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# CAPPING PRICES, TAXING PROFITS

An analysis of the Spanish government's response  
to the cost-of-living crisis



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# FOREWORD

Just as the worst of the COVID-19 pandemic finally seemed to be behind us, the war in Ukraine that began in February 2022 sent the world economy into another tailspin. With Russian gas now tainted by Putin's invasion, Europe acted quickly to abandon what had until then been its most important source of cheap fuel — with skyrocketing prices as the result. Since then, European consumers have found themselves paying energy bills that are two, three, or even four times higher than one year before, while gas, oil, and energy companies around the world report record-breaking profits. Once again, working people are forced to pay for the crisis, while it's business as usual for the 1 percent.

What fiscal measures are being promoted across Europe in response? What differences or similarities can we find with respect to previous crises? Who is paying for the crisis? And have governments supported by left-wing parties been able to address inflation in a meaningfully different way?

Debates around taxation are being reopened across Europe in response to the obscene profits being accumulated by large multinationals. In these debates, some voices continue to bank on the old formulas of the past, such as interest rates hikes, more deregulation, and the like. Others call for the European institutions to adopt joint measures. While some point to the fiscal restrictions imposed by the European Union and claim that nothing can be done, others look to Europe as an example to be followed.

This study commissioned by the Rosa Luxemburg Foundation puts forward an analysis of Spain's pathway out of the cost-of-living crisis and the fiscal measures implemented there: the tax on windfall profits in the energy sector, the tax on large fortunes, the cap on gas prices, and the plan to reduce the cost of public transport.

Both Spain and Portugal, the so-called "Iberian exception", have implemented gas price caps. The European Commission has submitted a proposal for the energy sector drawing on various initiatives by these countries and other member states that have introduced excess profit taxes or are considering them, such as Italy,

Greece, Romania, and Hungary. At the same time, the German government has sought to block initiatives towards gas or energy price caps or a windfall profits tax at the European level, while large energy companies continue to reap enormous surplus profits.

The effects of the measures implemented in Spain are broken down in these pages, together with an analysis of the role played by left-wing party Unidas Podemos in the governing coalition. Much has been written about the European Left's participation as a junior partner in coalition governments led by social democrats: have they succeeded in improving the material conditions of people's lives?

Before jumping to hasty conclusions, we should first look closer at the various fiscal measures — along with their implications for the majority of society — implemented by governments led by social democrats, depending on their support from or alliances with parties of the Left, the Greens, or liberal forces.

Are we witnessing a process of European reconfiguration and closure from above, i.e. a further retrenchment of elites and stratification of the economy? Or, on the contrary, can Europe-wide responses designed to ensure that this crisis is not paid for by the usual people — those at the bottom — help to further the construction of a political subject that challenges the neoliberal system?

This analysis demonstrates that left-wing participation in government can make a difference when it comes to addressing the crisis in a solidarity-based way. The reality is that the Spanish coalition government has promoted measures that will serve as a model for the rest of Europe. Given the dominance of right-wing ideas on the continent today, this fact is by no means trivial.

Backed up by data, sources, and research, this detailed analysis serves as a reflection for the diverse forces of the Left and lays out some key points for socialists in other parts of the continent about what is possible when the political will is there.

**Anna Schröder and Amelia Martínez-Lobo**  
Brussels and Madrid, November 2022

## EXECUTIVE SUMMARY

The Iberian exception capping gas prices and the windfall tax on excess profits in the energy industry proposed by the Spanish State have shaped the debate in Europe to such an extent that on 30 September 2022,

member states unanimously agreed measures to roll out these policies across the entire European Union. The gas price cap has resulted in savings of 19 percent for families and businesses in the Spanish State since

it was introduced in mid-June. Total electricity prices are now 30 percent lower than in nearby countries such as Germany.

A new wealth tax has been approved. After refusing to contemplate such a measure just five months ago, the PSOE agreed to Unidas Podemos's demand for a wealth tax on assets exceeding 3 million euro. This measure will be implemented on a temporary basis in 2023 and 2024 and will collect approximately 1.5 billion euro in revenues per year. The tax reform also includes an increase in the tax rate on earned income for individuals earning more than 200,000 and 300,000 euro per year, while tax exemptions and allowances for multinational corporations have been eliminated to increase their effective corporate tax rate.

The tax on energy companies was another of Unidas Podemos's demands on the coalition government. The party had been calling for a windfall tax on the sector since February, even before Russia invaded Ukraine. Before the European Union revealed its own measures, the government announced a tax on the total revenues of energy companies and a special

tax on the financial sector. This measure is aimed at raising 1.2 to 1.5 billion euro each year for two years. Now that the European Union has unanimously agreed to impose a windfall tax on energy companies' excess profits, it appears likely that the Spanish government will adopt the European measure.

The public transport subsidy has been a resounding success. More than 1 million people are making use of the discounted or free journeys. The number of passengers across the Cercanías suburban railway network rose by 27 percent in the first week of September, representing an increase of 250,000 passengers on average compared to the same week in 2021. According to data from the Ministry of Transport, Mobility and Urban Agenda, the subsidy has allowed 118 million litres of petrol to be saved and avoided the emission of 360,576 tons of CO<sub>2</sub> into the atmosphere from equivalent journeys by car. The debate continues over whether or not to prolong the subsidy, with Unidas Podemos calling for this successful measure to be extended and expanded to continue to fight inflation and reduce pollution and private vehicle use.

## 1 INTRODUCTION

Since the COVID-19 pandemic broke out in March 2020, plunging the world into an economic and social crisis like no other in the last century, states have used economic and fiscal policies to mitigate its impact. The pandemic and the lockdown measures adopted to tackle its spread triggered the biggest supply-and-demand shock ever seen, paralyzing both production and consumption. Counter-cyclical policies, which employ expansionary budgetary measures to sustain incomes and the economy in general, such as employment protection systems and direct support for companies, were the main tool used around the globe. However, these expansionary policies have required new tax measures in an attempt to get deficits and public debts under control.

After almost two whole years of lockdowns and sluggish economic recovery, tension has begun to emerge in the markets and prices are rising due to an increase in consumption by companies and households that accumulated savings during the months when consumption had come to a standstill. Consumption levels recovered much faster than global supply chains and industrial production in exporting countries with strict anti-COVID measures, such as China, which has led to bottlenecks and higher prices due to a mismatch between supply and demand. In addition,

the energy markets had already begun to come under strain and prices were rising even before armed conflict broke out in Ukraine.

2022 brought another year of economic turmoil. The difficulties mentioned above were exacerbated by the Russian invasion of Ukraine, which led to rising food prices due to Ukraine's important role in producing many basic foodstuffs, and energy prices, especially gas, as Russia is one of the world's biggest gas producers and the main supplier to the European Union. This set of circumstances has led to rising levels of inflation, the likes of which had not been witnessed since the 1970s and 1980s.

Against this economic backdrop, states have been forced to continue to pursue expansionary policies based on spending, income protection, and, unlike previous years, policies to alleviate the impact of inflation or attempt to bring it down to more manageable levels. These measures include fiscal measures to reduce or distribute taxes, expansionary spending measures to help vulnerable families and businesses, and spending measures aimed at controlling rising prices.

Circumstances have led to situations that would have been unimaginable several years ago, such as the European Commission proposing energy market intervention or countries with economically liberal govern-

ments like the United Kingdom and Italy imposing a windfall tax on energy companies. However, the focus, speed, and effectiveness of these measures has varied significantly according to the politics of the government in each country and the balance of forces between the parties in government or parliament.

In the case of the measures and policies set out in this report on Spain's coalition government, which comprises social-democratic party Partido Socialista Obrero Español (PSOE) and left-wing party

Unidas Podemos, this balance of forces and the specific economic context in Spain have triggered new debates on the taxation of high net worth individuals and companies in sectors that profit at times of crisis and war. Other debates have also emerged with regard to price controls and income distribution policies, which would have been unthinkable just a few years ago. These debates and outcomes, which are analysed in this report, have shaped the political agenda in Spain and across Europe.

## 2 INTRODUCING A WINDFALL PROFITS AND WEALTH TAX FOR THE ENERGY SECTOR

The COVID-19 pandemic has required an immense financial and fiscal effort from all EU member states and from public institutions at the regional and local level. Huge spending packages to sustain household incomes and keep companies and the wider economy afloat have demanded large sums of state money. The economic slowdown caused by the supply and demand shock resulting from lockdown measures imposed to stop the spread of the virus and a decline in tax revenues led to public budget deficits in 2020 and 2021.

