U.S. DEPARTMENT OF STATE

DIPLOMACY IN ACTION

Executive Summary

Spain is open to and seeking to attract additional foreign investment, particularly to help spur recovery from its recent economic crisis. Spain's well-educated work force, excellent infrastructure, large domestic market, and export possibilities have attracted foreign companies in large numbers over the past three decades. Spanish law permits foreign investment of up to 100% of equity, and capital movements are completely liberalized. In 2013, gross new foreign direct investment reached 19.5 billion euros, with the six main investors in Spain being the Netherlands, UK, France, Germany, the U.S., and Luxembourg. This investment focused particularly on activities related to finance and insurance, manufacturing, real estate, and construction.

Although Spain continues to face high unemployment rates (26%), significant household and public indebtedness, and depressed domestic consumption, the country emerged from recession in the third quarter of 2013. The government attributes this turn-around in part to the reform program it implemented during the past two years, the largest in the country's democratic history. As part of this effort, the government undertook sharp public budget cuts that have helped to stabilize the fiscal situation. Major economic imbalances have been corrected, and competitiveness and flexibility are being restored.

The government also implemented a series of structural reforms such as a labor market reform and the restructuring of the banking system, all measures aimed at improving the efficiency in the allocation of resources, whose full effects are likely to be more visible by the end of 2014. To avoid the fragmentation of the domestic market emerging from differences of central, regional and local regulation, the Market Unity Guarantee Act was adopted in December 2013. The law aims to rationalize the regulatory framework for economic activities, eliminating duplicities in administrative control over one and the same activity or product through a "single license" system that will facilitate the free flow of goods and services throughout Spain. Spain has regained access to affordable financing from international financial markets, which has improved Spain's credibility and solvency, generating investor confidence. However, the Spanish government has yet to improve access to financing for small and medium enterprises (SMEs), which still suffer from an important credit crunch.

In implementing its fiscal consolidation program, the government has taken actions which negatively affect U.S. and other investors in the renewable energy sector on a retroactive basis. As a result, Spain is facing several international arbitration claims. Spain is a member of both the ICSID and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Spanish law protects property rights, including intellectual property, but Internet piracy has increased sharply over the past several years. The government has proposed amendments to the Intellectual Property Act and the Penal Code, which are currently in Parliament, to strengthen online protection.

Spain and the United States have a Friendship, Navigation and Commerce (FCN) Treaty, and a Bilateral Taxation Treaty (1990), which was amended on January 14, 2013. The changes must be ratified by both the Spanish Parliament and the U.S. Senate before entering into effect.

1. Openness to, and Restrictions Upon, Foreign Investment

Foreign direct investment (FDI) has played a significant role in modernizing the Spanish economy over the past 35 years. Attracted by Spain's large domestic market, export possibilities and growth potential, foreign companies in large numbers set up operations. Spain's automotive industry is almost entirely foreign-owned. Multinationals control half of the food production companies, a third of chemical firms, and two-thirds of the cement sector. Several foreign investment funds acquired networks from Spanish banks, and foreign firms control close to one third of the insurance market.

The Government of Spain recognizes the value of foreign investment and the economic importance of attracting more of it, particularly to help spur recovery from the economic crisis. Prime Minister Mariano Rajoy repeatedly states that it is the government's goal to make Spain increasingly attractive to foreign investors. Spain offers investment opportunities in sectors and activities with significant added value. There have not been any major changes in Spain's regulations for investment and foreign exchange under the Popular Party (PP) administration that took office in December 2011. Spanish law permits foreign investment of up to 100% of equity, and capital movements are completely liberalized. Due to its degree of openness and the favorable legal framework for foreign investment, Spain has received significant foreign investments in knowledge-intensive activities in the past few years. Spain is now the eleventh largest and one of the fastest growing investors in the United States. Spain's business sector is actively seeking to increase ties with the United States, and the Spanish government is eager to work with the U.S. Government to continue expanding bilateral economic ties.

In 2013, gross new foreign direct investment was 19.484 billion euros, a drop of 0.7% compared to 2012 (19.629 billion euros). The six main investors in Spain (defined as the ultimate owner of the investment) in 2013 (the Netherlands, UK, France, Germany, U.S., and Luxembourg) represented 62.1% of total gross investment. The largest increases came from France (+104%), and the UK (+86.3%). U.S. investment in Spain decreased by 43% in 2013. Strong increases of investment came from Hong Kong (€241 million, +497%), Japan (€176 million, +375%), and Mexico (€487 million, +273%). The autonomous community of Madrid continued to be the primary recipient of foreign investment, with 54.6% of the investment, and the region of Catalonia attracted 22.2%. Companies invested especially in activities related to finance and insurance, manufacturing, real estate activities, and construction. Disinvestments decreased by 82% compared to 2012, dropping from a capital flow of €22.72 billion in 2012 to €4.085 billion in 2013. Net investment reached 15.398 billion euros in 2013.

