FOSSIL FUEL SUPPORT COUNTRY NOTE

OECD BETTER POLICIES FOR BETTER LIVES

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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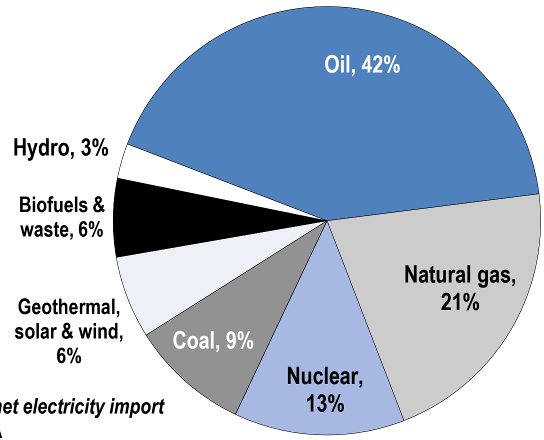
Spain

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Total Primary Energy Supply* in 2016



**excluding net electricity import*
Source: IEA

Spain meets 99% of its demand for oil and natural gas through imports. Coal is the only fossil-fuel resource that the country possesses in significant quantities but most production is uneconomic today.

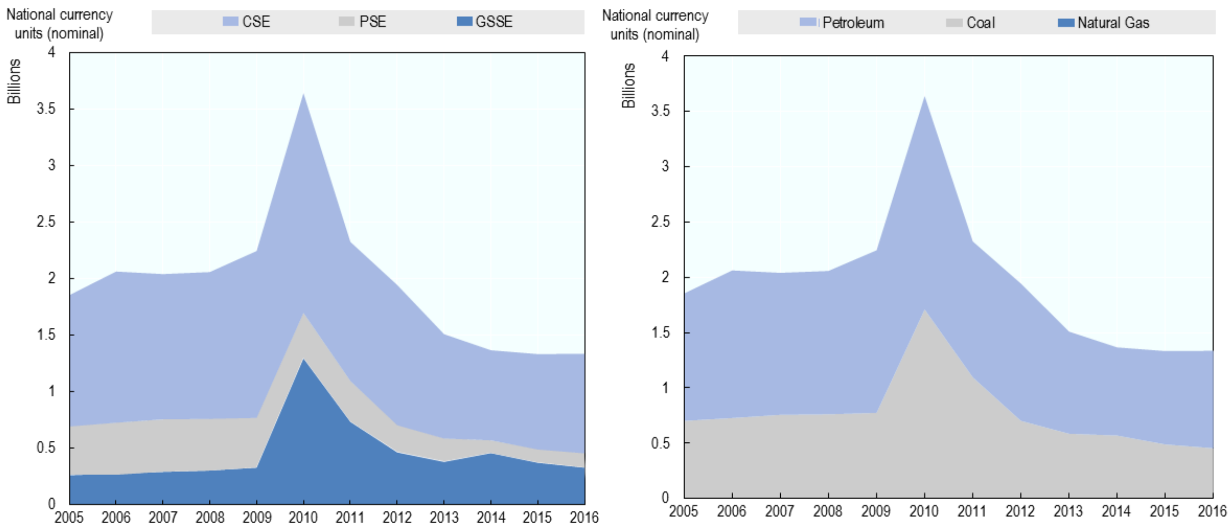
Spain's coal sector has undergone restructuring since the 1990s. Most coal companies have low annual production capacities (below 500 000 tonnes). To support them, the government usually sets minimum volumes of domestic coal to be burnt in local power plants in any given year. State-owned company HUNOSA is a major employer within the coal industry. Spain's oil sector is entirely deregulated and in private hands, with a large number of companies playing an active role in both the wholesale and retail markets. Repsol YPF partly or fully owns five out of the ten refineries in Spain, accounting for 56% of the total refining capacity. In the gas market, Gas Natural, the former monopoly company, still accounts for half of all gas imports into Spain but also half of all retail sales. The retail market for industrial consumers is fairly competitive. Competition in the residential market is, however, limited. La Comisión Nacional de Energia (CNE) is the national energy regulator and is responsible for ensuring effective competition in energy markets.

Spain was among the first EU countries to liberalise its electricity market. After undergoing major restructuring during the liberalisation process, the electricity market today is dominated by just three companies accounting for three-quarters of total electricity generation: Iberdrola, Endesa, and Union Fenosa. These three companies are the largest distributors although there are also more than 300 small, local distributors. Supplier switching is rare among households because of subsidised retail prices for low-voltage consumers. Red Electrica de Espana (REE) owns two-thirds of the 220 kV grid, and the entire 400 kV grid, and operates the high-voltage transmission grid, and serves as the exclusive transmission system operator in co-ordination with the market operator.

Energy prices and taxes

All energy prices in Spain are set by the market except for liquefied petroleum gas (LPG), the price of which is set according to a formula based on international prices and a distribution margin. Reduced rates are offered to small-scale consumers of gas and electricity, for whom the government has nominated five suppliers. The CNE proposes tariffs for third-party access to all basic gas infrastructures (pipelines, LNG facilities, and underground storage) and last resort tariffs. Energy products in Spain are generally subject to VAT at the normal rate of 21% and exemptions apply to certain uses of fuel such as in aviation, navigation, and rail transport. Additionally, energy products sold in the country are subject to various

Total support for fossil fuels in Spain by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate; PSE=Producer Support Estimate; GSSE=General Services Support Estimate

taxes, such as the Oil tax, Tax on Electricity, or Tax on Coal, subject to the energy product in question. The tax on diesel fuel used in farming is partially refunded.

Recent developments and trends in support

Spain mainly provides consumer support in the form of fuel-tax exemptions for specific users. The chief source of support to fossil-fuel production in Spain has been the financial assistance to the country's hard-coal mining industry. The government compensates coal companies by covering the difference between their high operating costs and the prices at which coal is sold to local power plants. In the aftermath of the economic crisis of 2008-09, the Spanish Government sought to cut support to coal-mining companies by 63% and move away from state assistance by 2019 as part of austerity measures. This accounts for the downward trend in producer support observed since 2009. Under the National Plan for Strategic Coal Reserves 2006-2012, operating aid is to be reduced by 1.25% a year for underground mines and 3.25% a year for opencast mines. Support that deep-mined coal receives will also be reduced from the current level of EUR 30 per tonne to EUR 5 per tonne by 2018. Compensation by the government will include measures to finance industrialisation and infrastructure development in coal-mining areas affected by the reform. In 2013, the government struck a deal with coal miners guaranteeing that domestic coal would be used to produce 7.5% of Spain's electricity.

Examples of measures	
Fuel-Tax Partial Refund (2006-)	Initiated against a backdrop of rising oil prices, this provision refunded excise taxes for EUR 63.71 per kilolitre of diesel fuel consumed in farming activities.
Inherited Liabilities Due to Coal Mining (2002-)	This programme was initiated to provide benefits to former miners and their families in order to help address the social costs of mine closures and subsidy removal.