

*inimesed saavad jõukamaks. See võtab aga aega! Ka täna pole meie ühiskond selleks veel valmis.*

*Käitume pimesi – ei sobi meile astmeline tulumaks; tahame toiduainetele madalama käibemaksu kehtestada (seda oleks tulnud kohe, Eesti Vabariigi taasiseseisvumisel, kehtestada); soovime suuremat palka, kuid tootlikkuse kasvust ei räägi suurt midagi (tootlikkuse asemel kasutame vene keelset terminit – töövõljakus /проϊзводитель-ность прыда/? jne., jne.!*

*Enamus Euroopa Liidu riike nii ei käitu, vaid mõtlevad enne kui otsustavad.*

*Aga eks meie eestlased nii jõuamegi viie rikkama riigi sekka ...*

MR.

## **EPOCH-MAKING YEAR IN EUROPEAN AUTOMOTIVE WORLD?**

Already a number of years ago, 2025 was forecast to be an epochal year in the European automotive world, and it was also set as a goal. However, for several reasons, we cannot consider 2025 a quite epochal year.

- Russian aggression in Ukraine and the resulting sanctions to Russia and other countries;
- excessive focusing on green transition with its unrealistic goals and deadlines;
- U.S. presidential elections, Donald J. Trump assuming office as the elected president and his subsequent inconsistent statements;
- the actions of the U.S. President are probably also caused by the active behaviour of his special consultant Elon Musk;
- extensive imposing of tariffs on the goods and services of most countries in the world for sale in the U.S.A.;
- declines in stock exchanges are also largely caused by the actions of the U.S. President and his economic policy, incl. declines in prices of raw oil and gold.

There are also talks about gradual phasing out of the production of petrol and diesel engine powered cars and a significant increase in the production of electric cars. This not very easy, however, for many reasons.

Under the leadership of the previous Prime Minister of Estonia and leader of the Reform Party, Kaja Kallas, it was decided to increase several taxes and also impose new taxes in the next few years. In essence, it was a decision to make the life of Estonian people more strenuous and then have Kaja Kallas nominated to the high-salaried post of the Commission of the European Union, High Representative for Foreign Affairs. Registration tax and annual tax of cars were imposed as new taxes in Estonia. This has led to the reduction of the purchase and sale of cars in Estonia. For instance, the sale of cars during the first 3 months of 2025 decreased 55% compared to the same period in 2024.

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The European Parliament voted on 14 February 2023 for the decision to prohibit the sale of cars with an internal combustion engine, i.e. cars with petrol and diesel engines, in Europe from 2035.

The decision was as expected (although most members of the European People's Party voted against it), the European Commission had approved it already earlier, representatives of European countries had agreed as well and now only the signature of the Council of the European Union will be required. It will probably be given as well.

This decision has two dimensions: **political and technical/practical** (i.e. what exactly will happen, how the technology will develop and how will the market become adjusted).

As to the political aspects: if a historian should investigate at some time in the future how cars with petrol and diesel engines were prohibited in Estonia, what was the political debate like and which argument for and against it were presented, the study would be very short.

*First, the European Commission made the proposal in July 2021; in November in the same year the Estonian Government approved it at a cabinet meeting (Kaja Kallas (Reform Party) was the Prime Minister at that time and Erki Savisaar (Centre Party) was the Minister of the Environment) and in January 2022, after a discussion of a couple of hours, the European Union Affairs Committee of the Riigikogu gave its blessing.*

### **The decision was adopted fast!**

A hypothetical future historian would find the only sentences which resemble a debate from the minutes of the same committee of the Riigikogu, as uttered by a member the Isamaa (Fatherland) Party Heiki Hepner: "Estonia should not go along with the prohibition of cars with an internal combustion engine", "Please do not agree to the prohibition of internal combustion engines for cars and light commercial vehicles", "I vote against it for the following reasons: I do not agree to the prohibition of internal combustion engines and I consider the mandate granted to the government for agreeing on LULUCF (Land Use, Land Use Change and Forestry) too broad".

