

Assessment of climate change policies as part of the European Semester

Country Report Spain

16 January 2015

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1 Short Summary

Spanish priorities shifted from the initial focus on measures to support the green economy (with a focus on renewable energy deployment) to measures aimed at tackling the issue of the tariff deficit in the electricity system. This shift in policy was required by austerity measures implemented since 2012. This led to significant reforms of the energy sector. These reforms are regarded by businesses as a significant obstacle to increase investments in renewables. As a consequence, the achievement of 2020 targets for renewables may be at stake. One of the key priorities with regard to national energy policies is the development of the energy networks between Spain and neighbouring EU Member States to allow for more electricity exports.

The Spanish non-ETS target under the Effort Sharing Decision (ESD) is -10% (compared to 2005) and non-ETS emissions were reduced by 17.6% between 2005 and 2013 which is above the interim target. However, according to the latest national projections submitted to the Commission and taking into account existing measures, the 2020 target is expected to be missed by a margin of 8.6% points.

The key policy developments in 2014 include the introduction of a new environmental tax on fluorinated greenhouse gases and the proposal for a plan to develop the network for electricity transmission over the period 2015 – 2020.

2 Climate and energy policy priorities

Policies and strategies are usually designed at central level, although regions can count on a high level of independence and may draft and implement local plans and strategies according to their specificities and needs. The overarching strategy is the Estrategia Española de Cambio Climático y Energía Limpia (Spanish strategy for climate change and clean energy) (Magrama, 2007), which has been in force since 2007 and will run until 2020.

As compared to other EU countries, Spain shows a high degree of dependence from imports of energy sources. In 2012, imports represented 73% of the country's energy needs. Spanish energy dependence was 20 percentage points above the EU average. While the country is entirely dependent on imports of oil (the main source of energy used) and gas, it is a net exporter of electricity (DG ECFIN, 2014). Spain is also highly dependent on solid fuel imports (86% of the sources used are imported). Public subsidies play a key role in supporting the national coal production and in covering the losses incurred but uncompetitive coal mines (Orden IET/2095/2013). In 2013, the Spanish government presented its Framework Plan for Coal Mines and Mining Communities 2013-2018 (Minitur, 2013) and was approved by the Government in 2014 (Heraldo de Aragón, 2014). In agreement with representatives from the coal industry, the plan established a programme for the progressive phasing-out of subsidies during the period 2013 – 2013 (Orden IET/2095/2013).

Spain had put much emphasis on the transition to a green economy, mainly through the 2011 Sustainable Economy Act. Between 2005 and 2011, the country significantly increased its support of **renewable energies**. In 2012, Spain achieved a share of renewables in gross final energy consumption which was above the target set out by the Renewable Energy Directive (RED) (see Section 4.2.3), thus suggesting that previous support measures were successful in expanding the use of renewables. However, these developments were halted by the austerity measures implemented since 2012 to address the issue of the tariff deficit in the electricity system (EEA, 2014a).

Spain is currently performing well in terms of achieving its interim non-ETS targets although it is expected to miss the targets established for 2020 under the Effort Sharing Decision (ESD) (see Section 3). The reduced policy support to climate and energy efficiency policies (including the lack of support to renewables) may represent one of the main obstacles to the achievement of EU 2020 targets (EEA, 2014a; Spitzley, 2014).

Austerity measures led to cuts in incentives and to the abandonment of existing policies to promote renewable electricity generation. In 2014, these measures included the introduction of a new remuneration regime for existing installations which generate electricity using renewable energy sources, with the adoption of new parameters for remuneration. Energy companies challenged the new acts and highlighted the damages caused by the lack of legal certainty and the reduced support to renewables (see Section 4.2.3).

A National Action Plan for **Energy Efficiency** 2014 – 2020 was presented by the Spanish Government in 2014. The plan summarised the main ongoing and future measures to achieve energy efficiency targets. In support of the implementation of energy efficiency measures, a National Energy Efficiency Fund was established in 2014 (see Section 4.2.2).

In 2013 and 2014, Spain conducted an extensive review of its fiscal system, which also covered **environmental taxation**. A new tax on fluorinated greenhouse gases entered into force in January 2014 (Spanish Government, 2014).

One of the key priorities with regard to national energy policies is the development of the **energy networks** between Spain and other EU Member States. Several projects to create new interconnections or enhance existing networks were adopted in 2014, although these may face the resistance of national and local governments (Spitzley, 2014).

