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**EXCISE DUTY ON COFFEE IN ESTONIA: THE EXAMPLE  
OF GERMANY**

Thesis

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## ESTONIAN ACADEMY OF SECURITY SCIENCES THESIS ANNOTATION

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<p>Thesis title in English: Excise duty on coffee in Estonia: the example of Germany.</p> <p>Thesis title in Estonian: Kohvi aktsiis Eestis Saksamaa näitel.</p> <p>The thesis has been written in English and consists of 54 pages, including extras. In the work, there has been used 52 sources and they all have been referred to in the text. The thesis is topical because topic because in recent years a lot of countries have started looking for new ideas on how to stop people from consuming harmful products that could cause some serious health problems and damage the environment.</p> <p>The aim of the thesis is to find out what will happen in Estonian coffee market if excise duty is added to products containing coffee as Germany does. To achieve the goal, 4 research tasks were set up, which were solved by using in combination qualitative and quantitative research methodology.</p> <p>The thesis provides a thorough overview of coffee market in Estonia and the possibility of adding excise duty on coffee products. Also, it gives a thorough overview excise duty on coffee in Germany and how it works there.</p>	
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# INTRODUCTION

For years, the main purpose for excise taxes has been to limit the consumption of goods that could be detrimental to people's health and to the environment. Most countries have established excise duties on tobacco products, alcoholic drinks, and on gas. Germany has gone one step further and thinks that coffee should also have excise duty because it could cause health issues and therefore, people should consume it less or stop drinking it altogether and on the other hand because people consume it so much, the government saw an opportunity to get more revenue to its state.

This topic was chosen because the author of this thesis wants to show the various methods other countries have taken to protect their citizens against products that could cause health issues. Billions of people around the world start their day with a jolt of coffee and the majority of them are not even aware of the negative side effects coffee could cause. Some people go to extremes and are not limited to just one cup of coffee a day, for people like that their daily norm could be four to five cups of coffee a day or even more. The scientists from the University of Georgia have come up with the idea that walking on steps gives a lot more energy than a cup of coffee. So, instead of consuming more coffee, people should walk more (Teadlased: vali kohvijoomise asemel trepist käimine, 2017).

This is a rather current topic because in recent years a lot of countries have started looking for new ideas on how to stop people from consuming harmful products that could cause some serious health problems and damage the environment. Some countries think the best way to fight harmful products is to establish excise duties on goods that contain caffeine and sugar. They are hopeful that it will raise awareness in people that some goods are dangerous and should be consumed less to preserve the nature and its citizens' lives. Countries have begun to call excise duties simply health tax. Also, it is a new way to collect taxes.

Furthermore, this is a novel topic because nobody has ever written about Estonia having excise duty on coffee and how it could affect Estonian economy, especially right now when Estonia

loses so much money to Latvia. This thesis will show approximately how much money Estonia as a country could win if it establishes excises duty on coffee. In addition, it could show the government the negative side effects of drinking coffee.

The research problem question is: how much income could excise duty on coffee products bring Estonia as an example of Germany? New effective excise tax should be one way to limit coffee consumption and improve public health. Also, it should help increase tax revenue. From an aspect of effective taxation, it is important that the tax revenue would be greater than the cost of setting and managing the tax. Firstly, it is important to figure out how much it will cost the government to implement this new excise duty.

The aim of the thesis is to find out what will happen in Estonian coffee market if excise duty is added to products containing coffee as Germany does.

The following research tasks have been set to achieve the goal of this thesis:

1. Provide an overview of Estonian coffee market.
2. Provide an overview of the nature of coffee products as excise goods in Germany.
3. Analyze the possibility of taxation of excise duty on coffee products in Estonia.
4. Analyze the consumption of coffee products and the potential tax revenue to Estonia.

The thesis is prepared by using both qualitative and quantitative research methods. For the theoretical part of the thesis the author uses written sources. For the analysis part, a survey was created and questioned people who drink coffee to figure out how much coffee they consume on a daily bases and are they willing to pay more money for coffee if it has excise duty added to its original price. The final step would be comparing the survey results with the information found from the written sources.

The thesis consists of two chapters. The first chapter deals with the first two research tasks. They will show an overview of Estonian coffee market and an overview of the nature of coffee products as excise goods in Germany. The second chapter delves into the last two research tasks. They analyze the possibility of taxation of excise duty on coffee products in Estonia and

the consumption of coffee products and the potential tax revenue to Estonia if possible. The end of the thesis should bring out the outcome as to how much Estonia would win with the new tax and would it work out in our current economy in the long run.

# 1. COFFEE EXCISE DUTY

## 1.1 Coffee market in Estonia

Coffee has been around for thousands of years and it has been used for different purposes. Nowadays, people use it mostly as a morning pick me up so they can wake up properly and go on with their daily activities as normal. Some people need one cup of coffee a day but there are people who need a little bit more. Coffee markets are constantly changing because many different factors affect it, such as climate changes and political decisions made by the governments. In Estonia, coffee market has gone up in recent years and people depend more on their morning cup of coffee to kick start their day more efficiently.

It is thought that coffee originates from Ethiopia and from there it spread all over the world. It is believed that coffee got its modern name from the Kaffa village in Ethiopia. Ethiopians were the first ones to discover the energizing effect that the coffee plants had when consumed. They first noticed it when animals ate the coffee plant leaves and saw how it affected them afterwards. The history of coffee dates back to the 10<sup>th</sup> century or even before that. The earliest evidence of drinking coffee and growing coffee tree plants dates back to 16<sup>th</sup> century, when monasteries in Yemen started growing them. The United States of America was the last place where coffee plants reached, because at that time the country was still pretty much separated from the rest of the world. The word coffee entered the English language around 1582; originating from the Ottoman Turkish word *kahve*. Over the course of centuries, different nations have developed their own methods of cooking and serving coffee that suits their needs the best. The best known are Turkish coffee and Italian espresso. Espresso, as an innovation in the coffee making process, began in 1822 when an espresso machine was invented in Paris. The Italians improved the French fabrication and began to produce first espresso machines on their own. The first café, that sold coffee and other pastries, was opened in Italy in 1645. Today, coffee production has become a huge industry, employing more than 20 million people worldwide. In terms of turnover, it remains second only to the oil industry (Hicks, 2001).

Growing coffee plants and then getting coffee beans out of it is a very long process. Growing coffee plants requires patience and time, as the fruit starts to yield crop after 2-5 years of production. Not all countries in the world can grow coffee plants. The plants need specific growing conditions that only a small part of the world has. For example, India is one of the ideal places to grow one of the best quality coffee in the whole world because plants get enough sunshine and rain; on the other hand, there is enough shade from the weather elements that could damage the plants, which are rather sensitive. Coffee tree is a special plant so there can be three stages of maturation in the same plant: flowers, raw fruits and finally ripe fruits. It takes about nine months for the coffee cherry to grow and then it is picked by hand. Each plant is harvested five times in three-month period intervals. Each coffee cherry contains two green coffee beans, which will mature immediately after flowering. In India, during coffee picking season each person can pick about 150-300 kilograms of coffee cherries daily. Some people, who have mastered cherry picking, can pick as much as 400 kilograms of coffee cherries a day. The next stage is to get them ready for customers. Separation of beans from cherries - this procedure is done in two ways: dry method and wet method. Dry method means coffee beans are left to dry in the sun for two to three weeks. Wet method means that the majority of flesh is removed from cherries by machines, and then the remaining flesh is fermented in large containers. Fermentation lasts for about 24-36 hours. Then fermented coffee beans are fed to drying. The wet method gives the raw coffee a pleasantly sour taste. The main stage in the production of high-quality coffee is roasting and mixing beans. The two most common roasting methods are roasting with a drum and roasting with hot air. In the case of roasting, the coffee beans are placed in a rotary drum that is heated by gas or logs. Hot bean torrents torture coffee beans with 200-degree hot air. India has its special Central Coffee Research Institute (hereafter CCRI) whose job is to test coffee quality and study the plants. About 60 researchers work for this organization in order to keep an eye on breeding new plants and searching new growing conditions (Bote, *et al.*, 2011, 336-341).

The most common type of coffee is Arabic (*Coffea arabica*) from Ethiopia. Its share of world-wide coffee is about 75%. Plantations are generally situated at altitudes above 1000 meters. This characteristic makes it a so-called highland coffee. The second famous coffee type is robusta (*Coffea canephora*), which has a much stronger taste than Arabica. Coffee varieties are

usually associated with the name of the country of production. For example, Colombian coffee, Costa Rican coffee etc. Coffee means, in general, coffee made from coffee tree beans. Coffee beans contain caffeine, which acts excitingly. Arabica beans have a caffeine content of approximately 1.2%. Robusta beans have a caffeine content of approximately 2,3% (Exporting coffee to Germany, 2017). Coffee can be sold raw, roasted, ground and as instant coffee. In addition to natural coffee, blends are also mixed, for example where crop or chicory are added to the coffee. Coffee is grown in over 50 countries in Asia, Africa, South America, Central America and the Caribbean. Of this, 67% of the world's coffee comes from America, with 90% of coffee being produced in developing countries. In 2015, about 3000 million kilograms of coffee beans were produced in Brazil. Brazil's first place is not a surprise, since over the past 150 years Brazil has been arguably the world's largest coffee maker in the world (Kes on suurimad kohvitootjad?, 2017). Coffee cultivation covers more than 27 thousand square kilometers in the country. Brazil is distinguished from other coffee countries because it uses a so-called dry process in the process of coffee, where coffee beans are dried in the sun, instead of being washed and then dried (Bote, *et al.*, 2011, 336-341).

Coffee started spreading across the globe in the 16<sup>th</sup> century but it did not reach Estonia until the 17<sup>th</sup> century. It is known that at first drinking coffee was deprecated. Because the real coffee beans were expensive so peasants drank mostly coffee made out of chicory or crop. Drinks made from chicory and crop did not taste very well and were bitter. Only the rich could afford to drink bean coffee. At the end of the 18<sup>th</sup> century, almost 91 000 kilograms of coffee beans were brought to Estonia through the main port. At one point, some Estonian stores sold green beans and people tried to roast them at home but it was useless cause because it did not work as well as hoped. However, brown coffee beans could only be found in the best stores in big cities. Therefore, the right brown coffee beans for the Estonians were a luxury product for a long time, which only a few could afford. Although the first known cafe was opened in Tallinn in 1702, coffee distribution among Estonians was mainly concentrated only this century (Kohvikultuur, 2016). During the Soviet Union time, coffee was also very hard to come by and was reachable for only few selected members of society. People with no money and no social status drank mostly coffee made out of chicory or crop.