To cover these deficits, all states have had to issue public debt on an ongoing basis throughout the year. In the specific case of the Spanish State, the public debt rose from 98.3 percent of GDP at the end of 2019 to 118.4 percent at the end of 2021. In absolute terms, this increase has caused Spain's public debt to grow by approximately 220 billion euro.

The emergence from the pandemic, the economic upturn, and positive employment figures in the Spanish State have led to more buoyant tax revenues so far in 2022. Tax revenues are being bolstered by rising GDP and profits, which are increasing the amount paid in corporate tax. Positive employment figures, which have seen a year-on-year increase of 400,000 jobs since August 2021, with more people contributing to the social security system than at the height of the property bubble in 2008, have led to greater revenues from income tax (IRPF). Finally, the third pillar of tax revenues — VAT or consumption tax (IVA) — has also risen due to growing consumption compared to previous years when the pandemic was more severe and to rising prices caused by inflation.

Despite this, a deficit of approximately 3.9 percent is forecast for the end of 2022 due to the large packages of drastic measures used to tackle the energy crisis and mitigate the effects of inflation and the loss of tax revenues as a result of tax cuts, including the reduction of VAT on electricity and gas (4.26 billion fewer revenues in the first seven months of the year).<sup>1</sup> This has demonstrated the need to explore new taxation measures to increase revenues as we enter 2023.

Moreover, data from 2020 show that the tax burden in relation to GDP in the Spanish State stands at 37.5 percent.<sup>2</sup> This is below the average for the Eurozone, which is 41.8 percent, and for the European Union, which is 41.3 percent — in other words, 4.3 percent and 3.8 percent lower, respectively. The figure for the Spanish State differs significantly from other EU countries such as France (47.6 percent) and Italy (43 percent). This means that the Spanish State has far more leeway to improve its revenue-raising capacity than comparable countries in the EU.

Since the dawn of the crisis triggered by Russia's invasion of Ukraine, energy market tensions caused by the crisis and high raw material costs for energy production amid extremely volatile market conditions, the taxation of excess profits in the energy sector or "windfall profits" caused by a pricing system that leads to an exorbitant increase in profit margins with the rise of gas prices on the futures markets has been the subject of public and political debate. The Spanish State was one of the first EU member states to tackle this debate, which spread to other countries and reached the European Commission (EC) in September this year.

1 [https://sede.agenciatributaria.gob.es/static\\_files/AEAT/Estudios/Estadisticas/Informes\\_Estadisticos/Informes\\_mensuales\\_recaudacion\\_tributaria/2022/IMR\\_22\\_07\\_es\\_es.pdf](https://sede.agenciatributaria.gob.es/static_files/AEAT/Estudios/Estadisticas/Informes_Estadisticos/Informes_mensuales_recaudacion_tributaria/2022/IMR_22_07_es_es.pdf)

2 <https://www.newtral.es/presion-fiscal-espana-ue/20220425/>

## 2.1 THE DEBATE ON TAXING ENERGY IN THE SPANISH STATE

The coalition government, which comprises the Partido Socialista Obrero Español (PSOE) and Unidas Podemos (UP), was one of the first governments to rethink taxes on energy and oil companies and on their generous profits under a system where prices are set at auction and high gas prices result in windfall profits. The Spanish energy market is dominated by three main companies: Naturgy (formerly Gas Natural Fenosa), Iberdrola, and Endesa (70.10 percent owned by Italian company Enel). As a result of rising gas prices, the three companies closed the first half of 2022 with combined profits of 3.55 billion euro, according to the profit-and-loss accounts published by the companies themselves. This represents a 24-percent rise in profits compared to the same period in 2021. The profits of these three companies also hit record levels in 2021, when they made combined profits of 6.5 billion euro after tax.

Iberdrola's stock market capitalization rose during this period to exceed 70 billion euro, surpassing Inditex and making it the company with the highest stock market value on the Ibex 35. In 2022, the company forecasts record profits of 4 to 4.5 billion euro, overtaking Telefónica as the best-performing Spanish company. The company made approximately 2.08 billion euro in the first six months of 2022 alone, an increase of 36 percent on the same period in the previous year.

Along with the three main energy companies, Spain's largest oil company Repsol is also hugely significant. The Spanish multinational obtained record profits in 2021, reaching 2.5 billion euro and exceeding its performance in the years leading up to the pandemic. The company benefited from a rise in oil and gas prices, with Brent crude oil trading at an average of 70.9 US dollars per barrel throughout the year, up substantially from the beginning of 2021, and continuing to grow and fluctuate in 2022, averaging 107.9 dollars per barrel for the first half of the year but exceeding 120 dollars per barrel at times. In the first six months of 2022, Repsol made a net profit of 2.54 billion euro, surpassing the record profits obtained by the company in 2021 in just half of a year.

These figures correspond to net profits, or profits after tax. The combined profit before tax for these four large Spanish energy and oil companies in 2021 exceeded 14 billion euro. Shareholders in the companies also benefited from these windfall profits. In the first half of 2022 alone, Endesa, Repsol, Iberdrola, and the gas company Enagás handed 3.48 billion euro in dividends to their shareholders.

In response to these exorbitant windfall profits, the coalition government has been debating taxation on excess profits and seeking ways to alleviate the impact of rising prices since before Russia invaded Ukraine. The correlation of forces between the two parties in government, 120 PSOE MPs and 30 UP MPs, and the fact that the Ministry of Finance is part of the PSOE's ministerial portfolio have prevented the minority coalition partner from reaching agreements with a greater impact that reflect their demands and the "PSOE-Unidas Podemos Progressive Coalition Agreement"<sup>3</sup> signed when the parties took office in December 2019.

That said, UP's influence and lobbying of the PSOE is clearly apparent in the decision to introduce measures such as capping gas prices to bring down electricity bills and the recently approved tax on large energy companies, which are now being adopted in the highest European institutions, including the EC, and in other member states.

## 2.2 THE DEBATE WITHIN THE COALITION

The tax on electricity companies was one of Unidas Podemos's main demands on its majority coalition partner PSOE with regard to fiscal policy, alongside the wealth tax or so-called "tax on the rich", which will be analysed later in this report. On 7 February 2022, 17 days before Russia invaded Ukraine, Unidas Podemos submitted a proposal for fiscal reform intended to raise an extra 30 billion euro per year. The proposal was titled "Fiscal reforms required to fulfil the coalition agreement"<sup>4</sup> in reference to the measures agreed by the PSOE and UP when they formed a government.

In the document, a new tax to "help consumers through the energy transition process" was suggested in the section "Green taxation and energy companies". Until the energy transition is complete, UP proposes increasing corporation tax on electricity companies by 10 percent for five years, and renewable by periods of a similar length. The revenue raised would be used specifically to bring down electricity bills for consumers, which were already beginning to climb despite the war in Ukraine not yet having begun.

On 16 February, a week before conflict broke out in Ukraine, the PSOE announced that it would not implement UP's proposed taxes, despite many appearing in the coalition agreement between the two parties. Just a few days before the start of the armed conflict that would heighten tensions in the energy markets

3 <https://www.psoe.es/actualidad/documentos-de-interes/acuerdo-de-coalicion-progresista-entre-psoe-y-unidas-podemos/>

4 [https://podemos.info/wp-content/uploads/2022/02/reforma\\_fiscal\\_04.pdf](https://podemos.info/wp-content/uploads/2022/02/reforma_fiscal_04.pdf)

and boost energy companies' profits, the PSOE rejected a proposal for tax reform from UP. However, the proposal was later revived by the government, which went as far as to submit it to the European institutions.

Following lengthy debates between the PSOE and UP, support from other parties backing the coalition government (Más País, Compromís, EH Bildu, and Esquerra Republicana de Catalunya) allowed the legal procedure for obtaining approval for the proposal in the Congress of Deputies to go ahead. On 28 July, the coalition partners submitted a draft law introducing temporary taxes on energy companies, banks, and lending institutions to the Bureau of the Congress of Deputies, including a proposed tax on windfall profits for energy companies and another on the extra profits made by banks due to rising interest rates after the European Central Bank (ECB) increased its rates.<sup>5</sup>

On 14 September, the draft law passed the first round of voting in the Congress of Deputies, with every party voting in favour except the three right-wing parties: the Partido Popular (European People's Party), Ciudadanos (Renew Europe), and the far-right party Vox (European Conservatives and Reformists).

