

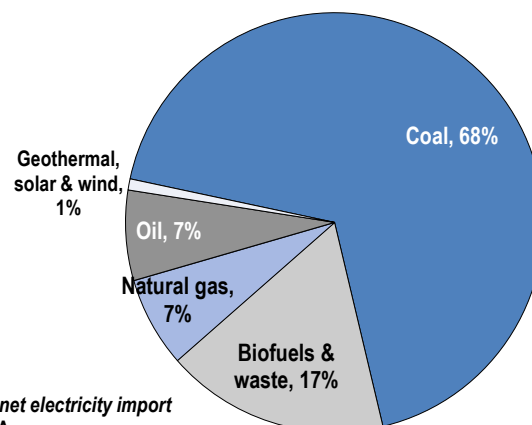
Estonia

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Estonia is well endowed with fossil fuels in the form of oil shale and peat. It is the only country in the world where oil shale is the primary source of energy, supplying 78% of the energy used for electricity generation in 2016, declining from 86% in 2013. Note that oil shale is included in coal in the chart on the right. Estonia imports most of the natural gas and petroleum products it consumes. Imported natural gas is mainly used for the purposes of heat generation in power plants and industrial boilers.

Total Primary Energy Supply* in 2016



*excluding net electricity import
 Source: IEA

The oil market in Estonia is fully open to competition. Eesti Energia Kaevandused, a subsidiary of the state-owned electricity production group Eesti Energia, dominates the production of oil shale. The wholesale market for liquid fuels is concentrated in the hands of ORLEN Lietuva and Neste Oy. The retail market for liquid fuels is served by a number of companies, including Canadian Circle K and Finland's Neste, none of which is dominant. Oil shale is produced locally by three companies, two of which are fully private. Estonia is a net exporter of oil shale oil, exporting 600 thousand tonnes and importing none. The first destination for Estonian oil is Belgium.

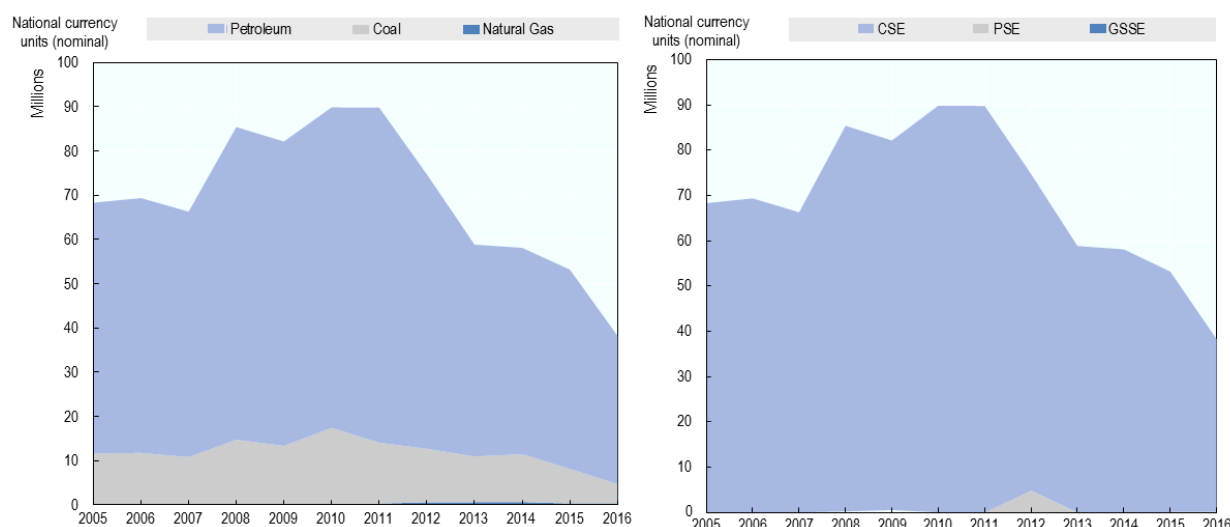
The Estonian natural-gas market falls under the monopoly of AS Eesti Gaas (EG), a formerly state-owned company. Currently under private ownership, the company also owns the largest natural gas distribution company's assets and is one of three importers of natural gas. While fully opened to competition since 2007, Estonia's natural-gas infrastructure is connected to the Russian and Latvian gas transmission system, allowing imports from Russia, the Latvian underground storage and Lithuanian LNG terminal. In 2016, 20% of the imported gas was of Lithuanian origin. From 2016, the Baltic States have been working towards an unified natural gas market regulation. The aim is to facilitate a uniform regulation for all the market participants in the Baltic States, paving the path for a more competitive market.

The electricity market in Estonia is small compared with that of other EU countries. For historical reasons, Estonia is well interconnected with both Russia and Latvia as these countries used to be part of the former Soviet Union's north-western common power system. A direct interconnection to Finland was established in 2006, enabling access to the Nordic energy market (Nord Pool). In 2014, this connection was further strengthened via a new direct interconnector (Estlink 2). As of 2012, Estonia is a part of the Nord Pool Spot market, having its own price area. In 95+% of the time, the wholesale prices in Estonia are the same as in Finland. Eesti Energia is the largest seller of electricity, with a market share of ~61%. It also owns the largest of the 34 distribution networks (Elektrilevi OÜ), accounting for 86% of the distribution market.

Energy prices and taxes

The Estonian Competition Authority (ECA) is responsible for approving and reviewing the rates for transmission and distribution services of network operators, as well as for setting connection charges. Estonia's electricity and natural gas market is fully liberalised. Most of the electricity in the country is currently produced in the power plants located near Narva, owned by Eesti Energia. The electricity prices form on the market based on demand and supply. Natural-gas prices in the wholesale market are negotiated and depend on prevailing market prices. Excise duty are levied on all energy products, except for peat and biofuels. A value-added tax (VAT) of 20% are levied on all energy products.

Total support for fossil fuels in Estonia by fuel type (left) and support indicator (right)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate

Recent developments and trends in support

Support for fossil fuels in Estonia takes the form of exemptions to excise duties and reduced rates for specific fuels and usage. Marked diesel fuel used in agriculture is subjected to a reduced tax rate while exemptions are also applicable for fuels used for fishing. There are exemptions applicable for fuels used in agriculture and fishing, for district heating and mineralogical processes. Support has fallen since 2011, when at the end of that year, exemptions to the forestry and construction sectors were abolished. On May 2015, the *Excise Duty Exemption for Heating Fuels Used by Households* was discontinued. On the other hand, estimates for *Feed-In Premium for Peat and Retort Gas Used in CHP Plants* have become available for 2015 and 2016. However, such a support scheme will come to a hold and be replaced by a competitive tender. Since 2008, an excise duty has been levied on electricity which, together with the renewable-energy fee set-up in 2007, helps finance the subsidisation of renewable-based electricity and combined heat and power generation in the country.

Examples of measures

Excise-Duty Reduction for Diesel Fuel Used for Special Purposes

Sales of marked diesel fuel used for special purposes benefit from a reduced rate of fuel excise duty. Since 2012, reduced rates are no longer applicable on fuels used by machine used in forestry and construction. Effective 1 January 2015, marked diesel can no longer be used in railways and for ships navigating inside Estonian territorial waters. And, from 1 May 2015, the use of marked diesel was abolished for heating purposes. At present, the use of marked diesel is now allowed in agriculture and fishing.

