional train schedules with cross-border significance;
- To ask ELRON and Pasažieru Vilciens to identify the critical number of passengers on regional lines on daily/monthly basis which would be needed to initiate the harmonisation of ticketing systems of the two companies;
- To provide an overview of the Pasažieru Vilciens and the Republic of Latvia railway network and train park modernization plans;
- To keep the topic in the 2019 Joint Session agenda.

Municipality of Valga:

The current train schedule between Tartu and Valga does not support regional labour movement to the border regions, particularly to Valga as it is not possible to arrive to Valga in a reasonable time of the working day – 11:27 – as half of the working day is already spent for waiting the train in Tartu and arriving to Valga. This excludes border regions both in Estonia and in Latvia from mainland Estonia as potential labour market. There is a need to receive an overview about the Latvian railway operator's future plans of upgrading the railway network, especially in the Valga-Valka region (including the information of potential electrification of the existing railway network) and the train park in general.

AS Eesti Liinirongid (ELRON):

Representatives have been appointed who are responsible for exchanging information on train schedules and changes between ELRON and Pasažieru Vilciens. In addition 2 diesel train pairs have been operating since December 2017 on the route Rīga-Lugaži-Valga every day.

Since Estonia has allocated resources for operating 4 train pairs on the Estonian side and Latvia for operating 2 train pairs on the Latvian side, it is not possible in this way to ensure reasonable connectivity which would be a prerequisite for discussion of the integration of the ticketing systems. Therefore, harmonisation of ticketing systems of two companies has not been discussed due to the marginal figures in passengers between Estonia and Latvia. As long as the number of passengers remain small, there is also no real need to develop a link between ticketing systems. Companies rely on the needs of domestic passengers, which is by far the largest number than of those who would like to travel to another country.

Estonian Ministry of Finance:

The waiting time in Valga on working days on the route Tartu-Rīga remains to be over 3 hours: Nr.330 Tartu (10.15) – Valga (11.27) vs Nr.867 Valka (14.38) – Rīga (17.38).

Estonian Ministry of Foreign Affairs:

There is a need to ask both the Estonian and Latvian railway operators what would be the critical number of passengers on the regional lines on daily or monthly basis which would be needed to initiate the harmonization of ticketing systems of the two companies.

5. Follow-up report on 2017 Joint Session's external issues

As of August 2018, the Secretariat of the Estonian-Latvian Governmental Commission has monitored **3** separate 2017 Joint Sessions' external issues:

- **Vocational education, lifelong learning and retraining of the unemployed;**
- **Joint intercity public transport in Valga/Valka;**
- **Border region municipalities' roundtable;**

Vocational education, life-long learning and retraining of the unemployed

During the 2017 Joint Session it was decided not to include the issue of "**vocational education, lifelong learning and retraining of the unemployed**" into the 2018 Joint Session agenda due to the lack of consensus between the Governmental Commissions.

Nevertheless, the Estonian-Latvian Governmental Commission made **2** proposals:

- To receive an overview about the labour market trends and needs of the border regions in English which was carried out by the University of Vidzeme;
- To organize an expert-level meeting with the relevant ministries, employers, municipalities and vocational education centres in order to discuss the cooperation possibilities in cross-border vocational education in border regions.

Estonian Ministry of Finance:

As of August 2018, both proposals still have not been implemented as none of the organizations of the both Governmental Commissions have made attempts to continue consultations with the issue.

Joint intercity public transport in Valga/Valka

During the 2017 Joint Session, it was decided not to include the issue of "**joint intercity public transport in Valga/Valka**" into the 2018 Joint Session agenda due to the lack of consensus between the Governmental Commissions.

Nevertheless, the Estonian-Latvian Governmental Commission made **1** proposal:

- To arrange an expert-level meeting for mapping the challenges and possibilities in establishing a joint intercity public transport in Valga/Valka.

Estonian Ministry of Finance:

As of August 2018, none of the organizations (including the relevant municipalities) of the Government Commissions have not made attempts to continue consultations with the issue of EU regulations preventing introduction of the necessary changes to national legislation.

Border region municipalities' roundtable

During the 2017 Joint Session, the Co-chairman Mr Mihhail Korb, the former Estonian Minister of Public Administration, emphasised the following issues to be taken into account formulating new initiatives and re-evaluating those previously considered at the Joint Session that might need to be further tackled by the specialists of both countries:

- **Organization of the Estonian and Latvian border region municipalities' roundtable, upgrading cross-border cooperation agreements and encouraging additional professional contacts;**
- **Organising seminars for Latvian local government representatives, informing about the conclusions of the Estonian Administrative-Territorial Reform and introducing the new Estonian administrative-territorial system.**

Estonian Ministry of Finance:

In February 2017 the Estonian-Latvian Governmental Commission proposed to organize a joint information seminar in 2018 for the Estonian and Latvian local governments and other interested parties about new Estonian administrative system and its' principles in order to provide relevant information for border region cross-border municipalities and an opportunity to renew contacts between the municipalities.

