

Spain Suspends Subsidies for New Renewable Energy Power Plants

By Ben Sills - Jan 27, 2012 5:37 PM GMT+0100

Spain halted subsidies for renewable energy projects to help curb its [budget deficit](#) and rein in power-system borrowings backed by the state that reached 24 billion euros (\$31 billion) at the end of 2011.

“What is today an energy problem could become a financial problem,” Industry Minister Jose Manuel Soria said in Madrid. The government passed a decree today stopping subsidies for new wind, solar, co-generation or waste incineration plants.

The system’s debts were racked up as revenue from state- controlled prices failed to cover the cost of delivering power. Costs have swollen in the past five years because of an increase in regulated payments for the [power grid](#) , support for Spanish coal mines and subsidies for renewable energy plants.

“It’s clear they have to make major cuts,” said Francisco Salvador, a strategist at FGAMG Valores in Madrid. “The government has already ruled out a significant increase in prices, so the cuts will fall in many places and the spotlight is on renewables, but not just on renewables.”

Renewables companies fell on the Spanish action. [Vestas Wind Systems A/S \(VWS\)](#) , the biggest wind-turbine maker, slid as much as 2.9 percent in Copenhagen. Abengoa SA, a Spanish engineering firm specializing in solar mirrors, dropped as much as 2.2 percent in Madrid and

[Iberdrola SA \(IBE\)](#)

, the biggest renewable energy producer based in Bilbao, declined as much as 1.5 percent.

First Step

Spain’s decision is a “first step” to rein in debts, and officials are working on a broader package

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of measures, Soria said. The nation isn't planning a levy on hydropower or nuclear plants, nor will it take on power-system liabilities, he said.

The Spanish action follows [Germany](#)'s announcement last week that it would phase out support for solar panels by 2017 and the U.K.'s legal battle to reduce its subsidies for the industry.

Spain was an early mover in developing renewables plants, and support for [wind energy](#) helped Iberdrola become the world's biggest producer of clean power, with plants in the U.S. and

[Brazil](#)

. The industry sustains about 110,000 Spanish jobs, according to the Renewable Energy Producers Association.

The government is wrestling with competing priorities as it struggles to convince investors it can meet a target to cut the budget deficit to 4.4 percent of gross domestic product this year, from 8 percent last year, while trying to create jobs in a country where 23 percent of workers are unemployed.

Horse Bolted

"This is shutting the stable door after the horse has bolted," said Peter Sweatman, chief executive officer of consultant Climate Strategy. "The risk is that Spanish firms that are recognized global leaders in renewable energy feel their position undermined by lack of domestic support."

Generating capacity is about twice [Spain](#)'s peak demand following a boom in investment in solar panel installations and combined-cycle gas-fired plants, while the country is ahead of its targets for clean power production, Soria said. The suspension won't affect operating plants or projects that have already been approved for subsidies by the government, he said.

"It's a real positive for the developers, the owners of assets, because it removes the risk of retroactive cuts," said Sean McLoughlin, a renewable energy analyst at HSBC Plc. "The government could certainly have done that again when you think of how much it's costing them

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but have decided not to. This suggests that the government is listening to the industry.”

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