## 2.3 PROJECTED TAX REVENUES

The result of the debate, conditioned by the balance of forces between the PSOE and UP, was a fixed 1.2-percent tax on the turnover of companies in the electricity, gas, and oil sectors. Instead of taxing profits like other EU countries, the decision to tax total turnover means that each company's contributions reflect their market share. As a general rule, payment will be required from economic groups with the status of main operators, as defined in the tax regulations. Therefore, the tax will only apply to the Spanish companies in the group and revenues obtained via subsidiaries in other countries will not be subject to the tax.

This is a temporary measure to be applied on 1 January 2023 and 2024 to the turnover for 2022 and 2023. Payment must be made during the first 20 calendar days of September for each respective year. Advance payment of 50 percent of the total amount due is required and will be discounted from the final payment.

Neither the advance or final payment are deductible for corporate tax purposes. The cost of the tax may not be passed on to consumers, as it is applied as part of an "income agreement" intended to tackle inflation.

The Spanish tax on energy companies targets the major oligopolistic companies in the sector, leaving smaller companies and companies whose business is not primarily energy-based out of the scope of the tax. To be subject to the tax, groups must hold the status of main operator according to the National Securities Market Commission (CNMV). Groups or companies with a turnover under 1 billion euro or whose activities in the energy sector contribute less than 50 percent of their turnover are excluded from the tax. The turnover figures to which these thresholds will be applied are based on data from the 2019 tax year in order to avoid any distortion caused by the pandemic. The tax is not deductible for corporation tax purposes.

One of the coalition government's main concerns since it came to power has been to ensure that new taxes of this kind are not passed on to end consumers in their entirety. To this end, the proposal for the new taxes includes a supervisory system and penalty regime to prevent consumers from being forced to bear the burden of a tax measure intended to reduce company profits rather than family incomes.

In the event that energy companies attempt to pass down the cost of the tax to consumers, the draft law stipulates that they must pay a sanction of 150 percent of the amount passed down and that non-compliance will be considered a serious offence. In the case of the energy sector, the CNMV is responsible for ensuring that the cost of the tax is not passed down to consumers, while in the case of financial institutions, compliance will be monitored by the CNMV and the Bank of Spain.

When it announced the two new taxes, the Spanish government forecast revenues of 2 billion euro per year in 2023 and 2024 from the tax on the biggest energy companies. Meanwhile, the tax on financial institutions is predicted to raise up to 1.5 billion euro per year during the same period.

As explained earlier in this report, the tax forms part of an "income agreement", which may be defined as an agreement between representatives of workers and employers whereby both parties endorse splitting the cost of inflation equally in order to slow rising prices. As a result, the taxes on energy companies and the financial sector were both designed outside the scope of tax law. In other words, they are considered financial contributions rather than taxes per se, as stated in the guidelines set out in Constitutional Court doctrine based on rulings 62/2015 of 13 April, 167/2016 of 6 October, and 63/2019 of 9 May.

As non-tax, public financial contributions, these charges are characterized by their mandatory nature and the public interest underpinning them. Rather

<sup>5</sup> [https://www.congreso.es/proposiciones-de-ley?p\\_p\\_id=iniciativas&p\\_p\\_lifecycle=0&p\\_p\\_state=normal&p\\_p\\_mode=view&\\_iniciativas\\_mode=-mostrarDetalle&\\_iniciativas\\_legislatura=XIV&\\_iniciativas\\_id=122percent2F000247](https://www.congreso.es/proposiciones-de-ley?p_p_id=iniciativas&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&_iniciativas_mode=-mostrarDetalle&_iniciativas_legislatura=XIV&_iniciativas_id=122percent2F000247)



than taxes, these contributions are designed as tools allowing the state to intervene in the economy and are a key component of the income agreement, which plays a central role in tackling the harmful effects of inflation on the public. Therefore, the demand for payment from those subject to the measure does not fall within the scope of tax law — instead, it comes in a context of state economic intervention with the aim of upholding the constitutional principles and values underpinning the social contract and the Spanish Constitution.

Besides this, the fact that the two levies were introduced as part of the income agreement and are not taxes as such means that they cannot be appealed as anti-constitutional before the Constitutional Court, as Article 9.3 of the Spanish Constitution guarantees the principle of legality, the hierarchy of norms, the public disclosure of norms, the non-retroactivity of penalty provisions that are unfavourable to or restrictive of individual rights, legal certainty, accountability, and non-arbitrariness by public authorities.<sup>6</sup> Under this article, a tax introduced in 2022 that applies to turnover for the 2022 tax year could be considered retroactive and in breach of the Constitution, relieving energy companies and financial institutions from their obligation to pay.

Another reason for the decision to introduce a financial contribution based on turnover rather than profit is that a tax on profit could be declared illegal on the grounds of double taxation, as the tax would be applied to company profits that are already subject to corporate taxes. The government has explained that the chosen measure represents the “best legal fit” on several occasions.

## **2.4 THE EUROPEAN COMMISSION’S “TEMPORARY SOLIDARITY CONTRIBUTION”**

On 14 September, following a meeting of energy ministers from EU member states on 9 September where proposals to introduce measures to alleviate the impact of rising electricity prices received unanimous support, the European Commission (EC) announced a Proposal for a Council Regulation on an emergency intervention to address high energy prices.<sup>7</sup>

The document confirmed that the EC had changed its stance on taxing energy and extractive companies, proposing a temporary solidarity contribution to “tackle the challenge faced by all member states which is currently being addressed in disparate ways”. A Europe-wide regulatory framework for the solidarity contribution would be created, with the EC

acknowledging that “this problem cannot be appropriately addressed by member states alone”.

The solidarity contribution introduced in this Proposal for a Council Regulation is intended to increase tax revenues in member states in order to fund measures to lessen the burden of high energy prices for consumers, especially the most vulnerable individuals and companies.

The EC notes that several countries have already adopted tax measures of this kind, but that their content varies greatly from one state to another. It also observes that the European Union’s initiative to introduce a “mandatory solidarity contribution on surplus profits governed by a common Union framework will ensure a sufficient level playing field across the Union and a situation where all member states’ authorities can reap the proceeds from such surplus profits that would enable them to better tackle the exceptional event of soaring energy prices”. Due to the scale and impact of rising energy prices, the EC recommends that this measure be implemented across the EU in accordance with the principle of subsidiarity set out in Article 5 of the Treaty on European Union.

The temporary solidarity contribution for European companies and companies with a permanent establishment within the EU that work in the oil, gas, coal, and refinery sectors will be calculated on any taxable profits, determined in accordance with the national tax rules in place in the tax year beginning on 1 January 2022, which exceed a 20-percent increase in average taxable profits, determined in accordance with national tax rules, for the three tax years beginning on 1 January 2019.

In other words, 120 percent of the average profits for 2019, 2020, and 2021 will be calculated and the new tax will apply to any amount exceeding that percentage. If the average annual result for the three tax years beginning on 1 January 2019 is negative, the average taxable profit will be nil for the purposes of calculating the temporary solidarity contribution.

According to the EC’s proposal, the tax rate applied for the temporary solidarity contribution will be at least 33 percent of the taxable amount calculated using the method explained here. The tax will be applied in addition to the taxes already in place in member states and will not replace them.

According to calculations by the EC itself, announced by President Ursula von Der Leyen, the tax is forecast to raise 140 billion euro if it is levied on every energy company with headquarters in a European Union member state. Although it is envisaged as a national tax and must therefore be approved by national parliaments, it is not yet clear how the revenues raised will

<sup>6</sup> [https://www.boe.es/legislacion/derechos\\_fundamentales.php?id\\_articulo=9.3&id\\_concepto=37](https://www.boe.es/legislacion/derechos_fundamentales.php?id_articulo=9.3&id_concepto=37)

<sup>7</sup> Proposal for a COUNCIL REGULATION on an emergency intervention to address high energy prices - Publications Office of the EU (europa.eu)

be distributed nor how much is forecast for each country.

One of the main differences between the EC's proposed tax regulation and the levies being debated in national parliaments, including the Spanish State, is that the revenues from the EC temporary solidarity contribution must be used by member states for certain stipulated purposes in order to achieve the desired impact.

