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# Act on Climate Change and Energy Transition

On May 21, 2021, Act 7/2021, on climate change and energy transition ("**LCCTE**") was published in the Spanish Official State Gazette. The LCCTE will enter into force on May 22, 2021.

## Legal flash

May 2021



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**The LCCTE defines the aims to decarbonize the economy and integrates climate change risks into sectoral policies, providing mechanisms to ensure that investments are aligned with the fight against climate change.**

## Highlights

- It boosts renewable energy.
- It promotes the renovation of buildings.
- It introduces the obligation to install electric charging points in new buildings.
- No new research permits or licenses for hydrocarbon exploration or mining of radioactive minerals are expected to be granted, and fracking is banned.
- In the context of public procurement, it foresees including technical specifications and awarding criteria related to reducing emissions and carbon footprint.
- It imposes reporting obligations on companies, listed companies, credit institutions and insurance undertakings.



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## Objectives of the LCCTE

The LCCTE reflects Spain's commitment to the fight against climate change at international and European level:

- It sets goals to **reduce greenhouse gas emissions**.
- It fosters **energy efficiency**, restricts the use of fossil fuels and promotes **renewable energy** and alternative fuels.
- It mainstreams **climate change adaptation** and integrates related risks into sectoral policies.
- It develops mechanisms to minimize the risks related to the transition towards a **decarbonized economy**.
- It mobilizes resources to fight against climate change.
- It increases awareness about climate change and energy transition processes.

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## Greenhouse gas emission reduction targets, renewable energy and energy efficiency

The LCCTE sets the following targets, in accordance with the European Council's conclusions of December 10 and 11, 2020:

- **Minimum targets for 2030:** A net reduction of at least 23% in greenhouse gas emissions by 2030 compared to 1990, a level of 42% of energy from renewable sources used in gross final energy consumption, an electricity system with a 74% share of renewable sources in electricity generation, a 39.5% reduction in primary energy consumption, compared to the baseline projections defined in EU regulations.
- **Targets for 2050:** Spain must achieve **climate neutrality**, i.e., it cannot release more greenhouse gas emissions than those that can be absorbed from the atmosphere by carbon sinks (e.g., forests, soil and oceans).

The Spanish Council of Ministers has been placed in charge of the **upward revision of these targets** and of adapting them to international obligations stemming from the Paris Agreement, any new European regulations that may be adopted, and advances in science and technology.



To achieve these targets, the **Decarbonization Strategy for 2050** and the **Integrated National Energy and Climate Plan (“PNIEC”)** are being considered for approval. The first PNIEC, encompassing from 2021 to 2030, was approved under the joint [\*Decision of March 25, 2021\*](#) of the General Directorate of Energy Policy and Mines and the Spanish Office for Climate Change.

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## Energy transition and fuels

- **Exploration, research and exploitation of hydrocarbons:** Once the LCCTE enters into force, no more new licenses or permits will be granted for exploration, research, or the exploitation of hydrocarbons. This prohibition does not apply to applications for exploitation licenses linked to a valid research permit if those applications were still being processed before the entry into force of the LCCTE. Valid research permits and licenses to exploit hydrocarbon sites located in the territorial sea, the exclusive economic zone and the continental shelf cannot be extended in any case beyond December 31, 2042.
- **Research and exploitation of radioactive mineral deposits:** No new applications will be admitted for exploration or research permits, or for direct exploitation concessions for radioactive materials, nor will they be extended, when these resources are extracted for their radioactive, fissionable or fertile properties. Likewise, no new applications will be admitted seeking authorization of nuclear fuel cycle facilities to process these radioactive minerals.
- **Fracking:** No new authorizations will be granted to conduct any activity in Spain involving the exploitation of hydrocarbons if the activity involves high-volume hydraulic fracturing.
- **Tax benefits for fossil-fuel energy products:** The application of new tax benefits for fossil-fuel energy products must be justified on the grounds of social or economic interest, or owing to the lack of alternative technologies.
- **Promotion of renewable gases:** Provisions are introduced to encourage renewable gases, including biogas, biomethane, hydrogen and other alternative fuels the manufacture of which has used exclusively raw materials and energy, both of renewable origin, or that allow the reuse of organic waste or by-products of animal and plant origin.
- **End of coal production in Spain:** Regulations are introduced to end coal production in Spain, establishing that exploitation permits, licenses and authorizations to use coal reserves in the production units recorded in the Closing Plan of the Kingdom of Spain for non-competitive coal mining will be subject to the repayment of aid granted.



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## Renewable energy

- **Electricity generation in the hydraulic public domain:** The LCCTE establishes that new permits granted for the hydraulic public domain to generate electricity must prioritize the integration of unmanageable renewable technologies in the electricity system, actively promoting **reversible hydropower plants**.
- **Use of water flows for urban water cycle:** The use of water flows from the urban water supply and treatment systems is promoted for generating electricity.
- **Energy efficiency:** It encourages the efficient use of energy, the reduction in carbon footprint of materials used to construct and renovate buildings, and it promotes the renovation and refurbishment of existing buildings to improve the energy efficiency of building stock.

