THE BUSINESS GATEWAY

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Mediterranean Economic and Business Guide









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President of the Government of the Kingdom of Spain

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Minister of Economy and Finance

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President of the Chamber of Commerce, Industry and Navigation of Barcelona

BACKGROND OF SPAIN

Geography

Modern Spain's 40,341,462 people (July 2005 est) speak four different languages, Castilian Spanish is the official language of the nation and is spoken by 74% of the population as a first language. Catalan is the first language of 17% of the people and the official language of the Catalan regions. 7% speak Galician and 2% speak Basque both of which have official status as regional languages. 97.9% of the population over 15 can read and write.

Roman Catholicism is the religion of 94% of the population across the 499,542 sq km of Spainish land – including the Balearic Islands, the Canary Islands and three small islands off the coast of Morocco: Islas Chafarinas, Penon de Alhumeca and Penon de Velez de la Gomera.

Spain's second longest land border is with France along the Pyrenees to the North, the 623km border is broken for 63.7km by Andorra. Its shortest, 1.2km border, is with the UK outpost of Gibraltar – the status of which is frequently discussed between the governments of the UK and Spain. The longest land border, 1,214km is with Portugal which occupies the majority of the peninsula's Atlantic coast.

ECONOMIC STRENGTHS OF SPAIN

Interview with Mr. Jose MONTILLA AGUILERA,
Minister of Industry, Tourism and Trade

INTRODUCTION TO THE SPANISH ECONOMY

Economic Picture of Spain

Buoyed up on dynamic consumer spending Spain's economy is performing well. It is leading the Euro zone in terms of growth.

Spain's GDP was 837,557 million Euros in 2004. It registered an increase of 3.1 per cent from 2000 to 2004. Per capita GDP was 19,642 Euros in 2004. The standard of living differential with Euro area fell from 20% to 13% between 1995 and 2003.

Figures for 2005 showed continued growth in quarter 1 and quarter 2, adjusted to represent year on year statistics, GDP growth was 3.1 and 3.4 per cent respectively. As the Euro zone is predicted to slow slightly in 2006 due to higher oil prices Spain is expected to follow and register growth of 3.2 per cent – maintaining its lead on the Euro zone. Spain has registered higher GDP growth than the European average for more than ten years.

Make-up of GDP by sector in 2004 was led by Services with 60.8 per cent of which market services contributed 47.8 per cent of total GDP. Industry contributed 14.4 per cent, net taxes on products 10 per cent, construction 8.7 per cent, agriculture and fishing 3.1 per cent and the energy sector provided 2.2 per cent of GDP.

The retail sector is one of the more dynamic sectors in Spain. The general picture of the marketing sector is a pleasant combination of large scale commercial opportunities in shopping centres and supermarkets. While the traditional open air market holds its market share as a favourite of the population and the tourist.

Large department stores and the specialised major retail outlets continue to increase their market share in Spain, although in terms of foodstuffs, hypermarkets have lost out to supermarkets, the latter being a smaller commercial format and a lot more established with regard to the food business, while enjoying, at the same time, the advantages of forming part of the proximity market, whereas hypermarkets are normally found in suburban commercial areas.

On the other hand, shopping centres continue to expand. At the end of 2004, there were 447 up and running, with a gross rentable surface area of 9.7 million m2 and a growing incorporation of leisure and restaurant facilities.

Worthy of special mention is the increase of large department stores specialising in goods other than food, especially in furniture, DIY and electrical appliance sectors, as well as franchise outlets, a format which accounts for some 19,220 retail outlets, representing 3.0% of the premises, 4.7% of the turnover and 6.2% of the employment in the sector.

In packed food (dry food) sales in grocer's shops continue to fall with respect to self-service stores. In 2004, traditional dry food outlets had a market share of 5.1%, while the small self-service stores accounted for 23.2% of the market, supermarkets (from 400 m2 to 2,500 m2) for 47.7% of the market, and finally the hypermarkets (over 2,500 m2) had a market share of 23.9% in these items.

As far as fresh foodstuffs are concerned (fruit, vegetables, meat and fish) the traditional shops and town markets have managed to maintain their leadership, accounting for around 50% of the market share. New commercial formulas, such as electronic commerce, are in full growth with a 31% increase over the previous year. Notwithstanding, their market share remains quite small.

Foreign Trade

The food, car, chemical and metal industries are among the most important in Spain. Industrial production and exports are increasingly turning towards a greater technological content, as exemplified by the fact that over half of the manufacturing industry exports reflect a medium-high technological intensity. In 2004, industrial product exports accounted for 81.8% of the total export figures.

Total exports were valued at USD 172.5 billion (144.3 billion euros) in 2004. Machinery, motor vehicles, foodstuffs, pharmaceuticals, medicines and other consumer gods made up the bulk of exports. Major export partners are France (19.3 per cent in 2004), Germany (11.7 per cent), Portugal (9.6 per cent), UK (9.1 per cent) and Italy (9.1 per cent). In world wide terms the 25 nations of the EU took 73.9 per cent of Spanish exports; the rest of Europe 5.1 per cent, Latin America 4.3 per cent and the USA 4.0 per cent.

Imports were valued at USD 222 billion (185.6 billion euros) in 2004. The major product groups are machinery and equipment, fuels, chemicals, semi-finished goods, foodstuffs, consumer goods and measuring and medical control instruments. The major import partners were also euro zone countries – Germany (16.5 per cent), France (15.7 per cent), Italy (8.8 per cent), UK (6.3 per cent) and the Netherlands (4.8 per cent). The EU 25 accounted for 64.6 per cent of imports, Africa 6.4 per cent, the rest of Europe 4.2 per cent, China, 4.1 per cent, Latin America and the USA accounted for 3.6 per cent each.

Social Indicators

Life expectancy in Spain is 79.1 years, infant mortality 3.4 deaths per thousand live births. In line with other developed countries services employ 64.1 per cent of the 19.33 million strong workforce. Industry (including construction) employs 30.4 per cent. Agriculture and fishing provides 5.5 per cent of Spain’s jobs. 11 per cent of the population were unemployed in 2004. Unemployment continued its decrease from the 1994 high of 24.2 percent down to 10.54 percent in third quarter of 2004.

Foreign Direct Investment

In 1963 the Stabilization Plan of 1959 which allowed foreigners to buy Spanish securities was supplemented by allowing foreigners the right to secure majority interest in Spanish companies. This change in the traditional strategy of protectionism opened an era of Direct Foreign Investment.

In 1974 Ford Motor Company build an assembly plant near Valencia – they were primarily attracted by the chance to penetrate the wider European market. Other US car companies followed. Japanese interest also led to extensive investment.

Full compliance with EC standards from 1986 resulted in Spain being able to open its borders to full European competition in 1992. After that European countries became the most important for Spain’s foreign direct investment – although the US still accounted for 20 per cent of foreign direct investment in 1992.

In April 1999, the adoption of royal decree 664/1999 eliminated the need for government authorization of any investments save those in activities "directly related to national defence," such as arms production.

Previous requirements on investments in other sectors deemed of strategic interest, such as communications and transportation were thus abolished. It also removed all forms of portfolio authorization and established free movement of capital into Spain as well as Spanish capital out of the country. As a result, Spanish law now conforms with the multi-disciplinary EU Directive 88/361, part of which prohibits all restrictions of capital movements between member states as well as between such states and other countries, and which classifies investors according to residence rather than nationality.

The socialist (PSOE) government of Spain that assumed office in March 2004 is interested in attracting foreign investment. Registration processes – designed to clarify the purpose of the investment not to block any investment – are quick and simple reflecting the government's strong interest in encouraging investment.

There are no restrictions on the repatriation of capital resulting from direct foreign investment. While there are restrictions on the nationalisation of investments or other appropriation – these safeguards have resolved all investment related issues with the USA.

Spain is a member of both the International Centre for the Settlement of Investment Disputes (ICSID) and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Incentives are available from the European Union, the National Government, Regional Governments and Municipal Governments. Types of incentives available include: financial subsidies; exemption from certain taxes; preferential access to official credit; reduction of burdens with social security discounts to companies; bonuses for acquisition of certain material; customs exemption for certain imported goods; real estate grants and gratuitous or favourable land grants; guarantees granted in credit operations; loans with low interest, long maturities, and grace periods; guarantee of dividends; professional training and qualification; indirect aid by means of supplying infrastructure facilities (accesses, services, communications, etc.).

Lower interest rates due to the convergence of monetary policy following the adoption of the euro led to a significant lowering of interest rates in recent years. Foreign investors do not face discrimination when seeking local financing for projects. There is a large range of credit instruments available through Spanish and international financial institutions. Many large Spanish companies rely on cross-holding arrangements and ownership stakes by banks rather than pure loans. However, these arrangements do not act to restrict foreign ownership. Several of the largest Spanish companies that engage in this practice are also traded publicly in the U.S.