The EC has drawn up a list of targets for spending the revenues raised via the temporary solidarity contribution:

- a) Financial support measures for end consumers of energy, especially vulnerable households, to mitigate the impact of high energy prices on a targeted basis.
- b) Financial support measures to help reduce energy consumption, such as demand reduction auctions or tendering systems, reducing energy costs for end consumers based on a certain volume of consumption and encouraging investment in renewable energies by end consumers, structural investments, structural energy efficiency investments, and investment in other decarbonization technologies.
- c) Financial support measures aimed at companies in industries with high levels of energy consumption on the condition that they invest in renewable energies, energy efficiency, and other decarbonization technologies.
- d) Financial support measures to develop energy autonomy, especially investments in line with the objectives of REPowerEU and cross-border projects.
- e) In the spirit of solidarity between member states, part of the revenues raised via the temporary solidarity contribution will be allocated to a common fund for measures aimed at alleviating the harmful effects of the energy crisis, including support for protecting employment and upskilling the workforce or for encouraging investment in energy efficiency and renewable energies, including cross-border projects.

Finally, the EC stipulates that these measures must be clearly defined, transparent, proportionate, non-discriminatory, and verifiable. The temporary solidarity contribution will be implemented by member states in compliance with the Regulation on a temporary basis. It will only apply to surplus profits generated in the tax year that began on 1 January 2022 and member states must implement it from 31 December 2022 at the latest.

The main difference between the two proposals is the tax base. The temporary financial contribution proposed in the Spanish State taxes energy companies' turnover or total sales at 1.2 percent, without

taking their expenses or profit margins into consideration. The coalition government deems this to be the "most robust legal form", as a tax on profits could be declared illegal. Meanwhile, the temporary solidarity contribution introduced by the EC taxes companies' profits after they have been declared, based on the system for determining surplus profits set out above.

## 2.5 CONCLUSION

Major energy companies in Spain and across Europe are making record-breaking profits, which are forecast to double or more in 2022 compared to the previous year. An unfair pricing system, whereby all inframarginal energies are priced the same as the most expensive source of energy, has led to bumper windfall profits as gas prices rise.

Amid these exorbitant profits, families and small businesses are struggling as energy prices shoot up and inflation reaches levels not seen in decades. Meanwhile, the public purse is also suffering. Despite increased tax revenue in the Spanish State, packages of policies and measures intended to reduce the impact of inflation on the economy and on the most vulnerable people in society have led to increased public spending. Against this backdrop, a tax on profits to fund income redistribution measures and help vulnerable sectors of the population was inevitable despite opposition from many liberal and conservative political parties.

The issue was raised within the coalition government by Unidas Podemos three weeks before the Russian invasion of Ukraine and initially rejected by the PSOE. However, as the impact of the war and the energy price crisis began to push up inflation, the debate gained momentum. At the same time, similar debates were emerging in countries such as the United Kingdom, Italy, Romania, Greece, Hungary, and Germany.

Following months of discussion over the need for a tax on energy companies and the format of the measure, throughout which Unidas Podemos maintained its initial stance, the Spanish government announced a tax on the major energy companies' turnover in 2022 and 2023.

Ultimately, the pressure exerted by countries adopting fiscal measures to tax windfall profits in a sector that is benefiting hugely from rising energy prices and a pricing system that results in greater profits as the price of gas increases pushed the debate surrounding these profits to the forefront of the agenda in the European institutions. A tax that seemed impossible when it was suggested by left-wing parties like Unidas Podemos in February and roundly rejected by the social-democratic parties is about to become a reality across the European Union, with a design proposed by the European Commission itself.

### 3 TAXING LARGE FORTUNES

From the outset, Unidas Podemos (UP) demanded a wealth tax on large fortunes and high incomes from its majority partner in the coalition government, the Partido Socialista Obrero Español (PSOE). In May 2020, two months after the outbreak of the COVID-19 pandemic, then Secretary-General of Unidas Podemos and Deputy Prime Minister, Pablo Iglesias, argued for a wealth tax on large fortunes that, according to party estimates, would raise up to 11 billion euro.<sup>8</sup> Just ten days later, the PSOE rejected the fiscal reform proposed by Unidas Podemos,<sup>9</sup> but the measure remained among the latter's fiscal demands throughout the coalition government's three years in office.

With the Russian invasion of Ukraine, tensions in the energy markets and rising inflation, UP once again raised the prospect of introducing a tax of this kind to address the need to boost public funds.

On 22 April, two months after Russia invaded Ukraine and a month after the first decree bringing in measures to mitigate the effects of the crisis and rising inflation, the Unidas Podemos parliamentary group submitted a draft law to the Congress of Deputies introducing a tax on the ownership, possession, access, enjoyment, or use of assets or rights by high-net-worth individuals, otherwise known as the "tax on the rich",<sup>10</sup> which would come into force on 1 January 2023 in order to ensure that the processing and approval of the law did not affect the current budgetary year.

The draft law is intended to regulate the tax on the ownership, possession, access, enjoyment, or use of goods or rights by high-net-worth individuals to cover the costs of the spending triggered by the current economic crisis. It supplements the existing wealth tax, defining large individual fortunes as those exceeding 10 million euro (between exempt and non-exempt assets), minus deductible debts and charges, and reformulating all provisions that have proven ineffective in achieving the objectives of the tax and that fail to comply with the principles of proportionality and equality set out in Article 31 of the Spanish Constitution.

For the purposes of this tax, an individual's net worth comprises the economic assets and rights that they own, possess, have available, enjoy, or use, either directly or indirectly, by themselves or through a company or chain of companies or organizations

with or without legal personality, none of which have minimum substance, with deduction of any liens and encumbrances that diminish their value, as well as any personal debts or obligations for which they are liable.

Secondly, in line with the recommendations made by the committee of experts that published the white paper on tax reform commissioned by the government, the tax-free allowance has been raised to 1 million euro.<sup>11</sup>

Thirdly, new tax brackets have been introduced, with a total of eight brackets and tax rates ranging from 3.6 percent to 5 percent, applied to the total exempt and non-exempt net worth, minus deductible debts and charges. The amount of wealth tax to be paid will be deducted from the individual's overall tax burden. As a result, marginal tax rates will rise between 0.1 percent and 1.5 percent and the tax brackets created under this new law will increase the tax burden by an additional 0–0.7 percent for those already paying wealth tax, or by 1.7–4 percent for those not currently paying wealth tax.

Fourthly, the joint limit for the total amount of this tax and personal income tax on the taxable base of the latter is increased and a maximum reduction of 70 percent is established, bearing in mind that any wealth tax acts as an incentive to incorporate assets into the economic circuit and obtain returns on them rather than leaving them unproductive. In this way, the tax serves as a major incentive for mobilizing unproductive or underproductive fortunes with returns under 0.77 percent. With these new percentages, large fortunes with returns equal to or exceeding 4 percent will be relatively unaffected by the tax.

Taxpayers whose total tax liability, determined in accordance with the rules governing the tax and after applying the appropriate deductions or allowances, has been underpaid, or, when this is not the case, possess a net worth comprising assets or rights, determined in accordance with the rules governing the tax, in excess of 10 million euro, are obliged to file a tax return.

The draft law proposed by Unidas Podemos was rejected on 7 June, with votes against it coming from the PSOE, PP, and Vox. Voting in favour of the proposal were Unidas Podemos, Esquerra Republicana, EH-Bildu, CUP, Más País-Equo, BNG, and Compromís. The reason given by the PSOE for

8 [https://www.lasexta.com/noticias/nacional/iglesias-defiende-el-impuesto-a-las-grandes-fortunas-estan-deseando-ejercer-su-solidaridad\\_202005145ebd5f0ef0667a0001c5ff98.html](https://www.lasexta.com/noticias/nacional/iglesias-defiende-el-impuesto-a-las-grandes-fortunas-estan-deseando-ejercer-su-solidaridad_202005145ebd5f0ef0667a0001c5ff98.html)

9 <https://www.heraldo.es/noticias/nacional/2020/06/24/el-impuesto-a-las-grandes-fortunas-que-defendia-pablo-iglesias-queda-fuera-del-pacto-entre-unidas-podemos-y-el-psoe-1382289.html>

10 [https://www.congreso.es/public\\_oficiales/L14/CONG/BOCG/B/BOCG-14-B-235-1.PDF#page=1](https://www.congreso.es/public_oficiales/L14/CONG/BOCG/B/BOCG-14-B-235-1.PDF#page=1)

11 [https://www.ief.es/docs/investigacion/comiteexpertos/LibroBlancoReformaTributaria\\_2022.pdf](https://www.ief.es/docs/investigacion/comiteexpertos/LibroBlancoReformaTributaria_2022.pdf)

rejecting the draft law was that net worth is already directly taxed by the wealth tax.

