Spanish fuel price crisis buries proposals for ‘urgent’ environmental tax reforms

Richard Weyndling
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Surging fuel prices, which have provoked an indefinite strike by Spanish truck-drivers this week creating fears of an imminent breakdown in industrial production and food distribution, have pushed long-delayed environmental tax reforms off the agenda.

Biofuels producers warned today the strike “will mean the imminent shutdown of the biofuels sector” which “will entail the effective collapse of the economy” because fuel suppliers will not be able to comply with legal requirements regarding biofuels.

“Transport is practically paralysed across the country. We need a fixed maximum price but Spain is already at minimum tax levels so the government needs to get commission authorisation,” Victor Fernández, president of the road transport federation FETRANSA, told ENDS Europe. The government has promised “to approve a law limiting the price of diesel and compensatory measures but without specifying quantities and timing,” he added.

The energy price crisis, provoked by the impact of sanctions, has apparently removed any prospect of the swift implementation of proposals submitted a fortnight ago by a government-appointed commission for fiscal reform centred on environmental and energy taxation.

A spokeswoman for Spain’s finance ministry told ENDS Europe that “in the context of international turbulence and economic uncertainties now is not the moment to raise taxes. Spain will need a deeper fiscal reform in the medium and long term”. One of the aims of a plan to meet the challenges raised by the war in Ukraine, to be approved on 29 March, “is to lower the price of petrol, electricity and gas. Spain is convinced the solution to reforming the energy system involves delinking the price of gas from electric energy,” she added.

The commission’s report says energy taxation reforms are “essential and urgent” given “the priority challenge” of a rapid transition to decarbonisation. The urgency also stems from “the multiple quantitative and qualitative deficiencies in the application of environmental taxes in Spain”, which are lower than all EU states except Ireland and Luxembourg, equivalent to only 1.8% of GDP compared to an adjusted 2.4% EU average.

“Spain has remained aloof from developments in the rest of Europe despite multiple international institutions, national commissions and reports in the last 20 years signalling the need to correct these deficiencies,” the authors say.

Their proposals include a major shift in fiscal burden from electricity to liquid fuels and gas, including steep rises in taxation on diesel, kerosene for intra-EU flights and on SUVs and compensation, including lump sum payments from energy taxes, for vulnerable sectors.

Juan López de Uralde, chair of the ecological transition committee in the Spanish parliament, told ENDS Europe: “I am a pessimist. There’s always a reason for not moving forward despite the fact that our country has one of the lowest levels of environmental taxation in the OECD. A rise in fuel prices ought to drive renewables but unfortunately it will lead to tax reductions.”

Xavier Labandeira, one of the report’s authors, told ENDS Europe: “The effort-sharing objectives for Spain associated with the Fit for 55 proposal indicate a huge effort needs to be made in these sectors in less than eight years, hence the urgency of environmental taxation. That said, the current energy crisis will prevent actions in the short and perhaps medium terms, and may introduce doubts about the capacity to attain the aforementioned environmental objectives.”

Compensatory measures should be tightly focussed and “even a targeted reduction of energy taxes should not be on the menu but, of course, this does not necessarily apply to a sudden crisis such as the one we are suffering at the moment”, he said.

“Public policies are much more effective than market price fluctuations to attain demand reductions. Decarbonization won’t be possible without a remarkable shift in investments and energy price fluctuations are likely to be unable to send sustained signals in this area,” he added.

The European Commission said it was “closely monitoring the impact of the Russian invasion of Ukraine on energy prices” but was unable to comment on how it would affect the progress of negotiations on the revision of the energy taxation directive. It is understood that the directive is currently being discussed under “thematic clusters”.

An EU official told ENDS its “communication on energy prices provides for a range of measures, besides reduced VAT rates, so as to provide further short-term relief in response to the price surge, in compliance with EU law”.

In its REPowerEU communication, the commission also proposed regulating prices in exceptional circumstances, as well as the redistribution of revenues from high-energy sector profits and emissions trading to consumers. EU State aid rules also offer options for member states to provide short-term support to companies affected by high energy prices,” the official added.