Spain has concluded bilateral investment agreements with Hungary (1989), Morocco (1989), Bolivia (1990), the Czech Republic (1990), Russia (1990), Argentina (1991), Chile (1991), Tunisia (1991), China (1992), Egypt (1992), Poland (1992), Uruguay (1992), Paraguay (1993), Philippines (1993), Algeria (1994), Honduras (1994), Pakistan (1994), Kazakhstan (1994), Peru (1994), Cuba (1994), Nicaragua (1994), Lithuania (1994), Bulgaria (1995), The Dominican Republic (1995), El Salvador (1995), Gabon (1995), Latvia (1995), Malaysia (1995), Romania (1995), Indonesia (1995), Venezuela (1995), Mexico (1995), Turkey (1995), Lebanon (1996), Ecuador (1996), Costa Rica (1997), Croatia (1997), Estonia (1997), India (1997), Panama (1997), Slovenia (1998), South Africa (1998), Ukraine (1998), the Kingdom of Jordan
(1999), Trinidad and Tobago (1999), the Bolivian Republic (2001), Jamaica (2002), the Islamic Republic of Iran (2002), the Federal Republic of Yugoslavia (2002), Bosnia and Herzegovina (2002), Namibia (2003), Albania (2003), and Uzbekistan (2003)

According to figures from the Directorate General of Foreign Trade and Investment and the Ministry of Industry, Tourism and Trade - in 2001 total new foreign investment was 29,353 million USD. 2002 registered 29,671.3 million USD. In 2003 the figure was 18,821 million USD. The US accounted for 14.64 per cent in 2001, 50.75 per cent in 2002 and 31.11 per cent in 2003. Total new Spanish investment abroad was 40,880 million USD in 2001, 39.435 million USD in 2002 and 27.530 in 2003.

New Foreign Direct Investment in Spain for 2003 by country of origin: U.S. 31.11 per cent, the Netherlands 13.93 per cent, Germany 3.69 per cent, United Kingdom 13.87 per cent, France 3.40 per cent, Luxembourg 7.96 per cent, Canada 9.92 per cent, Italy 5.7 per cent, Sweden 2.49 per cent, Other EU countries 1.91 per cent.

New Foreign Direct Investment in Spain for 2003 by industry sector destination: food and beverage 0.42 per cent, electric energy production 3.13 per cent, manufacturing 9.83 per cent, commerce 3.10 per cent, transportation and communication 12.54 per cent, banking and insurance 2.12 per cent, real estate and services 7.06 per cent, company management and share holding 53.69 per cent, others 4.96 per cent.

Privatization

The privatisation of public firms started to be significant in Spain from the mid 80s onwards and has been conducted under two different Administrations: the Socialist Administration (1982-1996) and the Conservative Administration (1996-2004). Privatisation was especially intense throughout the 1996-2000 period, when the large utilities and industrial groups, which rank at the top of the largest Spanish firms, were totally privatised. As a result, the participation of the public enterprise sector in the GDP has been reduced from 3% in 1995 to 1% in 2002. According to OECD (2002) data, Spain's privatisation programme has raised 38,401 USD million between 1990 and 2001, which ranks Spain in fourth position among the European privatising countries.

Spain's privatization process is slowing down because the government has already sold off most of its leading publicly owned companies. Including the iron and steel sector (CSI-Aceralia), aluminium (INESPAL) and electronics (INDRA), which continue being competitive as private firms in their respective sectors. The same applies to the utilities sectors, where the high household prices for telephone, electricity, gas and oil products served to strengthen companies like REPSOL, ENDESA, GAS NATURAL and TELEFONICA under public ownership. Their huge cash flows financed their Latin-American expansion throughout the nineties without incurring reductions in state capital subsidies. In 2004 several significant companies remained in public hands: coal mining, radio and television broadcasting, railways and shipbuilding. The process of privatisation for those remaining is open to all investors.

In 2004 the government will began privatizing railroad assets and shipbuilding companies. In 2005, the Spanish privatization holding company (SEPI) plans to privatize at least six companies and reduce ownership shares gradually in firms where SEPI is a minority shareholder. SEPI has already initiated the privatization of IZAR, a shipyard, by creating a construction firm for civilian construction.

The liberalization of the railroad company RENFE was the second big project of the socialist government for 2005. The last Council of Ministers in December 2004 approved two royal decrees with the by-laws of the two new companies that will manage the Spanish rail network, ADIF and RENFE-Operadora.

The Spanish government has liberalized the energy, electricity, and telecommunications markets to varying degrees. These efforts have opened Spain's economy to new investment, including by American companies. However, many observers feel these changes have not been broad enough to fully stimulate the economy. For example, in the telecommunications sector, many analysts believe that Telefonica's dominant position undermines competition and innovation. Essentially, it is frequently difficult for new entrants to gain traction in sectors dominated by former state run monopolies such as Telefonica.

Establishing /foreign-owned companies - laws

Spanish law envisages various different kinds of mercantile entities, all of which can be used by foreign investors. The most significant are: Corporation ("Sociedad Anónima", abbreviated as "S.A."); Limited Liability Company ("Sociedad de Responsabilidad Limitada", abbreviated as "S.L." or "S.R.L."); New Limited Liability Company ("Sociedad Limitada Nueva Empresa" abbreviated as "S.L.N.E."); General Partnership ("Sociedad Regular Colectiva", abbreviated as "S.R.C." or "S.C."). Limited Partnership ("Sociedad en Comandita", abbreviated as "S. en Com." Or "S. Com.") or Limited Partnership by Shares ("Sociedad en Comandita por Acciones", abbreviated as "S. Com. p.A.").

The above forms of business enterprise are listed in order from the most common to the least frequently used. Traditionally, the corporation ("S.A.") has been by far the most commonly used form, whereas the limited partnership has been rarely used. However, the limited liability company ("S.L.") has gained popularity as a result, among other reasons, of its comprehensive regulation under Law 2/1995 and a lower minimum capital requirement than that for S.A.'s. The new limited liability company

("S.L.N.E.") is a recently created type of limited liability Company which simplifies its incorporation requirements.

In addition to the forms of business enterprise created under Spanish law that constitute separate legal entities a foreign investor may operate in Spain through a branch.

The formation of a branch requires the execution of a public deed that must be registered at the Mercantile Register. From the foreign investment legislation viewpoint, the branch must have an assigned capital, which is not subject to any minimum amount requirement. The branch must have a legal representative who is empowered by the home office to administer the affairs of the branch. Apart from this requirement, there are no formal administration or management bodies. Except for the obvious differences in terms of internal structure and organization, a branch operates much like a corporation in its dealings with third parties. The choice between forming a branch or a legal entity in Spain may be affected by commercial reasons; for example, a company may be deemed to provide a more "solid" presence than a branch.

The Spanish tax system comprises three kinds of taxes: "impuestos" (true taxes),
"tasas" (dues and fees) and "contribuciones especiales" (special levies). The "tasas" and "contribuciones especiales" are collected in return for a public service provided by the authorities or for any type of benefit as a result of public works or services.
In Spain taxes are levied: by the Central Government, by the Autonomous Communities (regional), by local authorities.

A HIGHLY COMPETITIVE ENVIRONMENT FOR BUSINESS DEVELOPMENT

Interview with Mrs Magdalena ALVAREZ ARZA,
Minister of Equipment

Legal Framework for Foreign Investment

Investing in Spain has never been more attractive. The economy of the nation is buoyant – with faster growth than the European average – while the current European regulations allow for a comprehensive range of subsidies and incentives. The Ministry of Industry Tourism and Trade has an organisation called Invest In Spain which provides assistance and advice to investors. They have published a comprehensive guide to investing in Spain called “A guide to Business in Spain”. The guide describes in detail the rules and regulations regarding all business activities in Spain.

According to the European Union Maastricht Treaty, Spain introduced important changes in the legislation on foreign investment. Royal Decree 664/1999 has established as a general rule complete freedom of capital movements, both in relation to foreign investments in Spain as well as to Spanish investments in other countries, without prejudice to specific sectoral legislation such as the defence sector, where the general regime does not apply.
The general regime of complete freedom of capital movements may only be suspended on the basis of public order and security, public health, and the exercise of public power.

Declaration requirements are established with statistical and economic purposes only. Declarations will be made ex post, unless the investment source is considered a fiscal haven by Spanish legislation, in which case the requirements include a preliminary declaration as well.

There are seven alternatives to do business in Spain: signing a distribution agreement, operating through an agent, operating through commission agents, franchising, licensing and technical assistance agreements, forming a joint venture with one or several Spanish companies, incorporating a company

The first five methods above do not imply any investment in Spain. They are legally implemented by the signature of a contract with a Spanish company or individual. In Spain, the law applicable to these contracts is similar to most other OECD countries. However, local legal assistance is always advisable. The European Union’s antitrust regulations on exclusive distribution, exclusive purchase, franchising and licensing agreements are fully applicable in Spain even if the scope of the trade is purely domestic and conceivably below the European threshold.

Corporate Income Tax

The Spanish tax system is modern and competitive. Within the framework of economic globalization, the Spanish tax system has undergone a series of reforms designed to increase the competitive advantage of foreign companies that begin operations in Spain.
Corporate Tax Law 43/1995, Non-Residents Income Tax Law 41/1998 and Directive 537/97 are the main regulations.

In June 2000, Royal Decree/Law 3/2000 included a series of measures to affect favourably the tax-paying status of small and medium enterprises (SMEs) as well as innovative firms.

The key factor in determining the application of corporate income tax is "residence". A company is deemed to be resident in Spain for tax purposes if it meets any of the following conditions: it was incorporated under Spanish law, its registered office is located in Spain or its effective management headquarters are in Spain.
In the event of a conflict of residence, the provisions of Spain’s tax treaties with other countries where applicable, will prevail. Resident companies are taxed on their worldwide income. Taxable income includes all the profits from business activities, income from investments not relating to the regular business purpose, and income derived from asset transfers.

The tax rate for small and medium companies is 30%, applicable to the first € 90,000 of taxable income. Any taxable income above that amount is taxed at 35%.

Companies whose net sales in the immediately preceding tax period (or in the current tax period in the case of newly-incorporated companies) amount to less than € 3 million qualify for certain tax incentives: accelerated depreciation of their tangible fixed assets up to certain limits, provided that certain job creation requirements are met; accelerated depreciation of new fixed assets whose unit value does not exceed € 600 (up to an aggregate limit of € 12,000), without having recorded it for accounting purposes; ability to record provisions for bad debts based on 1% of such balance at the end of the tax period; a 10% tax credit for investments and expenses in Internet, Information Technology and communications.