Coffee market in Estonia has gone up in recent years. Reasons for that might be different. One of the main reasons could be that in recent years a lot of new cafe shops have been opened and they all try to compete against each other and get all the customers to themselves (Rand, 2018). Statistics Estonia has provided data from 2012 to 2017 as to show how much Estonians spend on average on coffee. But we do need to keep in mind that the figures given also include tea and spices and the year 2017 had not yet ended when this chapter was written for the thesis. If looked closely, Estonians spent 65 206 794 million euros on coffee, tea and spices in 2016 alone. For instance, in 2012 the figure was only 49 948 529 million euros, the difference is 15 258 265 million. It is a huge increase in just four short years. If we look at it from another angle, the population who could have been drinking coffee in the year 2016 might have been around 1 095 911. So, in other words people between the ages 15 to 89 on average could have spent 59.5 euros a year on coffee, tea and spices. It is not conclusive because teenagers prefer energy drinks to coffee and not all adults drink coffee; they prefer tea instead of coffee, for example (Statistikaamet, 2017). Another reason why coffee consumption has gone up is that people earn more money now than they did a few years ago when the economy was recovering from the big economic crash in 2008.

In recent years a lot of different cafe shops have opened their doors. When walking around in Tallinn or the Old Town, people can buy coffee almost from every corner store or kiosk. Now the new trend is that even big grocery stores offer the opportunity for its customers to buy coffee right from the store. Who does not like drinking coffee while shopping for the things that are necessary? For example, in the United States of America Starbucks has opened its stores in the malls and grocery stores. Some of the stores even offer carts that have special cup holders attached to them to make shopping easier and clients do not have to hold the cup all the time and can look at things they want freely. In Estonia, different gas stations are offering different deals for their loyal customers. For example, in Circle K buyers have special membership cards that count every coffee they buy and every sixth one is for free. Other gas stations have noticed that it works very well and have also adapted that system. The biggest difference between USA and Estonia coffee drinkers is that Estonians drink a lot of caffeinated drinks that come out of machines but Americans prefer fresh drinks made by baristas. The biggest advantage of freshly made drinks is that customers can custom order them however

they like them. For example, person can order a skinny vanilla latte with no foam, because they might not like foam on their drink or they prefer a drink that is a little bit hotter than usually served. With machines, there is no way a person can order their drink like that. With baristas clients know that they get a fresh cup of coffee but with machines it might turn out that the beans have gone stale. In recent years, another type of coffee machines have arisen - machines that use coffee capsules. It means that people put special capsules full of coffee into the machines and get coffee. For people who drink multiple cups of coffee daily – this could get very expensive at the end. Nespresso provides one of the best coffee capsules in the world and if we look at the prices at their home page, then we can see that the cost of one capsule is between 0,47 – 0,59 euros. Besides that, customers also have to pay for shipping. When a person picks the cheapest capsule and orders it for a year's supply and drinks one cup a day then he/she has to pay about 171,55 euros a year. For the expensive one the amount would be 215,35 euros a year. Families, who have more than one person drinking coffee and multiple cups a day it could cost close to 1000 euros a year or more. If we look at the data, average Estonian drinks 4,5 kilograms of coffee a year and a package of coffee costs 23.90 euros, which is the most expensive coffee on the Estonian market, then a year's supply would still be much less than capsule coffee would be. According to calculations, the price would be around 107,55 euros. Actually, this price is a lot smaller because only a few people are willing to pay 23,90 euros for a bag of coffee (Mapped: The countries that drink the most coffee, 2017).

Statistics show that in recent years Estonia's coffee consumption per capita has grown. In the year 2016, it was already 4 kilograms and now it is over 4,5 kilograms. In comparison, in Germany the figure was 5,5 kilograms and in Finland it is 12 kilograms per capita, which means Finnish people drink more coffee than beer (Caffeine (Coffee) Consumption by Country, 2017). There are various reasons for such differences. The biggest factor could be the price. In Estonia, prices are one of the highest ones in Europe. If we compare the prices in Estonia and Germany, it is astonishing what comes out. For example, a bag of Jacobs Krönung 500 grams costs the same in both countries, 5,99 euros, but people have to keep in mind that in Germany that price already contains excise duty. Without the excise duty it would be only 3,80 euros. If we look at more pricy brands like Lavazza Crema e Aroma, then the difference is noticeably bigger. In Estonia, it costs 19,99 euros per 1 kilogram bag while in Germany it

only costs 15,99 euros (Exporting coffee to Germany, 2017). That price already contains excise duty. Without excise duty it would be around 13,80 euros. It is not okay for the difference to be that huge when the minimum wage in Estonia is almost 1000 euros lower than in Germany and Germany still gets excise duty while selling coffee. But also, tax systems in these countries are different and that can make such differences. For instance, value added tax in Germany is 19%, while in Estonia it is 20% (2018 European Union VAT rates, 2018). We do need to keep in mind that figures given to us do not show the real situation. Besides coffee, other drinks also contain caffeine and people do consume those and this data does not include that. So called soft drinks, that have a lot of caffeine in them are very popular among youngsters and the government has to come out with new laws to prevent stores from selling those drinks to teenagers under the age of 16 years (Mapped: The countries that drink the most coffee, 2017).

As it turns out, Estonia itself produces coffee. To specify, an enterprise called Haba brings green coffee beans from Central and South America here to Estonia and then roasts them. Haba coffee beans are hand-picked with the finest quality Arabica coffee beans according to their website information. Haba is not the only company who does that, there are other smaller companies who do that in a smaller capacity. This company provides its customers couple of different varieties of coffee and their market is limited. People who buy from them are very satisfied with their products.

According to Statistics Estonia, Estonia exported 2 107 086 euros worth of coffee, tea and spices to other countries worldwide last year. In 2012 that figure was 4 055 280. This year, by the end of November, it is 903 338. To sum up – the figures are slowly going down. The main reason behind that might be the climate. Estonia has not been so lucky with the weather lately. It is either raining too much or it is too dry, from one extreme to another (Statistikaamet, 2017). According to the table below, last year Estonia exported coffee with caffeine the most, worth almost 6 807 865 euros. The second place belonged to black tea with 198 587. The numbers are rather small compared to import. Like in export, number one place belongs to coffee with caffeine, with 32 758 838 euros. Black tea came into second place, with 3 043 257 euros. It is important to bring out that the third place belongs to green tea, worth almost 1 644 556 euros. (look table 1.). (Kaupade eksport ja import kauba (KN) ja riigi järgi 2012-2017, 2017).

Table 1. Commodity codes and import/export (Kaupade eksport ja import kauba (KN) ja riigi järgi 2012-2017; compiled by the author)

Name	Commodity code	Import	Export
Unroasted coffee with caffeine	0901 11 00	485 836	127 386
Unroasted coffee without caffeine	0901 12 00	11537	1635
Roasted coffee with caffeine	0901 21 00	32 758 838	6 807 865
Roasted coffee without caffeine	0901 22 00	189 673	2376
Coffee beans shells and skins	0901 90 10	338 939	8552
Coffee substitutes containing coffee	0901 90 90	219 811	48 706
Green tea	0902 10 00	1 644 556	48 510
Other green tea	0902 20 00	62 127	8589
Black tea	0902 30 00	3 043 257	198 587
Other black tea	0902 40 00	110 355	25 410

Estonia exports a big bulk of coffee to our biggest neighbor – Russia; this is according to the data given to us from the year 2016. This country gets almost half of the coffee export, 46% to be precise. One of the reasons for that may be that we are their connection to the rest of Europe and it is easier for them to bring it through Estonia. Latvia is in the second place. Estonia exports 34% of its coffee to Latvia. As it turns out, coffee is one of the few products that is still cheaper here than in Latvia. Almost 10% of Estonia’s coffee export goes to Lithuania and 3,1% to Germany (Where does Estonia export Coffee to?, 2016).

While the biggest coffee importing countries in the world are Brazil, Vietnam and Colombia, it turns out that Estonia does not import its coffee directly from those countries (World coffee consumption, 2017). Most of the coffee which Estonians consume comes from our neighboring country Finland. A total of 46% of it came here in 2016, according to data. The second place belonged to Germany, with only 13%, while considering that Germany is the largest coffee re-exporter in Europe. Italy came in third with 10%. Not surprisingly, Latvia made it on the list as well. Estonia imported 1,8% of its coffee from Latvia. In total, Estonia spent over \$37 million on importing coffee, in 2016 (Where does Estonia import Coffee from?, 2016).

Coffee, tea and spices belong in the Estonian Master Tariff System (EMTS) according to Statistics Estonia 2015 Combined nomenclature for the group 09: Coffee, tea, mate and spice, i.e. a group of herbal products (including seeds, etc.) that contain a lot of oils and aromatic

constituents and are used for their characteristic taste mainly as spices. Instant coffee belongs to commodity group starting with the numbers 0901 11. Roasted coffee belongs to commodity group 0901 21. Tea and other things that belong to this group starting with 0902 (The effects of tariffs on the coffee trade, 2011).

In conclusion, the history of coffee is long and it has stayed mostly the same in order to keep the flavor as unique as possible. Growing coffee plants is a very time-consuming process but worth the money for the plant owner and to coffee drinkers all over the world. Therefore, Estonian coffee market has not yet reached its full potential, it still has a lot of growing to do compared to other countries. However, one thing is for sure that Estonians prefer machine coffee to custom made drinks with higher quality. All this causes a fierce competition among different cafes and gas stations who try to win over each other's customers by providing a better brew. Coffee consumption per capita has also gone up in recent years. Estonia even has started producing its own coffee in small quantities, they get the green beans from other countries but they still roast them here, which gives it its unique flavor.

## **1.2 The nature of coffee products as excise goods in Germany**

Besides the usual excise duty products, such as alcohol, tobacco products and gas - Germany is one of the few countries in the world who has added excise duty on coffee. Germany has taken that step because the government thought it could be a good way to earn more money to the government and its expenditures. It works well in that country because Germans drink a lot of coffee.

Excise tax in Germany is a type of tax charged on goods produced within the country (as opposed to custom duties, charged on goods from outside the country). Typical examples of excise duties in Germany are gasoline, tobacco products and alcoholic drinks. Excise duty is also a tax levied on the producer of these goods. In Germany it is a separate tax from value added tax (VAT), and is different from it in that VAT solely affects the consumer. The consumer also indirectly pays the excise, as it is included in the eventual sale price of the product (Excise duties in Germany, 2017).

Like in other European Member States, alcohol brings in most of the excise duties in ones' country. Some Member States have higher taxes than others do. In a way, Germany is almost at the same state as Latvia is to Estonia. Excise duties on alcohol are very low in Germany and because of that, neighboring countries' citizens visit Germany more often to get most of their alcohol from there. For example, people from Denmark do that very often. As soon as Danish people start planning bigger parties, they go to Germany and get all what they need from Germany. When compared the tax rates in both Estonia and Germany then we can see that they are different (Jacobsen, 2016). In Estonia, people have to pay excise duties on all alcoholic beverages that have alcohol in them, Germany is different from that way. In Germany, people pay excise duties only on sparkling wine and beer. According to data given to us, in 2015 Germany got excise duties from sparkling wine almost 415 million euros and from beer 678 million euros. All together it makes 1093 million euros. In comparison, Estonia got 206,82 million euros in 2015. There is almost a five-time difference between those two countries (Data on taxation, 2017). The difference is huge because the population of Germany is much higher and more tourists visit that country. Also, the country is known for its worldwide famous Oktoberfest. It is held in Munich and lasts about 16-18 days. In simple words, it is a festival dedicated to all things beer. Millions of tourists visit it each year and they are served millions of liters of beer.