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## Real estate sector

- **Energy efficiency measures in buildings:** Without prejudice to the powers of autonomous regions, the government will promote and facilitate the efficient use of energy and the use of energy from renewable sources in buildings.
- **Building materials:** Materials used in the construction and renovation of buildings must have the lowest carbon footprint.
- **Promotion of building renovation:** The government will encourage the renovation and refurbishment of existing buildings and, within less than six months from the date the LCCTE enters into force, it will draw up a plan for housing renovation and urban regeneration to improve the building stock.
- **Renewable energy in housing renovation:** The authorities may offer incentives to promote self-consumption, low-voltage installations, and zero emission heating and cooling systems.
- **Spanish Technical Building Code:** The Technical Building Code will impose obligations relating to the installation of electric vehicle charging stations in newly constructed buildings and interventions in existing buildings.



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## Transport

- **Promotion of emission-free mobility:** One of the targets for 2050 is that the fleet of passenger cars and light commercial vehicles should generate no direct CO<sub>2</sub> emissions and that by 2040, new passenger cars and commercial vehicles should emit 0 g CO<sub>2</sub>/km.
- **Sustainable urban mobility plans:** Municipalities with a population of more than 50,000 inhabitants and island territories must adopt sustainable urban mobility plans by 2023 to reduce emissions caused by mobility.
- **Installation of charging stations:** To guarantee sufficient infrastructure to charge electric vehicles, the LCCTE introduces obligations on the installation of electric charging infrastructures at new petrol stations and existing stations with an annual sale of petrol and diesel fuels exceeding five million liters.

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## Public procurement

- **Public procurement:** In the context of public procurement, the law foresees including technical specifications and awarding criteria related to reducing emissions and carbon footprint.
- **Lease of properties by the state public sector:** Property lease agreements that are in force in Spain under which the state public sector is the lessee and that are not considered nearly zero-energy buildings in accordance with the Technical Building Code in force on December 31, 2020, cannot be extended beyond 2030.

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## Reporting obligations for companies

- **Annual report on climate change risks and transition towards a sustainable economy:** To improve transparency regarding the risks and opportunities associated with the fight against climate change in the financial sector and companies, an obligation is introduced to file an annual report assessing the financial impact on companies resulting from risks associated with climate changes caused by the exposure of their activity to climate change, including risks associated with the transition towards a sustainable economy and the measures adopted to face those risks.
- **Companies subject to these obligations:** In general, this requirement applies to companies that issue securities admitted to trading on regulated markets, credit



institutions, insurance and reinsurance companies, and companies not included in any of the previous categories that are obliged to draw up a non-financial statement.

- **Regulatory development of the contents of the report:** The contents will be established by royal decree within two years from the date the LCCTE is approved. The reporting obligations implemented by law include governance structure, strategic approach, real and potential impacts, identification processes, and risk management and the metrics used, all in relation to the risks associated with climate change.
- **Financial institutions must publish decarbonization goals.** From 2023, financial institutions must publish the specific decarbonization goals of their loan and investment portfolio in line with the Paris Agreement.

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## Adaptation to the impacts of climate change

- **National Adaptation Plan on Climate Change (NAPCC):** The LCCTE specifies that the NAPCC will be the basic planning tool to tackle the effects of climate change, while also setting the goals, criteria, scope of application and actions to be taken. It will also include guidelines on the adaptation in Spain of impacts resulting from climate change outside the country, giving priority to adaptation to climate change based on ecosystems.
- **Sectoral policies:** The LCCTE takes into consideration the risks arising from climate change in planning and managing sectoral policies, as well as policies on the hydraulic public domain, the maritime-terrestrial public domain, land-use and urban planning, food safety and diet, and public health.
- **Protecting biodiversity:** Other measures are envisaged to protect biodiversity and its habitats from climate change, and a specific strategy must be mapped out for the conservation and restoration of ecosystems and particularly vulnerable species.
- **Rural development:** Measures are envisaged to reduce the vulnerability of agricultural land, forests and forest soil to climate change, also seeking to ensure that part of the wealth derived from the deployment of renewable energies will return to the land on which the facilities are located.

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## Other measures

- **Public funds:** A set minimum percentage of the General State Budgets, equivalent to the amount agreed in the Multiannual Financial Framework of the European Union (currently 30%), must be assigned to the positive impact on the fight against climate



change. Income deriving from auctions for emission allowances are expected to be used for this purpose.

- **Just Transition Strategy:** The LCCTE has created the Just Transition Strategy as an instrument to optimize opportunities offered by the transition towards a low greenhouse gas emissions economy. Just transition agreements are expected to be concluded to promote economic activity and its modernization, and to foster the employability of vulnerable workers and groups at risk of exclusion, particularly in cases where facilities are closed or undergo reconversion.
- **Green taxation:** Within six months, the government will set up a group of experts to analyze a tax reform evaluating the effectiveness of green taxation.
- **Carbon footprint:** Within one year from the date on which the LCCTE enters into force, the government will specify the type of companies obliged to calculate and publish their carbon footprint, and to draw up a plan to reduce greenhouse gas emissions.

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