FOSSIL FUEL SUPPORT COUNTRY NOTE
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
April 2019

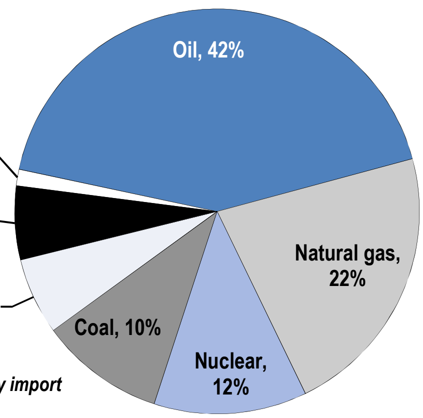
Spain

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 partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

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 although production is uneconomic today.

Total Primary Energy Supply* in 2017



**excluding net electricity import*
Source: IEA

Spain's coal sector has undergone restructuring since the 1990s. Most coal companies have low annual production capacities (below 500 000 tonnes). Previously, the government used to set minimum volumes of domestic coal for use in local power plants in any given year as a means to support the sector. This mechanism no longer exists since 2015. State-owned company HUNOSA (Hulleras del Norte S. A.) was 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 partly or fully owns five out of the ten refineries in Spain, accounting for 56% of the total refining capacity.

The liberalisation of the Spanish gas market started in 2000 with reforms implemented up until 2008. However, the Spain's organised gas market (MIBGAS) saw its formation after other EU countries opened theirs: operations started in 2015 with 82 registered agents. Gas volumes traded in MIBGAS only accounted for 7% of the Spanish gas demand in 2018 with the most important part seen in bilateral (or over-the-counter) transactions. In gas distribution, Naturgy (formerly Gas natural Fenosa), the incumbent company, still holds 40% of gas sales in terms of volume, 55% of consumers and the bulk of the country's gas distribution network. Competition in the gas supply market continues to open in the last few years that by December 2017, 79% of customers, representing 97.9% of demand, were on free market contracts. Enagas owns nearly all of the transmission system, including a significant share in all except one (Mugardos LNG plant, owned by Reganosa) of Spain's LNG plants.

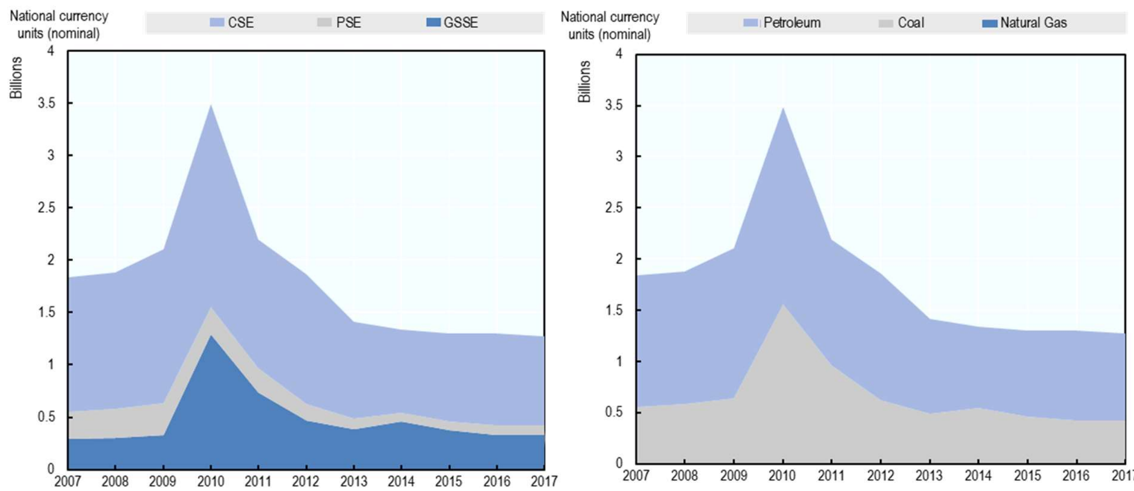
Spain was among the first EU countries to liberalise its electricity market. After major restructuring, the Iberian wholesale electricity market (MIBEL) for both Spain and Portugal stands as unique, seeing more than 80 relevant players in the generation side and more than 330 on the supply side as of 2017. The three largest players accounted for just 57% of the total generation in 2017. Following liberalisation, nearly two-thirds of electricity consumers have switched suppliers with around 1.9 million consumers doing so in the last three years. Red Electrica de Espana (REE) accounts for most of the transmission assets while Iberdrola, Endesa and Naturgy are the largest distributors.

The Comisión Nacional de los Mercados y la Competencia (CNMC) is the national energy regulator and is responsible for ensuring effective competition in energy markets.

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, a distribution margin and a maximum LPG price revised on a bi-monthly basis. Aside from this, a regulated price based on the prevailing hourly electricity market rate is available to small-scale electricity consumers, for whom the government has nominated eight suppliers. A similar regulated pricing for gas, known as the last resort tariff, exists on a voluntary basis for households and is revised on a quarterly basis. In the wake of a recent legal reform, the CNMC will be able to propose tariffs for third-party access to the electricity grid and all basic gas infrastructures (e.g. pipelines and LNG facilities). 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 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.

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

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 was the financial assistance to the country's hard-coal mining industry. Under that scheme, the government compensated coal companies by covering the difference between their high operating costs and the prices at which coal was sold to local power plants, with mandatory purchase volumes set by the government. 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.

The Spanish government announced its compliance with EU regulations (Decision 2010/787/UE) about coal mines by the end of 2018. The Government obtained a deal in October 2018 with mining unions to invest EUR 250 million over the 2019-2027 period for the alternative development of coal mining regions and funding provisions for environmental remediation, miner's social benefits programme and economic packages aimed at transitioning affected regions towards environmentally sustainable industries.

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 (2019-2027)	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.