Germany, like other Member States in Europe collects excise duties. They have divided their excise duties into five different categories (Taxation, 2017). The first one is the energy tax that mainly contains natural resources of energy like mineral oil, coal and natural gas. The second one is the tax on spirits. It is levied on alcoholic products which are not subjected to specific excise duties and that have a percentage above 1,2 percent. The third is the tax on specific alcoholic beverages such as the beer tax, the tax on sparkling wine, and the tax on alcopops, which has added to the tax on spirits. Alcopops are small bottles that have alcohol in them, like Cooler or Saku on Ice in the Estonian market. The fourth one is the tobacco tax that is levied by revenue stamps. It means that tobacco packages have special tax stamps according to what tax collectors know how much excise duty is added to a specific package. As soon as the excise duty goes up, those tax stamps have to have the new tax. And the last one is the coffee tax (Excise Duties, 2017).

As said before at the beginning of this thesis we can see that people in Germany drink about 5,5 kilograms of coffee on average over the course of a year. In 2015 the figure was almost one kilogram higher, being at 6,5 kilograms (Exporting coffee to Germany, 2017). For Estonia, the figure is a little bit smaller, about 4,5 kilograms per capita. Germany is in top ten with their drinking habits. Top three places belong to the northern countries like Finland, Norway and Denmark (Jevtic, 2015). There is no common explanation for that but some think it is due to the long winter. Finnish people drink 12 kilograms per capita, that is almost 2,1 kilograms more than Norway, whose figure is 9,9 kilograms. And 6,5 kilograms more than Germany (Mapped: The countries that drink the most coffee, 2017). Winter months are long in those countries and people have to find a way to keep them warm somehow and probably drinking coffee in big quantities helps them. Or there can be other reasons unknown to us why their consumption is so high.

A study was conducted to see how much coffee Germans drink daily and it is astonishing because as it turns out 45% of the population drinks two to three cups of coffee daily. Only 14% drink one cup a day. Almost 26% of people drink four to five cups of coffee a day. The last percentage is very big, considering that the population of Germany is about 82,3 million. As it turns out, Germans drink more coffee than beer (Piano, 2018). A cup is a 7 ounce mug that is about 207 milliliters from our point of view. A cup of coffee may contain 40 mg to 180 mg, depending on how it is brewed. Tea varies from 20 mg to 90 mg per 8 oz. cup. Cola and other soft drinks contain 36 mg to 90 mg in 12 oz., and bittersweet chocolate has 25 mg of caffeine per ounce (McNight, 2017). So, if we do a little math then we can see that if a person consumes four to five cups a coffee a day it means that he/she drinks about 828-1035 milliliters of caffeinated drinks a day. Every drink has a different amount of caffeine in them, it means that if we compare black coffee to latte then the last one has much less caffeine in it. A person who is healthy and has no medical issues can drink up to 400mg of caffeine in one day. Not only coffee has caffeine in it, most of the soft drinks also contain it. For example, 2,5 cans of Monster Energy drink has the same amount in it or 11,7 cans of small Coca-Colas. If coffees, the amount would be either 5,2 shots of espresso or one Starbucks Venti. On average, Germans drink about 150 liters of coffee per year – which is more than beer or wine. That raises a

question - how does that amount of coffee affect a person? Surely, it is not good for the health (A little history of what Germans drink and why, 2017).

Germany has excise duties for two different kind of coffees. One is for instant coffee and the other one is for roasted coffee. So, depending on the type of coffee, you have to pay different amount of taxes and they take it from every kilogram. As it turns out, instant coffee has a higher tax. For every kilogram of instant coffee, customers have to know that they pay 4,78 euros for taxes. For example, a 1 kilogram coffee package costs 11,58 euros and from that 4,78 euros goes for excise duties. The coffee package without the added tax would cost only 6,80 euros. For roasted coffee, the tax is a little bit lower, its 2,19 euros per kilogram (European Commission, 2012). Like with other taxes, people try to find ways to not pay the coffee tax and because of that they order coffee online from other European countries. That causes huge problems because tax collectors do not get as much money as expected and getting back the money not payed may take up to a year. So, the government has to pay more on administrative costs (German coffee tax collection costs dwarf revenue, 2009).

Germans do not only take excise duty on per kilogram but also per grams. For instance, a product contains 10 grams of roasted coffee then it means that 0,12 euros is added to its original price. But when a product contains 10 grams of instant coffee then 0,26 euros is added. So, it means the more caffeine the coffee drink contains the more excise duty is added to the original price. This method is very important for cafes that sell caffeinated drinks. (European Commission, 2012). America's biggest coffee shop Starbucks has expanded to Germany and it has provided data to show how its drink prices differ from country to country (Germany Coffee Market - Growth, Trends and Forecasts (2018-2023), 2017). As it turns out, Germany has one of the highest prices. If we buy a cappuccino or latte in Berlin, then we have to be ready to spend between 3,04-3,14 euros for a tall cup. In Warsaw, Poland we only pay about 2,48 euros for the same amount of coffee. As it turns out, Germany does not sell the most expensive Starbucks. That glory belongs to Bern, Switzerland. A tall cup of cappuccino or latte costs 5,19 euros. That means, on average, coffee in Bern is about 2,05-2,15 euros more expensive than in Germany. When we compare the prices in Bern and Warsaw, then the difference is 2,71 euros (Blake, 2017).

One of the reasons why Germany has come up with excise duty on coffee is that a lot of scientists believe that drinking coffee is bad for the health. Researchers claim that caffeine is like a drug that can cause addiction. It is important that consumers understand how caffeine interacts with their bodies in regards to their personal health histories, everybody is different and caffeine can affect us variously. There have been cases where people have gotten an overdose from drinking too much coffee and died from it. Those cases are very rare, but it can happen and that is the worst case scenario (Beyond the morning buzz: How does coffee affect your heart?, 2018). The Mayo Clinic, a nonprofit medical practice and medical research group in the United States of America, has found that coffee consumption rises blood pressure and for people who already have naturally high blood pressure, it could be dangerous. Other harmful side effects are: insomnia, reduced fertility in women, miscarriage risk, causes more forceful heart contractions, hallucinations, accelerates bone loss and etc (20+ Harmful Effects of Caffeine, 2017). Once a person is hooked on drinking coffee, it is very hard to quit. The body is craving caffeine and if it does not get it, it could cause severe headaches. The body will react almost the same way as drug addicts if not given any more drugs, it is best known as withdrawals symptoms (12 fakti kohvist, mida sa varem ei pruukinud teada, 2013).

Like in other European Union Member States, Germany has strict rules to how much excise duty products people can bring to the country without paying taxes. Germany has similar rules to Estonia when it comes to alcohol products, cigarettes and gas. Only difference is in regards to coffee. German citizens can bring up to 10 kilograms of coffee products into the country without paying any taxes on them (Alcohol, tobacco and products containing coffee, 2017). As soon as they pass the limit, people have to pay for every kilogram that exceeds the limit. When a person orders coffee online from another country then they have to be careful and keep some very simple rules in mind. If they order goods worth less than 22 euros then they do not have to pay value added tax, when the amount is over that limit then a person must pay value added tax. When the coffee good is sent as a present then the amount cannot be over 45 euros. With the amount of 150 euros people must pay value added tax and customs tax. Estonia has the same rule and because of that a lot of people order things from Aliexpress and keep their total less than 22 euros. Frequently things are over 22 euros but people who sell their things

forge the receipts. It is a huge problem in Estonia and in Germany. It takes up a lot of time to deal with shipments like that.

Table 2. Excise duty on coffee when a person drinks Starbucks daily (Blake, 2017; compiled by the author)

	1 cup a day	2 cups a day	3 cups a day	4 cups a day	5 cups a day
Roasted	43,80 €	87,60 €	131,40 €	175,20 €	219 €
Instant	94,90 €	189,80 €	284,70 €	379,60 €	474,50 €

Germany earns a lot of money from excise duty added to coffee products. As stated before at the beginning of this thesis, one study showed that on average, Germans drink 150 liters of coffee per person a year. It makes almost 2 cups of coffee a day. In fact, almost 46% of people drink two to three cups a day. In contrast to Estonians, Germans drink more so-called custom-made coffee. It means that they use large cafe chain called Starbucks daily (Germany Coffee Market - Growth, Trends and Forecasts (2018-2023), 2017). So, when we look at the prices at Starbucks and see that cappuccino is 2,05 euros and there are 365 days in a year, then a person drinking one cup of coffee a day spends in one year 748,25 euros. Person drinking two cups a day spends 1496,50 euros. When we look closely at the latte price then a cup of latte is 2,15 euros. Drinking lattes every day for a year means that, on average, a person spends 784,75 euros a year on coffee. Drinking two cups of lattes for a year a person can spend up to 1569,50 euros. Most Starbucks use roasted beans so it means that one person must pay 43,8 euros a year for excise duties, this figure is for one cup a day. For two cups a day this figure would be 87,60 euros. If baristas would use instant coffee for making drinks then for one cup for every single day a person must pay 94,90 euros as excise duties. For two cups a day, a person must pay 189,80 euros. (look table 2.). (Blake, 2017). Readers need to keep in mind that prices brought out here are for tall cups, most people order grandes and ventis, that are much larger in size and cost more. So, it means prices calculated here can be much higher. For example, the author of this thesis drinks instant coffee called Nescafe 3in1 Strong twice a day, sometimes even three times a day and spends about 149,25 euros a year. If we look at the calculations

here, then we can see that some Estonians spend more or less the same for coffee as Germans must pay for excise duties on instant coffee.

According to data, Germany earns a lot of money from coffee tax. In 1995, it was 1118 million euros and by 2015 it was only 1033 million euros. The lowest point was in 2005, when the figure was 949 million euros. This was caused probably because in 2005 coffee prices sky rocketed sharply. The reason for such increase could have been coffee consumption increase in Russia and China. Also, another reason for the increase was harvest which was about 10% to 20% lower than the years before, which was a record year for coffee plant growers. The record year for Germany was in 1996, when the country got 1140 million euros from coffee duty. If we compare the highest number and the lowest number then the difference between them is 191 million (Data on taxation, 2017).

Germans are one of the biggest green coffee bean importers in Europe. In 2015, it imported about 1,1 million tons of it. Citizens are fond of high-quality and lightly roasted Arabica coffee. In recent years, their taste buds have developed and they are craving other varieties of coffee products, such as freshly ground coffee pods and specialty coffee. Very important aspect is that the coffee must be organic. The packages have to have special organic certifications. For those certifications coffee blends have to pass the quality inspection by Specialty Coffee Association of Europe (SCAE). Euromonitor estimated that organic coffee market increased by 6% from 2014 to 2015. Germany as being one of Europe's largest coffee importers means that the country represents 21% of the total EU consumption in 2015. It means that they consumed approximately 534 thousand tons of green coffee beans. Because caffeinated drinks consumption is so large in that country, study shows in 2015 about 72% of its population owned a coffee machine or filter coffee. In 2014, the data shows clearly that filter coffee was the most popular, 261 650 tons of it was consumed. Next came whole beans, with only 63 450 tons consumed. Which is almost four times less than filter coffee. Third and fourth place was divided between capsules and pads (Exporting coffee to Germany, 2017).