Further there is an entitlement to increase by a coefficient of 1.5 the maximum depreciation rates permitted by the official depreciation tables. When companies reinvest proceeds from the sale of tangible fixed assets in the purchase of similar replacement assets, the special amortization coefficient multiplier is increased from 2.5 to 3.

Incentives

All aids and incentives offered by the state and the Autonomous Communities are governed by the regulations and limits which the European Union has established for its Members.

The European Commission only permits aid and incentives in those regions defined in objective 1 (regions in which the gross domestic product (GDP) is below 75% of the Community average) and objective 2 (regions which, by 1999, had attained an economic social position no longer justifying, for 2000-2006, the previous high levels of Community aid, but are still eligible for a lower amount).

Almost all of Spain is covered by one of these two regions. The Catalan region around Barcelona is in the process of converting from very heavy industry and therefore falls under objective 2. While the runaway success of that region means the rest of the country falls behind in terms of GDP. Thus companies starting in Spain can gain considerable government funded investments with the full approval of the European Union.

Central government in Spain makes regional incentives grants by in accordance with EU requirements and limits. This assistance is based on non-refundable cash subsidies for a percentage of eligible investment expenditure to be located in determined regions. They are granted to investments in eleven autonomous communities: Galicia, Asturias, Castilla y León, Castilla-La Mancha, Extremadura, Valencia, Andalucía, Murcia, the Canary Islands, Aragón, Cantabria and the autonomous cities of Ceuta and Melilla.

The minimum investment which can qualify for a grant is 601,112 euros. The maximum subsidies vary from one region to another. In most Spanish regions, the scope of state assistance is between 40% and 50% of the approved investment. Greenfield operations; expansion of existing activities or start-up of new activities in the same site; modernization of the business and relocation all qualify for the incentive grants.

Subsidies must be generally allocated to land purchases; installation of services such as gas and electricity; civil engineering for plants, offices or warehouses; capital goods and other fixed assets; planning and design of the projects; R&D; training. The sectors which qualify are: extractive and processing industries; specific food processing and fish-farming industries; industrial support services which markedly improve commercial structures; and specific tourist facilities with an impact on development in the area.

Autonomous Communities, Municipalities and City Councils can also make grants similar to those of national government and fully compatible. Together with other incentives, they cannot exceed the limits set by the EU in the particular region. For instance Madrid and Cataluña have an incentives ceiling of 20 per cent although incentive ceilings are generally higher.

Besides subsidies that partly cover training plans (mainly the cost of instructors, leases on the facilities used, materials, etc.) there are incentives for employing people from groups that may have been excluded from employment. These range from a 20 per cent discount on employer's social security contributions for employing unemployed persons for six months to 100 per cent discount when employing unemployed women within two years of them giving birth.

The Spanish Administration provides substantial financial aid and tax benefits for activities carried out in certain industries which are: agro-food and related activities industries, energy and environment, mining, technological innovation and R&D. One such program is the 2004-2007 Program to Foster Technological Innovation, Research and Development (PROFIT).

According to the UNICE Benchmarking Report 2000 Spain offers the most favourable R&D fiscal incentives in any of the OECD countries. The Ministry of Science and Technology is directly responsible for technological development and the application of achievements to industry. In order to do this, this Ministry has designed PROFIT to manage R&D&I policy. The basic objectives of the program are to raise companies' capacity to incorporate new technology, strengthen rapid growth sectors and markets and create and develop technology-oriented companies. PROFIT has been structured around two areas: (1) the scientific-technical area, covering biotechnology, industrial design and production, materials, chemical processes and products, natural resources, agro alimentary technologies, information and communication technologies, socio-economics and biomedicine; and, the industry area, covering aeronautics, the car industry, energy, space, the environment, the information society, transportation, and urban and country planning. The projects financed by the program can be located in any of Spain's Autonomous Communities. The types of funds considered in this program include: loans up to 75 per cent of the project repayable, interest free over an appropriate period up to 15 years or non-repayable grants of up to 35 per cent of the project's cost.

As concerns Spanish and foreign private companies, the Centre for the Development of Technology and Industry (CDTI), a government organism in charge of the development of technological innovation, promotes projects through refundable credit schemes.

Credits are awarded on a competitive basis through public competitions for technology projects during the year. The projects to be financed are structured around 3 areas. The first area is Technology Development Projects which are projects that carry a moderate technical risk and require the development of new processes and/or products for their marketing. In many cases these can be developed jointly by companies and regional technology centers, CDTI funding can be awarded with grants from the Spanish Ministry of Science and Technology and/or funding from the Autonomous Communities.

The second area supported by the CDTI is Technology Innovation Projects which are projects directed at facilitating the introduction and assimilation of new technologies in companies. These projects carry a low technical risk and a short maturity period. The third and final area is Technology Promotion Projects that are projects directed at marketing the technology overseas, covering the necessary costs of protecting the technology (patents, trademarks, etc.) the negotiations and the international marketing plan.

The CDTI evaluates the project both in terms of its technical/commercial field and the financial/economic departments of the company. Factors taken into consideration are the likely socio-economic benefits, feasibility and appropriateness for the region's funding priorities. Funding can then take the shape of grants or loans similar to those for PROFIT.

Further incentives in Spain include a system of tax credits for activities ranging from R&D to pension schemes. The tax credit scheme is reviewed every year.

Business entities located within determined areas in the Canary Islands can be subject to a reduced corporate tax rate, varying from one to five per cent of the profits derived from the ZEC activities. The ZEC special regime has some requirements, among others: the entities may only carry on stipulated business activities, certain minimum investment must be made by certain deadlines and a specific number of jobs are created.

THE TRANSPORT INFRASTRUCTURE

Spain has one of the world's most dense road and rail networks including the AVE high-speed trains. Its air and sea port network serves the whole world and serves as a transportation hub for the Mediterranean in the East and the Atlantic in the West.

Over the last decade Spain has undergone a process of modernization that has included an extensive renewal of its transport infrastructure. The Government plans to continue investing heavily in the future. This is reflected in the Strategic Infrastructure and Transport Plan for 2005-2020, which provided for investment totalling over 241 billion euros. Rail transport is the main item in the Plan, absorbing nearly 50% of the investments. The motorway network, totalling nearly 11,000 km, has more than tripled in length since 1982 and has undergone continuous renovation to enhance efficiency and convenience. The Government investment plan will result in over 15,000 km of motorway network by year 2020.

As far as rail transport is concerned, Spain has a network of over 15,000 km of track, and in 1992 introduced a 471-km high-speed train line from Madrid to Sevilla. High-speed train lines have become a priority for the Government infrastructure plans (the foreseen network of high-speed trains will total 7,200 km), and as a consequence of them Madrid will be connected by high-speed train to the French border via Zaragoza (Aragón) and Barcelona (Cataluña) and additionally via Vitoria and Irún (Basque Country). In fact, the section Madrid-Guadalajara-Zaragoza-Lérida opened in October 2003. Further opportunities for private investment are being investigated such as allowing a foreign company to run the attractive international route Figueras-Perpiñán. Furthermore, Madrid will be connected to the Mediterranean coast via Málaga and via Valencia in the coming years. In connection with the Northern route (Madrid-Valladolid - La Coruña), completion of works for the Madrid-Segovia-Valladolid section is expected for 2007.Additionally, an agreement has been entered into between Spain and Portugal; Madrid and Lisbon will be connected in less than 3 hours by 2010.

Noteworthy is the 2005 liberalization of the sector, from January a new
Law entered into force, which separated the management of the rail infrastructure from the service of transportation.

Road Network and Infrastructure

In 2003 the Spanish road network consisted of 654,262 km of roadways, 526,082 km of which were inter-city links and 128,180 km city roadways. Large capacity roadways (motorways, highways and dual carriages) accounted for 12,009 km. During that year Spanish roads carried 397,117 million traveller-kms and 337,948 million tonne kilometres (t-km), accounting for 90.6% and 84.3% of interior traveller and merchandise traffic respectively; the Spanish Road Network (24,857 km) accommodated 48.6% of light vehicle traffic and 63.3% of the heavy-duty traffic. The complete investment in roadways for 2003 was to the order of 7,248 million euros, 78.6% of which was invested by the public sector and the remainder by toll motorways.

In 2003 the Spanish railway system extended for a total length of 14,828 km, 8,397 km of which were electrified. The railway carried some 21,143 million travellers-km and accounted for 12,391 million t-km of merchandise traffic. There are two high-speed lines (AVE) in operation connecting Madrid with Sevilla (471 km) and Lleida (481 km), respectively. In 2003, the public sector invested 4,169 million euros in railways, which represented an increase of 7.1% with respect to last year.

Port Infrastructure and Services

In 2004 traffic at 50 state-owned general interest ports amounted to 410 million metric tons of cargo and 20.6 million passengers, an increase of 7.4% and 2.6% respectively, compared to the previous year. In 2003 sea transport accounted for 10.1% of domestic cargo traffic in t-km. Investments in ports reached a sum of 771 million euros in 2004, which represents an increase of 10.9% on last year. Major ports include: Aviles, Barcelona, Bilbao, Cadiz, Cartagena, Castellon de la Plana, Ceuta, Huelva, A Coruna, Las Palmas (Canary Islands), Malaga, Melilla, Pasajes, Gijon, Santa Cruz de Tenerife

(Canary Islands), Santander, Tarragona, Valencia and Vigo.

