



The Climate & Freedom Accord Workshop **Building An International Free Market Climate Agreement**

Saturday, 25 May 2024, 10:00am—4:00pm

InterContinental Madrid Hotel, Spain

Brief Summary: The Green Bubble in Spain's Renewable Energy Sector

Spain's ambitious push towards renewable energy between 1998 and 2014 led to the creation of a speculative bubble, primarily fueled by generous government subsidies and feed-in tariffs. The overall cost of the scheme is as high as 300 billion EUR, equivalent to roughly 30% of Spanish GDP.

Background Information

The Spanish government introduced various subsidies to promote renewable energy, particularly solar photovoltaic (PV) and wind energy. Royal Decree 661/2007 was pivotal, setting high feed-in tariffs that guaranteed enormous returns on investment. This policy aimed to increase renewable energy capacity rapidly but overlooked long-term sustainability and market dynamics.

Formation of the Speculative Bubble

The high profitability ensured by the incentives attracted a surge of investment, leading to an explosive growth in installed renewable capacity. For instance, installed capacity in renewable energies skyrocketed from 5,000 MW in 1998 to 40,000 MW by 2013. However, this growth was not matched by corresponding demand, resulting in a market imbalance as well as a speculative bubble.

Economic and Social Impact

This artificial boom in renewable energy investments came with significant economic costs. The high premiums awarded to investors increased electricity costs for consumers and contributed to a continued deficit, a debt that was ultimately turned into special taxes that added an additional burden to consumers. The deficit ballooned, reaching over 40 billion euros by 2013. The rapid expansion and subsequent collapse of this scheme negatively impacted Spain's industrial competitiveness, due to rising energy costs, leading to job losses and the relocation of energy-intensive industries.

Legal Consequences

The abrupt policy changes that took place in 2013 replaced the subsidy system with a new remuneration model, but this triggered a wave of international

litigation. Investors argued that this retroactive cuts to the incentives program violated their rule of law and violated their legitimate expectations. Spain has since faced numerous international arbitration claims, resulting in significant financial liabilities and a damaged reputation among international investors, with an existing liability of 1,8 billion USD that keeps growing. Spanish state assets in the UK have been frozen to pay for these debts.

Lessons Learned

The Spanish experience underscores the need for balanced energy policies that harmonize environmental goals with economic viability and market stability. Key lessons include:

1. Avoiding excessive subsidies: Incentives should be carefully calibrated to avoid creating speculative bubbles.
2. Ensuring regulatory predictability: Stability in policy frameworks is crucial to maintaining investor confidence.
3. Balancing environmental and economic objectives: Policies must consider the long-term economic impact on industries and consumers.

Moving Forward

The analysis of Spain's renewable energy bubble highlights the need for a market-driven approach to climate policy, as outline in the Climate & Freedom Accord. This international free market agreement on climate and sustainable development emphasizes the relevance of relying on market mechanisms to promote innovation and efficiency, which can be enabled through market deregulation and supply-side tax incentives that reward producers for reducing their environmental footprint.

Policies should ensure that economic growth and environmental sustainability go hand in hand. By reducing the cost of new investments and promoting competitive markets in a lower-tax environment, the Accord can foster both socioeconomic prosperity and lead to substantial reductions in greenhouse gas emissions.

Conclusion

Spain's journey through the renewable energy bubble offers valuable insights into the complexities of trying to promote green investments via government subsidies. Future policies should aim for a more measured approach that fosters innovation and efficiency while safeguarding economic stability and legal certainty. A market-oriented alternative is the key path forward, as this can help avoid the pitfalls of past interventions and pave the way for sustainable and efficient renewable energy development globally.