Germany has set very high requirements for coffee that is allowed to its market. If requirements are not met then the coffee is not allowed on the market. First requirement is food safety.

Hygiene and special attention to specific source of contamination are paid attention to. Also, pesticides and molds are under strict control. Green coffee beans are classified by using two methods: the Specialty Coffee Association of America (SCAA) green coffee classification and the Brazilian/New York green coffee classification (applicable to Brazilian coffee only). For grading purposes following criteria are looked at: density of the beans, altitude and/or region, botanical variety, number of defects, preparation etc. The definition of specialty coffee has not been formally established within the coffee industry. Because of that coffee is graded according to a cupping score. A score below 80 is considered standard quality and because of that buyers demand a cupping score of 85 or higher. There are also requirements for labelling and packaging (Exporting coffee to Germany, 2017).

Besides importing coffee, Germany is also one of the biggest coffee re-exporters in Europe. Its biggest partners are The United States of America and Poland. The country re-exports about 53% of green beans, which was about 311 thousand tons in 2015. Export has slightly decreased since 2011. It means that re-export to the United States of America has decreased about 4,3%. The re-export to Poland has stayed rather stable (Exporting coffee to Germany, 2017). Re-export means that one member of the free trade agreement may charge lower tariffs to external nations and then re-export the same good to another nation in the trade agreement tariff-free (Cambridge Dictionary, 2018).

According to data given to us from the year 2016, Germany's biggest coffee export partner was still Poland, as it was in 2015. The amount that was exported was 14% out of its total coffee exports. In the second place was the Netherlands with 11%, closely following it was France with 9,7% and Belgium with 5,1%. If looking at the map, these are all Germany's close neighbors; the close proximity makes it easy to export to those countries. It total, Germany spent 2,31 billion dollars on export in 2016 (Where does Germany export Coffee to?, 2016).

Germany's biggest coffee importing partner is Brazil. In 2016, Germany imported 27% of its coffee from there. It imported only 16% from Vietnam. Closely followed by Honduras with 7,4% and Switzerland with 6,8%. It total, Germany spent 3,37 billion dollars on import. As it

turns out, Germany spends more money on coffee import than to export (Where does Germany import Coffee from?, 2016).

In conclusion, Germany is one of Europe's largest coffee importers and re-exporters. People in the country drink a lot of coffee daily and because of that, the country earns quite a significant amount of money in one year. Germans have very high standards for the coffee they allow into their markets and because of that coffee has to pass certain requirements. The amount gotten from excise duties differs every year because coffee farmers might not get a good harvest every year. They have to consider bad weather and maybe even natural disasters that could affect their harvest. Unlike Estonians, Germans prefer to buy their coffees from café shops, where caffeinated drinks are made by professional baristas. Germany has added tax on coffee in order to reduce coffee consumption because it could cause various health problems. For example, miscarriage, high blood pressure etc.

## **2. COFFEE MARKET, CONSUMPTION AND POTENTIAL TAXATION IN ESTONIA**

### **2.1 The possibility of excise duty on coffee products in Estonia**

Before introducing an excise duty, it's important to study how the Estonian consumer behaves prior to the introduction of the tax, which products he prefers and how the average consumer would behave, if the price of the product is higher than the tax. Coffee's popularity in Estonia is growing almost every year. Companies are coming out with different products that contain caffeine to get more customer hooked on caffeine. Even though Estonians' consumption is half what it is in Finland, it is still quite high. So, in order to figure out what Estonians prefer and at what quantities a survey created. Every state is different and we cannot look at the big picture that different data gives us, we need to dig a little deeper and that's why a survey is a great solution for that and helps us see things a little clearer and form better conclusions about different matters.

The author of this thesis created a survey to find out the preferences and behavior of the consumer of coffee in Estonia in the Internet environment, Google Forms completed questionnaires. It was convenience sampling, which means in this case, the election of members is comfortably, easily accessible to the researcher, such as family members, colleagues, etc. This survey had 12 questions about Estonians' coffee drinking habits and what other excise duty products they consume daily and how much they spend on them in one month, on average. All the results from that survey have been brought out in the extras. The goal was to get 100 people to fill out the questionnaire. In conclusion, 521 replied to this survey, which was over five times more than needed. This survey was open for 24 hours and then it had to be shut down because so many people wanted to submit their answers. The survey was posted on Facebook and the author of this thesis shared it with her friends who then shared it with their friends. Out of 521 people, only 17,5% were men, which was a little surprising. As it turns out, women are more prone to fill out all sorts of surveys. Therefore, there is no sample representative and it represents the consuming habits of females. In general, it seemed like people had strong opinions about this topic and they genuinely wanted to help and replied

as honestly as they could. Quite a few people said what they really thought about the tax system in Estonia and how they deal with it.

Age was divided into five different categories. Starting with 15-19year old and ending with over 50year old. The most answers came from the age range between 20-29year old, to be exact 183 people belonged to that age range, which is 35.1% of all the people who replied. This was probably because the author of this thesis is also at that age range and most of her friends stay at that age range. The least answers came from teenage age range, 28 people or 5,4% replied to the survey. It was expected because at that age people usually do not drink coffee or drinks that contain caffeine, they rather drink tea, something similar, or nothing at all. In Estonia, like alcohol, people wait till they are of age to start drinking it. There are exceptions where parents allow their off springs start drinking coffee at a very young age. Some parents are not so prone to it because it is believed that coffee stumps growth and affects younger bodies in some other harmful way, also it can cause addiction. If a person has been drinking coffee for a long period of time, it is very hard to stop drinking it. The body is so used to having caffeine and if you suddenly stop giving it the daily amount of coffee, it will affect the body's functions. In some people, it might cause agitation and high anxiety attacks. For instance, if you've got a strong dependency on caffeine developed and you go for a significant period of time without having any — let's say, maybe half a day — you're probably going to get a very bad headache.

When asked the question whether people drink coffee or not with added option prefer tea to coffee, then 439 people answered that they drink coffee, which is 84,3% of all responses. Only 57 people replied that they do not drink coffee at all. 7,9% answered that they prefer tea to coffee. Because of this question we cannot believe the data given to us that states that on average, every person in Estonia drinks 4,5 kilograms of coffee per year. In truth, the consumption is even higher per person if we look only at people who drink coffee. And when we analyze the next question that was in the survey about how often people consume coffee then we can notice only 359 people out of 521 drink coffee daily. There were a lot of people who consume coffee drinks only once or twice a week or even couple of times a month, 34 people were that honest and stated that. Some people said that they consume maybe only two

cups a coffee in a year or even only one cup. Reason for that are different and some stated they are so called social drinkers, it means they consume coffee when out with friends at a café or at a gathering.

In comparison, about 46% Germans drink about two to three cups of coffee a day but in Estonia the figure is a little less, staying around 31% or 146 people chose that answer while filling out the survey. As it turns out, Estonians prefer to drink one to two cups of coffee a day. Then the next favorable answer was two to three cups of coffee a day. About 73 people out of 521 people drink strictly one cup a day and no more. There turned out to be that about 8,3% people enjoy more than four cups a day, which is the daily recommended amount by the researchers. Bolder people said that they even consume as much as five to six cups a day, depending on a day and how much caffeine their bodies needs. A recent research conducted by Southampton and Edinburgh researchers suggests that people should drink three to four cups of coffee a day (Torpan, 2018). The more coffee a person consumes the more beneficial it can be for their health. It can reduce heart problems and would not let a person fall into depression and other benefits. In Estonia, depression is a rising topic at the moment, because so many people are diagnosed with it each year and the number is increasing dramatically (Eisenschmidt, 2017). Unfortunately, there does not seem to be an explanation as to why it is so. Maybe in Estonia it would be a good idea to increase caffeine intake dramatically. In all, about 2 billion cups of coffee is being consumed every day, which is a quite large number considering that the population in the world in a little bit over 7 billion.

Like in Germany, Estonians prefer roasted coffee beans to instant coffee. Out of 465 people who answered to this question, 431 chose roasted beans, which is about 92,7% of all replies. Only handful of people picked instant coffee as their preferred drink. So, according to this data Estonians would have to pay 2,19 euros more for every kilogram of coffee they buy if we would have the same excise duty on coffee as Germans have right now. Keeping in mind that more and more Estonians prefer to buy their drinks from cafés and other similar facilities which provide coffee products, then on average their drinks would cost about 0.12 cents more than they do right now. For example, a cup of latte is 0,70 cents right now buying from some vending machines, with the added 0,12 cents, lattes' new price would be 0,82 cents. With

cheaper prices a person has to pay around 9.80 to 14,70 euros a week. Added tax raises the prices and a person has to pay between 11,48 and 17,22 euros depending on how much coffee they choose to drink. It may not seem too big of a difference but if a person consumes two to three cups a day and so seven times a week, they lose a lot of money. If taken to account a year then losses would be even bigger. But all the figures are when we adapt the exact same excise duty that Germany has right now. Given that coffee prices in Estonia are already much higher than in Germany we would probably have much lower excise duties. We do need to keep in mind that wages in Estonia are lower than in Germany and people cannot afford all the things they need for living, because of that they have to make choices what is necessary and what is not.

When the previous question was to figure out which coffee Estonians prefer to consume daily then the next question was to figure out how much they are willing to pay for a cup of coffee. The purpose of this question was to figure out how much Estonians are willing to pay for a quality coffee. To this question 481 people gave their opinion and out of that number and 286 people were willing to pay one to two euros for a cup of coffee. Only 8 people were willing to pay five euros or more for a cup. In comparison, 34 people do not want to pay anything for a cup of coffee; they prefer it to be free of charge. When looking at the prices that the local cafes ask for their drinks, we can conclude that they are compliant with reality. Cafes that would like to enter our market need to take that into consideration. Popular worldwide café chains like Starbucks, Tim Horton and Caribou would not last long here because, on average, their prices are too high for our small market. For example, Starbucks sells already premade cold café lattes and macchiato here in Estonia, in big super markets like Selver and R-Kiosk and their prices are on average between 2,50-4 euros. These prices are clearly too high because when the due date is getting closer all the drinks are sent to a whole sale warehouse where they are priced down to 0,49 to 0,69 euros depending on the drink and the quantity. With those prices the drinks will fly off the shelves within hours, one person can buy up to 20-30 drinks at once. In conclusion, Estonians enjoy coffee but they are not willing to pay the price, the cheaper the better.