Although Spain continues to face high unemployment rates (26%), significant household and public indebtedness, and depressed domestic consumption, the country emerged from recession in the third quarter of 2013. The government attributes this turn-around in part to the reform program it implemented during the past two years, the largest in the country's democratic history. As part of this effort, the government undertook sharp public budget cuts that have helped to stabilize the fiscal situation. Major economic imbalances have been corrected, and competitiveness and flexibility are being restored. The government also implemented a series of structural reforms such as a labor market reform and the restructuring of the banking system, all measures aimed at improving the efficiency in the allocation of resources, whose full effects are likely to be more visible by the end of 2014. Spain has regained access to affordable financing from international financial markets, which has improved Spain's credibility and solvency, generating investor confidence. However, the Spanish government has yet to improve access to financing for small and medium enterprises (SMEs), which still suffer from an important credit crunch. The government will need to take additional steps in 2014 to provide a clear, stable and fair legal, regulatory and policy framework if it wants to attract more foreign investment. For example, in implementing its fiscal consolidation program, the government has taken actions which negatively affect U.S. and other investors on a retroactive basis. Fostering a positive investment climate to encourage FDI will require the Spanish government to maintain a long-term perspective that prioritizes investment and economic growth.

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 defense," such as arms production. The decree abolished previous authorization requirements on investments in other sectors deemed of strategic interest, such as communications and transportation. It also removed all forms of portfolio investment authorization and established free movement of capital into Spain as well as Spanish capital out of the country. As a result, Spanish law conforms to 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.

Registration requirements are straightforward and apply to foreign and domestic investments equally. They aim to verify the purpose of the investment, and do not block any investment.

TABLE 1

Following are Spain's rankings on four widely accepted measures of the business and investment environment:

Measure	Year	Ranking	Website Address
TI Corruption Perceptions Index	2013	40 of 177, (“59” score)	http://cpi.transparency.org/cpi2013/results/
Heritage Economic Freedom	2014	49 of 178, freedom score 67.2 (-0.8 from 2013)	http://www.heritage.org/index/ranking
World Bank Doing Business	2014	52 of 189	http://doingbusiness.org/rankings
World Economic Forum Global Competitiveness Report	2013-2014	35 of 148	http://www.weforum.org/reports/global-competitiveness-report-2013-2014

2. Conversion and Transfer Policies

There are no controls on capital flows. In February 1992, Royal Decree 1816/1991 provided complete freedom of action in financial transactions between residents and non-residents of Spain. Previous requirements for prior clearance of technology transfer and technical assistance agreements were eliminated. The liberal provisions of this law apply to payments, receipts and transfers generated by foreign investments in Spain. Capital controls on the transfer of funds outside the country were abolished in 1991. Remittances of profits, debt service, capital gains and royalties from intellectual property can all be effected at market rates using commercial banks.

3. Expropriation and Compensation

Spanish legislation sets up a series of safeguards that virtually prohibit the nationalization or expropriation of foreign investment. No expropriation or nationalization of foreign investment has taken place in recent years. There are no outstanding investment disputes between the United States and Spain. However, the Spanish government made retroactive changes to its renewable energy feed-in tariffs in December 2010, resulting in losses to U.S. companies' earnings and investments. In December 2012, the government enacted a comprehensive energy sector reform plan in an effort to address a 25 billion euro energy tariff deficit caused by user rates insufficient to cover system costs. The reforms further negatively affected U.S. investors in the solar power sector, with some companies arguing that the changes to the legal regime are tantamount to expropriation. Spain's government announced on February 3, 2014 the details of its plan to cut subsidies for renewable-energy producers, a move that producers say could cause defaults across their industry. As a result of Spain's ongoing energy reforms, in the past two years the country has accumulated a dozen lawsuits. Spain now faces eight international claims, all of which come from the photovoltaic energy sector. As such, Spain has become one of the countries with the largest number of open cases in the International Center for the Settlement of Investment Disputes (ICSID).

4. Dispute Settlement

Legislation establishes mechanisms to solve disputes if they arise. The judicial system is open and transparent, although sometimes slow-moving. The Spanish judicial system is independent of the executive. Judges are in charge of prosecution and criminal investigation, which permits greater independence. The Spanish prosecution system allows for successive appeals to a higher Court of Justice. The European Court of Justice can hear the final appeal. In addition, the Government of Spain abides by rulings of the International Court of Justice at The Hague. Spain is a member of both the ICSID and the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards.

Contractual disputes between American individuals/companies and Spanish entities are normally handled appropriately. There is no U.S.-Spain agreement on the mutual recognition of judgments, so U.S. citizens seeking to execute American court judgments in Spain must follow Spanish law, in this instance a complicated procedure known as the "exequator" process. In light of the Embassy's past experience in attempting to assist American citizen claimants with the process, the Embassy recommends that Americans who conclude contracts with Spanish entities specifying the United States as the venue for adjudicating disputes also obtain an agreement regarding how a possible U.S. judgment will be executed in Spain.

