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International competitiveness, tax system, and yet again about oil shale in Estonia

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International competitiveness, tax system, and yet again about oil shale in Estonia

In regards of economics and political economy, this month has been all about comparing Estonia to the outer world and making a political *guess*timation on the post-oil shale existence for the country.

The World Economic Forum and its Global Competitiveness Report

Edited by Professor Klaus Schwab, the Forum's Founder and Executive Chairman, the document introduces the 2018 Global Competitiveness Index, which is self-described as "a much-needed economic compass, building on 40 years of experience in benchmarking the drivers of long-term competitiveness"[1]. With the United States leading the ranks with 85.6 points out of possible 100, the next lot of countries, which make up the top-10, are as follows: Singapore (83.5), Germany (82.8), Switzerland (82.6), Japan (82.5), the Netherlands (82.4), Hong Kong SAR (82.3), the United Kingdom (82.0), Sweden (81.7), and Denmark (80.6)[2]. While the People's Republic of China was ranked to be on the 28th place with 72.6 points (between the United Arab Emirates and the Czech Republic), **Estonia scored 70.8 points and was ranked as the world's 32nd most competitive economy** (being placed between Italy and Chile)[3].

On the specifically Estonian case, in the Index, the country ended up on the 15th place among the EU-28 (keeping in mind that the UK is still there). Considering the self-promoted image of Estonia as a highly digitalised, ultra-transparent and liberal Nordic economy, many experts could treat such an ordinary result as a failure to deliver on the international stage. Thus, there is a

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1 Klaus Schwab, 'Preface' in *The Global Competitiveness Report 2018*, p. v. Available from [http://www3.weforum.org/docs/GCR2018/05FullReport/TheGlobalCompetitivenessReport2018.pdf].
2 *The Global Competitiveness Report 2018*, p. xi.
3 *The Global Competitiveness Report 2018*, p. xi.

necessity to have a closer glance at how and why Estonia was under-recognised in the World Economic Forum-originated important comparative study.

Structurally, the Index combines the data gathered around its 12 pillars, which are split across four major 'umbrellas': Enabling Environment, Human Capital, Markets, and Innovation Ecosystem[4]. In the Index-generated report on Estonia, the country was shown as **the world's best performer** in the segment of **'Macroeconomic stability'** (Enabling Environment) – together with the other 30 nations, Estonia had the perfect score on that particular pillar. Another four noticeable 'performances' were detected around 'ICT adoption' (Enabling Environment; 14th), 'Skills' (Human Capital; 18th), and 'Product market' and 'Labour market' (both Market; both 21st)[5]. At the same time, there were areas where Estonia was arguably ranked as an under-performer. Those were as follows: 'Financial system' (Markets; 46th), 'Health' (Human Capital; 54th), and, predictably, 'Market size' (Markets; 97th)[6].

Since the Republic of Estonia is a country of 1.3 million people, not much can be done to improve on the 'Market size' pillar. However, the other detected shortcomings could represent a decent load of 'homework' for the Estonian Government to do a better job in the future. Especially, if one keeps in mind that the same Index ranked Estonia, back in 2017, as the world's 30th most competitive economy.

A different index, a different result

Remarkably and almost simultaneously with the above-mentioned ranking table, yet another global Index issued its annual report. On a more specific note – strictly regarding the country's tax system – the 2018 International Tax Competitiveness Index placed **Estonia right on the top among the OECD countries and for the firth year in a row**. Followed by Latvia and New Zealand, the Republic of Estonia attributes its outstanding performance in the

[4] *The Global Competitiveness Report 2018*, p. 2.
[5] *The Global Competitiveness Report 2018*, p. 111.
[6] *The Global Competitiveness Report 2018*, p. 111.

Index to a number of qualities, which the country's fiscal policy is featured by: firstly, it has a 20% tax rate on corporate income that is to be only applied to distributed profits; secondly, the country's property tax is applied only to the value of land, but not to the value of real property or capital; and lastly, Estonia has a territorial tax system that exempts 100% of foreign profits earned by domestic corporations from domestic taxation, with few restrictions[7].

As reported, Estonia's results are relatively off the mark in consumption taxes and the international tax rules segment[8], but, in general, the country' leading position impressively reflects the current *status quo*, and this factor has been confirmed by the Tax Foundation[9] yet another time.

Forecasting the future of oil shale-based energy

When it comes to the oil shale-bound industries in Estonia, it has to be all about strategy in its pure and direct sense. Indeed, it is a strategic energy resource that enjoys making a significant impact on the country's GDP – as reported, the oil shale economic segment accounts for 4% of Estonian GDP, placing the country among the most energy independent countries globally[10].

During her recent remarkable tour across the Asia-Pacific, the Estonian President Kersti Kaljurand, while visiting Vanuatu, stated the following:

I believe we should start discussing that, excepting transportation, Estonia, too, should be free of carbon dioxide emissions by 2030. […] The knowledge and the technology are good enough for that today – that is what our green energy specialists say. I think it is worthy of a discussion. […] We understand

[7] Daniel Bunn, Kyle Pomerleau, Scott A. Hodge, '2018 International Tax Competitiveness Index', 23 October 2018. Available from [https://taxfoundation.org/publications/international-tax-competitiveness-index/].