As regards the **transport sector**, a few measures have been implemented with the aim of reducing emissions. Specifically, the country is attempting to renew its vehicle fleet with more efficient models and thus allow for emissions reduction (see Section 4.2.5).

3 GHG trends and projections

Spain reduced its total GHG emissions by 27% between 2005 and 2013. The share of GHG emissions not covered by the European Emission Trading Scheme (EU ETS) is around 61%, which is above the EU28 average (see Table 1)¹.

Table 1 Key data on GHG emissions

		National data				EU28
		2005	2011	2012	2013	2013
Total GHG emissions	Mt CO ₂ eq	431.4	345.9	340.8	315.6	4 539
Non-ETS emissions	Share in total emissions	57%	62%	60%	61%	58%

Source: EEA 2014a; EEA 2014c

By 2020, Spain needs to reduce its emissions not covered by the EU ETS by 10% compared to 2005, according to the Effort Sharing Decision (ESD). The latest data for 2013 show that Spain not only met but exceeded its annual allocation interim target under the ESD for the year 2013 by 13.2 percentage points (see figures in Table 2). However, the latest national projections indicate that the country will miss its 2020 target by about 8.6 percentage points with existing measures (WEM) and by about 7 percentage points with additional measures (WAM) (EEA 2014a).

¹ The European Environment Agency has developed a complex methodology to measure progress on the Non-ETS/ESD targets of all EU Member States. This report uses the figures arrived on this basis. A detailed explanation and the underlying absolute amounts are contained in Annexes 1-3 of the EEA report No 6/2014 "Trends and projections in Europe 2014. Tracking progress towards Europe's climate and energy targets for 2020" available at <http://www.eea.europa.eu/publications/trends-and-projections-in-europe-2014/>

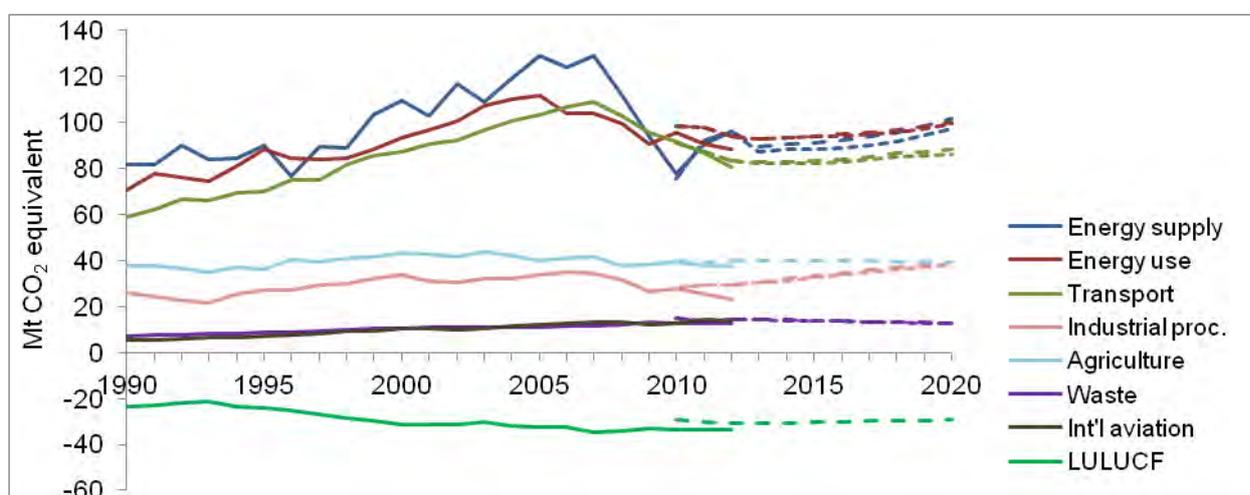
Table 2 Non-ETS emission targets, trend and projections

		Compared to base year
2013	ESD interim target	- 4.4%
	ESD emissions	- 17.6%
2020	ESD target	- 10.0%
	ESD projections WEM	- 1.4%
	ESD projections WAM	- 3.0%

Source: EEA 2014a. Green indicates target met or exceeded, orange indicates a value below.

GHG emissions are mainly created by the energy industry followed by direct fuel consumption (e.g. households for heat generation) and the transport sector (see figure below for historic and estimated emissions by sector). The energy industry has increased emissions over the last two to three years but is projected to only slightly increase its emissions until 2020. In contrast, emissions from direct fuel consumption and transport have decreased slightly in the last years but are projected to stay relatively constant going forward.