However, the wealth tax is set by the Ministry of Finance but collected by the autonomous communities, which are given the option to waive the tax. As a result, some autonomous communities governed by the main right-wing party, the Partido Popular, have completely waived the tax due on these large fortunes. The most obvious example is the Community of Madrid, where data from the Tax Agency show that the regional government has waived the tax on 18,225 high-net-worth individuals, who have been spared 992 million euro in wealth tax.<sup>12</sup> On 18 September 2022, the Government of Andalusia, another autonomous community governed by the Partido Popular, announced that it too would be waiving the wealth tax in 2023.

Against this backdrop, Unidas Podemos has frequently argued for the need to centralize the tax or abolish the possibility of waiving the amounts due to ensure that high-net-worth individuals cannot escape payment of the tax and that autonomous communities do not engage in tax competition within the country. This is why Unidas Podemos proposed a new tax on the rich, which would be centralized and handled by the state-wide Tax Agency and the Ministry of Finance, collecting tax revenue at the level of the state rather than the autonomous community. The tax on large fortunes would only be levied on estates exceeding 10 million euro.

On the day that this report was completed, the Minister of Finance, María Jesús Montero (PSOE), announced that the government would study the possibility of a “temporary tax on large fortunes that would pave the way for negotiations for the 2023 State Budget” with its coalition partners and “request a greater contribution from the largest fortunes”, reviving the debate surrounding the tax, which the PSOE had rejected only a few months earlier.<sup>13</sup>

On Thursday, 29 September, following tough negotiations between the two coalition partners to draft and

approve the 2023 State Budget, a new plan containing progressive fiscal measures was presented. The plan was intended to reduce the tax burden on low incomes and small companies, increase taxes on high incomes, high net worth individuals, and capital profits and abolish tax exemptions for large companies.

Once again, a long-standing demand from Unidas Podemos that had appeared impossible following repeated refusals from the PSOE was included in the package of fiscal measures announced. The coalition government announced a new temporary tax on assets exceeding 3 million euro.

The tax would be temporary and would be paid by taxpayers with net assets (after deducting debts) of more than 3 million euro. Several tax brackets were established, with different tax rates: the tax rate would be 1.7 percent between 3 and 5 million euro, 2.1 percent between 5 and 10 million euro, and 3.5 percent above 10 million euro. According to the Ministry of Finance’s estimates, this new tax would have to be paid by around 23,000 taxpayers and would collect approximately 1.5 billion euro in revenues.

The tax is designed to circumvent waivers on the wealth tax from autonomous communities and put a stop to tax competition and decisions to lower taxes on large fortunes by regional governments led by right-wing parties. In the state-wide tax, taxpayers can deduct the amount paid in regional wealth tax — in other words, if an individual has already paid the regional tax, they will pay much less in the state-wide tax.

Therefore, autonomous communities such as Madrid and Andalusia, which waive the wealth tax entirely, will have to choose whether to charge the tax themselves or leave it to the central government to do so. In this manner, high-net-worth individuals will have to pay one way or another and tax competition between autonomous communities, which only benefits large fortunes, will be completely neutralized.

## 4 THE “IBERIAN EXCEPTION” AND THE ENERGY MARKET DEBATE

Energy markets around the world have witnessed the greatest supply and price pressures in decades over recent months. Volatile, rising energy prices are

causing inflationary price pressures in every country. The inflation triggered by price rises in the energy markets is affecting the prices of the other products

<sup>12</sup> [https://sede.agenciatributaria.gob.es/AEAT/Contenidos\\_Comunes/La\\_Agencia\\_Tributaria/Estadisticas/Publicaciones/sites/patrimonio/2020/jrubik-f73feb38613cbf0c495f95eda4486bdec857c63b0.html](https://sede.agenciatributaria.gob.es/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Estadisticas/Publicaciones/sites/patrimonio/2020/jrubik-f73feb38613cbf0c495f95eda4486bdec857c63b0.html)

<sup>13</sup> [https://www.elconfidencial.com/espana/2022-09-22/el-gobierno-quiere-un-nuevo-impuesto\\_3494739/](https://www.elconfidencial.com/espana/2022-09-22/el-gobierno-quiere-un-nuevo-impuesto_3494739/)

in the consumer price inflation basket of goods and services, causing core inflation — which does not include products with more volatile prices such as fresh food and energy — to rise to levels unseen in the last 30 years. In the Spanish State, the interannual inflation rate reached 10.5 percent in August, while core inflation hit 6.4 percent.<sup>14</sup>

In the first few months of the year, before measures to bring down energy prices were introduced and when the Russian invasion of Ukraine was just beginning, the price of fossil fuels reached levels never before seen in the main trading hubs in Spain and around the world. In the case of natural gas on the Iberian Peninsula, the average price of the D+1 product at the virtual balancing point in the first four months of 2022 stood at 95.98 euro per megawatt hour (MWh), which is nine times higher than the average price of the product in 2020 and twice as high as the price in 2021.

Despite the Spanish energy mix comprising only a limited share of energy derived from fossil fuels and an energy gap that is closing as new renewable technologies replace conventional production, the wholesale price of electricity has been affected by the price of natural gas, pushing electricity prices to their highest levels since the Iberian Electricity Market (MIBEL) was created.<sup>15</sup>

#### 4.1 DEBATING THE GAS PRICE CAP

In this context, the Spanish coalition government has weighed a series of different types of measures and support schemes in an attempt to curb skyrocketing prices, rising inflation, and their impact on the economy and on the vulnerable families and companies worst-affected by price increases.

Just as in other debates and measures such as the tax on energy companies, the most progressive proposals have come from Unidas Podemos. The party's coalition partner, the Partido Socialista Obrero Español, initially rejected these proposals, before accepting them, making them its own and submitting them to the European institutions for consideration. The European Commission, which had been strictly opposed to intervention in European energy markets until a few months ago, eventually yielded and suggested similar or identical proposals to those made by UP since the start of the Ukrainian conflict and the rise in energy prices for the other countries in the European Union.

Among Unidas Podemos's proposals, it is the gas price cap that has had the greatest impact on the

Spanish State and Europe and triggered the fiercest internal debate within the coalition government during the negotiation process. Amid rising electricity prices and their impact on inflation, discussions turned to whether the gas price used to set prices in the wholesale energy market should be capped to decouple the price of inframarginal energy sources (hydroelectric, nuclear, and renewable) from the high cost of gas.

On 28 March, Minister of Social Rights and Secretary-General of Podemos Ione Belarra announced UP's proposal to cap gas prices at 30 euro per MWh. This ambitious cap would have led to significant savings on household energy bills, but it was met with opposition from the PSOE. A day later, the Minister of Economy, Nadia Calviño, and the Minister of Energy, Teresa Ribera, rejected the UP minister's proposal to cap the price of gas at 30 euro per MWh on the grounds that the decision on the price at which the cap should be set "could not be taken lightly".

Although the PSOE did not propose their own price cap at any point, they argued that the maximum price suggested by UP was infeasible. Moreover, the Ministry of Energy claimed that there was no need to negotiate with the PSOE's coalition partners, but rather with the Portuguese government and the EC. During this appearance, they did not give any information about the content of the proposal to be sent to Brussels.

On 31 March, just five days after the PSOE refused to accept UP's proposal to cap gas prices at 30 euro per MWh, the Spanish and Portuguese governments, represented by presidents Pedro Sánchez and Antonio Costa, announced a joint agreement to submit a proposal to the EC to cap the price of gas at 30 euro per MWh until at least the end of 2022.

After two months of waiting, the EC finally announced that it agreed to the "Iberian exception", which would allow the Spanish and Portuguese governments to cap the price of gas as set out in their proposal, on 7 June. In the end, the maximum price was not the 30 euro per MWh proposed by UP and later accepted by the PSOE, but 40 euro per MWh for the first few months, rising gradually to 70 euro by the end of the scheme on 31 May 2023.

