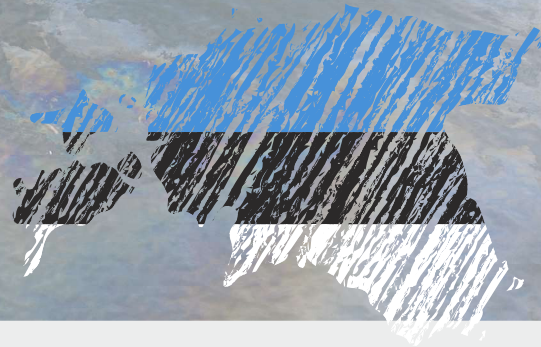




ENSURING THAT POLLUTERS PAY

Estonia



Estonia's revenue from environmentally relevant taxes remains close to the EU average. Environmental taxes stood at 3.16% of GDP in 2019 (EU-27 average: 2.37 %). The largest portion of the environmental taxes were the energy taxes at 2.91% of GDP, against an EU average of 1.84 %. Transport taxes represented a mere 0.05% of GDP (one of the lowest in the EU, the average being 0.45%), whereas taxes on pollution and resources were relatively high at 0.21%. In the same year, the environmental tax amounted to 9.49% of total revenues from taxes and social security contributions (well above the EU average of 5.76 %).¹

Further options

Pay-as-you-throw scheme

Estonia has already tried out such a scheme in Tallinn. Both a landfill tax and DRS are already in place in Estonia, but the country needs to increase the proportion of MSW re-used and recycled. This can be achieved through a PAYT scheme, which will trigger the required behaviour change in households.

The introduction of a landfill tax would lead to higher prices and a reduction in real incomes and consumption. Both effects would lead to a reduction in gross output and GDP. However, if revenues generated from the landfill tax were used to reduce income tax rates (or increase investment), these negative economic impacts could be offset, and PAYT could even have a positive impact on Estonia's GDP.

Nitrogen fertiliser tax

Estonia could consider a nitrogen fertiliser tax to improve water quality. Despite Estonia's modest nutrient surplus, it is causing pollution of drinking water aquifers and surface

waters. The European Commission has established that both for groundwater and coastal water monitoring shows increasing nitrate concentrations (Environmental Implementation Review of Estonia), of particular concern considering the overall issue of eutrophication in the Baltic Sea. OECD observes that "the most significant pressures come from agriculture" (Environmental performance review of Estonia). To help Estonia achieve its targets under the Baltic Sea Action Plan to reduce its emissions with annually 1,800 tonnes of nitrogen, a nitrogen fertiliser tax would be a very helpful instrument.

Modelling carried out for the European Commission suggests that introducing a nitrogen fertiliser tax of €0.45 per kg nitrogen could raise €24 million in revenue (decreasing to €21 million as it has some regulating effect). It is expected to bring about a small increase to GDP of 0.25-0.37% in 2030, depending on the scenario chosen. When the tax revenues are recycled through income tax, a net increase of jobs of 0.02% is expected. [link to modelling] An example of how a fertiliser tax can be designed is in the factsheet for Denmark.

POLLUTION CHARGE FOR WASTE DISPOSAL

The pollution charge for waste is paid when depositing waste in landfills. The charge for depositing waste in landfills is paid by companies per ton of waste and for most waste types the charge was 29.84 €/ton in 2020, different rates apply to asbestos and oil shale waste². Revenues collected from the pollution charge on waste were 39 million euros in 2018, which formed about 54% of environmental charges revenue and 5% of total environmental taxes and charges revenue.³

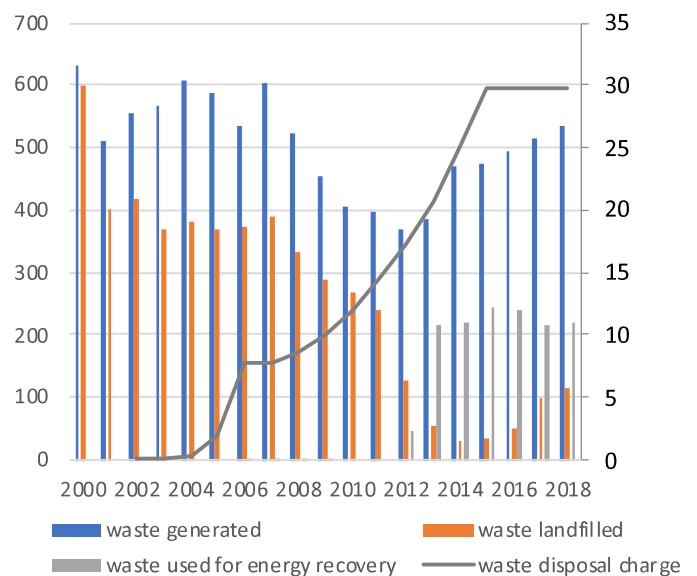
What it does

Prior to its adoption consultations took place with the national interest organizations of farmers. In exchange for the phosphorus tax they obtained a lowering of their property tax rate. In December 2019 the phosphorus tax was suddenly abolished without any public consultations, and the property tax rate was not restored to its initial rate, reflecting presumably lobbying from farmers. NGOs are now making the case for its reintroduction.

The waste disposal charge for landfilling has been increased considerably in 2000s, to discourage landfilling and increase reuse and recycling. The amount of municipal waste that was landfilled was quite stable in 2000-2008, but started to decrease after that (figure 1). However, part of the decrease can be related to the economic crisis and the concurrent decrease in general consumption. In the period 2012-2018 the amount of municipal waste landfilled has been low due to increasing use for energy recovery. After 2012, the total waste amount has increased again with more than 40% by 2018, as can be seen in the graph below.