Figure 1 GHG trends and projections by sector



Source: EEA 2014a. Actual data until 2012 and projections from 2010 onwards.

4 Policy development

This section covers significant developments made in key policy areas between January and December 2014. It does so through two different perspectives: 1) progress on the policies communicated under the National Reform Programme and 2) developments in the identified national priority sectors and policy areas.

4.1 Key policies as outlined in the National Reform Programme

Member States prepare National Reform Programmes (NRPs) each April outlining the country's progress and the key policies and measures to achieve targets under the EU 2020 Strategy. These key policies and measures are summarised in the following table and their current status is provided.

Table 3 Key policies and measures as outlined by the NRP 2014

Tax on fluorinated greenhouse gases	
Status in the NRP	Implemented
Status as per Dec 2014	Implemented
Description of policy	See Section 4.2.1

National Energy Efficiency Fund	
Status in the NRP	To be created in 2014
Status as per Dec 2014	Created in 2014
Description of policy	See Section 4.2.2

Development of the network for electricity transmission	
Status in the NRP	Launched
Status as per Dec 2014	Plan for the Development of the Network for Electricity Transmission 2015 – 2020 presented in November 2014
Description of policy	See Section 4.2.4

Climate Project Programme	
Status in the NRP	Launched
Status as per Dec 2014	The third call for proposals under the programme was launched in February 2014 for projects to be implemented by the end of 2015 (the first and second calls were launched, respectively, in 2012 and 2013) (Magrama, 2014).
Description of policy	This programme aims at providing grants to environmental projects to be implemented in Spain with CO2 emission reduction effects (Spanish Government, 2014).

Direct aid for the acquisition of highly energy-efficient vehicles	
Status in the NRP	Launched
Status as per Dec 2014	Sixth call of the programme launched in June 2014
Description of policy	See Section 4.2.5

4.2 National policy priorities

The below sub-sections provide updates on key existing and new policies in priority sectors and policy areas of relevance to the energy and climate targets under the Europe 2020 strategy². Each sector or policy area contains information on the most important policy instruments in operation or development.

² The Consortium jointly with DG Clima identified these based on identified challenges in Country Profiles (EEA, 2014), share of sectors in total GHG emissions, and Country Specific Recommendations (2014). DG Clima has identified additional relevant issues to be reviewed for some or all Member States, including country specific energy challenges.

4.2.1 Environmental Taxation

In Spain, the implicit tax rate on energy was EUR 114 per ton of oil equivalent in 2012 and thus below the EU average of 173 EUR per ton of oil equivalent (Eurostat, tsdcc360). Furthermore, the share of environmental tax revenues in overall tax revenue was 4.8% in 2012 and therefore below the EU average of 6.1% and the third lowest in the EU (Eurostat, ten00064). When comparing environmental tax revenues with GDP, Spain has the lowest share in the EU, amounting to 1.6% in 2012 (with the average at 2.4%) (Eurostat, ten00065).

In 2013 and 2014, Spain conducted an extensive review of its fiscal system. In March 2014, the Commission of Independent Experts in charge of the review presented 125 proposals to reform the tax system. These included proposals to modify environmental taxation (Spanish Government, 2014).

Based on Law 16/2013 of 19 October, a new tax on fluorinated greenhouse gases entered into force in January 2014. In 2014, this measure was expected to produce tax revenues of EUR 400 million and to reduce CO₂ emissions by 2 Mt CO₂eq (Spanish Government, 2014). According to the Spanish Government, the new tax would have resulted in an additional cost for consumers of about EUR 5 per each air conditioner or refrigerator. The Spanish Association of Air Conditioning Equipment Producers (Asociación de Fabricantes de Equipos de Climatización, Afec) reported that the Government's estimate did not take into all costs created by the new tax. More specifically, Afec underlined that the tax will also cover the use of refrigerant mixtures, and that additional yearly costs related to these mixtures are about EUR 20 per air conditioning machine (Ollero, 2013).

New measures at national level were complemented by regional interventions by the Autonomous Communities of Spain: these covered taxation of hydrocarbons, the introduction of new environmental taxes and the increase of existing taxes. Tax measures at regional level produced tax revenues of EUR 426 million (Spanish Government, 2014).

4.2.2 Energy Efficiency

Within the EU28, Spain has the eighth least energy-intensive economy. Energy intensity declined by 14% from 2005 to 2012 (Eurostat, tsdec360), while the final energy consumption dropped by 15% between 2005 and 2012, with the reductions coming mainly from the industrial and transport sectors (Eurostat, tsdpc320). Spain is currently on track towards its indicative EU energy efficiency target (EEA 2014a).