Spain’s merchant navy includes 182 vessels, covering the full range of mechant purposes from ferries to bulk oil and gas carriers, which fly the Spanish flag – 29 of those are foreign owned – 18 by European countries, 7 by the USA and 4 by South American countries. 192 merchant vessels are owned by Spanish concerns but fly the flags of other countries where they are registered.

World-Class Airports and Fleets

There are air transport services between the main cities. The approximately 250 airlines with scheduled flights operating out of the country’s 47 airports ensure complete service abroad. Spain is an important intermediate stop in the lines between Latin America and Europe and lies in a crucial position in the network to America and Africa from Europe. Spain also has excellent sea communications, with 53 international ports on

There are 45 commercial airports. In 2004 air traffic transported 166.1# million passengers and 638,120 metric tons of commercial goods. In comparison to 2003, Spanish airports recorded increases of 8.0% in passenger traffic and of 9.9% in cargo traffic during the course of 2004. Over 2,200 million euros were invested in
2003 by the public sector in airport infrastructures and aerial navigation, which represented 59.4% up on last year.

Focus on Barcelona Airport

Barcelona International Airport (El Prat) is currently undergoing a major expansion program. The expansion was started in 2001 and is due to be completed by 2005. The airport, which is situated 12km from Barcelona city centre, is a major hub for the Catalonia region. The airport is run by Aeropuertos Españoles y Navegación Aérea (AENA - Spanish airports and air traffic agency), a publicly owned body which manages 40 other major Spanish airports and which is responsible to the Spanish government via the Ministry of Development.

Barcelona's first airfield was located at El Remolar, and began operations in 1916, however, it did not have good expansion prospects, and the new airport at El Prat was opened in 1918. The first flight was a Latecoere Salmson 300 which arrived from Toulouse. The airport was used as a base for the Spanish Navy's Zeppelin fleet. Scheduled commercial service began in 1927 with Iberia's service to Madrid.
In 1948, the first overseas service was operated by Pan American World Airways to New York, using a Lockheed Constellation.

A new control tower was built in 1965, a new terminal was built in 1968 (it is presently the older wing of Terminal B). The airport underwent a major development in preparation for the 1992 Summer Olympics with the construction of a new terminal (designed by Ricardo Bofill).

The major expansion of Barcelona International Airport is in response to the projected increase in Spanish air traffic, which is set to double by 2007. In 2001, the number of passengers passing through the airport was 20.7 million; the new facilities will allow the passage of in excess of 45 million passengers per year. The airport has links to 50 European Union cities, 40 in other countries as well as 30 domestic destinations.

The expansion project is being undertaken by a joint venture team lead by Bovis Lend Lease. The joint venture team consists of Bovis Lend Lease, Eurostudios SA and Inocsa Ingenieria SL. The expansion and related infrastructure work requires an investment of £780 million over a four-year period.

The work being undertaken for the expansion includes several major construction projects. The first of these is a six-gate extension to airport's existing North terminal, followed by the construction of a new midfield terminal of 470,000m². The aircraft handling facilities are also to be upgraded starting with the construction of a third runway parallel to the current 07L-25R, an aircraft apron of 800,000m² and a system of taxiing strips. In addition, the project means new car parks and new service buildings for logistical, industrial and aircraft servicing activities, as well as hotels and security.

The inter-modal nature of the airport is to be emphasised by being remodelled around the current road access, extending it to the new intra-runway terminal, at the same time as introducing new accesses to the industrial, logistics and service areas.
Contributing to transport integration will be a new railway station for conventional and high-speed trains in the new terminal. The new railway and underground nucleus are to be located beneath the current terminals allowing passengers ease of access and saving space. The exploitation of railway transport is to be handled by the local operators Metro, Catalonia Railways and RENFE, and high-speed rail transport by GIF. A current study shows that the mode of transportation to the airport is heavily biased towards individual transportation (79.5%), while shared transport accounts for 20.5%. The aim in the new expansion is to try and tip the balance toward shared or public transport by provision of highly efficient rail systems.
As part of the expansion and upgrade of airport services Barcelona has installed a state-of-the-art communications network. The system, from Nortel Networks, is based on a Gigabyte Ethernet system, which will support the airport's new service and security systems. The new network has replaced the airport's Asynchronous Transfer Mode (ATM) network.

The new network is based on Nortel Networks' BAYSTACK Ethernet switches and PASSPORT 8100 and 8600 multi-service switches. The network features multi-link trunking which allows for fail-safe connectivity to the network centre. The new system will also provide many sophisticated new services to airport users with a minimum of additional infrastructure investment. These services will include secure virtual private networks (VPN) for businesses inside the airport, IP (internet protocol) telephony, WiFi and other live data services such as flight information transfers to laptops and PDAs.

The expansion is designed to accommodate passenger and air traffic increases projected up to 2018. The new facilities will allow 90 flights per hour to pass through the airport. The number of passengers could be more than 45 million per year.

The airport will have parking facilities for 19,000 vehicles. The airport expansion will generate 40,000 new jobs in the Catalonia region and inject US$7 billion into the local economy.

TELECOMMUNICATIONS AND INFORMATION AND COMMUNICATION TECHNOLOGIES

As a result of liberalisation telephone traffic in Spain has risen by 71 per cent while the average price of a call has fallen by 61 per cent. Estimated at 10.9 billion euros in 1998, Spain's telecommunications market is ranked ninth in the world and has shown sustained growth in the cellular phone and internet application subsections as well as in digital networks and associated technologies.

With a telecommunications equipment market valued at 3.1 billion euros in 1998, risen to 7.2 billion euros in 2002 continued liberalisation is creating a lucrative market for foreign companies. With 17,567,500 (2003) fixed telephone lines and 37,506,700 (2003) mobile phones the telecommunications market is already well developed.

The telecommunications services sector holds unprecedented sales potential and is expected to expand at a 13% compound annual rate for the next several years, driving a similar expansion in the telecom equipment market. There were 16,129,731 Internet users as of Sept/2005 making up 37.1% of the population indicating the high appetite for modern communications services in the country according to Nielsen//NetRatings.

The Telecommunications Sector

After the liberalisation of fixed line services in Spain there are now a host of companies offering fixed line services including: Auna, Euskaltel, Iberdrola, Jazztel, Ono, Retevision, Telefonica, Uni2 and Wanadoo. 74 per cent of all Spanish households have mobile phone access, according to the Telecommunications Market Commission in late 2003, with fixed line phone penetration at 90.2 per cent, and 48.7 per cent of households using their mobile phones when at home.

The sub-sector carrying and telephony services registered growth of one per cent in 2002. The sub-sector maintains greatest weight (43 per cent) within the sector, although decreased more than 5 points related to the previous year. Total revenues from end-user fixed telephony services fell by two per cent. The evolution of the number of voice minutes handled increased by five per cent, compared with 12 per cent in 2001. This figure, together with the evolution of the number of lines in service and customers, seems to indicate a significant degree of maturity in the Spanish fixed telephony market, which is increasingly suffering from the substitution effect of mobile telephony communications.

Narrowband Internet access traffic increased by seven per cent in 2002 contrasting sharply with the 58 per cent recorded in 2001 mainly because of the introduction of broadband. The number of broadband Internet access service customers rose by 130 per cent, totalling 1.25 million users in 2002. Estimated revenue multiplied by 2.5. The broadband Internet access market presents very encouraging results, reflecting operators' commitment to ensure its future growth through the expansion of this new market.

The Mobile Market: three world class companies

Telefonica Moviles, Vodafone and France Telecom's Amena each have extensive physical networks providing almost all of Spain with mobile coverage. The open competition between the three companies has led to constant improvements in the services and prices offered to the Spanish consumer.

The mobile sector has continued its progression path of previous years with a growth of 24 per cent in 2002. The sub-sector increased their weight by a multiple of 3.5 to 41 per cent within the sector. This behaviour was determined by the greater use of the networks, both in terms of minutes and short messages. Calls originating on mobile networks increased to 28 per cent, indicating that the voice call market was still far from mature. End-user traffic increased at a relatively quick pace of 13 per cent. In 2002, the penetration rate in Spain (80 per cent), measured as the number of lines as a percentage of the population in each country, was above the European average, and above the averages of the two leading economies (Germany and France).

Mobile communications operators also made adjustments in 2002, reducing advertising expenses, investment, and employment, in order to adapt to a competitive sector in which price reductions outweigh the increases in the number of calls per customer, prompting a 7 per cent downturn in revenue per customer. However, as a consequence of the rising penetration rate and the increase in the volume of traffic, total revenues from end-user services increased by 18 per cent. Particularly striking was the strong growth in revenues from SMS (short messages), which increased by 45 per cent, and accounted for 13 per cent of total telephony service revenue. The critical revision made by the EU of concession of licenses UMTS has derived into formulas to reduce costs and investments by means of the shared infrastructure usage.

A recent development sure to whet the appetites of foreign investors is the government decision to force the three operators of physical networks to offer their networks to mobile virtual network operators (MVNO). The MVNO will be able to, according to the new legislation approved by the European Commission in February 2006, rent the transmission networks at a reasonable prices to offer virtual networks to customers. As yet no companies have announced an intention to make use of this service but the future holds potential for investment and further benefits to customers. Spanish telecommunications industry regulator CMT has said it expects the first Spanish MVNO to launch services by the end of the year or early 2007.

The Information and Communication Technology

In the year 2000 13.2 per cent of Spaniards had internet access by 2005 that figure had risen to 37.1 per cent – keen to capitalise on this growth the government of Spain is doing all it can to encourage internet use.

E-Commerce is one of the sectors destined for future growth. The former Spanish Government revamped its efforts to stimulate Internet related initiatives, ranging from e-government, providing access from schools and rural areas to the Internet, as well as connecting SME's to the global market, which was to pump USD 1.17 billion into the initiative through 2005. The new Socialist government appears to be just as serious, and in Spring 2004 announced its proposed programs.