In order to decrease the amount of landfilled waste, better separation options are needed. For some materials, the separate collection works fine (it is also supported by a deposit return scheme for bottles), but some materials lack good collection systems, specifically biodegradable waste is problematic

Figure 1. Municipal waste by waste management operations (thousand tons, on left axis) and waste disposal charge (euro per ton, on right axis)



Source: Eurostat; Environmental Charges Act of Estonia

How it came about and stakeholder involvement

Environmental charges have the longest history in Estonian environmental taxation, as these were imposed already in the beginning of 1990s and the rate has been constantly increased, to give a financial incentive to avoid polluting the environment. The growth of charge rates has been announced by law for several years ahead. The last time the growth rates were discussed was for the period 2010-2020, and relevant stakeholders were invited to participate in the discussion⁴. According to the Ministry of the Environment which led the process, different stakeholders were involved:

- ▶ other ministries, for example Ministry of Economic Affairs and Communications, Ministry of Finance, Ministry of Rural Affairs;
- ▶ academia and experts, for example Tallinn

Technical University and SEI Tallinn;

- ▶ storage of waste for disposal (> 1 year), for recycling (> 3 years), backfilling with waste: € 9.2 – 87 / tonne, depending on type of waste
- ▶ representatives of enterprises and their associations;
- ▶ local governments;
- ▶ other state authorities like National Audit Office.

Stakeholder involvement took place in different formats: in general forum and working teams; written propositions were enabled online (Participation Web). Although stakeholders were involved and several propositions made, not all of these could be addressed through rate changes. This led to dissatisfaction from the side of enterprises, whose competitiveness the charges affected most. The enterprises and their associations launched an active media campaign to draw attention to their claims about negative impact on their competitiveness. In 2015, when charge rates for 2016-2020 were discussed in the Parliament, it was decided to freeze the rates for environmental charges and the environmental charges have not been revised since then.



PACKAGING EXCISE AND PROPOSALS TO CHANGE THE SYSTEM

Packaging excise duty has been applied in Estonia from 1997 and it has served as sanction if recovery rates for packaging waste of companies are not fulfilled. As companies have been quite successful in fulfilling the recovery rate, the amounts paid into state budget as packaging excise have been marginal (less than 1% of environmental taxes revenue in state budget) and hence it serves environmental objectives rather than the fiscal one. The packaging excise rate depends on material: it is 0.6 euros for glass, 1.2 euros for paper and 2.5 euros for plastic and metal (per kg of material).

What it does

The packaging excise incentivises enterprises to recover packaging waste; when they fulfil the recovery rate, they are exempt from the packaging excise. It is estimated that around 70% of glass, plastic and metal material is recovered and around 90% of paper and wood. The excise is effective: In 2017, on average,

81% of packaging waste was recovered in Estonia. But whereas the recovery rates for some materials (for example, paper and metal) are very good, for some other materials (plastic and glass) they remain below the desired level.

How it came about and stakeholder involvement

While the recovery rate of packaging waste has been quite high, the generated quantity of packaging waste has continued to increase (growth of 108% in 2011-2017). The tax design does not give incentive to avoid excessive packaging and it has led to discussions about the need to change the packaging taxation. In 2017, the Ministry of Finance proposed adding a tax component to the packaging excise duty, dependent on the quantity of packaging placed on the market. The main idea was to incentivise companies towards producing/using less packaging, as well as collecting funds into the state budget.

Material	Recycling target 2020 (%)	Recycling target 2030 (%)	Excise rate 2020 (eur/kg)
Glass	70	75	0.6
Paper	70	85	1.2
Metal	60	Ferrous metals 80 Aluminium 60	2.5
Plastic	55	55	2.5
Wood	45	30	1.2
Total	60	70	

Source: Packaging Act, Directive 94/62/EC on packaging and packaging waste, Packaging Excise Duty Act

Different stakeholders, mainly from the business sector, were invited to give opinions about the planned tax changes. The involved stakeholders were for example Chamber of Commerce and Industry, Estonian Food Industry Association and Estonian Traders Association. Although several suggestions from industry were addressed, there was disagreement about the main issue of adding a new tax component when bringing packaging to market. In the end, due to strong objection from companies, the proposals were not implemented, and the packaging excise system has not been changed.

Academics and NGOs

SEI Tallinn — <https://www.sei.org/centres/tallinn/> carries out applied research, stakeholder engagement and capacity building in the Baltic Sea Region. Analysis

of market-based instruments is one of their areas of expertise. In 2019, SEI Tallinn published an analysis about realising ecological tax reform in Estonia, which was introduced in Estonia in 2005. The report can be found here: <https://www.sei.org/wp-content/uploads/2019/01/eesti-okoloogilise-maksureformi-realiseerumine-23.01.2019.pdf>

Council of Estonian Nongovernmental Organizations – <https://eko.org.ee/et> is a collaboration network for 11 Estonian nongovernmental environmental organizations, it aims at monitoring and influencing decisions in the environmental domain. For that, it participates in information exchange, in different committees or working teams related to environmental issues, sends out joint resolutions, etc.

¹ https://ec.europa.eu/eurostat/databrowser/view/env_ac_tax/default/table?lang=en

² Environmental Charges Act

³ Estonian Statistical Office website (<https://andmed.stat.ee/en/stat>)

⁴ Stakeholder involvement overview in Participation Web: <https://osale.ee/?id=121>



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