When going into depths then the next question was asked to figure out how much Estonians are spending on average on coffee in one month. In comparison, Germans are willing to pay

between 1000-2000 euros on coffee during the period of one year, which makes it between 84 – 167 euros a month. In the survey, 480 people replied to that question and they had five options to choose from. Most replies were between 6-10 euros a month, with 136 people. The next popular answer was 11-15 euros a month. As it turns out only 85 are willing to pay over 20 euros for coffee. Because this question also had an option to answer freely the correct amount they would pay for coffee, then one person replied that they spend around 250-300 euros a month for coffee. One person replied that they spend on average 200 euros a month. Seven people replied that they spend 0 euros on coffee in one month but it is not clear if they consume coffee in the first place or not. It could be that they do not drink coffee and prefer tea instead. Because we have this data from the survey, then we can figure out on average how much Estonians are willing to pay for coffee during one-year period. People who were willing to pay maximum of 10 euros a month for their habit will have to pay about 120 euros a year. The next group, who was willing to pay the maximum of 15 euros will have to say goodbye to 180 euros. The one brave person, who honestly said that they spend between 250-300 euros a month, invests around 3000-3600 a year on coffee drinks alone. It is almost three times more than Germans are willing to pay. This can mean a lot of things. Firstly, this person may have a large family and wrote down how much they all pay together for coffee. Secondly, this person enjoys very good quality coffee and consumes large quantities of it. Estonia does have coffee lovers who could afford to buy the most expensive coffee in the world. This coffee is called Kopi Luwak. This coffee is so expensive due to the way it is produced. A certain Indonesian cat-like animal called civet or also civet cat digests the coffee beans. In other words, cats eat the coffee beans, digest them and then poop it out. The poop is collected and then sold to people. The coffee is so expensive because of its short supply and high demand. In comparison, regular cup coffee is between two to five dollars, then cup of Kopi Luwaki is between \$35 to \$100. For about 500 grams a person has to pay for about \$100 to \$600. Converted into euros, it is between 81 to 487 euros (Agric, 2013).

In order to figure out what Estonians think about excise duty being added to coffee, the next question was asked. 483 people out of 521 people replied to that question. 359 said that they would not stop drinking coffee, if 2-5 euros was added to already existing price or around 0,12 cents for a cup. Considering the wages in Estonia are low compared to the rest of the European

states and keeping in mind that they do not change that much, people are still willing to pay more money for coffee. The average income in Germany is more than twice that it is in Estonia. The amount of people who said that they will stop drinking coffee after excise duty is added to coffee is 5,8%. 15.5% of people do not know what they will do if that happens. Readers need to keep in mind that people who do not drink coffee also replied to that question so the results cannot be taken as 100% truth. Thus, this question also had a free answering area at the end and a lot of people expressed their opinion about the topic. One, for instance, said that she/he would not stop drinking coffee for no matter what because their blood pressure is so low and only drinking coffee keeps it up. Some said buying coffee from Latvia is another option. We as a nation already spend so much money in Latvia because everything is much cheaper there. In their opinion it is another reason to visit that country and get everything they need for everyday life from there. Also, some people said that they would start making coffee at home, instead of buying it from different café chains, to keep costs lower. Other opinions were that people would simply start consuming less coffee. Instead of drinking a couple of cups a day, they will stick with one cup a day or use other alternatives. There was one person who replied that they already bring their coffee from Germany because they cannot find good tasting coffee from Estonia.

To get a better understanding of how much and what other kind of excise duty products Estonians use daily, they were asked a question about it. All 521 people replied to it. This question was set up so people could choose more than one right answer. It turns, number one excise duty product for Estonians is gas, 408 people chose that answer. The second place is alcohol products and the third place goes to tobacco products. About 8,4% said that they do not consume any products that have excise duty added to them. Gas or gasoline is in the first place because a lot of people own their own cars and right now with this economy, the gas prices go up almost every day. Recently, the excise duty on gas also went up. To keep costs lower, people who have the chance will get their gas from Latvia. People, who live close to Russia, get gas from there once a month as allowed. But the truth is, more Estonians visit Latvia because everything is so much cheaper there. Even bus companies and truck owners fill up their tanks in Latvia.

The final question on this survey was to figure out how much money Estonians spend on average a month on products that contain excise duty. This question had five options with numbers and one free to write answer about people's own choice. 213 out of 521 answered that in average they spend on excise duty products over 100 euros. The next popular choice was between 60-79 euros. There were 65 people who said that they spend only 1-19 euros a month on excise duty products. Some people have not even thought about how much they spend on average and because of that did not know what to answer to this question but they did admit that gas is their biggest outgo. One person said that on averages he/she spends about 900-1300 euros a month on excise duty products.

In summary, Estonians drink more coffee each passing year. It is very popular among people who are over 20 years old. There is a small percentage of teenagers who are also into drinking coffee daily. In all 521 people took part of the survey to figure out what and how large quantities of coffee Estonians drink daily. As it turns out most people drink coffee every day, some people more than one cup a day. People are willing to pay as little as possible for coffee. In comparison with Germany, Estonians do not spend near as much as Germans do of coffee drinks. When asked people about adding excise duty on coffee the most people admitted they would not stop drinking coffee, they would decrease consumption but not stop. While questioning about what excise duty products Estonians use the most, then the first place goes to gas. Second place went to alcohol and the last place to tobacco products. Some people do not use any of the products.

## **2.2 The consumption of coffee products and the potential taxation income**

Estonians enjoy their morning cup of coffee very much. With its popularity growing every year, more people drink it daily. With more coffee drinkers adding to the punch, more scientists are in doubt about the beneficial effects of coffee. Should countries do something in order to keep coffee out of reach from people? It is very hard to answer that because others say that the more people consume coffee the more beneficial it is. Nobody knows what the right answer is. It is important to assess the potential benefits of excise duty first by paying attention to Estonian coffee market.

In recent years Estonia has been struggling with excise duty because we are losing a lot of money to Latvia. A lot of Estonians are going to Latvia and are getting most of their alcohol from there. That causes problems for us because we are losing a lot of money, about 50 million euros a year (Pozdnjakov, R., 2017). Instead of us getting that money, Latvians get it and through that they improve their economy. Every year that amount of money gets higher because Estonia rises their excise duties almost twice a year and taxes in Latvia stay the same they are right now or rise them a little bit so not to lose money that is coming from Estonia. Some years ago it did not affect us as much as it does right now because we had people coming from Finland to buy their drinks from Estonia, now they also go to Latvia. Special busses take Finnish tourists from Tallinn to Latvia. Now even liners take people there straight from Helsinki. Actually, some months ago Finland came to their senses and lowered their excise taxes on alcohol.

Excise duties are consumption taxes that impose taxes on a particular commodity group. Excise duty does not replace value added tax, but complements it. All excisable goods in general, VAT is also charged, with excise duties being increased value added tax. Thus, it can be said that certain groups of goods the higher the standard rate, which is divided into value added tax and excise duty, applies. However, in the tax sense, excise duties can not be regarded as an additional percentage of VAT, since excise duties are managed in accordance with the rules and it is not VAT accounting (Trasberg, 2015).

Alcohol is not the only product that the Estonians are getting from Latvia. As it turns out, almost everything is cheaper in Latvia (Kirsimäe, 2017). People who live close to the border get everything from there, starting from gas and ending with everyday items that are necessary. Because of that a lot of small stores close to the border have closed their doors, they are losing more money than they earn. Now the big trend is to get construction materials from there. With that comes a risk, cheaper material could mean that it may not be as durable as it should be. New building will suffer and they will not last as long as they should be. In some cases, they may need to be rebuilt in a couple of years, which means that actually people will not win money but rather lose more money.

It is surprising that Estonia gets any money from taxes to begin with. While Southern Estonians spend most of their money in Latvia, then the Eastern part loses it to Russia. With Narva being so close to Ivangorod, people who have dual citizenship or Visas use it to their advantage. It means that people come from Russia and buy a lot of cheese from Estonia and take it back to Russia and sell it there, at first it seems like it is not a big problem but it is. People can take across the border 35 kilograms of cheese at once but they cross the border sometimes as much as 20-30 times a day. What's bad about it is that Estonia loses income tax from all of those sales, all the money goes to Russia. If there would not be freight forwarders on the boarder then Narva boarder would not be as busy as it is right now. Freight forwarders start their day around five o'clock in the morning and cross the border into late night, every day of the week (Gävāneci, 2016).

One thing is losing money to Latvia and Russia but we are losing to Finland also. For years now, Estonians have gone to work there. Salaries there are much higher and it is easy to get a job (Kann, 2010). While the average salary in Estonia is a little bit over 1200 euros then in Finland it is over 3300 euros. With that wage one person can take care of his family and because of that whole families move there. They are made feel welcome by other families from Estonia and they adapt very quickly. People start their new lives there and all their taxes go to Finland. What's more, Finland is not the only country we are losing our people to. Norway and Denmark are also perfect destination. For a few years now, Australia has become a very popular destination among Estonians.

Next comes the question about what could the country do to in order not to lose so much money to other countries. Well one option is to start collecting a new tax. Couple of years ago the government wanted to establish taxes on sugary products, in other words, taxes on products that could be harmful to our health. It would have meant that items starting from soft drinks and ending with candies would have become a little bit more expensive. One of the biggest points that was brought out was that even some healthy foods, such as yoghurts would have had taxes added. Parents did not like the idea that even pastries sold at school cafeterias would have the tax. A lot of people were against it and at the end the new law did not pass. But other countries have adopted that tax and it has shown some improvements in people's health. It

cannot guarantee that it will work in every country. If a person has bought sugary products all their lives then it is really hard to break that habit.

We may think that it is no big deal to add a new tax to certain products but the reality is that it is a hard process. The main thing is that the new tax should be approved by the government and then enforced the right way. There cannot be any so-called loopholes in the law so people could go around it. It is also important to listen to what people say. Their opinion is important. Finally, we cannot forget the companies that sell the certain products that the governments wants to enforce the new law on. Their opinions should count also. If it is not considered then everything can go downhill. For example, the CEO of Coca-Cola Muthar Kent resigned because countries were adapting the new sugar tax and Coca-Cola sales were not as they were expected to be. Mr. Kent was not the only one who lost his job, Coca-Cola laid off many other employees. Its headquarters in Atlanta suffered the biggest losses (McGrath, 2016). So, in other words, adding new taxes to products can be a very tricky assignment. All the positive and negative aspects of it should be thought through carefully and see who are the biggest losers and biggest winner. One thing is for sure that people should not lose their jobs because of it. Estonia wanted to adapt sugar tax also, but it did not take. A lot of people where against it because so many products would have been so much more expensive, even every day food like yoghurt (Haidak, 2017).

With Estonia losing so much money to other countries, it really should think about new options about how to raise the necessary money so we do not lose all the free services that the government provides for us at the moment. One option would be adding excise duty on products that contain caffeine. There are so many products on the market that contain caffeine. Taking into consideration that coffees' popularity is growing in Estonia every year and with controversial statistics coming out that coffee is bad for peoples' health then the government should think about it very carefully. One thing about coffee is that it is addictive and people who have started drinking it cannot stop. They may be able to reduce their daily consumption but not to give it up entirely (Boone, 2018).