Order TED/517/2022 was published on 9 June, stipulating the start date for the production cost adjustment mechanism for the reduction of electricity prices in the wholesale market regulated by Royal Decree-Law 10/2022 of 13 May and publicizing the European Commission's decision to authorize the mechanism.<sup>16</sup>

14 [https://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica\\_C&cid=1254736176802&menu=ultiDatos&idp=1254735976607](https://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176802&menu=ultiDatos&idp=1254735976607)

15 [https://www.mibel.com/es/home\\_es/](https://www.mibel.com/es/home_es/)

16 <https://boe.es/boe/dias/2022/06/09/pdfs/BOE-A-2022-9435.pdf#BOE>

The temporary mechanism approved by the Spanish and Portuguese governments, known as the “Iberian exception”, limits the impact of rising natural gas prices on the wholesale electricity market due to its marginal design, whereby the price of all electricity is set by the cost of the last generation unit needed to provide power to serve customer demand in each hour, with natural gas being the technology that most frequently acts as a marginal technology.

The measure takes the form of a mechanism for adjusting the production costs of marginal fossil fuel technologies, reducing the bids that these technologies make on the market by an amount equivalent to the adjustment and resulting in a reduction in the market clearing price. The amounts corresponding to the adjustment are funded by consumers who benefit from the reduction, but the price nevertheless remains lower than it would have been without this measure.

Since the Spanish and Portuguese energy markets belong to the Iberian Electricity Market (MIBEL), the adjustment mechanism was adopted simultaneously and is coordinated at the Iberian level, ensuring that this regional market is integrated and efficient.

The amount of the adjustment to marginal fossil fuel power plants, which is unique to each of them, is the difference between the gas reference price and the effective price on the spot market for natural gas each day. In this way, the power plants recoup all their costs — as they have done until now — without altering the merit order in the market.

The measure in no way entails an incentive, overpayment or subsidy of these technologies and it does not enhance their competitiveness in relation to other uses of these fuels or encourage greater consumption. In turn, the adjustment mechanism allows sufficient market prices to enable investments in inframarginal technologies to be recouped and to continue to attract new, more efficient, competitive renewable energy generation. In other words, prices for clean, renewable energy remain higher than the cost of generating it to enable investment and development in this area to continue.

## 4.2 SETTING THE PRICE CAP

Following lengthy negotiations within the coalition government, with the Portuguese government as a partner in the project to establish an “Iberian exception” and later with the EC, the gas reference price established under the mechanism will be variable, increasing progressively over subsequent months until the cap has been in force for a year. For the first six months of the price cap, the maximum price will be 40 euro per MWh. After that, the maximum price will rise by 5 euro each month, reaching 70 euro per

MWh in the final month. This gradual rise will allow consumers to adapt as the mechanism is phased out. On the demand side, the total cost of adjustment to marginal technologies will be divided between Iberian consumers benefiting directly from the measure, either because they purchase energy at a price directly referenced to the wholesale market value or because they have signed or renewed a contract in which the beneficial effect of the mechanism on wholesale prices is already taken into consideration. In this way, a system of exemption from payment of the adjustment to marginal power plants is created for energy that is subject to forward hedging instruments. Those holding hedges of this kind will be able to submit the duly registered hedges to the relevant authorities, exempting them from the charge for the corresponding portion of energy.

This scheme ensures that consumers indexed to the wholesale spot price will benefit from the measure (as the sum of the new marginal clearing price plus the variable cost of the adjustment will be lower than the counterfactual in the absence of the measure) and that consumers covered by hedging instruments are not affected by the adjustment mechanism. As the aforementioned hedges expire or are renewed, the new energy will be subject to the cost of the adjustment under the specific design of this Royal Decree-Law.

Another novel aspect of the mechanism is the use of additional congestion pricing in the interconnection between the Spanish State and France to reduce the total cost of the adjustment. In particular, implementation of the adjustment mechanism set out in this Royal Decree-Law will lead to a significant reduction in the marginal clearing price in the Spanish and Portuguese price zones, which will have two main impacts: an increase in exports over the border between the Spanish State and France, and an increased difference in price between the Spanish and French price zones. Since this is a direct result of the mechanism, an exceptional procedure has been put in place to allow additional congestion pricing to be used at this interconnection (congestion prices that are proportional to border energy and the price difference) in order to bring down the total cost of the adjustment mechanism.

For the reasons explained here, the mechanism is fully respectful of the principles of the internal energy market, does not distort internal electricity trading, and will help decarbonize the economy by encouraging the use of renewable energy through more affordable electricity prices.

One of the conditions for approval of the mechanism by the European Commission is to reform the current PVPC regulated tariff (Voluntary Price for Small Consumers). The adjustment mechanism acts as an interim measure while this reform is designed and implemented, which will not be immediate.

Rising prices and growing volatility in the daily and intraday markets have had a particularly damaging impact on small domestic consumers with up to 10 kW of contracted power who are on the PVPC tariff, including vulnerable consumers who are entitled to the discount rate. The volatility and high prices in the daily and intraday market have been transferred directly to the PVPC as the methodology used to establish the cost of energy is based exclusively on the price on the daily and intraday market each hour. With the aim of reducing the volatility of the PVPC, the Royal Decree-Law stipulates that the methodology for calculating the voluntary price for small consumers may be modified where necessary in order to introduce a reference to forward market prices, incorporating a price component based on a basket of forward market products — annual, quarterly, and monthly — and a daily and intraday market price component. The new formula for pricing energy under the PVPC may be applied from early 2023.

### **4.3 TAKING STOCK OF THE FIRST THREE MONTHS**

While wholesale market gas prices have continued to rise in recent months, climbing to more than 330 US dollars on the Dutch TTF natural gas futures market at the end of August, the situation in the Spanish State was exacerbated by two heat waves in three months and very high temperatures, making August 2022 the hottest month on record in the country. It was also one of the driest months in the history of the Spanish State, with very low precipitation causing production in hydroelectric power stations to decline and reducing the amount of hydroelectric power as a proportion of the total energy auctioned in July and August. This led to an increase in the amount of energy generated by combined-cycle power plants, greater gas imports, and higher prices. More specifically, the percentage of energy generated by combined-cycle power plants rose from between 14 and 17 percent from March to May to 32 and 33 percent in July and August.

In this quarter, consumers on the PVPC regulated tariff paid 18 percent less than they would have done without the mechanism.<sup>17</sup> The cap on gas prices did not function in a linear manner throughout the summer. On several days in the middle of August, consumers on the regulated tariff saved almost 40 percent. Meanwhile, in early September, savings were around 10 percent.

Over the course of the last three months, the average price paid by Spanish consumers on the PVPC tariff stood at around 268 euro per MWh. This is 36 percent lower than the average price in France during the same period, 27 percent lower than in Germany and 41 percent lower than in Italy.

According to the Ministry of Energy's calculations, the gas price cap allowed Spanish citizens to save 2.3 billion euro on their electricity bills between 15 June and 15 September.

The data for September show greater savings as gas prices on the wholesale market and futures markets have led to lower compensation for energy companies. During this period, savings for consumers on the regulated tariff exceeded 21 percent.<sup>18</sup> If we look back to the introduction of the Iberian exception in mid-June, the overall saving is 19 percent. This falls within the range predicted by the government, which announced that it had calculated savings of between 15 and 20 percent.

### **4.4 UNIDAS PODEMOS PROPOSES LOWERING PRICES BY TAXING ENERGY COMPANIES**

The gas price cap mechanism has allowed the wholesale market price of electricity to be curbed and substantially reduced by partially decoupling the price of gas from the remuneration received by other technologies. However, the fact that compensation for combined-cycle plants is provided via a surcharge on the electricity bills paid by end consumers means that the savings offered by the "Iberian exception" could be even greater.

In order to go one step further and increase savings for families, a document containing new proposals was presented by Podemos's Secretariat of Economy, Energy and Production Model on 19 September.<sup>19</sup>

One of the main proposals, which would have a direct impact on household bills, involves seeking an alternative to the current system for compensating gas producers whereby companies in the sector would pay while existing payments for inframarginal technologies, which far exceed the costs involved in generating this type of energy, would be preserved. This compensation would be directly added to end consumers' bills, making the gas price cap less effective in reducing electricity prices.