And that is all. This is exactly how it works – proposal of the European Commission, approval by the Government and some sentences of Heiki Hepner at the meeting of the Committee, and a decision concerning hundreds of thousands of Estonian car owners was born. No Estonian political party has asked the mandate for such a step from its electors at the elections, nobody has included it in their election poster, no one has fought for it anywhere or explained it to electors. Is this how things should work?

"No, this is not how things should work," says social democrat Raimond Kaljulaid who was the Chairman of the European Union Affairs Committee at that time. Kaljulaid also refers to a bigger problem – members of the Riigikogu are just not capable to review thoroughly the "massive" draft legislation coming from the Government and then we also cannot expect any high-quality discussions at a committee of the Riigikogu.

**Internal combustion engines will probably not disappear but fuels will change** (Marek Strandberg, head of the editorial staff on research and technology of the *Postimees* newspaper):

From 2035, no vehicles powered by fossil fuels can be produced, otherwise carbon emissions cannot be reduced. This, however, may not mean disappearance of internal combustion engines.

Internal combustion engines have been developed and produced for a long time already and the related skills are no doubt excellent. But the issue is about fuels burnt in them. For instance, production of an internal combustion engine requires less different materials than for the production of the current fuel cells and batteries and electric engines. Thus it is also possible to use hydrogen for fuelling of an internal combustion engine, it can be burned without carbon dioxide emissions.

Automotive industry is already moving towards the use of electric engines – the aim of these developments is to stop using magnets, and the necessary magnetic field will also be created with electricity. It would significantly reduce the ecological footprint of car manufacturing as the need for rare metals for producing magnets will be eliminated. The same applies to generators – if a generator is connected to an effective internal combustion engine which consumes hydrogen, it can generate power also for a car powered by an electric engine. Electricity can be produced from hydrogen also directly by using fuel cells themselves. The current widely used solution is loading the batteries in the car and use of electric engines.

Vehicles with internal combustion engines will probably be produced also after 2025 but they will be fuelled by hydrogen. The current changes in technology allow us to hope that both batteries and electric engines and generators can be produced without rare materials.

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It could have been worse. When the plan reached the committee for the first time, the Government expected it to be approved immediately without any necessary discussions. When reading the minutes from that time, we can see that the Minister of Environment Savisaar in essence persuaded others: there is nothing to discuss here, it is just a starting point for the negotiations, approve it and we will go on. Hepner adds that this is common practice and that even the time schedules provide that the Government meeting is on Thursdays and the meeting of the Committee is on Friday so that a decision of the Government can be stamped by the Committee at once.

This time the Chairman of the Committee Siim Kallas (Reform Party) did not agree to such a time schedule and reserved a few weeks to allow the members of the Riigikogu who were members of the Committee to at least read through the texts and talk to people. Even if it did not lead to any particular debate – apart from the few sentences by Hepner – it was better than nothing. Hepner himself remains modest, however. He refers to the fact that minutes of the Committee are summaries, that maybe someone else also said something about cars and that there was probably more discussion than was eventually recorded. “But I generally agree that there was no debate,” says Hepner. As everything was done in a hurry, there were no impact analyses either. All members of the Committee, even Siim Kallas complained about

it, although he finally supported the decision. “We voted without having analyses to rely on,” admits Kaljulaid.

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#### **Situation in Estonia:**

- **Only one member of the Riigikogu of the Republic of Estonia protested against prohibition of cars with internal combustion engines.** (M.R. emphasis – Heiki Epner): “I am not against electric cars but the development should be evolutionary, we are simply not ready for such a sudden leap,” justifies Hepner his voting against this decision at the Riigikogu committee a year ago.
- **There is currently a shortage of electric cars in Estonia.**
- **If ownership of electric cars becomes massive, the availability of loading facilities will become the biggest problem.**

From practical aspects, i.e. how the transition to electric cars would look like, the issues can be divided into three groups: **price of the cars, loading possibilities and the electric car range per charge.** These are issues that consumers inquire about most of all.

#### **Prices...? There is a shortage of electric cars in Estonia!**

High prices are currently not a problem for car sellers, however. Toomas Kuusk, executive manager for Skoda Tallinn office, states that there is a shortage of electric cars in Estonia and that all cars arriving here are sold.