While looking at the Estonian market then we can notice that not only coffee contains caffeine. Many other products have caffeine in it; starting with painkillers and ending with special energy gels for athletes. Even people who prefer tea to coffee consume caffeine because tea also has caffeine in it, not as much as coffee has but still. With parents who want to protect their kids from harmful effects of caffeine are not aware that even soft drinks contain it. That is the reason why sometimes children go crazy and throw temper tantrums after drinking soft drinks, or in the worst-case scenario, cannot concentrate on things while it is affecting their behavior (Klein, 2015).

With so many products containing caffeine, a question arises, do we add the new tax on all things that contain caffeine or only to certain products. In Germany, excise duty is only taken from coffee. Estonia is losing a lot of money to Latvia because of our high taxes on alcohol, so in order to help to close the gap we might consider adding the tax to all products that contain caffeine or set up a limit. For example, in Germany the tax starts from 10 grams, Estonia could lower to five grams and with that earn more money from taxes.

The aim of the taxation of products that contain caffeine is to reduce consumption and improve people's health. Tax-earned revenue could be used to improve public health. In addition, nutrition lectures at school could be organized or organize appropriate training among young people. Teenager are more prone to try new things and they might not know how harmful soft drinks containing caffeine can be. They are easily influenced by watching commercials from the television or around the town. Usually, cities are full of ads that tell you to try out new things. Youngsters normally do not think about the fact that some things are not meant for their bodies. Peer pressure also plays a huge roll in this. When a youngster sees her/his friends drinking soft drinks then they incline to think they should do the same thing.

Another high-risk group is people with low income. Tax revenues there would be an opportunity to improve the food quality of low-paid people and raise people's awareness. Without proper knowledge about what is good for their bodies, humans with low income do not know how they might affect themselves by drinking soft drinks. They also teach their children that it is okay to consume them, so an endless circle starts.

The market is where shoppers and providers meet. Sellers who are trying to get the goods as high a price as possible, and for consumers who want to buy as much benefits as possible, but with the least cost possible. Consumer choices are made the need to be satisfied with the consumption of benefits. In other words, as long as there are customers who are willing to buy goods that contain caffeine in it, there are going to be sellers. Nothing in that market would change unless people themselves are willing to make changes first (Merriam-Webster, 2018).

In Estonia, creating new laws is multi-level work. The first level is to create the original text of the draft law wanted to pass. The second level is a little trickier. In the second stage, the bill will be initiated in the Riigikogu. Then the paper has to pass through readings, during which it is polished and refined so not to have any misreading's while enforced in the Riigikogu. The law passed by the Riigikogu will be sent to the President of the Republic of Estonia for signing and will then be published in the Riigi Teataja. While it seems like a long process to create laws, we need to figure out if it is beneficial to add excise duty on coffee in the end. It may turn out that in the end; the government may pay more to enforce the new law than earn money from it (Seadusloome, 2016).

According to the survey that was created to figure out Estonians' drinking habits, it turned out that out of 521 people 359 said that adding excise duty on coffee they would not stop them drinking coffee. While interpreting those figures, we need to keep in mind some facts. For instance, most of the survey participants were a younger generation, who have just started their independent life and are very optimistic about things. Older generations tend to be more frugal about things concerning money. They count every penny and if they think a product is too expensive then, they do not buy it anymore and stop using it altogether or try to find a replacement. Second, compared to the population of Estonia, a very small percentage of people responded to this survey. The population of Estonia is around 1,3 million but only 521 people replied to this survey. Rest of the population may not agree with the people who agreed with the new excise duty so we have to take into count only those people who replied to this survey. In reality, they would probably not agree with them. People believe that Estonians already pay too much taxes as it is and adding a new one would anger them even more. And to show off

their dissatisfaction with the government, they would go to neighboring countries and buy all their things from there so Estonia would lose more money.

In order to figure out how much money Estonia would get from the new tax added to coffee, we need data. The most important information is how many kilograms of coffee Estonia imported in a given year and what are the coffee tax rates in Germany. The simplest way to get the estimates is to multiply each different coffee type with the tax in Germany. To get the sum total, all the previous results would be added together and we get the revenue Estonia could get as a result of the new tax. While taking into consideration the amount of coffee imported to Estonia in the year of 2015 and the bases of Germanys' excise duty polices then using a little mathematics we get a considerable number. As it turns out, if Estonia would have had excise duty already in 2015, then the country would have earned over 18 million euros. Estonia is a small country and getting that kind of money from taxes is a huge deal. These numbers are from 2015 but right now it is the year 2018 and coffee consumption has grown remarkably since then. At the end of this year the revenue from coffee could reach up to 20 million euros or even more. Those figures show when we propose the new tax only on coffee products. The figures can be much bigger if we add the new tax to products such as energy gels for athletes, painkillers, soft drinks etc. This would bring in a lot more than 20 million a year. (look table 3.). (Estonia Coffee Statistics, 2015).

Table 3. Revenue from coffee excise duty (Estonia Coffee Statistics, 2015; compiled by author)

Coffee type	Amount, KG	Excise duty rate	Revenue
Green coffee	94 680	2,19	207 349,20
Roasted coffee	6 423 480	2,19	14 067 421,20
Instant coffee	873 720	4,78	4 176 381,60

While researching other taxes that Estonia collects from Statistics Estonia home page, Estonia collects 14 different taxes and out of those taxes, two bring in as much or little bit more than the new tax would bring. Those two taxes are the gambling tax and customs duties, both of them bring in around 20 to 26 million euros in one year. Gambling tax brings in a little less than customs duties (Riigieelarvesse laekunud maksud, 2018).

Estonia is a small and very adaptable country, when something new comes up, we as a united country can cope with it very well. But on the other hand, are we ready for a new excise duty tax? That might cause some problems. Compared with rest of the Europe, we are not in a good place economically looked at. Our average income is much lower than other states do, and citizens are moving to other states in order to find better lives. So, when new tax is added, it might upset a lot of people, who already are upset by the government. Unfortunately, the reality is that Estonia is losing a lot of money and people to neighboring countries and that needs to stop. The government needs to think very carefully if they want to propose a new tax. And if they do it, should the tax rates stay the same as Germany does or lower them to accommodate Estonian economy better. It is a tricky answer because if we lower the tax rate then there might not be any point to establishing it because it may turn out that the government might spend more money on setting up the new law rather than getting money out of it. However, in the future, when the Estonian government needs more revenue and they do not know how to get it more, then adding tax to coffee could be its one possibility.

In conclusion, Estonia has the market to add new tax on coffee products, but we must think about the people living here and consider their opinion also although they do not have the ability to vote if to accept a new law or not. People may not agree with the new tax because living here is already so expensive. With the new tax, coffee prices would probably go up and they are high as they are right now, compared to Germany. Another issue is that border trade will increase with Latvia. In the end, we would lose more money to Latvia or even to Russia. Or another option is that people start ordering coffee products from other European countries where it is much cheaper, like Germany. The fact is that the new tax would bring in a lot of money that Estonia needs right now because we lose so much alcohol excise taxes to Latvia. The new tax would not fill the cap that it has created but it would help a lot.

## CONCLUSION

One of the main purposes for coffee products is to stimulate and to wake people up every morning so they can go on with their daily activities. Like with so many other goods, some think that coffee can be harmful if consumed in big quantities. Due to the negative impact on health, this product group could be having excise tax added to it in order to reduce its consumption. It is only reasonable to introduce a new tax if it is effective, perhaps the tax revenues are higher than the costs of setting and managing the tax.

This thesis is topical because more and more countries are coming up with new ideas how to improve their citizens' health. Some states have added sugar tax to their products that have certain amount of sugar in them. A country like Germany added excise duty on coffee because a lot of researcher believe that coffee is bad for your health and they came up with the excise duty in order to improve people's health.

The thesis is novel because this topic has not been investigated in depth in Estonia. Therefore, it is not known how it could affect the revenue Estonia could get from the new tax.

The research problem question is: how much income could excise duty on coffee products bring Estonia as an example of Germany? New effective excise tax should be one way to limit coffee consumption and improve public health. Also, it should help increase tax revenue. From an aspect of effective taxation, it is important that the tax revenue would be greater than the cost of setting and managing the tax.

The aim of the thesis is to find out what will happen in Estonia if excise duty is applied to coffee and how it will affect its consumption. Also, to see if it can fix the whole that the excise duty on alcohol has left.

The first research task gave a brief overview of the history of coffee and how the coffee growing process looks like. It is long a long process and it has stayed mostly the same in order to keep the flavor as unique as possible. Growing coffee plants is a very time-consuming

process but worth the money for the plant owner and to coffee drinkers all over the world. Therefore, Estonian coffee market has not yet reached its full potential, it still has a lot of growing to do compared to other countries. However, one thing is for sure that Estonians prefer machine coffee to custom made drinks with higher quality. All this causes a fierce competition among different cafes and gas stations who try to win over each other's customers by providing a better brew. Coffee consumption per capita has also gone up in recent years. Estonia even has started producing its own coffee in small quantities, they get the green beans from other countries but they still roast them here, which gives it its unique flavor.

The second research task gave an overview of Germany as one of Europe's largest coffee importers and re-exporters. People in the country drink a lot of coffee daily and because of that, the country earns quite a significant amount of money in one year. Germans have very high standards for the coffee they allow into their markets and because of that coffee has to pass certain requirements. The amount gotten from excise duties differs every year because coffee farmers might not get a good harvest every year. They have to consider bad weather and maybe even natural disasters that could affect their harvest. Unlike Estonians, Germans prefer to buy their coffees from café shops, where caffeinated drinks are made by professional baristas. Germany has added tax on coffee in order to reduce coffee consumption because it could cause various health problems. For example, miscarriage, high blood pressure etc.

The third research task gave an overview about Estonians coffee drinking habits and that they consume more coffee each passing year. It is very popular among people who are over 20 years old. There is a small percentage of teenagers who are also into drinking coffee daily. In all 521 people took part of the survey to figure out what and how large quantities of coffee Estonians drink daily. As it turns out most people drink coffee every day, some people more than one cup a day. People are willing to pay as little as possible for coffee. In comparison with Germany, Estonians do not spend near as much as Germans do of coffee drinks. When asked people about adding excise duty on coffee the most people admitted they would not stop drinking coffee, they would decrease consumption but not stop. While questioning about what excise duty products Estonians use the most, then the first place goes to gas. Second place went to alcohol and the last place to tobacco products. Some people do not use any of the products.

The fourth research task gave an overview of Estonian coffee market and how the market would react to add new tax on coffee products, but we must think about the people living here and consider their opinion also. People may not agree with the new tax because living here is already so expensive. With the new tax, coffee prices would probably go up and they are high as they are right now, compared to Germany. Another issue is that border trade will increase with Latvia. In the end, we would lose more money to Latvia or even to Russia. Or another option is that people start ordering coffee products from other European countries where it is much cheaper, like Germany. The fact is that the new tax would bring in a lot of money that Estonia needs right now because we lose so much alcohol excise taxes to Latvia. The new tax would not fill the cap that it has created but it would help a lot.