[8] 'US think tank rates Estonian tax system most competitive worldwide'. 24 October 2018. Available from [https://news.err.ee/871655/us-think-tank-rates-estonian-tax-system-most-competitive-worldwide].

[9] As declared on its official web-portal, The Tax Foundation is the USA's leading independent tax policy non-profit organisation, established in 1937. Available from [https://taxfoundation.org/].

[10] Jordan Kearns (with Emmet Touhy), *Trends in Estonian Oil Shale Utilization* (Tallinn: ICDS), October 2015, p. 2. Available from [https://icds.ee/wp-content/uploads/2015/Jordan_Kearns_-_Trends_in_Estonian_Oil_Shale_Utilization_Oct_2015.pdf].

well that climate change is the primary security concern of the states of Oceania, which in the longer perspective endangers entire states and nations.[11]

The above statement was the country President's direct participation in a broader debate that, apart from the Estonian government, also involves the EU, OECD, and the UN. Back in September 2017, the Estonian Minister of the Environment Siim Kiisler reported on the case that Estonia "earned more than €23.5 million from auctioning off greenhouse gas emission units within the EU emissions trading system (EU ETS) in 2016"[12]. Interestingly enough, it is known that from the time when the EU ETS was launched in 2013, Estonia's earnings in this scheme were more that €70 million, which were mostly spent in the country, but also "allocated to support climate-related activities in developing countries, as they are especially vulnerable to the effects of climate change"[13]. At about the same time, the debate in the country was heated up with the help of an OECD Economic Survey of Estonia that was presented in Tallinn by the organisation's Secretary-General Ángel Gurría and the then Estonian Minister of Health and Labour Jevgeni Ossinovski. During the presentation, the high-profile OECD official noted that

With the pace of recovery increasing and public finances in an enviable position, the conditions are right for confronting the long-term challenges to ensuring sustainable growth. Investing more in social protection and health, education and protecting the environment will lead to a more productive and brighter future for all Estonians.[14]

Since then, the discussion got a high number of new 'participants' within Estonia, because its outcome will be directly affecting the country's oil shale-linked businesses and, ultimately, Estonia's energy independence. On 23 October 2018, during the parliamentary deliberation on what it was officially

[11] Kersti Kaljulaid in 'Kaljulaid: Estonia should stop emitting CO2 by 2030'. 24 October 2018. Available from [https://news.err.ee/871629/kaljulaid-estonia-should-stop-emitting-co2-by-2030].
[12] 'Estonia earns €23.5 million from emissions trading in 2016'. 28 September 2017. Available from [https://news.err.ee/633154/estonia-earns-23-5-million-from-emissions-trading-in-2016].
[13] 'Estonia earns €23.5 million from emissions trading in 2016'.
[14] Ángel Gurría in 'OECD: Estonia must invest in productivity, green energy'. 15 September 2017. Available from [https://news.err.ee/618796/oecd-estonia-must-invest-in-productivity-green-energy].

described as “the matter of significant national importance” – ‘Estonia needs a strategy to exit oil shale energy’ – the Riigikogu listened to Mihkel Annus (Member of the Management Board of the Estonian Green Movement), Rainer Vakra (Chairman of the Environment Committee), Anneki Teelahk (Director of the Ida-Viru County Department of the Estonian Unemployment Insurance Fund), and Tarmo Soomere (President of the Estonian Academy of Sciences)[15]. Giving his academic opinion on the use of oil shale, Professor Soomere was very open:

After all, we are the only net exporter of electricity in the European Union, everything is all right with the external trade balance, the tax and revenue source of the state is 4 per cent of GDP, 6000, 7000, 8000 jobs, depending on how you read it, 13,000 indirectly, partial refinement of local resource, which is good, after all. And besides – a trifle, yes, but still – technology and by-products.[16]

In his turn, Rainer Vakra gave a political perspective, which was also not sounding too encouraging; the MP noted that “due to the oil shale sector, the OECD had indeed given Estonia the title of the Member State with the most carbon-intensive economy, and according to the Global Green Economy Index, Estonia ranked the last among European countries”. He then continued:

So that there would be a positive target, direction, decision – then we will be able to find the necessary mechanisms, too. However, of course, the movement towards renewable energy must be a clear political objective, and at the same time, the risks relating to the oil shale sector also need to be managed effectively.[17]

This development has identified a policy, on which Estonia should soon be able to establish a widely accepted vision in order to move forward. However, it

[15] ‘The Riigikogu discussed the future of oil shale energy as a matter of national importance’. 23 October 2018. Available from [https://www.riigikogu.ee/en/sitting-reviews/riigikogu-discussed-future-oil-shale-energy-matter-national-importance/].
[16] Tarmo Soomere in ‘The Riigikogu discussed the future of oil shale energy as a matter of national importance’.
[17] Rainer Vakra in ‘The Riigikogu discussed the future of oil shale energy as a matter of national importance’.

appears that there is no easy solution on the subject, and this factor represents a major political challenge for the Republic of Estonia in the next decade.