In April 2014, Spain presented its National Action Plan for Energy Efficiency 2014 – 2020 (Minetur, 2014d). The Plan provided a summary of the main measures (implemented and foreseen) to meet EU 2020 targets in terms of energy efficiency. In terms of their potential to produce energy savings and reduce CO₂ emissions, the main measures cited in the Action Plan were (Minetur, 2014d):

- The Incentive Program for Efficient Vehicles (Programa de Incentivos al Vehículo Eficiente - PIVE), the plan of incentives in support of the acquisition of efficient commercial vehicles ('PIMA Aire') and the introduction of 'efficient driving' courses (See Section 4.2.5);
- The plan to reduce emissions of CO₂ from hotels of 40 to 70% (PIMA Sol). The measure was adopted in 2013; the deadline to apply for support was December 2014. In 2014, the PIMA Sol plan was expected to deliver yearly reduction of CO₂ emissions in the order of 37.2 KtCO₂.
- A communication campaign on energy efficiency. The measure is expected to deliver yearly reduction of CO₂ emissions in the order of 21 KtCO₂ in 2014 and 2015.

The National Energy Efficiency Fund (Fondo Nacional de Eficiencia Energética – FNEE) was created in June 2014 with Royal decree-law 8/2014. The fund has a budget of EUR 350 million and is managed by IDEA (Institute for Diversification and Saving of Energy). It is co-financed by the central government from EU structural funds with 35% of the total budget. (Asefave, 2014). As established by RDL 8/2014, the fund was created to provide support to the implementation of measures that are necessary to achieve the objectives of the Energy Efficiency Directive (2012/27/UE). In total, the plan intends to mobilize investments for the equivalent of EUR 892 million per year. The plan will be

complemented with EUR 200 million provided by the Housing Plan (Plan de Vivienda) 2013-2016 devoted to investments on building refurbishment for energy efficiency (Asefave, 2014; Tendencias Energías, 2014).

The electricity bill in Spain has a fixed and a variable component: the fixed price is independent of the energy consumed, whereas the variable one is calculated on the consumed kWh. On 4 February 2014, the Ministry of Industry, Energy and Tourism decided an increase of the weight of the fixed component, which increased by about 18%. In January 2013, the fixed and the variable component weighed 35% and 65%, respectively. After this modification and the modifications of December 2013, these components now weigh 60% and 40%. This has been read by some parts of the industry as a disincentive to make an efficient use of energy (Energías Renovables, 2014).

4.2.3 Renewable Energy

The share of renewables in gross final energy consumption was 14.3% in 2012, which is above the indicative 2012 target of 11.0% set out by the Renewable Energy Directive (RED). The average annual growth rate was 5.8% between 2005 and 2012. Thus, an annual growth rate of 6.7% is needed between 2013 and 2020 to reach the 2020 target of 20% (EEA 2014a). The share of renewable electricity generation in final electricity consumption increased by more than one third from 19.1% to 33.5% between 2005 and 2012, while the share of renewable heating increased more than half from 9.4% to 14.0% (Eurostat, SHARES 2014).

A reform of the energy sector which also affected renewable energies was launched in July 2013 (Royal decree-law 9/2013). The main aim of the reform was to address the issue of the inadequate cost coverage in the electricity system ('tariff deficit') caused by the fact that the costs associated with regulated activities within the electricity sector were higher than the revenues from fees paid by consumers (RDL 9/2013). As stated in the text of the Decree, one of the main components of these costs derived from the incentive scheme for renewable energy sources (Régimen especial). However, the Association of producers of renewable energies (APPA) contested the fact that renewable energy support measures were responsible for the deficit: on the contrary, APPA reported that the benefits of renewable energies production in the electricity sector largely outweighed its costs (APPA, n.d.).

Based on the provisions of Royal decree-law 9/2013, in June 2014 the Spanish Government enacted Royal Decree 413/2014, regulating electricity generation activity using renewable energy sources, combined heat and power (cogeneration) and waste. This Royal Decree established a new remuneration regime for existing installations which generate electricity using renewable energy sources (RDL 413/2014). The specific remuneration parameters are set out in Ministerial Order IET/1045/2014, of 16 July 2014.