On October 10, the Estonian Ministry of Finance will present during the 2018 Joint Session the main changes and outcomes of the Estonian Administrative-Territorial Reform to the members of the Latvian-Estonian Governmental Commission that currently also includes representatives of the Latvian border regions and local municipalities.

Following the decision of the 2015 Joint Session to synchronize the memberships of the Government Commissions, the Estonian-Latvian Governmental Commission has been adjusted accordingly with the Government of the Republic of Estonia Order №193 of 26 July 2018. The adjustments involve dissolution of county governments in accordance with the County Governments Reform of 2017 and the inclusion of the representatives of the border region municipalities.

For the first time following the Administrative-Territorial Reform of 2017, all the newly established Estonian border region municipalities have been included into the Estonian-Latvian Governmental Commission. Estonia considers the participation of the border region local municipalities at the 2018 Joint Session important since it allows them to communicate their problems and needs directly at the level of governments.

6. Estonian auxiliary initiatives and activities in 2018

As of August 2018, the Secretariat of the Estonian-Latvian Governmental Commission has carried out **3** auxiliary initiatives in order to map the current status of the cross-border cooperation between Estonia and Latvia on the local municipality and parliamentary level:

- **Overview of the 2015 Estonian and Latvian border region municipalities cooperation agreement;**
- **Register of external cooperation agreements of Estonian and Latvian local governments;**
- **Overview on the Estonian-Latvian Parliamentary Group.**

Overview of the 2015 Estonian and Latvian border region municipalities cooperation agreement

On 4th of December 2015 the Latvian municipalities of Aloja, Salacgriva, Aluksne, Ape, Valka, Naukšeni, Rujiena, Mazsalaca with the Estonian municipalities of Hummuli, Tõrva, Helme, Karksi, Abja, Saarde, Häädemeeste, Taheva, Karula, Mõniste, Varstu, Rõuge, Haanja and Misso signed a cooperation agreement to promote cross-border cooperation in the spheres of economy, tourism, culture, education, sport and the social sphere.

Estonian Ministry of Finance:

In 2018 the Estonian Ministry of Finance initiated a compilation of a summary of the activities of the fulfilment of the 2015 cooperation agreement. The summary will be completed by October 2018.

Register of external cooperation agreements of Estonian and Latvian local governments

In 2018 the Estonian Ministry of Finance initiated the renewal of the register of external cooperation agreements of Estonian and Latvian local governments. The ministry approached all the Estonian border region municipalities that have a border with Latvia – Häädemeste, Saarde, Valga, Mulgi, Rõuge and Tõrva – with the following cross-border cooperation suggestions:

- To consider organizing the Estonian and Latvian border region municipalities' roundtable in order to map cross-border obstacles that need to be solved;
- To create joint development concepts in cooperation with Latvian municipalities focusing on specific goals and activities for the effective use of the potentials of the Estonian and Latvian municipalities for increasing the competitiveness of the economy and the well-being of its inhabitants;
- To consider including representatives of the Latvian neighbouring government in the work of the local government councils.

Estonian Ministry of Finance:

As of August 2018, the register of external cooperation agreements of Estonian and Latvian local governments is under renewal. In addition to the register of external cooperation agreements of Estonian and Latvian local governments, the ministry has also requested the border region municipalities of Häädemeste, Saarde, Valga, Mulgi, Rõuge and Tõrva to inform the Ministry of Finance of the additional and valid cooperation agreements, agreements, declarations, protocols or memorandums signed on behalf of the local government with the local authorities of the Republic of Latvia and/or other Latvian administrative units.

Overview on the Estonian-Latvian Parliamentary Group

The Estonian-Latvian Parliamentary Group was established on 2nd of April 2015. Since 2015 the representative of the Estonian Parliament has not participated in the work of the Estonian-Latvian Governmental Commission.

Estonian Ministry of Finance:

In July 2018, the Minister of Public Administration approached the Estonian Parliament which hosts the Estonian-Latvian Parliamentary Group to provide a compilation of a summary of the activities of the parliamentary group and its cross-border cooperation with the Latvian Parliaments' Latvian-Estonian Parliamentary Group.

According to the information provided by the Secretariat of the Estonian-Latvian Parliamentary Group it can be concluded that **the group has not been particularly active and is passive since 2016**. The representative of the Estonian Parliament as member of the Estonian-Latvian Governmental Commission last participated at the 2015 Joint Session of the Estonian-Latvian and Latvian-Estonian Governmental Commissions.

Estonian Parliament:

The group is chaired by Mr Aadu Must who is also the head of the Estonian delegation within the Baltic Assembly whose functions and topics greatly overlap the Parliamentary Group. The Parliamentary Group has so far held only one joint activity with the Latvian-Estonian Parliamentary Group which took place in December 2016 in the twin-city of Valga-Valka.

As of October 2015, Mr Toomas Kivimägi as member of the Estonian Parliament, has been appointed as the representative of the Parliament to the Estonian-Latvian Governmental Commission by the Chairman of the Parliament Mr Eiki Nestor.