Podemos has suggested another alternative to the issue, taking advantage of the current momentum in Europe on taxing energy companies and the European Commission's proposal to use the revenues

17 [https://www.eldiario.es/economia/balance-tres-meses-tope-gas-electricidad-36-barata-francia-2-300-millones-ahorro\\_1\\_9315410.html](https://www.eldiario.es/economia/balance-tres-meses-tope-gas-electricidad-36-barata-francia-2-300-millones-ahorro_1_9315410.html)

18 [https://www.eldiario.es/economia/ahorro-tope-gas-crece-septiembre-21-empujado-moderacion-precio-luz\\_1\\_9581275.html](https://www.eldiario.es/economia/ahorro-tope-gas-crece-septiembre-21-empujado-moderacion-precio-luz_1_9581275.html)

19 [https://podemos.info/wp-content/uploads/2022/09/Nota\\_Primeros-efectos-Tope-Gas-septiembre.pdf](https://podemos.info/wp-content/uploads/2022/09/Nota_Primeros-efectos-Tope-Gas-septiembre.pdf)

from the tax to help vulnerable families and companies and attempt to reduce bills: funding the compensation charged directly to end consumers via their electricity bills with a special tax on energy companies, which has passed the first parliamentary filter and is pending approval, with broad support from the progressive parties that backed the formation of the coalition government.

This measure would enable greater reductions on consumers' bills, especially at times when large amounts of gas are needed in the electricity pool. It would also have a greater impact when it comes to reducing inflation as the National Statistics Institute (INE) uses this segment of consumers from the regulated market, who bear the costs of compensation through their bills, to calculate inflation rates.

Another proposal was to speed up parliamentary procedures and approve the draft law on the remuneration of non-emitted CO<sub>2</sub> in the electricity market. The price per ton of CO<sub>2</sub> in the European market rose from 20–30 euro in 2019 to 70–80 euro in 2022. These prices also influence the wholesale energy market and result in windfall profits for power stations that do not emit CO<sub>2</sub>.

The draft law is aimed at reducing the revenues received by nuclear power stations, 80 percent of installed hydroelectric power and wind farms that opened prior to the publication of Directive 2003/87/CE, which created the European CO<sub>2</sub> market. At a per-ton CO<sub>2</sub> price of 100 euro, the reduction in revenues would total 1.69 billion euro. According to the document drafted by Podemos, based on the current per ton price, this would help lower bills by 4–5 percent.

Unidas Podemos has reiterated its demand for far-reaching reform of the energy market to reduce the wholesale price and windfall profits of electricity companies and increase the amount of electricity generated using renewable energies. To this end, they call for the reform to bring the price received by the different technologies in the wholesale market closer to the cost of energy production, allowing companies to make reasonable profits to encourage investment in renewable energies.

The party has also advocated specific contracts for difference for nuclear, hydroelectric and renewable power plants, which they argue would help bring remuneration for these technologies more in line with energy generation costs.

#### **4.5 CONCLUSION**

Existing tensions in the energy markets and rising prices have been exacerbated by Russia's invasion of Ukraine and supply issues affecting raw materials for energy generation, such as gas and hydrocarbons.

Yet the problem began months earlier, when energy prices began to rise.

Three weeks before armed conflict broke out in Ukraine, Unidas Podemos expressed concern over the issue and argued for a 10-percent increase in corporate taxes on the main energy companies in order to lower electricity bills for consumers, which were already beginning to rise, as the section "The Debate around Taxing Energy in the Spanish State" explains. However, the party's proposal was rejected by the PSOE.

Against this backdrop and in light of the Russian invasion, UP's demands on its coalition partner were pejoratively described as "radical" and "communist" or dismissed as impossible within the economic framework of the EU. Despite this, the debate was pushed to the top of the political agenda in both the Spanish State and Europe due to the impact of the ongoing economic crisis, resulting in some of the most significant decisions on fiscal matters and European market intervention in the history of the EU.

In addition to the tax on large energy companies and their windfall profits, the most important political and economic action in the ideological battle that broke out within the Spanish coalition government and reached right to the heart of the EU were the interventions in the markets and energy prices described in this chapter.

The proposals to cap gas prices and decouple them from the energy auctions that set the wholesale price presented by UP to the PSOE when negotiations began in March 2022 were accepted by the majority coalition partner a few months later. The government negotiated the price cap with the Portuguese government with a view to submitting a similar proposal to the one initially drawn up by UP to the EC.

The shifts that have occurred in European politics and in the approach taken by most EU member states to intervening in electricity markets, decoupling electricity prices from gas prices, limiting energy prices and imposing specific taxes on large energy companies would never have been possible without the input of European left-wing parties branded "radical", like Unidas Podemos in the Spanish State.

On 30 September, the energy ministers for each member state met again with the aim of closing a deal to introduce common measures on the energy market and on limiting consumption and prices across the European Union.

These measures include a solidarity contribution from the fossil fuel sector. The new tax will be applied to the profits of companies operating in the crude oil, natural gas, coal, and refinery sectors. The solidarity contribution will be calculated on companies' taxable profits, determined according to the national fiscal rules in force in the tax year commencing in 2022 and/or 2023, which are over 20 percent more than their average



annual taxable profits over the last three years. It will be levied on top of the usual taxes and charges collected by the tax authorities in each member state. As Von der Leyen announced, member states must use the revenues from this new tax to provide financial support for households and companies and to mitigate the impact of high electricity prices on the retail market.

In the announcement published once an agreement had been reached, the EC said that member states could keep national measures equivalent to the solidarity contribution, referring to countries that had already announced a tax on energy companies like

the Spanish government, “provided they are compatible with the objectives of the regulation and generate at least comparable proceeds” to those estimated by the European Commission.

Following the meeting of energy ministers and the EC’s proposal for a tax, the Spanish Minister of Finance declared that the government would be willing to adapt its own tax to the European format in the event that a common tax applicable to all member states was adopted by the European institutions. It is expected, therefore, that the Spanish government will announce that its tax on total sales will be withdrawn and replaced by the tax on windfall profits.

## 5 THE SPANISH GOVERNMENT’S PLANS TO LOWER PUBLIC TRANSPORT COSTS

Since the Russian invasion of Ukraine and the rise in energy and fuel prices, a system for subsidizing public transport via discounts and grants has been one of the main measures adopted in the Spanish State to help vulnerable households, mitigate the impact of inflation, and reduce the use of private vehicles, lowering hydrocarbon consumption and CO2 emissions in line with the European Union’s goal of reducing emissions.

The idea of direct subsidies on public transport systems to reduce ticket prices was initially proposed by Unidas Podemos. On 6 June, the Minister of Social Rights and 2030 Agenda, Ione Belarra, presented a new proposal to expand the anti-crisis decree in place at the time to the relevant ministries and the Ministry of the Presidency. Among other measures, such as increasing non-contributory pensions by 15 percent on an immediate basis, Belarra’s proposal included reducing all urban and intercity public transport passes to 10 euro,<sup>20</sup> based on a very similar premise to the measure to cut public transport costs in Germany but with a longer duration. In the proposal, it was suggested that the measure could be funded through an additional budgetary provision of 560 million euro from the Ministry of Transport, Mobility and Urban Agenda.

On 16 June, Unidas Podemos reiterated its proposal to reduce the price of public transport passes to 10 euro to its coalition partners, suggesting this time that the tax on energy companies should be used to fund the measure.<sup>21</sup> “We are negotiating an extension and

expansion of the social shield within the government and I hope to receive positive feedback in the coming days on some of our proposals, such as the ten-euro general transport pass, which, in my opinion, it would be wonderful to fund using the special tax on energy companies, whose profits quadrupled last year”, declared the Minister of Social Rights and 2030 Agenda, Ione Belarra, to the Committee on Social Rights at the Congress of Deputies on 16 June.

The introduction of a tax on large energy companies has been one of Unidas Podemos’s demands on its coalition partner, the PSOE, which holds the Ministry of Finance, since the first anti-crisis decree was announced in March, just a few weeks after Russia invaded Ukraine.

Following negotiations within the coalition government, Royal Decree-Law 11/2022 introducing and extending measures in response to the economic and social consequences of the war in Ukraine was approved on 25 June with the aim of tackling social and economic vulnerability and stimulating the economic and social recovery of La Palma.<sup>22</sup>

The Royal Decree-Law introduces a system of direct subsidies for 2022, offering financial support for autonomous communities and local authorities that provide urban or intercity public transport services, as well as local intermunicipal agencies covering several municipalities, created through legislation and providing urban public transport services. This system of subsidies encompasses three different programmes aimed at different users, each with

20 <https://www.epe.es/es/economia/20220606/propone-rebajar-10-euros-abonos-13788564>

21 [https://www.elconfidencial.com/espana/2022-06-16/podemos-impuesto-electricas-financiar-abono-transporte\\_3443192/](https://www.elconfidencial.com/espana/2022-06-16/podemos-impuesto-electricas-financiar-abono-transporte_3443192/)

22 [https://www.congreso.es/constitucion/ficheros/leyes\\_espa/rdl\\_011\\_2022.pdf](https://www.congreso.es/constitucion/ficheros/leyes_espa/rdl_011_2022.pdf)

their own budget line. The package of measures will be temporary, running from 1 September to 31 December 2022, although the government has already announced that it will consider extending the measure if inflation does not fall or fuel prices remain high due to high demand for the discounted transport passes among the population.

