TEAM HUB!
Delivering sustainability to the e-commerce supply chain

Country Fiche ESTONIA

Authors: Heidi Erbsen, Janika Bachmann, Sabina Trankmann (University of Tartu)

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Introduction

The *Team Hub!* project is a two-year project supported by the European Commission, Directorate-General for Employment, Social Affairs, and Inclusion, receiving funding under the call for proposals SOCPL-2021-IND-REL aimed at improving expertise in the field of industrial relations. Running for 24 months (August 2022 – July 2024), *Team Hub!* combines desk and empirical research, as well as mutual learning and networking activities, in order to analyse features and challenges of the e-commerce supply chain in a set of selected countries, namely Belgium, Estonia, France, Finland, Germany, Greece, Italy, Poland, Spain.

The *Team Hub!* project brings together a consortium of universities, research institutes and trade unions from nine EU countries to jointly address the complexities and challenges of e-commerce supply chains, especially with regard to storage and delivery activities. The aim of *Team Hub!* is to analyse the implications of the e-commerce boom, following the COVID-19 pandemic, and to equip trade unions with the knowledge and skills necessary to propose a sustainable reshaping of business models and work organization in the supply chain, also in view of the digital revolution and environmental sustainability objectives.

The first phase (Study) of the *Team Hub!* project consists of a preliminary literature review aimed at producing country-level analysis of the e-commerce and logistics national panorama. The goal is to identify and assess existing information and data about key trends and features in the e-commerce supply chains at national level, with a particular focus on key market players and dominant business models, working and employment conditions, social partners activities, and the geography of the supply chains in the covered countries.

The present Country Fiche, part of a series of nine similar papers, contains the results of the national-level analysis. The Country Fiches are aimed at feeding an EU-level comparative analysis to be included in the Background Report, which will equip the consortium with adequate background information for the following phases of the project.

Country Fiches are based on a common methodology agreed and shared in advance with the project's consortium. The research was realised by national experts appointed by the project partners. Experts developed their research on the basis of a common template, whose structure shapes the Country Fiche below. With a view to guaranteeing homogeneity and comparability of results, guidelines were shared with regard to sources and references to be used for the completion of the country fiches' template. In particular, the following categories were designated: scientific literature, administrative data, surveys, general press, interviews with relevant stakeholders.

Country Fiche

Macro-analysis on trends and developments in the e-commerce sector

Sales, use of online channels by consumers and shops, market shares and presence of dominant players, employment and wage trends in the supply chain

In 2021, 77% of the Estonian population were **E-shoppers** (Lone and Weltevreden, 2022) and a survey from November-December 2021 found that 32% of Estonians bought all their goods online (Chomać-Pierzecka et al, 2022). The average cost of online purchases in the fourth quarter of 2021 was 42 EUR (Koff, 2022); however, this ranges from year to year (appx 33 to 42 EUR, Chomać-Pierzecka et al, 2022). Moreover, the number of total **online purchases** grew 50% in 2021 as stores were closed for some duration due to covid-related lockdowns. Although such high growth is not expected to continue post Covid closures, it is predicted that growth in online purchases will remain significant (15-20% of total retail) despite the fact that Estonia is experiencing one of the highest inflation rates in Europe (between 12 and 24% in 2022), increasing energy prices, and is facing other challenges related to the ongoing war in Ukraine.

From 2020 to 2022, the number of e-commerce domains in Estonia increased from 5,000 (Chomać-Pierzecka et al, 2022) to 7,700 (Estonian E-Commerce Statistics and Trends). The ease of access to online payments meant that there are two broader categories on **online purchases**: ticket purchases (transportation, theatre, online services, etc.) and product purchases (electronics, books, furniture, etc.).

There are also relatively few barriers to **online shopping** for Estonians. Only 4% perceive any danger to security or privacy in making an online purchase (the lowest among European countries), while the largest barrier is that individuals prefer to shop in person (60% according to the E-Commerce Europe, 2022 report). The average monthly online purchases from 2021 was 208 million EUR (Estonian E-commerce Association).

Overall wages in Estonia have increased post pandemic by around 7% and the trade sector experienced among the highest increase (10%) (stat.ee); due to high inflation however, the purchasing power of the average wage has fallen in 2022 (eestipank.ee). Employment rates have also increased across the board, yet because there are no wage and employment indicators related specifically to e-commerce, it is difficult to decipher the changes related specifically to e-commerce. This is complicated by the fact that many industries in Estonia participate in e-commerce but few have reporting mechanisms for what portion of their staff is dedicated to e-commerce activities. On average, curriers make 11EUR per hour which is slightly higher than the average hourly wage (9.4EUR) in Estonia.