## KOKKUVÕTE

Inimesed kasutavad kohvi igapäevasel selleks, et korralikult üles ärgata ja et neil jätkuks jõudu, et tegeleda endi igapäeva tegevustega. Kohvi kasulikus tervisele on seatud kahtluse alla. Palju teadlased on arvamusel, et kohv on tervisele kahjulik aga samas osad on arvamusel, et mida rohkem kohvi juua seda parem tervisele. Saksamaal tuldi juba ammu välja seadusega, et piirata kohvi joomist, siis kohvile lisati juurde aktsiis. Eestis on ka kohv inimeste seas väga populaarne ja selle tarbimine kasvab jõudsalt iga aastaga.

Lõputöö nimega Kohvi aktsiis Eestis Saksamaa näitel on kirjutatud inglise keeles. Kokku on lõputöös – lehekülge ja see koosneb kahest peatükist, mis jagunevad omakorda neljaks alapeatükiks. Lõputöö kirjutamisel on kasutatud – erinevat allikat ja nad kõik on ära viidatud tekstis.

Selle lõputöö teema on aktuaalne, kuna järjest enam otsivad erinevad riigid kuidas muuta nende elanikkonda tervist paremaks. Osad riigid on kehtestanud nii öelda suhkrumaksu, toodetele kus suhkru sisaldus algab teatud kogusest. Teised riigid on välja tulnud teiste ideedega. Saksamaal kehtestati kohvile aktsiis, kuna seda tarbitakse seal nii palju ning enamused teadlaseid on arvamusel, et kohv on tervisele kahjulik ja selle tarbimist peaks tunduvat vähendama.

Lõputöö eesmärk oli välja uurida, kas Eestis on võimalik kehtestada kohvile aktsiis. Lisaks uurida, kas uus maks vähendaks alkoholi aktsiisi tekkinud auku, mis on tekkinud tänu piirikaubandusele Läti riigile ja seal müüdavale odavale alkoholile. Selle jaoks loodi neli uurimisülesannet ja tänu neile üritati ka vastus leida, kasutades nii kvantitatiivset kui ka kvalitatiivset uurimise meetodit.

Töö annab ülevaate kohvi ajaloost, kuidas kasvatatakse kohvi taimi ning kuidas saadakse taimedest kohvi. Lisaks annab lühida kokkuvõtte sellest, kuidas kohv jõudis Eestisse. Edasi on juttu kui palju ja kui suurtes kogustes eestlased tarbivad igapäevaselt kohvi ning kui palju nad maksavad selle eest. Antakse ka ülevaade Saksamaa inimeste kohvi tarbimisest ja kuidas see

nende rahakotti mõjutab. Selle lõputöö jaoks valminud küsitlusest selgus, et kui kohvile peakski tulema aktsiis juurde, siis see ei lõpetaks kohvi tarbimist inimeste hulgas. Pigem vähendatakse selle tarbimist või siis otsitakse alternatiive kust saaks kohvi odavamalt osta. Võttes arvesse 2015 aastal Eestisse imporditud kohvi koguseid, siis sai teostatud arvutused, mille alusel sai arvutada kui palju ligikaudu took uus maks riigile raha juurde. Tollel aastal oleks riik juurde saanud üle 18 miljoni euro, aga kuna kohvi tarbijate arv kasvab aastatega, siis see aasta võib see summa olla juba üle 20 miljoni. Kindlalt on kahjuks väga raske öelda, kuidas ja mis määral uus maks inimesi ja riiki mõjutaks, kuna see võib minna erinevat pidi. Kui maks osutub liiga koormavaks inimeste jaoks, siis otsitakse teisi alternatiive.

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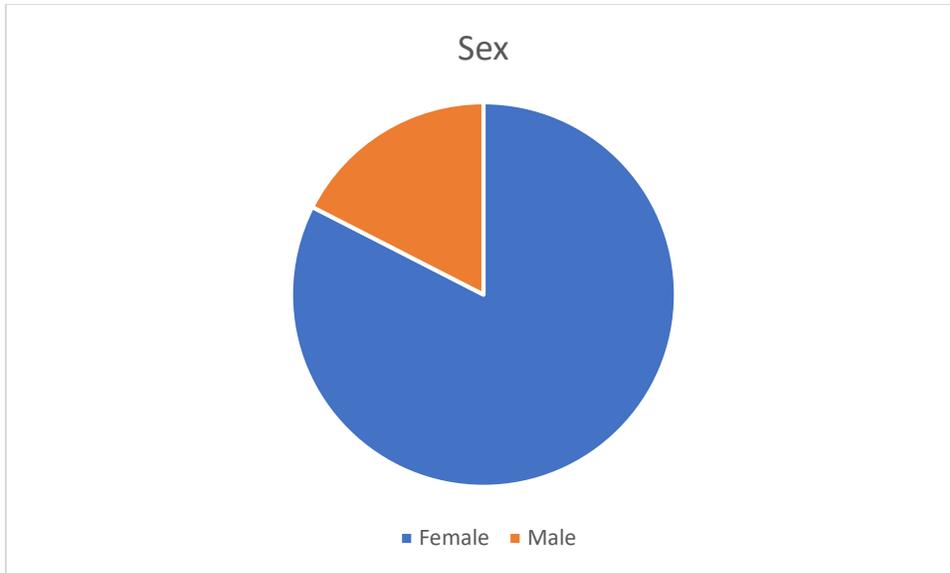
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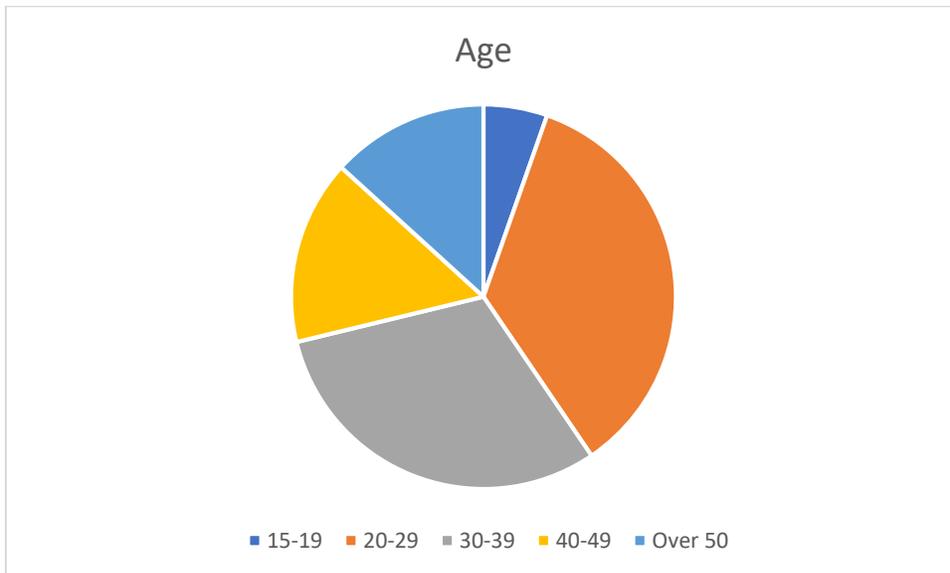
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## Appendix . Survey replies