“I would say about this and the next year that probably the most important problem for us is that we just cannot get so many electric cars from producers as we could sell,” admits Koppel. “Deliveries are a problem,” also Kuusk says, also they would sell more if only more cars were available.

An electric car is obviously more expensive than an ordinary car but the prices have become more similar. True enough, as both the executive manager for Skoda Tallinn office Toomas Kuusk and the member of the management board of Viking Motors Raimo Koppel admit, the main reason is that the prices of petrol and diesel engine powered cars have increased, not that electric cars have become cheaper. “Many clients ask whether we would have cheaper and smaller electric cars but they are not available,” says Kuusk.

No one can forecast exactly how the prices of electric cars may start behaving in the future. An enthusiast of electric cars and newly-elected politician Mario Kadastik (Reform Party) considers that emergence of an aftermarket for electric cars could make the prices more favourable, i.e. if a large number of also used electric cars were on sale. This is not the case in Estonia yet.

According to Kaljulaid, one of the reasons why he voted against the decision at the European Union Affairs Committee is that the aspects of social justice had not been considered. “For people who live outside centres, a car is a necessary commodity but their income level is lower than that of the city population. How will they start buying more expensive cars?” asks Kaljulaid.

### **What is the range? And where should we load it?**

An electric car range for charge is 200–300 kilometres, for better and larger (and obviously therefore more expensive) cars already 500–600 kilometres. Car sellers are more optimistic about the future in that respect. Even if the technological development is not so rapid as in the previous decade, it is logical that cars will certainly become better, and the capacity of batteries and the range will increase. The fear that an electric car will not take you very far will probably gradually decrease.

The loading problem will finally remain. This concerns homeowners less<sup>30</sup> but most people live in apartments in Estonia. How will they load their future electric cars? Loading is not a problem as long as a couple of thousands electric cars are driving on Estonian roads and a couple of hundred electric cars are sold annually. “The loading network is currently not an obstacle and as the number of cars available is so low anyway, they are bought by companies and homeowners,” says Koppel. But one day, electric cars have to reach also the population of Mustamäe, Lasnamäe and Annelinn and no one knows yet how to load not 2,000 but 300,000 electric cars.

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*MR: There is also a great difference whether an apartment building has nine, five or other number of storeys. Many people would certainly like to load their car near their apartment. However, building such a network is very expensive and who would finance it (car owners, local municipality, the state or some other institution)?*

### **Tax incentives for older cars in Finland**

In addition to fuel tax, the Government has decided to reduce also the vehicle tax. The tax cut will reduce the annual tax revenue by 50 million euros and is intended for cars with medium and high emission levels from 2025.

In its proposal, the Government justified the selection of the target group with the fact that the current expenses of the owners of older cars have increased most of all as a consequence of the increase in fuel prices.<sup>31</sup>

### **About Estonian scrapped vehicles**

One of the arguments for imposing the car tax in Estonia was the intention to bring the vehicle fleets of our whole country, companies/organisations/institutions and the

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<sup>30</sup> A neighbour of the undersigned who has solar panels on the roof of his family home/villa for power production and has batteries in the house for storing the power generated, bought an additional battery block to load the batteries of his electric car at night (and also in the daytime, if necessary).

<sup>31</sup> Kūbarsepp, I. (2023). Soome valitsus langetab kütuse hinda ja automaksu. Ärileht/Majandus/Välismajandus. 21.09.2023

[<https://arileht.delfi.ee/artikkel/120233643/soome-valitsus-lan-getab-kutuse-hinda-ja-automaksu>] 24.04.2025

population into order, to remove vehicles which are in a poor state of repair (and not even suitable for repair any more) from the traffic and from ownership and to remove them from the register, take them to scrap yards and process them into scrap metal. This is certainly a realistic and genuine argument. The fact is that vehicles which have extensively rusty bodies and oil leaks and which cause air pollution (smoky) can often be seen in traffic. There are also quite a lot of vehicles which have not been used for years, which have been damaged and abandoned at the end of their life-cycle in yards and at other places in cities. In many cases also cheap vehicles that are not used are bought from other countries, transported to Estonia and sold to new owners here.