In 2022, E-commerce in Estonia is estimated to make up 25% of total retail **turnover**, compared with the 3% only five years ago (Koff, 2022). While a large portion (around 89%) of Estonian e-consumers continue to buy from local vendors, (the most popular products are electronics, furniture, books, cosmetics, and fashion) (ibid, 2022), there is a growing debate surrounding competition from international e-stores such as AliExpress. While this was more of a debate in 2015, e-stores emphasize remaining competitive locally and internationally and in Estonia a large emphasis is placed on developing e-entrepreneurship.

Alongside this debate there is an issue in E-commerce in Estonia related to **taxation** and reporting of foreign online shops operating in Estonia. It is estimated that Estonia loses out on €145 million in VAT annually from foreign online shops (Saluorg, 2022).

This is due to the what legal experts say is 'faulty legislation' that does not enforce reporting of foreign e-shops operating in Estonia to the Estonian Tax Board. New legislation is in the works and the data needed to improve this situation should be enacted by 2024.

When it comes to environmental concerns, DPD Group studies have found that Estonian consumers highly value **environmentally friendly delivery** options: over half of Estonians expect environmental responsibility in their purchases, 33% of regular 3-shoppers (42% of the population) intend to buy environmentally friendly products, and 30% are willing to pay more for environmentally friendly products. It is predicted that the trends in Estonian logistics companies to move towards carbon neutrality and electric vehicles to meet consumer expectations will increase overall costs for consumers (and recall that Estonia already experiences the highest inflation in Europe) (Lone and Weltevreden, 2022).

A large portion of e-commerce comes from **non-tangible purchases** (such as tickets for transport/theatre or accommodation reservations). Although these types of purchases were disrupted in 2020 and 2021 (1/5 and 1/3 the amount of sales compared to previous years, in the next few years these sales are projected to account for around 40 million USD in revenue. This is almost double the 2019 numbers (24 million).

In terms of dominant players, **Omniva** (AS Eesti Post), an Estonian state-owned company operating throughout the Baltics, holds the largest market share for parcel delivery in Estonia (41-52%) (Estonian E-Commerce Association, 2022). Other logistical firms such as **Smartpost** and **DPD** (which make up 30% and 23% of the market share respectively) also play a relevant role in the implementation of E-commerce. The success of these companies is due to the effective network of parcel machines and delivery options.

Hansapost is an online store established in 1997 and consistently ranked as the largest online shopping platform in Estonia (Koff, 2022). It merged in 2018 with the Finnish Hobby Hall group and with Lithuanian Pigu Group in 2021, to form the PHH Group. Despite the merger, the online store continues to operate uniquely from stores in other countries and it is not sure what role the merger has played in operations. Kaup24.ee is also a popular store in the group. The platform represents over 4,000 vendors with more than 2 million products and attracts over 150 million visits per year (Koff).

Qualitative analysis on the different types of existing business models

Overview of the existing types, in particular concerning the relationships with workers and in the supply chain

There are three main types of e-stores in Estonia: 1) e-stores that also have a physical location (weekend-shoes), 2) stores that offer delivery as part of their regular operations (food stores such as Selver), and 3) purely online stores (hansapost and Kaup24). E-stores that are purely online or have a physical location (typically selling clothing or other non-essential goods) contract delivery services, and the customer can choose whether the package will be delivered by currier or via a pickup container. Physical stores that also offer delivery (particularly of essential goods) as part of their regular service have their own employed curriers and special marked vehicles for delivery.

It is common e-stores with fully online sales to contract a service provider to take care of the logistical aspects of the business. One example offering full e-commerce logistics is Logistika Pluss. Stores with a physical space may have their own vehicles and drivers (as in the case with essential good stores) or outsource delivery with a known currier such as the previously mentioned DPD or Omniva. In the case of ticket or event sales, separate platforms such as piletilevi are often contracted for this operation.

Payments are commonly made via bank-link using internet banking. For visitors from abroad there is also a credit card payment option.

Order filling and delivery methods:

- Manage the order yourself and organize the delivery
- Third-party service for inventory which fills the order and delivery
- Intermediary which orders product from supplier after receiving the purchase order

Some larger E-commerce shops maintain their own warehouses, but a majority of the goods sold by vendors arrive in the region from hubs in Central Europe. Road transport is the prevalent mode of delivery.

Common delivery methods in Estonia: pick-up, delivery or parcel-locker. Delivery service providers are DPD, itella, Omniva, FedEx. DPD, Omniva, Smartpost and itella offer parcel-lockers. (Lond 2019).