Broadband services, mainly focused on ADSL will continue to demand equipment and solutions. As of April 2004, Spain had 1.9 million ADSL subscribers, with 3.0 million expected by the end of 2005. Security also offers good potential. Fuelled by both domestic and international circumstances, there is an increased demand for sophisticated equipment to reinforce security at public and private entities and other critical facilities. The demand for private security services serving residential, commercial and some government clients is also on the rise. It is estimated that revenues from these services were close to 2.5 billion euros in 2003.

The cable telecommunications services had a remarkable growth of near 68 per cent. In 2002, cable operators focused on marketing their services, as part of a strategy aimed at increasing the profitability of their investments and restructuring of the business, unifying technical and human resources. Cable operators offered customers a complete range of services, characterised by the packaging of services (telephony, Internet access and television), although their penetration was less than homogeneous. Only 68 per cent of customers who contracted telephone services also subscribed for television and 46 per cent for Internet access (Cable operators had a share of 28 per cent of the broadband market, measured by the number of users). This generated significant relative growth in the number of customers and turnover.

The growth in the number of direct access consumers increased by approximately 57 per cent revenue increased by 72 per cent, accounting for 2 per cent of total revenue market compared with 1.3 per cent in 2001. In terms of offer, cable operators represent the main alternative to the traditional operator in the fixed network access market. Their share of this market, measured by direct dialling customers, was 9 per cent. Bearing in mind that almost 6 million households have the possibility of connection to the cable network, it may be affirmed that these operators are in a position to compete with the traditional operator in 50 per cent of the total market. This may have a significant impact on the development of a broadband market on a competitive model.

Unbundled local loops are available in Spain from the notified operator Telefónica. The retained options are full copper pair and shared access. Bitstream access for ADSL is also available.

In line with EC regulation introduced in late 2000, full copper pair unbundling and shared access have been available since 1 January 2001 in Spain. This follows the earlier introduction of bitstream access. On 26 March 1999, a ministerial order (Ministerio de Fomento) mandated bitstream access, though restricting the offering to ADSL services. SMP operators (currently only Telefónica) were forced to offer upgraded unbundled local loops with ADSL capabilities, and at their own risk (i.e. without an indemnity to do so). The retail prices for this were regulated by the government until the end of 2000. The order is expected to be revised some time in 2001.

Full copper pair and shared access have both become available since the start of 2001. Bitstream access was introduced in 1999. Telefónica has had to offer access to other operators by aggregating traffic and offering a PVC to the alternative operator between the network termination point and the POP. The alternative operator can interconnect with either a 34Mbit/s or 155Mbit/s link.

In December 2000, the Spanish regulator announced the set prices for full and shared access to the local loop. These prices relate to 2001, with reductions in price planned in 2002 and 2003. Final prices for bitstream access depend on the service speed.

BANKING FINANCE AND INSURANCE SECTOR

The process of liberalization in Spain has been highly successful in many areas but the financial markets show the greatest progress. In the protectionist post war years banks were free from competition and able to make enormous profits despite their small size. In the last 15 years the number of banks has fallen considerably while their competitiveness has grown with their size. A series of mergers were necessary before and after the 1992 breakpoint when the old fashioned Spanish banking system had to modernize or be swallowed by its more competitive neighbours. Where banking has led the way the insurance and capital markets have followed. Foreign Capital has poured into the stock markets of Spain while the insurance market has shown remarkable growth – without exhausting its potential - compared to its European neighbours.

Banking sector

While the European Central Bank determines monetary policy for the EU the banking and credit structure of Spain centres on the Bank of Spain, the government's national bank of issue since 1874. The bank acts as the government depository as well as a banker's bank for discount and other operations.

In 2002, the private banking system consisted of 146 banks, comprising national banks, industrial banks, regional banks, local banks, and foreign banks. The liberalization of the banking system and Spain's entry into the EC raised the number and presence of foreign banks and presented strong challenges to the cosy world of the Spanish banks.

During the process of financial liberalization required by the EU, the government tried to promote a series of mergers within the banking industry, which it hoped could enable the banks to compete more effectively. As a result, there were two major mergers: Banco de Vizcaya and Banco de Bilbao formed Banco Bilbao Vizcaya (BBV); Banco Central and Banco Hispanoamericano merged to form Banco Central Hispanoamercano (BCH).

The government also brought together all the state-owned banking institutions to form Corporación Bancaria de España, better known by its trade name Argentaria, whose most important component is Banco Exterior (BEX).

The government subsequently privatized a 50 per cent stake in Argentaria in 1993 and a further 25 per cent in early 1996. Ultimately, the state sold its remaining 25 per cent share in Argentaria, thereby leaving the banking sector entirely in private hands. In October 1999, BBV took over Argentaria to create Spain's largest banking group.

The International Monetary Fund reports that in 2001, currency and demand deposits - an aggregate commonly known as M1 - were equal to 163.1 billion euros. In that same year, M2 - an aggregate equal to M1 - plus savings deposits, small time deposits, and money market mutual funds - was 461.7 billion euros. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.36 per cent.

The Spanish banking system as it stands today is considered one of the sturdiest in Europe. Two groups dominate the banking sector- Santander Central Hispano (SCH) and Banco Bilbao Vizcaya Argentaria (BBVA), accounting for approximately 40 per cent of the sector's total assets. These groups are followed by the savings banks La Caixa and Caja Madrid, while Banco Popular ranks fifth.

Despite a strong consolidation process, the Spanish branch network is still very dense. These extended networks protect the banks´ retail business from foreign competition. Spanish banks are among the pioneers in Europe in developing online financial services. Internet banking, however, also allows foreign banks to compete more aggressively in this area without having to create the in-country infrastructure.

The introduction of a single currency in Europe also reduced the activity of the branches of foreign banks, mainly engaged in inter-bank business. The activity of some of the remaining banks also diminished as a result of the concentration of their treasury operations in other European financial centres.

As of 2005, apart from the 78 domestic and 58 foreign banks registered with the Bank of Spain, there are also 47 savings banks registered with activities throughout the country. Of the foreign entities, eight are non-European. The top 20 only includes seven commercial banks. The remainder is savings banks.

Today, two large groups, Santander Central Hispano Group (SCH) and Banco Bilbao Vizcaya Argentaria (BBVA), dominate the sector. Together, they account for more than 30 per cent of the loan market, 40 per cent of the sector's total assets and 40 percent of the mutual-fund market in Spain's private banking sector. SCH's assets exceed 300 billion euros, while BBVA's are in the 250 billion euros range. They each have market capitalization in excess of 35 billion euros, putting them just behind Deutsche Bank.

SCH is the result not only of mergers between Central and Hispano and Santander, the group also includes Banesto and BankInter. In 2003 SCH's profit was 2.6 billion euros an increase of 16.2 per cent compared to the previous year.

BBVA evolved from a merger between the Banco de Bilbao and Banco Vizcaya, followed by another with Argentaria. Argentaria in turn was the result of a merger between three financial entities (Banco Hipotecario de España (Spanish Mortgage Bank), Caja Postal (Postal Savings Bank) and Banco Exterior de España (Overseas Trading Bank)). These three entities were all supervised by the Official Credit Institute (Instituto de Crédito Oficial--ICO), which received funds from the state that were then lent to the credit institutions.

BBVA's net profit in 2003 was 2.227 billion euros, 29.5 per cent higher than the previous year. Their loan portfolio increased by 13.4 percent, while resources increased by 9.7 per cent, mortgages by 18.5 per cent and savings funds by 11.6 per cent.

The second major group in the banking system is that of the savings banks. Legally, savings banks are non-profit institutions, but the reality is quite different. The leading entities are more profitable than most of their rival commercial banks. One reason for this is that savings banks are self-financed foundations. Originally, savings banks had their own official governing body and did not come under control of the Bank of Spain until 1971. The activity of the savings banks originated in rural areas. During the 80´s the restrictions governing their activities were gradually lifted, including the limitation on the scope of activity within specific areas or regions and they are now free to open branches anywhere in the country.

After the restrictions were lifted, a large-scale process of consolidation started between savings banks and the number of entities was reduced to 47, with aggressive expansion plans. Five hundred branches were opened throughout the country in 2002, bringing the total to 20,349. Today, savings banks are a key financial source and maintain substantial holdings in many of the country's key industries.

Since the late 1970s, savings banks have raised their share of total national deposits from 34 per cent to 54.2 per cent. In 2002, the savings banks won over two percent of market share from the commercial banks, accounting for 45.65 per cent of the credit market and 46.9 per cent of resources. In terms of deposits, the Barcelona-based La Caixa is the country's largest savings bank, followed by Caja Madrid.

The private banking sector has grown substantially in recent years. According to a report prepared by IBM Business Consulting Services, the volume managed by the private banking sector more than doubled from 35 billion euros in 1998 to 71 billion euros in 2002, accounting for 30 percent of the overall specific sector. The traditional retail banks managed the remaining 70 percent. These banks, however, are slowly losing out in favour of their more specialised competitors. The overall sector (239 billion euros) increased 34 per cent during the same four-year period, while the number of clients increased by 14 per cent to 1.1 million. These figures reflect the potential of this segment of the banking sector and place Spain ahead of Italy and Portugal.

Most of the wealth is concentrated in a triangle that includes Madrid, the Basque Country, Navarra, Aragon, Catalonia, Valencia and the Balearic Islands. Catalonia has the greatest accumulation of wealth (24.8 per cent of the total market) while

Madrid has the highest share (38.10 per cent) of fortunes over 3 million euros.

