Portugal

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) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Portugal is highly dependent on imported fossil fuels, which has stimulated efforts to diversify and secure its energy supplies, especially by encouraging the use of natural gas and renewable energy sources. Natural gas, first introduced in Portugal in 1997 via imports, has reached 23% of its Total Primary Energy Supply (TPES) in 2018. Portugal is one of the few advanced economies for which renewable energy is the only form of energy produced indigenously. Renewable energy averaged about 25% of TPES and 51% of electricity generation in 2018.

Portugal has not yet discovered significant deposits of oil or natural gas on its territory, but some companies continue to explore the continental shelf. Oil’s share in TPES has declined gradually since the 1970s: from 76% in 1973 to 64% in 2001 and to 40% in 2018. It closed its last coal mine in 1994 and from then on, relies on imports for its coal needs. The share of coal in TPES is also expected to decline steadily, as natural gas and renewable energy progressively take an increasing share; the share of natural gas increased by 6% between 2008 and 2018, and of renewable resources by 7% in the same period.

All of Portugal’s natural gas is imported, mainly from Algeria (via a pipeline that transits through Spain) and from Nigeria (LNG). The electricity sector together with combined heat-generation sector, is the largest consumer of natural gas, accounting for 62% of total consumption in 2017, which makes the two sectors closely interlinked in the country. Following liberalisation in 2006, EDP (Energias de Portugal) and Galp are now the major players in both the electricity and natural-gas markets. The reforms also resulted in a single transmission system operator for both gas and electricity networks. REN (Redes Energéticas Nacionais) acquired the electricity-transmission assets previously owned by EDP, the gas-transmission operator formerly operated by the Galp-owned Transgás, the LNG terminal at Sines and existing gas-storage facilities.

Over the past decade, Portugal has made significant efforts to deregulate its electricity generation and distribution markets. All electricity consumers are now free to choose their supplier (although regulated tariffs remain an option), and most of the Power Purchase Agreements are no longer in force.

Energy prices and taxes

In 2012, Portugal completed the liberalisation of natural gas and electricity markets with last regulated tariffs expected to be removed by the end of 2020, for households with low consumption (< 10,000 m³)
and economically-vulnerable consumers as established by law. Since January 2010, all natural gas consumers are free to choose their natural gas supplier. The Energy Services Regulatory Authority (Entidade Reguladora dos Serviços Energéticos) is responsible for setting or approving natural-gas tariffs charged by companies in the sector.

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

Since 2004, there has been no ceiling set on retail prices for motor fuels. Transport fuel prices are generally higher in Portugal than in neighbouring Spain, mainly due to current taxation rates. A normal VAT rate of 23% is applied to gasoline and automotive diesel. Since 2007, the vehicle tax system takes into account a vehicle’s CO₂ emission levels, in addition to its cylinder capacity.

Recent developments and trends in support

In Portugal, there is a wide array of measures granting either tax exemptions or tax rate reductions for specific fuels used for specific purposes. A significant part of these benefits is due to reduced tax rates on coloured and marked diesel fuel used by authorised agricultural equipment, whose tax expenditure is estimated at EUR 93.3 million in 2018. VAT rates are reduced for fuels used in agricultural inputs and machinery (13%), and for waste collection and water supplies (6%), from a standard rate of 23%.

The draft National Energy and Climate Plan (2021-2030) highlights the introduction of a 10% tax on coal used to produce electricity in addition to a 10% carbon levy. It highlights that this rate will increase annually to reach to 50% in 2020, 75% in 2021 and by 2022, up until 100%. This is in line with the Administration’s target to gradually eliminate fossil-fuel subsidies as attributed in the NECP plan.

**Examples of measures**

| Intermediate VAT Rate for Certain Fuels (2005-) | This measure applies an intermediate VAT rate of 13% for light fuel (independent of use) and kerosene for heating. The standard VAT rate in Portugal is set at 23%. |
| Exemption for energy products and electricity (ISP) for Electricity Producers | The measure constitutes the mandatory exemption enacted in subparagraph (a), paragraph 1 of Article 14 of Directive 2003/96/EC of the Council dated 27 October 2003 (electricity production) and the optional exemption provided for in subparagraph (c), paragraph 1 of Article 15 of the same directive (co-generation of heat and electricity). In the Portuguese autonomous regions of Azores and Madeira, this measure also exempts diesel fuel from the excise tax if used for electricity generation. Estimates in 2018 put this support at EUR 152 million. |