## **5.1 DIRECT SUBSIDIES FOR URBAN AND INTERCITY OVERLAND PUBLIC TRANSPORT**

The beneficiaries of the system of direct subsidies for urban and intercity overland public transport will be autonomous communities and local authorities that provide urban or intercity public transport services, as well as local intermunicipal agencies covering several municipalities, created through legislation and providing urban public transport services, who undertake to reduce the price of transport passes and multi-journey tickets, excluding return tickets, for the overland transport services within their jurisdiction by 30 percent off the original price at the time when the measure comes into force, for the period running from 1 September 2022 to 31 December 2022, with the restrictions established by ministerial order of the Minister of Transport, Mobility and Urban Agenda.

In the case of annual transport passes purchased before the Royal Decree-Law comes into force, the relevant authority may decide whether or not to introduce a system to refund the proportional amount corresponding to 30 percent of four months to users, but refunds are not compulsory.

The creation of two special appropriations with a total of 200 million euro was approved. The appropriations will be managed by the General Directorate of Land Transport at the Ministry of Transport, Mobility and Urban Agenda. The first appropriation will come under item 450, "Direct support for autonomous communities to reduce transport prices for regular users", with a total of 100 million euro. The second appropriation will come under item 464, "Direct support for local authorities to reduce transport prices for regular users", with a total of 100 million euro.

Using their own budgets, autonomous communities will be able to introduce similar support schemes, committing to an additional reduction on the discount offered by the central government scheme. In other words, the central government offers regional governments the option of increasing the discount by a further 20 percent, giving users a total discount of up to 50 percent of the original price.

To date, the vast majority of autonomous communities and provinces have agreed to co-finance the scheme and have contributed the extra 20 percent from their own budgets to increase the discount to 50 percent. This extra discount is not available in the

case of multi-journey tickets for the public transport networks in Zaragoza, Valencia, Alicante, Seville, Valladolid, Murcia, and Malaga. These provinces have added an extra 10 percent, pushing the total discount up to 40 percent.

When it comes to local authorities and their public transport services (primarily bus services), the figures vary significantly and many cities have opted not to allocate their municipal budgets to fund the discount. They include Vigo, A Coruña, and Santiago in Galicia, as well as Cuenca and Guadalajara in Castilla la Mancha, among others.

## **5.2 PRICE REDUCTIONS IN STATE-RUN TRANSPORT**

All multi-journey tickets sold between 1 September 2022 and 31 December 2022 for the rail services on the General Interest Rail Network run by ADIF and ADIF AV, considered a public service obligation by the relevant authorities, will receive a 50 percent discount.

For the purposes of this measure, a multi-journey ticket will be understood as any unimodal ticket issued by the operator running the services that gives the user the right to more than two journeys. This means that multimodal tickets and return tickets are excluded from the scheme.

The measure will be directly applicable to all multi-journey tickets for services run by the central state administration. To fund the discounts, a special appropriation totalling 16 million euro to be covered by the Ministry of Transport, Mobility and Urban Agenda has been approved.

Bus services under the jurisdiction of the central state administration, regardless of their administrative status, must reduce the normal price of multi-journey tickets for more than two trips by 50 percent, excluding return tickets.

To fund the discounts, a special appropriation totalling 5 million euro to be covered by the Ministry of Transport, Mobility and Urban Agenda has been approved. Although the transport passes are free, passengers must pay a deposit of 10 euro for suburban trains and 20 euro for mid-range regional trains. The deposit will be returned at the end of the period of use of the passes, as long as passengers have made at least 16 journeys during this four-month period.

Besides free suburban and mid-distance rail transport, the Ministry has approved direct subsidies to allow autonomous communities and local authorities to discount the price of transport passes and multi-journey tickets on their public transport services by at least 30 percent. According to data from the Ministry of Transport on 12 September, all autonomous communities in the Spanish State, the auton-

omous cities of Ceuta and Melilla, and 178 local authorities had applied for these funds.<sup>23</sup> The ministry has reopened applications for the subsidies to allow municipalities that have not yet requested funding to join the scheme.

### 5.3 RESULTS AND PROSPECTS

The Ministry of Transport, Mobility and Urban Agenda has declared the measure a success, with widespread take-up among the population. Since applications for the different types of transport passes opened on 24 August 2022, the Spanish rail operator Renfe has issued more than 1,011,131 free passes for suburban and mid-distance rail travel up to 31 December 2022, according to data from the ministry released on 12 September.<sup>24</sup>

Of all the free tickets issued, 77 percent were for suburban rail travel. These trains largely replace daily trips to work by private car, resulting in greater daily savings for working people and a more significant reduction in greenhouse gas emissions due to lower hydrocarbon consumption. According to data from the Spanish rail company published on 12 September, the number of passengers across the Cercanías suburban railway network rose by 27 percent in the first week of September, representing an increase of 250,000 passengers on average compared to the same week in 2021.

As well as free passes for regular travellers, Renfe has also sold approximately 14,800 tickets for use on the

AVE and Avant high-speed and mid-distance services by 31 January 2023 at a 50 percent discount. In total, Renfe has issued 1,025,910 tickets with a discount of some kind since 24 August.

According to estimates based on initial data on demand for the free and discounted passes in the first 15 days of the scheme, the measure adopted by the government to mitigate the effects of the crisis caused by the Russian invasion of Ukraine and to boost public transport use, reducing energy dependency and emissions, will affect more than 75 million trips. According to data from the ministry, the subsidy has allowed 118 million litres of petrol to be saved and avoided the emission of 360,576 tons of CO<sub>2</sub> into the atmosphere from equivalent journeys made by car.

Following lengthy negotiations between the two coalition government partners, which came to a close just hours before the announcement was made, a plan for the 2023 State Budget was presented on 4 October. Among the measures agreed, the PSOE has consented to an extension of discounted public transport services and free train travel on Renfe's suburban and mid-distance rail networks. The successful measure, which has benefited more than 1.5 million users to date, will be extended to the end of 2023 at a cost to the public purse of 655 million euro.

Unidas Podemos had called for the PSOE to agree to extend the measure throughout the whole of the coming year, as it eventually did, as well as to reduce public transport costs to a flat fee of 10 euro per month. However, this second demand has been dismissed by the majority coalition partner.

## 6 SUMMING UP

This study has sought to analyse the measures implemented by the Spanish government to counter the cost-of-living crisis, and evaluate the role of Unidas Podemos in fighting to expand and extend them as the crisis deepens. What did it show?

- The Spanish State was one of the first countries in the world to tackle the debate on windfall profits and seek ways to alleviate the impact of rising prices, with proposals emerging from within the coalition government even before the Russian invasion of Ukraine.
- The coalition government, which comprises the Partido Socialista Obrero Español (PSOE) and Unidas Podemos (UP), has been one of the first

governments to rethink taxes on energy and oil companies.

- The tax on electricity companies was one of Unidas Podemos's main demands on its majority coalition partner PSOE with regard to fiscal policy, alongside the wealth tax or "tax on the rich".
- The balance of power within the coalition government has been characterized by demands from Unidas Podemos that have been pejoratively described as "radical" and "communist" and dismissed as impossible in the EU economic context, but have ultimately come to the forefront of the political debate due to the economic issues facing the country.

23 <https://www.lamoncloa.gob.es/serviciosdeprensa/notasprensa/transportes/Paginas/2022/170822-abonos-transporte-publico.aspx>

24 <https://www.mitma.gob.es/el-ministerio/sala-de-prensa/noticias/lun-12092022-1527>

– The shifts that have occurred in European politics and in the approach taken by most EU member states to intervening in electricity markets, decoupling electricity prices from gas prices, limiting energy prices and imposing specific taxes on large

energy companies would never have been possible without the input of European left-wing parties branded “radical”, like Unidas Podemos in the Spanish State.