Royal decree-law 9/2013 suppressed the economic incentives for new installations, but provided for the establishment of a specific subsidy system targeting new wind and photovoltaic installations in *non-peninsular* territories (such as the Balearics and Canary Islands). In these territories, as reported in the legislative text (RDL 9/2013), generating energy from renewable sources is less costly than using conventional thermal technologies. Therefore, the replacement of conventional technologies with renewables would imply cost savings for these territories, as reported in RDL 9/2013. The remuneration parameters for the new installations in non-peninsular territories were established in 2014 by Order IET/1459/2014.

These measures faced a strong opposition by companies investing in renewables: in 2014, the Association of producers of renewable energies (APPA) presented administrative complaints to the Supreme Court against both Royal Decree 413/2014 and Ministerial Order IET/1045/2014. APPA indicated that these acts have caused abrupt changes in the financial model that had guided investors in the past few years and has therefore placed their investments in jeopardy. The association adds that this reform has undermined the confidence in the legal certainty of the Spanish economy and affects international investments in the energy sector (APPA, 2014).

Another highly contested piece of legislation is the Royal Decree 2/2013, which implemented significant cuts to the previous incentive scheme for renewable energy sources (Régimen especial), affecting retrospectively energy producing plants that were to receive incentives for some more years. These cuts were challenged by 14 photovoltaics companies in 2013. In January 2014, the Spanish Supreme Court ruled in favour of the government for the cuts. According to the ruling, the court recognizes that the cuts create retroactive damages, as they could alter and diminish the benefits calculated at the time of the investment. The court deems, however, that these cuts were justified given the economic context and the financial sustainability of the electricity system (Consejo General del Poder Judicial, 2014; Spitzley et al., 2014).

The tension between RES companies and the government created by the reforms described (namely, those determined by Royal decree-law 9/2013 and Royal Decree 2/2013) represent a challenge to the future development of the renewables energy sector and to the attainment of the EU 2020 goals for Spain (Spitzley et al., 2014). The Renewables Association APPA alleges that Spain will not be able to comply with its 2020 targets for renewables due to the lack of political support. According to estimates from APPA, the reduced support from the Government also had an impact on job creation: in 2013, the number of jobs in the renewables sector decreased by more than 17% as compared to the previous year (or from 113,247 jobs in 2012 to 93,415 in 2013) (APPA, n.d.). The Spanish Government, however, believes that the 2020 targets for renewables will be met thanks to the measures presented in its National Action Plan for Energy Efficiency (Minetur, 2014d; Spanish Government, 2014) (see Section 4.2.2).

In November 2014 the Spanish Government published its Plan for the Development of the Network for Electricity Transmission 2015 – 2020 ('Planificación energética – Plan de desarrollo de la red de transporte de energía eléctrica 2015 - 2020') (Minetur, 2014c). With regard to renewable energies, the plan aims at adapting the future installation of new capacity of renewable energy generation to the new scenarios for future demand for electricity. Additional details on the plan are provided in Section 4.2.4.

4.2.4 Energy Networks

As part of the discussions over the EU 2030 framework for climate and energy policies, Spain, together with Portugal, have underlined the importance of improving the EU market for energy by enhancing interconnectivity between Member States. More specifically, the two countries aimed at introducing a binding target of achieving a minimum EU interconnection rate of 15% by 2020 (EurActiv, 2014). The Spanish and Portuguese proposals were not adopted, and in October 2014 the European Council agreed to adopt a 10% target instead of the proposed 15%. The European Council also concluded that Spain, Portugal and the Baltic states should have the highest priority with regard to the achievement of these interconnectivity objectives (European Council, 2014).

In 2013 and 2014, Spain intensified its efforts to enhance its gas and electricity transmission networks with neighbouring countries (France and Portugal). In November 2014, the national government published its Plan for the Development of the Energy Transportation Network 2015 – 2020 ('Plan de desarrollo red de transporte 2015 – 2020') (Minetur, 2014c). The Plan highlights the need to expand the energy interconnections in order to exploit the potential to export energy resources produced in Spain, including renewable energy. For example, Spain produces more wind power than it needs, but the lack of adequate infrastructure is a significant barrier to exports of these renewables to France (EurActiv, 2014).