A rapid growth area in Spanish banking has been the use of online banking. Banks such as: ING-Direct, Patagon, Banco popular-e, Uno-e and Inversis have engaged in aggressive advertising campaigns offering high interest rates to attract online customers.

All together these top five online banks showed a 21.5 per cent increase in deposits versus an overall increase of 3.9 per cent for the entire banking sector. This segment now accounts for 4 per cent of total deposits, up from 2.75 per cent in 2002. This positive trend places Spain in the top three countries in online banking in Europe, behind the U.K. and Germany.
As a result of the extensive consolidation process of the last 15 years, the Spanish banking system is now one of the most robust in Europe. The country's two leading groups, SCH and BBVA, are now world-class banks that rival Deutsche Bank in market capitalization. The smaller Banco Popular continues to stand its ground among the giants by leading in efficiency and ROE, while BankInter is building a reputation for being one of the most creative and internet-savvy banks in Europe.

Five of the main financial groups in Spain today account for more than half of Spain's total loans and deposits - BBVA, SCH, Banco Popular and the two savings banks, La Caixa and Caja Madrid.

Spanish banks originated in narrow geographical areas where they faced little competition which resulted in building a very dense network of branches. There are 78 Spanish retail banks and 47 savings banks with 34,398 branches throughout the country. Over 90 percent of pension and mutual funds and approximately 50 percent of insurance products are sold through these branches. The savings banks alone have 20,349 branches. One of the results of the consolidation process between retail banks was the closing of duplicate branches. This provided an opportunity for the savings banks to step in and open nearly 6,000 branches over the last five years.

Real estate financing is also proving to be a very profitable client for financial entities because of its low level of risk. Loans to firms in this area are increasing dramatically. At the end of 2003 the level of real estate financing had increased by 41.4 percent compared to an increase of 13.2 percent in corporate and individual loans. This business now represents 18 percent and 23 percent of the entire range of mortgage financing for SCH and BBVA, respectively.

Prospects for the Banking Sector

The further rationalization of Spain's banking sector would require the merger or purchase of some the smaller banks. Two medium-sized banks were acquired in 2003 (i.e. Banco Zaragozano and Banco Atlantico). Both acquisitions generated more interest than expected by domestic, foreign and saving banks.

Barclays Bank acquired Banco Zaragozano for 1.75 billion euros, three times its book value. Contenders included Bancaja and four other Andalusian savings banks as well as the Portuguese Gaixa Geral. Banco Atlantico was acquired by Banco Sabadell for 1.5 billion euros, slightly over twice its book value.

Contenders included the Bancaja and CAM savings banks as well as foreign banks such as Unicredito (Italy), Fortis (Belgina-Dutch), Caixa Geral (Portugal) and Barclays (UK). The fact that Barclays showed an interest in the Banco Atlantico after having acquired Banco Zaragozano reflects the interest of the UK bank in expanding its presence in Spain. As a result of these transactions, other medium-sized banks such as Banco Pastor, Banco de Valencia and Banco Guipuzcoano experienced almost an immediate increase in their stock value.
The sale of Atlantico and Zaragozano also has a symbolic value. The purchase of Zaragozano will allow a foreign bank (Barclays) to join the league of the top ten banks for the first time. On the other hand, as a result of the purchase of Banco Atlantico by Sabadell, the bank will also migrate from the category of regional banks to the top league. Sabadell will now rank fourth, only two points below Banco Popular in terms of resources, with a market share of 6.67 per cent.

Historically, it has been difficult for foreign retail banks to develop a strong presence in Spain due to the high costs of acquiring local banks with well-developed networks. While the creation of a single money market triggered a fresh round of consolidation among Spanish banks, it also reduced the activity of the branches of foreign banks in Spain.

Of the 58 foreign banks registered with the Bank of Spain, only eight are non-European. The extensive network of long-established local banks combined with their broad range of competitive services serve as a formidable barrier to the successful expansion of foreign banking entities. Of the US banks with offices in Spain (Bank of America, Bank of New York, First Union Bank, Citibank, JP Morgan), only Citibank has regular retail banking outlets, with branch offices in most of the autonomous communities. However, it is interesting to note that three major US banks registered with the Bank of Spain (i.e. MBNA Europe Bank Limited S.E., Citibank International PLC, and Merrill Lynch International Bank Ltd.), registered with the Bank of Spain via their UK based subsidiary.

According to the Spanish Banking Association as of December 2002, European entities had114 offices nationwide while non-EU entities have 23. In contrast with the 28.2 million credit/debit cards issued by the savings banks and the 27.5 million issued by the retail banks, foreign banks issued only 26,353 cards in 2002.

In line with the introduction of the European Single Market and the worldwide tendency to expand internationally, Spanish banks also decided to increase their presence abroad. However, contrary to what might have been expected, they decided to momentarily bypass Europe. Instead, they went where they held a rare advantage over U.S. and European rivals, i.e. Latin America, which had begun privatizing and opening their banking systems to foreigners in the mid-1980s.

Spanish banks face fewer linguistic and cultural barriers and this allows for greater growth and expansion within the Latin American countries. The governments of these countries welcomed this development initially as the Spanish banks would help to bring new technology, management skills, and capital to their respective domestic banking industries. SCH and BBVA rank 3rd and 4th in terms of Spanish investment in Latin America. SCH invested approximately 12 billion euros between 1997 and 2002. Its main investments are concentrated in Argentina, Brazil, Mexico and Chile. BBVA invested 7.4 billion euros. Overall, Spanish-owned banks now account for 19 per cent of the collective bank assets of the top six Latin American countries, or 40 per cent of the total for all foreign-owned banks in these same countries.
Spain has forged closer links with Latin America by establishing a market in Euros for Latin American stock (Latibex) on the Madrid Stock Exchange, the largest in the Spanish-speaking world and the fourth largest in Europe.

Nonetheless, challenges arise as the large Spanish companies become exposed to more volatile Latin American economies. The last several years have been tense and complicated for both SCH and BBVA in view of the serious economic and political developments in that area, plus the depreciation of the US dollar and Latin American currencies against the Euro. Despite these setbacks, SCH recently announced its commitment to Latin America (its activities in the region account for over 30 per cent of the group's total business) and BBVA has just announced its intention to acquire 40.6 percent of Bancomer in Mexico.

The Finance Sector

Spain has major stock exchanges in Madrid, Barcelona, Bilbao, and Valencia. These exchanges are open for a few hours a day, Tuesday through Friday. Since 1961, foreign investment in these exchanges has increased rapidly. The major commercial banks invest in the equity and debt securities of private firms and carry on brokerage businesses as well. Latibex, a Madrid-based stock exchange providing a market for the trading (in euros) of Latin American stocks, opened in late 1999. The exchange lists companies based in Latin American nations such as Argentina, Brazil, Chile, Columbia, and Venezuela.

In recent years, the Spanish securities market has made significant progress. The technical, operational and structural systems underlying the market today have resulted in significant growth in its activity and importance. Large investment volumes have been processed and the markets have been given greater transparency, liquidity and efficiency. This growth and new EU market regulations are directing the current efforts of all participants in the Spanish securities market.

Bolsas y Mercados Españoles (BME) encompasses the companies that direct and manage the securities markets and systems in Spain. It brings together, under a single activity, decision-taking and coordination unit, the Spanish equity, fixed-income and derivatives markets and their clearing and settlement systems. The BME Group is formed by the Barcelona, Bilbao, Madrid and Valencia stock exchanges, MF Mercados Financieros and Iberclear.

BME is the Spanish markets' response to the new international financial setting, where investors, intermediaries and firms demand an ever-expanding range of services and products within a framework of security, transparency, flexibility and competitiveness.
By uniting their efforts, Spanish markets have attained a top-level size within the European setting and a diversified structure that covers the entire chain of value in securities markets from trading to settlement, including the provision of information and data-processing services. This size and structure permit a more efficient use of resources, cost reduction and the streamlining of services. Thanks to this position, BME is set to play a decisive role in the shaping of the stock market map in Europe.

THE TOURISM SECTOR

Spain is one of the most important tourist destinations in the world and undoubtedly the leading country for "sun and beach" holidays. It is the second largest destination after France in terms of the number of visitors and the second in revenues generated after the USA.

Tourism is a key sector of the Spanish economy since it accounts for 10 per cent of employment and 11.4 per cent of GDP, according to the Tourism Satellite Account. These figures are the result of more than 50 million tourists who visit Spain every year.

During 2004, 53.6 million tourists visited Spain, a 3.4 per cent increase on 2003, which added to 32 million same-day visitors, totalled over 85 million pleasure seekers. Tourist numbers have been growing year on year with the exception of 2003 when the world downturn in demand resulted in a slight drop in numbers (-1 per cent growth in 2003). However that drop was immediately made up in 2004 which saw more tourists visit Spain than ever before.

Tourism has been an important sector for Spain since before the Second World War. In the 1920's under the Primo Rivera regime a chain of official hotels were established across the country called paradores. The purpose of these hotels was to draw tourists away from the ever-popular Mediterranean beach resorts and introduce them to the cultural richness of the Spanish interior. But the real tourist boom came in the 1950s when tourism began to be significant to the Spanish economy.

The country had fewer than one million visitors in 1950 but that figure had reached 34 million in 1973 and 50.5 million in 1987. In that year income from tourism was sufficient to balance the countries trade deficit. The 1987 high, recently bettered, was 12 per cent more than 1986. Most of the tourists came from the EC: France, Portugal, Britain and West Germany led the way. American tourists accounted for less than two per cent of the total but they spent more than their European counterparts making the United States the second source of tourist receipts after Britain.