Labour market and working conditions

Emerging issues in terms of employment, working conditions, and health and safety of workers involved in storage and delivery activities for e-commerce major players

In general, the working conditions and health and safety of e-commerce workers is applied under the Occupational Health and Safety Act (OHSA) and state that the posted worker's actual employer and the contracted authority agree on who is responsible for health and safety (Estonian Labour Inspectorate). In the case of e-commerce and the different business models previously discussed, this means that in cases where the e-stores (such as food stores) have their own staff delivering goods, the stores are responsible for all worker health and safety; in others (where logistical operations are outsourced), the logistics company may take responsibility, but this must be clearly agreed on by the company contracting the logistical services. There are no special health and safety regulations for the e-commerce workers. At the same time, some current debates which are related to e-commerce operations are mental stress, training, minimum wages, and funding for the labour inspectorate to ensure that health and safety regulations are abided.

One of the main obligations of the employer is to assess the risk factors of the work environment, such as insufficient lighting, working in forced positions, management errors, work fatigue, etc. It is important to detect health hazards in time and neutralize them before an occupational accident or occupational disease develops. Assessing risks and mitigating them therefore affect the employee's health as well as his working capacity and the company's results. An employee whose well-being is cared for has a greater motivation to contribute to the achievement of the company's goals in the best possible way.

Inadequate training and guidance on the part of the employer often leads to the development of permanent health damage of the employee, often a timely health check-up is not organized or a work environment specialist responsible for work safety is not appointed. The employer is released from the obligation to pay compensation only if it can prove that the employee harmed himself intentionally or there is no connection between the working environment and the occupational disease (Estonian Trade Union Confederation).

Additionally, several social groups have gathered around the central theme of increasing the minimum wage for certain sectors and expanding health insurance and unemployment benefits. The delegations of the Estonian Central Union of Employers and the Central Union of Estonian Trade Unions of the social partners agreed on the minimum wage for 2023. As a result of the agreement, next year the minimum wage will increase by 71 euros compared to this year, i.e. to 725 euros. The minimum wage and minimum working time or contractual agreement for health insurance are regularly negotiated.

Geography of the e-commerce supply chain and presence of nodal points

It is common for E-commerce shops to provide service in local language only and domestic delivery only. However, some of the larger players, such as Omniva and Hansapost, have merged or expanded operations regionally, usually in the Baltic states and in Finland. In Estonia, the central hub for transport is Tallinn but many logistics firms have depos across the country. DPD for example has 9 in different cities meaning that international orders (from Lativa or Poland for example) do not necessarily need to transit through the capitol city to reach their destination. In terms of storage, many smaller stores use logistical companies (the largest concentration being in Tallinn) while larger stores such as Kaup24 and hansapost have their own warehouses. At the same time, many of the logistic firms contracted by e-stores operate out of Tallinn as their central hub and e-stores with their own warehouses are located in Tallinn (I.e. hansapost). Kaup24 has 4 warehouses in the four largest Estonian cities: Tallinn, Tartu, Narva, and Parnu.

Relations and agreements with China have also been building but halted in recent years. In 2017 the Minister of Entrepreneurship and Information Technology Urve Palo signed three Memorandums of Understanding between Estonia and China aimed to increase economic ties, e-commerce ecosystems and services, and facilitate logistics and trade (Estonian Ministry of Economic Affairs and Communication (2)). During Corona and due to growing political mistrust of China, Estonian consumers and networks have turned away from China towards Europe (Omniva, 2020).

Social partners positions and main actions

Trade unions are rare in Estonia. The number of trade unions fell sharply in the 1990s and has continued to decline to the current Union density of around 7% (Worker-participation.eu). The main actors in negotiating workers' rights, salaries, and health and safety conditions are individual employers and the national legislation. A more common form of representation for employees is through an elected employment representative, which since the 2007 legislation on representation came into effect give employees collective bargaining mechanisms where unions are not present. OSH representation also comes from a separately elected individual.

When it comes to specifically e-commerce however, the following organizations are active in negotiating workers' rights:

- The **Estonian Trade Union Confederation** raises awareness about different issues in the employment field. They argue that the labour inspectorate should be better funded to ensure health and safety laws are followed and employers should care more for the mental health of employees.
- The **E-Commerce Association** works to unite actors in e-commerce and promote standards for good practices in e-commerce. The association raises awareness about the standards in e-commerce and provides a platform for e-commerce business in Estonia to unite and discuss common issues.
- The **Estonian Logistic and Freight Forwarding Association** was established in 1994 and today unites 58 companies concerned with international logistics. It is a volunteer, non-governmental association that works to prevent unfair competition and contribute to the development of legislation related to distribution and related activities. They work to increase the minimum wage for transport operators.

- The **Estonian Ministry of Economic Affairs and Communication** focuses on many sectors that influence e-commerce: energy and resources, digital governance and connectivity, entrepreneurship and innovation, and transit and mobility. The ministry organizes meetings with lobby groups (including the previously mentioned groups) to discuss challenges and concerns.

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