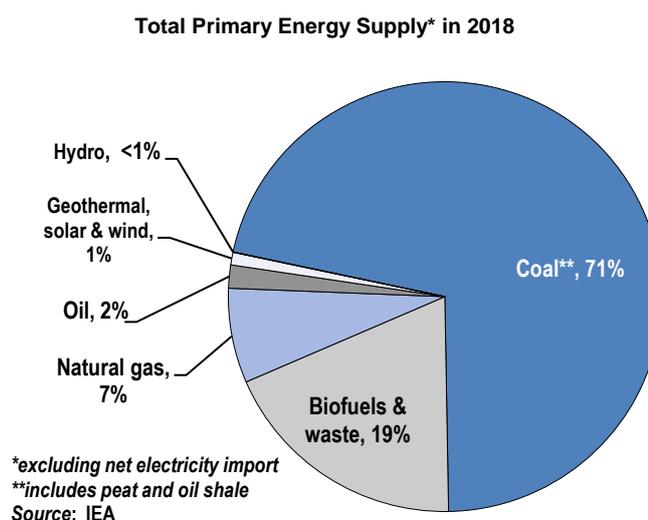


Estonia

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, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Estonia is well endowed with fossil fuels mainly in the form of oil shale. It is the only country in the world where oil shale is the primary source of energy, supplying 76% of the energy used for electricity generation in 2018. However, the use of renewable energy sources (mainly woodfuel and wind) is increasing. Estonia has been modernising the oil-shale based electricity production with opening a new Auvere Power Plant in 2018 and will close some old production units in coming years. Note that oil shale is included in coal in the chart on the right, as per IEA classification. 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.



The oil market in Estonia is fully open to competition. 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. Shale oil is produced locally by three companies, two of which are fully private. Enefit Energiatoomine AS, a subsidiary of the state-owned energy production group Eesti Energia, and Viru Keemia Grupp AS are main producers of shale oil. Estonia is a net exporter of shale oil, exporting more than 1 million tonnes and importing none.

The Estonian natural-gas market falls under the monopoly of Eesti Gaas AS (EG). Currently under private ownership, the company also owns the largest natural gas distribution company's assets and is one of five 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 since 2015 the Lithuanian LNG terminal. In 2018, 18% of the imported gas was of Lithuanian origin. From 2016, the Baltic States have been working towards a 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.

Since 2016 establishing of the Balticconnector gas pipeline linking Estonia to Finland has been undertaken with the financial support from European Commission. The aim of this project has been to strengthen the security of supply and diversify the alternative supply channels in the Eastern Baltic Sea region. Additionally EU supports financially enhancement of the Estonian-Latvian interconnection that will enable better access to storage in Latvia. With the commissioning of the Balticconnector, the single Finnish-Estonian-Latvian gas market was established on 1 January 2020. By the end of 2022, the Baltic States will

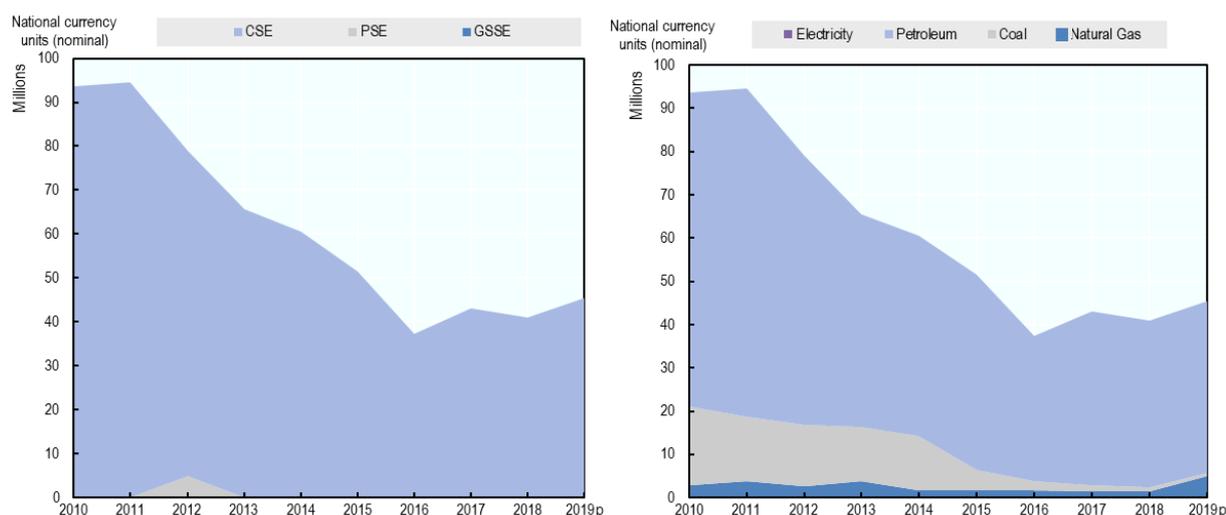
be physically connected with the Polish gas infrastructure. By then the interconnection between Poland and Lithuania will be completed and functioning.

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. The wholesale prices in Estonia are frequently 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 33 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 for mineralogical processes and in electricity production. 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 Fossil Fuels Used in CHP Plants* have become available for the period 2010-2018. However, such a support scheme has come to a hold and will be replaced by a competitive tender. The renewable-energy fee set-up in 2007 helps to finance the subsidisation of renewable-based electricity and combined heat and power generation in the country. Since 2019, energy-intensive sectors can apply for reduced excise duty rates when they meet the necessary conditions set in the legislation. In a recent development, an aid worth EUR 125 million has been extended by the government for construction of a shale oil plant.

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. In addition, 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.