Since demand for beach holidays in Spain has been consolidated, a policy of diversification in the tourist sector is being undertaken. This combines with new tendencies for more frequent, shorter holidays and different modes of transport to lead people to discover other itineraries and seasons in which to enjoy their leisure time and contribute to easing the seasonal effects of the tourist industry.

The leadership of the Spanish tourist sector is based on quality. The Comprehensive Plan for Quality in Spanish Tourism (PICTE 2000) is the result of the many efforts made by both private and public sectors. The plan consists in the creation of demand for new products ranging from complementary activities to complete holidays, as well as renovating existing offers and generating public investment in infrastructure. The aim is to ensure that the concept of the "quality holiday" is a factor that makes Spain stand out from other destinations on the international markets.
The plan intends to give a response to the challenges facing tourism in Spain from 2000 to 2006. The time schedule of the plan has been designed to coincide with other EU programmes and initiatives so that some of the tasks of PICTE can benefit from EU community funds.

The "Programme for quality in tourist destinations" gives the clearest view of the initiatives taken at various tourist destinations. It includes the "Plans for Excellence in Tourism," which deal with the recovery and regeneration of developed resorts, as well as the "Plans for the Activation of Tourism," which economically stimulate and boost emerging tourist destinations.

"The Programme for quality in tourist products" works on the provision of products for the tourist sector, with the aim of diversifying Spanish tourism and reducing seasonality.

Areas of Expansion

Under the plans for improvement various areas have been identified for expanding the range and type of holidays undertaken by tourists in Spain.

Spain's climate, its nearly 5,000 kilometres of coastline and its mountainous topography make it a privileged destination for the practice of sporting activities. Of particular importance are golf and skiing, due to the size of the infrastructure catering for them. Golf can be played all year round thanks to over 200 courses, most of which with 18 holes, offering in total over half a million hours of playing time. From the Pyrenees to the Sierra Nevada in Andalusia, ski resorts around Spain boast great technical quality and convenient hotel and leisure infrastructures.

In 2005, 20 Plans for Excellence and Activation in cultural tourism have been approved, reflecting investments of 46 million euros and bringing the total number of plans approved since 2000 to 129.

Spain has become the second most popular destination for congress tourism after the United States, ahead of the United Kingdom, Japan and Germany. Advanced infrastructures equipped with the latest technologies for meetings and congresses, air and land transport facilities, a hotel network that is among the best in the world and a climate that is very attractive to congress-goers from anywhere in the world, are just a few of the factors that have made Spain a success in this area.

Health tourism is on the rise, with a seemingly unstoppable increase in demand for beauty treatment and relaxation. In 2002 the combination of centres dedicated to tourism focusing on health and beauty generated a business worth 606 million euros, 18% more than a year earlier.

Rural tourism began in the nineties and is growing year by year. Rural tourism facilities are largely used by Spanish tourists but the last few years have seen a considerable growth in foreign visitors.

The clear increase in holiday homes is having a notable effect on the economy. They are an example of trends in tourism which obviously contribute to easing seasonality, developing population centres and attending to new tendencies related to the different work habits and ways of enjoying one’s leisure time. According to the World Tourism Organisation, in the next five years, between 800,000 and 1.7 million European families will buy their second home in Spain, looking for optimum conditions for tourism, a good climate, security, political stability modern infrastructure and an unbeatable quality of life.

Important Institutions for the tourism Sector

Instituto de Estudios Turísticos

The Instituto de Estudios Turísticos (Tourism Studies Institute) was set up in 1962; under Royal Decree 1554/2004 of 25 June it has the responsibility for studying all the factors impinging on tourism, together with drawing up, assessing and compiling of statistics, information and data on tourism. It is part of the Secretaría General de Turismo (General Tourism Secretariat) of the Secretaría de Estado de Turismo y Comercio (State Secretariat of Tourism and Trade) under the Ministerio de Industria,Turismo y Comercio (Ministry of Industry, Tourism and Trade). The statistical studies of tourism in Spain created by the institute are invaluable for the further development of this lucrative sector.

Instituto de Turismo de España / Spanish Tourism Insititute

The Instituto de Turismo de España (Turespaña) is the administrative unit of central government in charge of promoting Spain abroad as a tourism destination. The Spanish Tourism Institute is involved in planning, developing and executing activities aimed at promoting Spain as a tourism destination in the international markets. It supports the marketing of Spanish tourism products abroad in cooperation with the regional and local authorities and the private sector. An important role for this institute is establishing the strategy, plan of action and investments for new establishments in the tourism market. Turespaña is a major tool for Spain's tourism policy, which is not limited merely to promoting the tourism supply, it also tries to improve those areas where there could be negative effects on the competitiveness and sustainability of tourism, while promoting at the same time the development of new tourism products.

The institute has am internstional network of 32 Tourist Offices of Spain, which are part of Spain's Embassies and Consulates and carry the message of a successful and expanding tourism destination directly into the market place worldwide. With 505 staff and a 2005 budget of 115 million euros Turepsaña is a significant branch of the Spanish government. It spent 60 million euros on direct investment in campaigns and activities for tourism promotion abroad. Turespaña is a public organization committed to an effective and efficient management. As a modern and responsible organization for the promotion of a country that occupies the second position in the world tourism ranking, we rely heavily on a series of internal goals aimed at attaining managerial excellence.

Activities of Turespaña

Turespaña’s market surveys analyse the international tourism demand and improve overall knowledge of the Spanish tourism sector in the different markets. Specific segmentation surveys of the main markets determine Spain's potential competitive position at a given one moment. The results of the surveys are placed at the disposal of professionals and institutions on the web. In addition to these surveys there are the activities which the institute traditionally carries out through its Tourist Offices of Spain network, such as the elaboration of situation reports in winter and summer, studies on leading mature and emerging markets, tourism products studies, such as business, cultural, urban and nautical tourism.

Brand image and communication activities strengthen the position of Spain's tourism brand image in the international markets. It is important that the brand image includes the wide variety of Spanish products and destinations.

Product Clubs bring together the different providers of one area of the tourism sector so they can co-operate to maximize the benefit of marketing tools. The institute’s aim is to encourage the public institutions as well as the industry to make a major leap into the marketing of its products, as demanded by the new environment surrounding Spanish tourism. The idea is to apply a mixed marketing strategy in terms of the targets selected for the marketing of the product, which would be capable of taking to its full expansion the potentiality of that segment of the demand.

In order to support the marketing of specific tourism products (Sun and Sea, Cultural and Urban Tourism, Sports and Rural Tourism, and Congress and Incentive Tourism), as well as the inter-regional trade names, Turespaña carries out an intense collaboration with specialized tour operators and travel agencies. In addition, they support the marketing of new products by means of the implementation of cooperative marketing programmes with Product Clubs.

In order to achieve its aims, Turespaña through the Sociedad Española para la Gestión de la Información Turística (SEGITUR) incorporates on-line information and marketing tools into its strategy. Its presence on the Internet is aimed at the professional sector, by providing them with a platform for working and establishing relations with other professionals, and at the general public in order to make Spain's extensive tourism possibilities known on Internet. The goal is to facilitate contact between users and professionals, on a platform for supporting e-commerce and marketing.

Spain.info is being translated into four languages (Spanish, English, German and French) and in 2005 personalized versions for the leading markets (Germany, United Kingdom, China, Japan and the United States) went online.

The online advertising campaign, designed simultaneously with the campaign in the traditional media, combines four tools: Search Engine Optimization, strategic alliances with web pages, advertising insertions in on-line media and e-mail marketing.

THE AGRO-FOOD BUSINESS AND AGRICULTURE

The basis of Spain's outstanding food industry is its agriculture and fisheries sectors. While these sectors are small in terms of total GDP (3.1 per cent) they still contributed 26,178 million euros in 2004.

The most remarkable feature of Spanish farming is the great extension of arable land that is dedicated to growing cereals (6.6 million hectares in 2004) and the cultivation of ligneous crops, especially olive and vine. However, in terms of value, vegetables and fruits make the biggest contribution. As far as livestock is concerned, the most valuable products are pork, beef, milk, mutton, goat meat and poultry. The volume of fish production in 2004 was 1,387,239 metric tons, 317,239 metric tons of which was provided by the fish farming industry (77.8% mussels).

Setting up a farming business in Spain is tempting to many outside concerns because of the excellent climatic conditions and rich natural resources, high quality in raw materials, modern transport and telecommunication networks, good industrial base and availability of technology, the wide incentives system and State support for Research and Development. In all agriculture is a sector with a great activity in external market.

Agricultural products make up more than 50% of Final Agrarian Output, accounting for just over 12% in the European Union, with pride of place going to fruit and vegetables, vines, olives and cereals. Livestock activity accounts for about 40% of final agrarian output.

Autonomous Communities and livestock breeders have on-line access to management applications in their different areas, such as the Livestock Identification and Movement System (SIMOGAN) , the Milk Quota Management System (SIGLAC) , the Livestock Award Management System (SIDEGAN) , etc through the Ministry of Agriculture, Fisheries and Food. This ministry is the department of the General State Administration which deals with the proposal and execution of the Government's general guidelines on agrarian, fisheries and food policy.

These actions (SIMOGAN, SIGLAC, SIDEGAN etc) are carried out in order implement the functions attributed to the General Board of Livestock, such as drawing up basic state regulations in questions of livestock production and health; the development and coordination of activities related to livestock production and its markets, feeding animals, their preservation and improvement, the welfare and protection of production animals, animal health, their protection on borders and disease prevention; the coordination of laboratories and the removal of technical obstacles to exports to other countries.

Behind the impressive production figures and modern quality control lies a history of emergence from a mixture of subsistence farming in minifundios and large-scale inefficiency by large farms run by absentee landlords latifundios. However government policy since the Second World War has seen small farms consolidated while large farms have been encouraged to concentrate on products most competitive in the European market. The result has been an extremely competitive agro business in Spain – fuelling an expanding food industry.