On 25 June 2024, a campaign of collection of scrapped vehicles started to allow people to deliver free of charge vehicles which have not been used for a long time, are partly demolished and in poor condition. In two years the owners will have to pay the motor vehicle tax on such vehicles. The campaign ended on 14 July.

April–May 2025

In Tallinn, at home office/villa at Pirita-Kose

Sincerely,

Matti Raudjärv (Chief Editor)

Member of the Mercedes Benz (MB) Club Estonia

### **P.S.: Some opinions of the Estonian Car Owners' Association<sup>32</sup>**

The motor vehicle tax, briefly called car tax in everyday conversations, has aroused passions since the day in 2023 when political parties proposed it during their coalition talks. We can start from the fact that at first it was called environmental tax which would be required for the arrival of the green paradise, while others regarded it an urgently necessary and actually pointless **property tax** (emphasis by MR) with the only purpose – to replenish the depleted state funds.

The latter statement was confirmed also by the activities of the current Prime Minister Kristen Michal who was the Minister of Climate at that time, which turned 120 million euros collected by Minister of Finance Mart Võrklaev into 236 million euros. And, unlike in Germany and Sweden, the registration fee reaching sometimes thousands of euros was imposed on the Estonian population whose living standards are considerably lower.

*Position of the undersigned, Matti Raudjärv (MR): It is currently not necessary to impose a property tax/real estate tax in Estonia. The reason is that Estonian people, particularly young people – young families are currently still relatively poor, similar*

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<sup>32</sup> Saar, Simmo. (2025). Riik automaksuga kahjumis? Autoomanike liit: koos autoturu hävinguga on sealt jäänud laekumata nii riigilõivud kui ka käibemaks. Õhtuleht, 28. august 2025. [https://www.oh tuleht.ee/1138527/riik-automaksuga-kahjumis-autoomanike-liit-koos-autoturu-havinguga-on-sealt-jaanud-laekumata-nii-riigiloivud-kui-ka-kaibemaks] 12.09.2025

*to the Estonian state. This applies particularly to the real estate tax – very many people have leased an apartment or house and this is not cheap. If they now have to repay the debt and the real estate is also taxed, many young people are in a difficult situation – they have not enough money to repay the debt to the bank and to pay the real estate tax (in addition, also the car tax). What to do – to take a loan (would it be reasonable?) or to surrender the apartment/house to the bank (the bank will gladly accept the inconvenient burden but can sell it cheaply). Where will the young people (families) live then? This is a very painful and complicated problem!?. And then we are still talking and asking – why the birth rate is low in Estonia? Let us think about it, this is not easy!*

*About a couple of decades or more years ago the undersigned supervised a master's thesis on the subject of real estate tax at the Department of Economics of the Tallinn Technical University (having had long-term post-doctoral fellowship positions at leading universities in Germany and then established the first Chair of Economic Policy in Estonia). The student was very efficient and the thesis were excellent. The final conclusion of the master's thesis can be summarised as follows – it would not be reasonable to establish real estate tax in Estonia before our population becomes wealthier. This will take some time, however! Even now, our society is still not ready for it.*

*We act randomly – progressive income tax is not regarded as suitable; we want to have a lower value added tax on food products (it should have been done immediately after regaining of independence of the Republic of Estonia); we want higher salaries and wages but we do not talk much about increasing productivity (instead of productivity we use the Russian term – *tööviljakus* / *efficiency of work* / *производительность труда*? etc., etc.!*

*Most countries in the European Union do not behave that way, they think before they act.*

*But this is probably how we, Estonians, will reach the top five of the wealthiest countries...*

MR.

Note: The earlier used vehicles from Germany owned by the undersigned (three already sold, one in use) (photos 1–4 in the paper in Estonian) were in good working order: the vehicles passed the pre-registration check at the Service Bureau of the Transport Administration at Mustamäe, the vehicles were registered and the certificates of registration were issued.