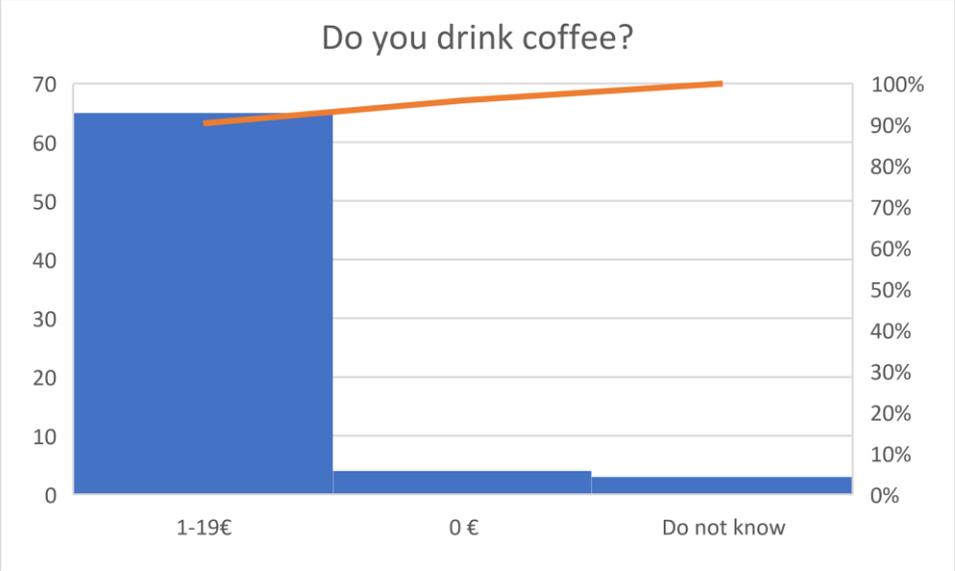
Question 1, Sex



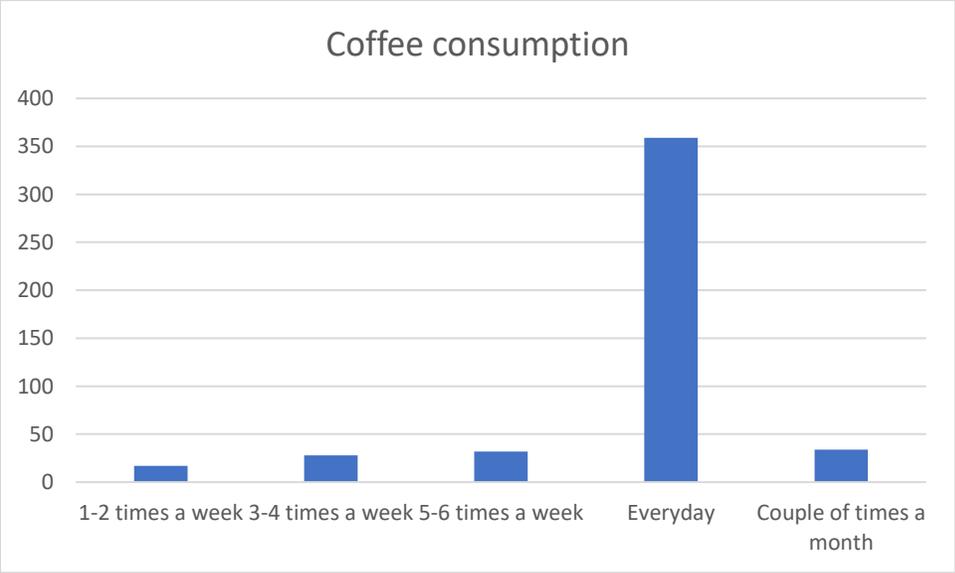
Question 2, Age



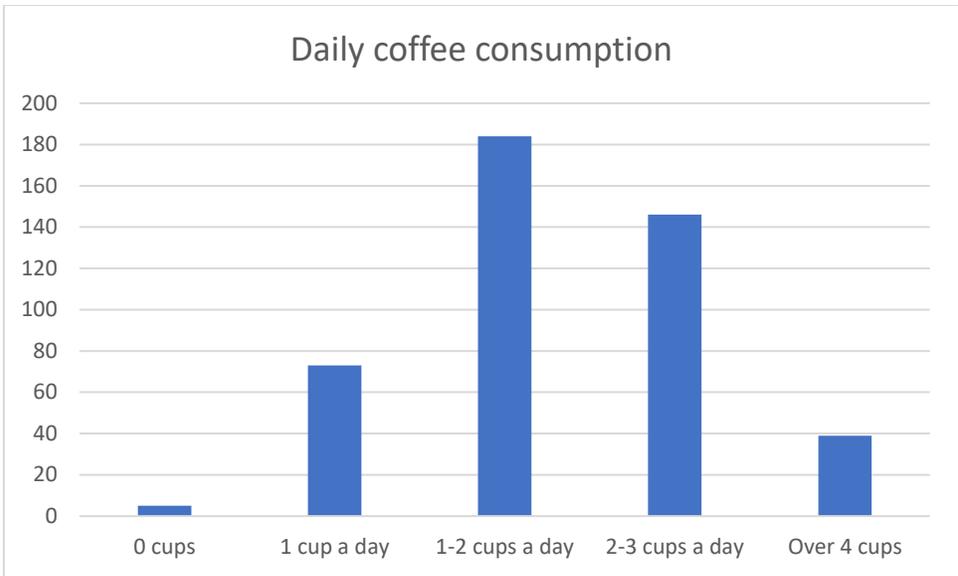
Question 3, Do you drink coffee?



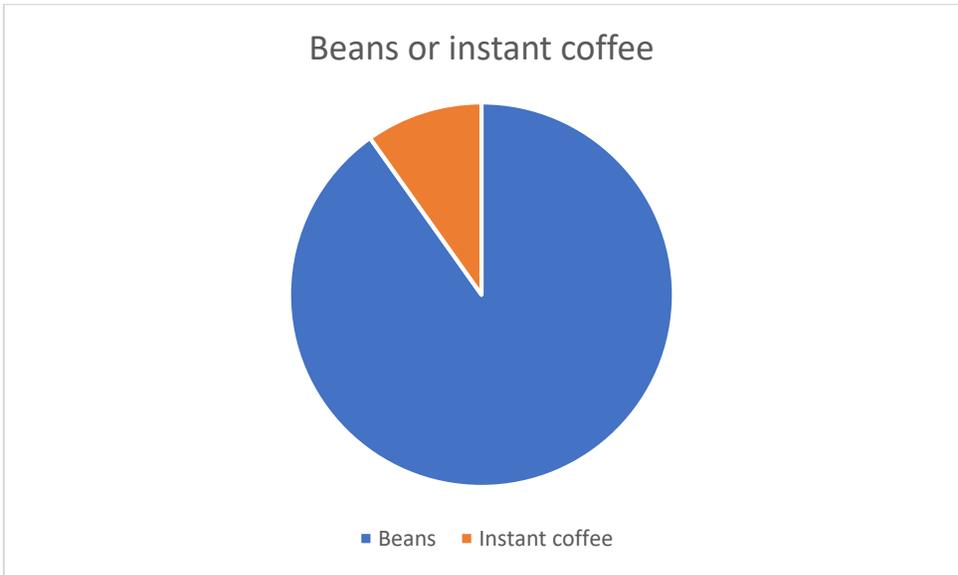
Question 4, How often do you drink coffee?



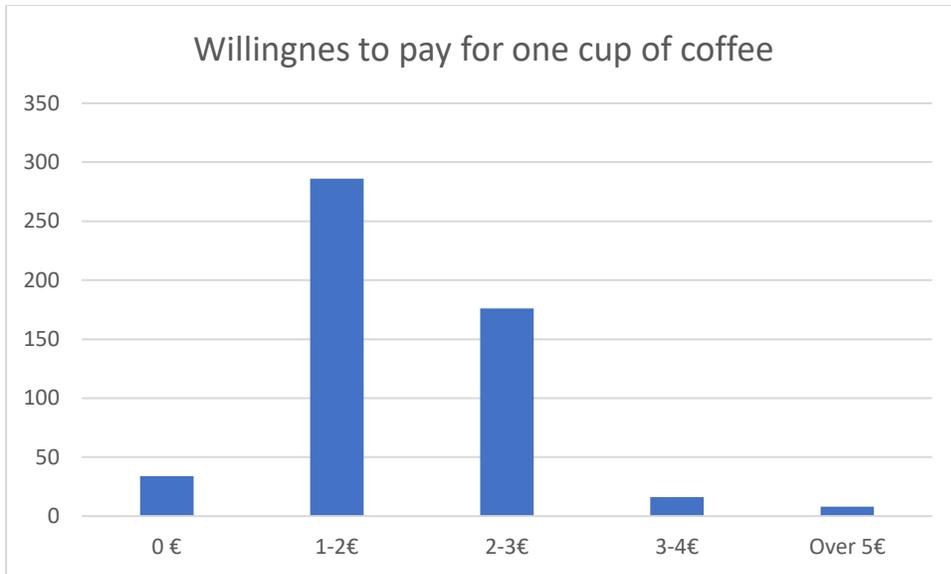
Question 5, How many cups of coffee do you consume daily?



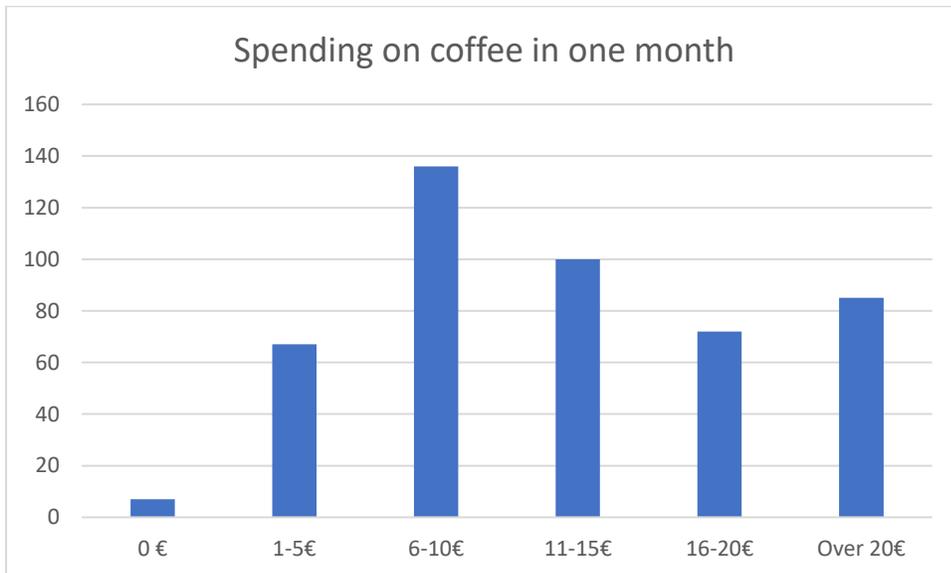
Question 6, Which coffee do you prefer?



Question 7, How much are you willing to pay for one cup of coffee?

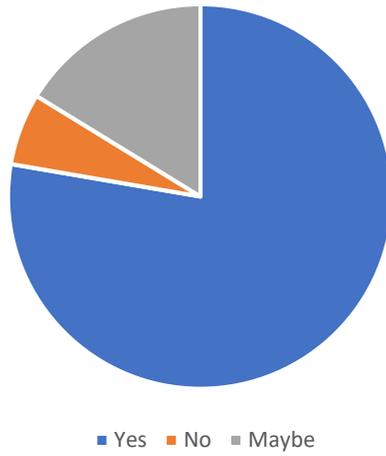


Question 8, How much are you spending on average on coffee in one month?



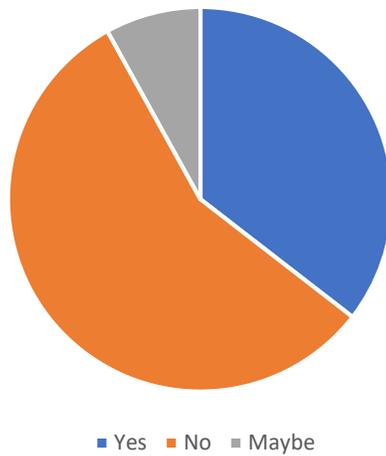
Question 9, Would you still keep drinking coffee if an excise duty on coffee was introduced in Estonia, which would add 2 to 5 euros to the existing kilogram price? (One cup of coffee would add 0.12 to 0.26 cents).

Willingnes to pay excise duty on coffee

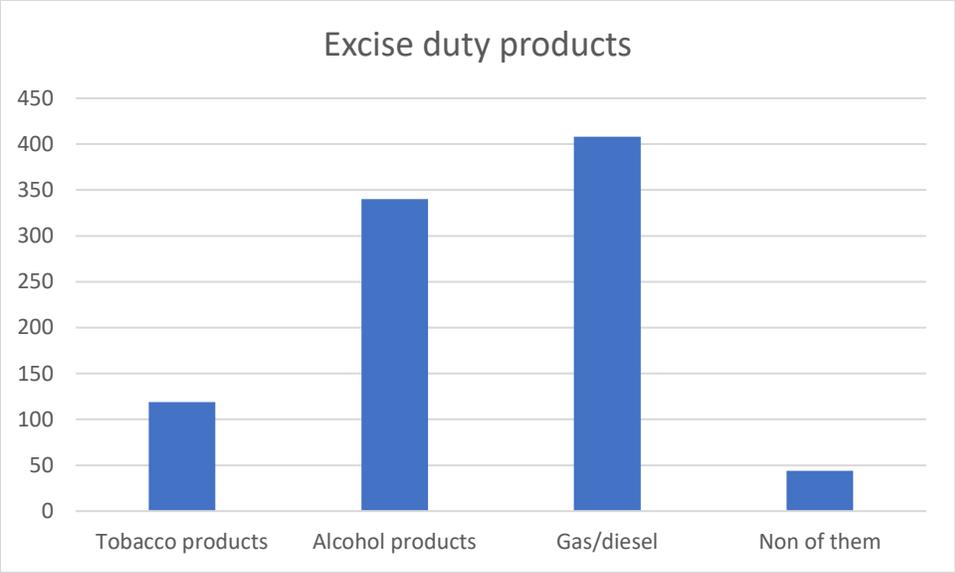


Question 10, Do you consume other drinks that contain caffeine?

Consumption of other caffeinated drinks



Question 11, Which of the following excise duty products do you consume?



Question 12, How much do you spend on average in one month to excise goods?

