



European Bank
for Reconstruction and Development

Jean-Marc Peterschmitt
Managing Director
Central and South Eastern Europe

Mr Juhan Parts
Minister of Economic Affairs
Harju 11
Tallinn 15072
Republic of Estonia

30 January 2012

Dear Minister,

Re: Estonia | Tallinn Water Company

I would like to follow-up on the meeting you held on 24 August 2010 with my predecessor as Managing Director for Central and South Eastern Europe at the European Bank for Reconstruction and Development ("EBRD" or the "Bank"), Mr Peter Reiniger, to discuss the dispute between AS Tallinna Vesi ("ASTV" or the "Company") and the Estonian authorities. I understand that the long going dispute surrounding the water tariffs applicable in Tallinn has moved to a new phase, namely a challenge of the legality of ASTV's 2001 privatisation. I further understand that the dispute has now been referred by the Company to the European Commission on grounds of infringement of internal market regulations.

As you know, the EBRD was closely associated to the privatisation process in its capacity as historical lender to the public sector predecessor to ASTV, under a sovereign guarantee. The privatisation process, conducted by the City of Tallinn with assistance from four reputable Estonian and international advisers, presented in the Bank's view all necessary features of due process, competition, transparency and fairness, and its legality was confirmed at the time in legal opinions issued by Estonian legal firms. On that basis, EBRD was able to convert in 2002 its old sovereign-backed loan into a corporate loan to the newly privatised ASTV, thus indirectly benefiting the Estonian government through the release of the sovereign guarantee. The Bank also became a minority shareholder of ASTV in 2003. The EBRD loan was repaid in full in 2009 and the equity stake was divested in 2010; EBRD therefore no longer has any financial or legal interest in ASTV.

In the above context, we would like to express our surprise at the legal challenge initiated against a privatisation process that was held more than ten years ago and was compliant with best practice. Estonian legal counsel also confirmed at that time to EBRD that the



City of Tallinn had the power, and was duly authorised, to enter into and perform its obligations under the Services Agreement. We are therefore concerned at the impact of a dispute which is escalating and may end up in an arbitration tribunal or in Estonian or European courts.

Indeed, while we recognise that differences over water tariffs have become common place across Europe, we note that such differences were amicably resolved in many capital and secondary cities in the EU. We also believe that the challenge of a prominent privatisation, which has been perceived for the last ten years as a successful example of modernisation and reform in Eastern Europe, potentially represents a setback to the investment climate in Estonia and, by extension, in EU accession countries of Eastern Europe. The negative demonstration effect of such a dispute could be all the more damaging as increased public sector budget constraints in Europe at large will require more private sector involvement to finance infrastructure in years to come.

Therefore, the Bank respectfully would like to call on the authorities to seek a negotiated outcome. The Bank is at the same time encouraging ASTV to consider a constructive settlement on the tariff question. If needed, a structured negotiation process could be efficiently mediated by a specialised dispute resolution organisation such as the Centre for Effective Dispute Resolution or other similar non-profit organisation.

I would like to thank you in advance for your consideration of this letter and remain at your disposal for any further discussion.

Yours sincerely,

Jean-Marc Peterschmitt

Cc:

Mr Jürgen Ligi, Minister of Finance, Republic of Estonia
Mr Reinbothe, European Commission, DG Internal Market & Services
Ms Bury, European Commission, DG Internal Market & Services
Mr Gallienne, ASTV
Mr Plenderleith, ASTV