In the last 40 years, the population of Spanish municipalities of less than 10,000 inhabitants has plunged from 57% of the Spanish population to a mere 23%, even though rural surface area covers more than 82% of the total surface area. In response to the changing face of farming in Spain the government has produced a rural development policy.

The community rural development policies provided for in the EU's Common Agricultural policy (CAP) which are currently being implemented are based on the Cork Declaration, continuity in the agenda 2000 and the tools in the different Common Market Funds.

To summarise, the objective of these policies is to make "rural areas a more attractive place to live and work in a scenario where increasingly different people of all ages can have a better life" reversing the processes of aging and depopulation of these areas, affording them greater media and resources to generate their own development, adapt to the new economic circumstances and to be appreciated as they deserve by society at large.

Food and drink industries

The base of the Spanish food and drink industries is the agricultural and animal production which gives them a wide and excellent variety of raw materials. According to data of the Ministry of Agriculture, Fisheries and Food, the total value of the Agricultural Sector Production (agriculture and livestock) in 2003 was of 39,000 million euros with a breakdown of 23,400 million euros (60 per cent of the total) in vegetables and 15,600 million euros (40% of the total) in animal products.

There was a raise of 3.7 per cent over the previous year mainly because of the price increase (6 per cent). The consumption of raw materials by the Spanish food industries continues growing, reaching 36,998 million euros in 2002.

The Spanish food and drink industry, with 17 per cent of total industry production, is the first sector of manufacturing industry. It contributes with 12.5 per cent of total added value and gives employment to a 14 per cent of Spain's total industry (438,000 workers in 2003).

According to recent data from the Spanish Food and Drink Industry Federation, the food and drink industrial gross production (at ex-factory net sales) reached 62,116 million euros in 2003, a nominal growth of 5.5 per cent (at current prices) over the previous year, maintaining the growth trend of the past years. The production increase was 2.8 per cent in volume. In the last ten years production has grown by 33 per cent from 42 billion euros to 62 billion euros.
The main sub sectors, according to their sales value, were the meat industries (19.7 per cent), dairy products (10.9 per cent), animal food (9.2 per cent), fats and oils (8.6 per cent), wines (7.9 per cent), bread, cakes and biscuits (7.1 per cent) and processed fruits and vegetables (7.1 per cent). The other 29.5 per cent was made up of processed fish, milling industry, sugar, chocolates and others.

According to data from the Confederation of the Food and Drink Industries of the European Union, the Spanish food and drink industry continued accounting in 2001 for 10 per cent of the EU-15 production, making Spain the 5th largest producer.

The Spanish food and drink industry continues to be an atomized sector though since 1995 there has been a slight decrease in the number of companies. Thus, there were 33,337 companies registered in 2003, of which 41.5 per cent belonged to the bread and biscuits sector, 13.8 per cent to the meat sector and 12.5 per cent to the wine sector.
By regions, 18.5 per cent of companies are in Andalucía, 11.9 per cent in Cataluña, 10 per cent in Castilla-León and 9.8 per cent in Galicia. Most of the companies are small (83 per cent), 2.6 per cent have between 50-200 workers and only 0.8 per cent are companies with more than 200 employees.

Total food and drink consumption increased 4.8 per cent in 2003 (at current prices), reaching 69,400 million euros. Meat products occupied the first place with 22 per cent of total expenditure, followed by fish products (14 per cent) and dairy products (10.5 per cent).The consumption in fruits (seven per cent), bread (six per cent) and vegetables (five per cent) were also significant. The percentage of household consumption remained stable representing 73 per cent of the total, the other 27 per cent corresponded to hotels and catering consumption. Annual food expenditure per capita was 1,262 euros in 2003, a growth of more than 5.7 per cent over the previous year. Demand for quality and Mediterranean foods also increased.

Foreign trade

The trade balance in agrofood continued showing a surplus in 2003, but the chapter of processed products continued being negative, with a coverage rate of 90 per cent, though slightly less than the previous year.

Exports of agrofood reached 21,238 million euros, of which 10,679 million euros were agricultural products (1,584 millions were oil and fats) and 4,107 million euros worth were live animals and animal products. The rest, 6,452 million euros worth, was processed food products. A third of the exports were raw materials.

The high export figures meant that even though 18,857 million euros worth of agrofood was imported the sector is still a credit to the countries balance of payments. Of the imported agrofood 6,520 million euros were live animals and animal products, 5,248 were agricultural products (472 millions of oil and fats) and 7,089 million euros were processed food products. Almost a quarter of the exports were raw materials.

The main exports were pork, fruits and vegetables (mainly citric), olive oil and wines. Imports were mainly of fish products and cereals. The European Union continued being the main destination for our exports and the origin of the majority of our imports of processed products.

Foreign investment

The foreign direct gross investment (without holdings) in this sector was 432 million euros in 2004 (3.88 per cent of the total gross foreign investment without holding companies) with a significant increase over the previous year. 76 per cent of this investment came from OECD (Organisation for Economic Co-operation and Development) countries, with 60 per cent of it belonging to EU countries, followed by the United States and Mexico.

Despite the atomization of this sector there are a significant number of big companies within the Spanish food sector. The top ten in terms of turn over volume in 2003 was (according to Revista de Fomento de la Producción): Ebro-Puleva, Nestlé España, Campofrío Alimentación, Pescanova, Heineken España, Nutreco España, Cobega, SOS Cuetara, Mahou y Cooperativas Orensanas (Coren).

Governing the sector is the task of The General Directorate of the Agricultural and Food and Foodstuffs Industry. The Directorate within the competences of the Ministry of Agriculture, Fisheries and Food, has the following functions: to establish, within the general planning framework of economic activity, guidelines in matters pertaining to the planning and development of the agrarian and food industries which is in the MAPA organisation chart; the preparation of the basic state standards and regulations, the development and coordination of activities related to the food industries and markets and food policy; cooperation with the Autonomous Communities in the development of these functions for which it has powers; the preparation, in collaboration with the General Secretariat of Agriculture, of proposals that make it possible to establish the Spanish position vis-à-vis the European Union in this matter.

THE AUTOMOTIVE INDUSTRY

Spain is seventh biggest car producer in the world, third in Europe, and the fourth biggest exporter of family cars behind Japan, Germany and France. According to the National Association of Automobile and Lorry Manufacturers (Anfac), the sector contributes 5.8% of Spain's total GDP, not including the 3.6% contribution of the complementary component sector. At the end of last year, the sector employed a total of 72,453 workers, with a further 252,550 employed in the component sector.

Car manufacturing has been one of the success stories of Spanish industry. From 1953 when the first1345 Seat cars, licensed by Fiat, were constructed the industry has grown and grown. In 1967 the growing car construction industry had led to so many suppliers of components being created in the country that it was possible to form the Spanish Equipment and Parts Manufacturers Association – Sernauto.

In 1972 the Spanish Government establish an industrial program for the manufacturing of cars and other vehicles (mandatory for authorising Ford's assembly and engines factory)
Under this plan foresaw that, at the end of 1977, Spanish production was 1,500,000 cars (500,000 for export), 150,000 industrial vehicles and 50,000 tractors

In the 70's cars and parts manufacturing was declared as a preferred sector. A new Ford installation was authorized. A new SEAT factory capable of producing 200,000 units was built. That was followed by a 100,000 unit Renault factory and amplification of the Citroen and Chrysler plants.

The Spanish autoparts industry was able to keep a strong pace of growth in the year 2002. Total turnover in the industry grew by more than 3% thanks to the increase in vehicle production in Spain, and also to strong exports. Half of the components turnover is sold abroad, although imports of engines, chassis and plugs are basic supplies for the local auto producers.

By 2004 output amounted to 2.4 million car units out of more than 3 million motor vehicles. More than 80% of the local production is sold in foreign markets, mainly in the E.U. where high quality standards and strong competition prevail.

The production is carried out by well-known international groups such as Renault, Ford, Opel, Mercedes Benz, Peugeot-Citroën, Volkswagen and Nissan, that invested in Spain because of the beneficial factors of the country.

Spain was blessed with a skilled labour force at relatively low prices: unit labour costs in the sector are among the lowest in the euro zone. A wide range of incentives: regional, R+D, training and hiring helped companies to establish efficient factories. Access to a developed automotive components industry permitted cars to constructed almost entirely in Spain minimising transportation costs (engines and spark plugs are among the few components imported). A domestic market with a non negligible capacity coupled with easy access to the European market aided sales.

As investment plans and labour training schemes were developed, year after year, productivity improved so that some Spanish production units reached a prominent position in the sector. In this framework the industry was gradually consolidated, and became a major sector within the Spanish economy and 11% total jobs over total labour-force.

In 2004 as the world's sixth largest car manufacturer and the EU's third, behind Germany and France and ahead of the U.K. and Italy, Spain emerged as a leading country in the automotive industry.

However Spain has dropped from sixth to seventh world wide car producer. This represents a slight decline in production. Cheaper labour in the new East European countries is meaning Spain will have to refocus its industry towards luxury cars and leave the bulk family market to others.

For the time being, the sector seems to be weathering the storm. Seat's Matorell plant has managed to recover some of the production of the Ibiza it previously lost to Bratislava (Slovakia), and Renault has announced that the new Megane III will continue to be manufactured in Spain.

The Industry ministry itself has pointed out that there is a growing divergence with evolving demand in European markets and the type of cars currently being manufactured in Spain, which are mainly small to medium-sized family cars. The trade unions agree that a more profitable future lies in the production of bigger, luxury cars, and the importance of attracting companies to transfer R&D facilities.

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