## **Executive summary**

#### A dynamic country with rich natural endowments

Spain is one of the world's biodiversity hotspots, with stunning coastal and terrestrial landscapes. From 2000, the Spanish economy was one of the most dynamic within the OECD, until the global economic crisis hit the country hard. The economy has since shown signs of stabilising and recovery programmes have opened up opportunities for greener, more sustainable growth.

Spain has made impressive progress in many aspects of its environmental performance since 2000. The carbon intensity of the economy has declined, as has municipal waste generated per capita. Emissions of major air pollutants and air concentration of particulates have fallen significantly, although exposure to urban air pollution from ozone is still higher than the EU average. As a country with medium-high water stress, Spain has one of the highest intensities of water use in the OECD. The majority of bathing waters, important assets for tourism, are of excellent quality. Overall, the Spanish population is satisfied with the quality of its environment.

A highly decentralised system presents challenges for co-ordination

Spain's environmental management system, like the rest of the country, is highly decentralised. This provides broad scope for the 17 Autonomous Communities to tailor policies to local needs, yet presents a challenge to establish a coherent environmental framework and implement environmental requirements consistently across regions. To strengthen co-ordination, several mechanisms, such as the Sectoral Conference on the Environment, have been established. Reinforcing these mechanisms could improve their effectiveness. European Union requirements have helped to drive the consolidation of environmental policy, yet the transposition of directives has often been late, resulting in a particularly high number of infringements. The government has recently taken a number of initiatives to streamline regulations and reduce the regulatory burden on firms. Further efforts are needed, without compromising environmental ambitions.

A recovering economy creates new opportunities for green growth

Recent policies to spur the economic recovery aim to better mainstream environmental issues into economic policy, but there is scope for further integration. Pursuing a green tax reform agenda, as set out in the 2014 "Lagares" report, would provide one such opportunity.

Currently, revenue from environmentally related taxes is among the lowest of the OECD EU members. Although Spain's overall innovation performance is weak, the country invested a relatively high share of public R&D in the energy and environment sector. Public R&D spending was subject to steep cuts in 2010-11, but in 2014, the total budget for R&D increased by 5% compared with 2013. Further efforts should focus on areas where Spain has a competitive advantage, including the SME sector. The government should also capitalise on the economic opportunities that eco-innovation can provide.

Spain has invested significantly in improving energy efficiency and promoting renewable energy. Energy efficiency action plans (2004-12) targeted buildings and transport, key obstacles to reaching GHG reduction targets for 2020, yet would have been more costeffective had stricter building codes and energy performance certificates been introduced earlier. New instruments, such as the Energy Efficiency Fund, should be subject to a thorough assessment of their costs and benefits. Substantial financial support to the generation of electricity from renewable sources resulted in a significant increase in the share of renewable energy and the development of a competitive industry. However, the costs have imposed a heavy financial burden, leading to a large funding deficit in the electricity system. In response, the government is reforming the electricity system with the aim of better balancing revenues and costs, while ensuring a reasonable return for investors. Details of the reform should be finalised rapidly, so as to provide a clear and stable framework for the further development of the renewable energy sector.

# Ambitious policies help to protect one of the world's biodiversity hotspots

The shares of protected areas are among the highest in the OECD, with about 29% of Spanish land area and 8.4% of territorial waters under some form of nature protection. However, the conservation status of almost 40% of habitats and species is relatively unfavourable. Land conversion and population increase (significant in coastal areas) are key factors driving these trends.

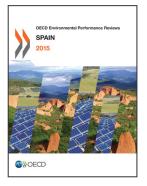
Responding to these pressures, the government has significantly strengthened its legal framework, including enacting a comprehensive biodiversity law that is among the most ambitious in the OECD. The establishment of Natural Heritage and Biodiversity Inventory and the Nature Data Bank were among the key biodiversity achievements of the last 10 years. They aim to address the major challenge of dispersed, inconsistent and incomplete data on biodiversity resources across the autonomous regions. These ambitious policies have met with a number of implementation challenges, including reductions in public budgets. Addressing these challenges requires more effective use of existing resources, as well as developing alternative economic instruments that can provide both incentives for conservation and sustainable use of biodiversity and revenues that can be used for that purpose.

Further efforts are required to minimise environmental impacts as the industrial sector expands

Impressive progress was made in reducing the environmental impact of the industrial sector across a range of environmental indicators, driven by the implementation of

mandatory environmental requirements, investments in new technologies as well as the impact of the global economic downturn. Spanish industry has become a leader in the adoption of environmental management systems and has been very active in eco-labelling and corporate social responsibility reporting. While such systems can help to strengthen environmental management procedures, their impact on environmental outcomes is less clear. Frequent use is made of financial incentives or tax breaks to promote more environmentally friendly practices, although these are generally less effective than environmentally related taxes and other policy instruments.

Despite this progress, environmental pressures from industry are likely to increase as the economy recovers. To avoid this, it will be important for the Spanish government to further integrate industrial and environmental policies, and to ensure the implementation of a robust system of environmental protection.



### From: OECD Environmental Performance Reviews: Spain 2015

Access the complete publication at: https://doi.org/10.1787/9789264226883-en

#### Please cite this chapter as:

OECD (2015), "Executive summary", in OECD Environmental Performance Reviews: Spain 2015, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264226883-4-en

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