As reported in the Plan, Spain aims at increasing its interconnectivity capacity from the current 1,400 MW from France to Spain and 1,000 MW from Spain to France to a capacity of 4,000 MW for both systems by 2020. With regard to interconnectivity with Portugal, the aim was to achieve a capacity of 3,000 MW by 2014. The most recent developments include (Minetur, 2014c; Spanish Government, 2014):

- The finalisation, in 2015, of the interconnection through the Eastern Pyrenees which is expected to double interconnection capacity between the two countries to 2,800 MW;

- The evaluation of the possibility to create a new interconnection with France with a submarine cable in the Bay of Biscay, which may provide for a further increase of 2,000 MW of capacity;
- The assessment of possible less costly options in alternative to the Bay of Biscay project;
- The inauguration in 2014 of a new interconnection between Puebla de Guzmán (Spain) and Tavira (Portugal); and
- The assessment of the possibility to launch a new interconnection project in the region of Galicia.

The development of interconnections faced a number of challenges which significantly delayed the construction of new networks, mainly due to financing problems, lack of agreement between the Spanish and French governments and local opposition based on the resistance of residents and nature / landscape protection issues (Spitzley et al., 2014).

4.2.5 Transport

GHG emissions as well as energy consumption from transport have increased between 1990 and 2012 but show a clear downward trend since 2005. However, their proportion in Spain's total emissions has increased to 23% (Eurostat, tsdcc210 and tsdpc320). Average emissions for newly registered cars are low in Spain with a level of 122.4 CO₂/km. This value is the ninth lowest in the EU but has decreased by 21% between 2005 and 2013, which is at a rate slightly lower than the EU average of 22% (Eurostat, tsdtr450). Fuel taxation in Spain is below EU average. Spain's excise duties on petrol are the lowest among the EU15 and the seventh lowest among all EU MS, while diesel excise duties are the sixth lowest in the EU (EEA 2014b).

A registration tax is applied in Spain based on CO₂ emissions. The tax varies between 4.75% and 15.75% depending on CO₂ emissions (ACEA, 2014). A high priced distance-based road use charge is applied to specific parts of the road network (CE Delft 2012).

The main measure in place to reduce emissions from the transport sector is the Incentive Program for Efficient Vehicles (Programa de Incentivos al Vehículo Eficiente - PIVE). The program was launched in 2012 with the objective of providing direct economic support to citizens and SMEs for the purchase of more efficient vehicles. Six calls were launched under the program between 2012 and 2014, with the latest one (PIVE-6) being launched in June 2014. The budget for each call increased from EU 75 million in 2012 to EUR 175,000 in 2014 (Minetur, 2014a and 2014b). Through its first five calls, the program was expected to deliver the following results (Spanish Government, 2014):

- Replace 540,000 cars with more efficient vehicles;
- Produce yearly fuel savings of 187 million litres; and
- Reduce CO₂ emissions by a yearly 387,000 Mt CO₂eq.

Since January 2014, a course on 'efficient driving' became a compulsory part of the training and evaluation for the obtainment of a driving license. The measure is expected to deliver yearly reduction of CO₂ emissions in the order of 255.5 KtCO₂ (Minetur, 2014d).

In 2014, the Spanish Government continued its program aimed at providing incentives for the acquisition of efficient commercial vehicles ('PIMA Aire'). In 2014 the measure was expected to deliver a reduction of CO₂ emissions in the order of 25.9 KtCO₂ (Minetur, 2014d).

5 Policy progress against Country Specific Recommendations (CSRs) issued 2014

The EU Commission provides Country Specific Recommendations (CSRs) for each MS for consideration and endorsement by the European Council. The recommendations are designed to address the major challenges in relation to the targets of the EU 2020 Strategy. In the following table, the CSRs relevant for climate change and energy are listed, and their progress towards their implementation is assessed.

Existing CSRs	Progress
<p>Adopt by the end of 2014 a comprehensive tax reform to make the tax system simpler and more conducive to growth and job creation, preservation of the environment and stability of revenues. To that end, shift revenues towards less distortive taxes, such as [...] environmental [taxes] (e.g. on motor fuels).</p>	<p>Creation of a tax on fluorinated greenhouse gases and adoption of regional measures on environmental taxation (see also Section 4.2.1).</p>
<p>Following the reform of 2013, ensure the effective elimination of deficit in the electricity system as of 2014, including by taking further structural measures if needed.</p>	<p>Adoption of a number of measures to eliminate the deficit and guarantee the economic and financial sustainability of the energy system. These measures included:</p> <ul style="list-style-type: none"> • The enactment of Royal Decree 413/2014, regulating electricity generation activity using renewable energy sources, combined heat and power (cogeneration) and waste. • The reform of the legislative framework for the gas system, with the introduction of a new retribution framework for regulated activities to ensure financial sustainability.

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