Executive summary

Portugal has made progress towards some Sustainable Development Goals (SDGs)

Portugal has a small, service-based economy that grew steadily between 2013 and 2019. The country was strongly hit by the pandemic but has been recovering fast since mid-2021. Yet the pace of the recovery is easing. Although Portugal has few direct trade links with these countries, Russia's war against Ukraine is driving up energy and food prices.

Over the past decade, Portugal managed to decouple energy consumption and major air pollutant emissions from economic growth. The energy mix has shifted from oil and coal to natural gas and renewables, and air quality generally improved. However, material consumption, municipal waste generation and freshwater abstractions have grown at the same rate or faster than gross domestic product (GDP). Portugal is one of the OECD countries with the highest landfilling rates. The status of habitats and species has deteriorated, and agriculture exerts significant pressures on water bodies.

Overall, the country increased access to clean energy (SDG 7), and clean water and sanitation (SDG 6). Nevertheless, major challenges remain to ensure sustainable consumption and production patterns (SDG 12) and protect, restore and promote sustainable use of marine and terrestrial ecosystems (SDGs 14 and 15).

GHG emissions fell significantly but reaching carbon neutrality calls for sustained and comprehensive action

Portugal met its 2020 climate targets. Greenhouse gas (GHG) emissions decreased by one-third between 2005 and 2020. Following the 2008 crisis, emissions declined due to the reduction in energy demand and increasing renewable electricity generation. With the economic recovery, emissions rebounded in 2014-17, particularly in the transport sector. However, they have since fallen, driven by a strong shift away from coal-fired power generation and reduced energy use during the COVID-19 crisis. Portugal can be commended for its leading role in climate action under its Presidency of the Council of the European Union in 2021, and for enshrining carbon neutrality in national law. The 2021 Framework Climate Law includes many promising provisions to improve climate policy governance.

National projections indicate that additional policies will be needed to reduce emissions by at least 55% from 2005 levels by 2030 and by 90% by 2050 as required by the Climate Law. When revising the National Energy and Climate Plan 2021-2030 (NECP 2030), Portugal should clarify the measures envisaged to achieve its goals, quantify their mitigation impact and specify how they will be financed. It will need to leverage sectoral and cross-sectoral policies to reach carbon neutrality by 2050. This involves accelerating the development of renewable energy, building renovation and low-carbon vehicles, reducing car use and tackling the growing emissions from agriculture; sending consistent carbon prices across sectors and fuels; and prioritising targeted income support over energy price control to fight energy poverty.

Portugal has stepped up its effort to adapt to climate change

Portugal’s territory faces multiple threats related to climate change, including coastal erosion, heavy precipitation events and extreme heat days. Droughts also undermine agricultural yield and hydropower generation. Forests are particularly exposed to fire danger.

The government adopted a National Adaptation Strategy in 2015 and an Action programme in 2019 to define priorities and measures. Public information on climate change risks has improved considerably and adaptation is increasingly integrated into sectoral strategies, such as in agriculture. Fundings for adaptation have been scaled up, notably co-financed by the European Union. Portugal has strengthened wildfire risk prevention but faces the challenge of improving forest management practices in abandoned rural areas where land ownership is private and fragmented. Completing the land cadastre and extending payments for ecosystem services can help reduce the risks of forest fires.

Effective use of EU funds is key to boost green investment

The cohesion policy has become the main source of financing public investment. With the Next Generation EU funds, Portugal needs to manage significantly higher amounts over 2021-27. This is an opportunity to address environmental issues but also a challenge in terms of implementing programmes. Over 2014-20, Portugal had a high absorption rate of structural funds allocated to environmental protection and resource efficiency, climate change adaptation and risk prevention. However, projects on improving energy efficiency, and developing clean urban transport infrastructure and railways have been delayed partly due to their complexity. Portugal should ensure the transparent and effective implementation of programmes financed with EU funds, prioritising investments with the highest social return.

The Recovery and Resilience Plan (RRP) aims to boost the economy with Next Generation EU funds over 2021-26. Its investments and reforms are to be supported by grants and loans representing about 8% of 2020 GDP. Portugal devoted 38% of its RRP budget to the climate objectives. The RRP rightly focuses on improving energy efficiency and promoting sustainable mobility. It also includes investments to decarbonise industrial processes and boost the use and production of hydrogen, prevent and fight rural fires, improve water-use efficiency and promote a sustainable bioeconomy. However, concerns have been raised on investment in road network extension, new dams in water-scarce areas or on limited support for biodiversity. Portugal should carefully assess the environmental impacts of RRP and other EU co-funded investments.

Upgrading environmental infrastructure requires better pricing of services

Public expenditure on environmental protection, at 0.7% of GDP in 2020, was below the EU average. Waste management has driven its recent increase, but this is not reflected in the performance of the service provision. Recovering the costs of the service is a prerequisite for financing the sector. In 2020, three-quarters of municipalities did not fully recover the costs of waste service provision through tariffs charged to consumers. Waste charges are included in the water bill and usually linked to water consumption. Portugal has completed the main infrastructure for wastewater management, but investment needs remain significant, including for rehabilitation of existing assets. Despite an apparent good cost-recovery of wastewater services, there is scope to improve the ability of municipalities to assess these costs and to increase tariffs, particularly where they provide the service directly.

The green tax reform should be pursued

In 2014, Portugal introduced a green tax reform, including a carbon tax in sectors outside the EU Emissions Trading System (ETS). It also increased the CO_2 component of the vehicle registration tax, revised the taxation of water and waste management, granted property tax breaks for forest management and introduced a tax on single-use lightweight plastic bags. Revenue from environmentally related taxes increased, mainly driven by rising consumption and tax rates on diesel, until the COVID-19 crisis reduced the purchase and use of cars. However, the carbon tax and the taxes on water and waste management have not provided consistent incentives to curb energy and water use and divert waste from landfills. Fuel and vehicle taxation, as well as road pricing, could better promote decarbonisation and air quality improvements. The Ministry of Finance and Ministry of Environment and Climate Action should complete the evaluation of the green tax reform with a view to applying the polluter pays principle more consistently.

Like other OECD countries, Portugal supports consumption of fossil fuels through tax expenditure; oil and gas attract the bulk of government support. The largest amounts include reduced tax rates for diesel fuel used by agricultural equipment and, since 2017, partial refund of diesel taxes to freight companies; tax exemptions on energy products used for electricity production or by industrial installations under the ETS or an energy-efficiency agreement. Since 2014, forgone revenue from tax relief has increased with consumption and taxes on diesel and natural gas. In 2018, Portugal started to phase out some exemptions, which helped phase out coal power in 2021. However, responding to rising prices, Portugal has introduced new measures supporting fossil fuel consumption. As part of the inventory of tax benefits, Portugal could identify potentially environmentally damaging supports and phase out those unjustified on economic, environmental or social grounds.


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