Spain has a fair and transparent bankruptcy regime. Bankruptcy proceedings are governed by the Bankruptcy Law of 2003 that entered into force on September 1, 2004. It applies to individuals and companies. The main aim of the law is to ensure the collection of debts by creditors, to promote consensus between the parties and, if possible, to enable the survival and continuity of the company. On March 7, 2014, the government approved a reform of the bankruptcy law to promote Spain’s economic recovery. The new decree-law that entered into force the day after its approval aims to avoid the bankruptcy of viable companies and preserve jobs by providing for refinancing agreements to be reached through debt write-off, capitalization and rescheduling.

5. Performance Requirements and Incentives

Performance requirements are not used to determine the eligibility or level of incentives granted to investors. A range of investment incentives exist in Spain, and they are provided according to the authorities granting incentives and the type and purpose of the incentives.

The European Union

Since Spain is an EU Member State, potential investors are able to access European aid programs, which provide further incentives for investing in Spain:

a. The European Union provides incentives primarily to projects that focus on economically depressed regions or that benefit the European Union as a whole.
b. The European Investment Bank provides guarantees, microfinance, equity investment, and global loans for small and medium enterprises as well as individual loans focusing on innovation and skills, energy, and strategic infrastructure.
c. The European Investment Fund (EIF) provides venture capital to small and medium-sized enterprises, particularly new firms and technology-oriented businesses, via financial intermediaries. It also provides guarantees to financial institutions (such as banks) to cover their loans to SMEs. The EIF does not grant loans or subsidies to businesses, nor does it invest directly in any firms. Instead, it works through banks and other financial intermediaries. It uses either its own funds or those entrusted to it by the EIB or the European Union.
d. There are various structural and investment funds designed to fund initiatives which reduce the wealth disparity between member states. Most autonomous regions of Spain qualify for structural funds under the EU’s 2014-2020 budget. Investments under the European Regional Development Fund (ERDF) will be concentrated in 4 key priorities: innovation and research, the digital agenda, support for small and medium-sized enterprises (SMEs) and the low-carbon economy, depending on the category of region. Through the European Social Fund (ESF), Cohesion Policy will provide a significant contribution to EU priorities in the field of employment, as through training and life-long learning, education and social inclusion. The ESF allocation will be established according to the needs of each Member State. The new Youth Employment Initiative linked to the ESF will support the implementation of the Youth

Guarantee.

e. Financial incentives are routed through major Spanish banks, such as the Instituto de Credito Oficial (ICO) and Banco Bilbao-Vizcaya Argentaria (BBVA), and must be applied for through the financial intermediary.

The Central Government

a. Spain's central government provides numerous financial incentives for foreign investment, generally designed to complement EU financing. The Ministry of Economy and Competitiveness (MINECO) runs the Directorate General for Trade and Investments and Directorate General for Innovation and Competitiveness to assist businesses seeking investment opportunities. They provide support to foreign investors in both the pre- and post-investment phases. Most grants are aimed at encouraging the development of certain economic sectors, but often for a given subsidy, there may be sectors that are not exclusive but are preferential. A comprehensive list of incentive programs is available at the website, www.investinspain.org. Using this tool, companies can gain access to updated information regarding the grants available for investment projects. Users can sign up to the automatic alert system which prompts a tailor-made newsflash as suitable grants or subsidies are published. Applications for these incentives should be made directly to the relevant government agency.

b. Spain provides certain subsidies for job training and job creation, although they have been recently reduced due to budget constraints. Projects designated as Investment and Employment may be eligible for further subsidies from the Government Public Employment Service (formerly the National Employment Institute). Labor law reforms adopted in June 2012 increased hiring bonuses for youth and long-term unemployed. On February 28, 2014 the Council of Ministers approved a royal decree-law to promote employment and permanent contracts with a new "flat rate" for Social Security contributions. The measure applies to contracts signed after February 25, 2014. For the benefit to apply, the hiring must create net employment, although the benefit also can be applied for temporary contracts that are converted into permanent ones.

c. Spain is emphasizing support for small and medium-sized enterprises (SMEs) with a national program for innovative cluster networks to strengthen innovative business groups and competitiveness.

d. The central government provides financial aid and tax benefits for activities carried out in certain industries which are considered to be priority sectors in view of their growth potential and their impact on the nation's overall economy (e.g., activities in new industrial plants, as well as increases in production capacity or relocations that industries decide to undertake to gain competitiveness;, , , new infrastructure projects, and though more selectively, for the extension of projects which are already mature, preferably in the transport, energy and environment, and social infrastructure and services sectors; creation/growth of R&D and innovation; the acquisition, upgrading and maintenance of scientific-technological equipment for R&D activities made by companies, private technology centers and private centers of innovation support that are located in science and technology parks, etc.). In addition, the regional governments provide similar incentives for most of these industries. Financial aid includes both nonrefundable subsidies and interest relief on the loans obtained by the beneficiaries, or combinations of the two. Companies are classified according to the size of business, which is a limiting factor in accessing certain types of public aid. According to the current usage, the term “micro” company refers to those employing fewer than 10 employees, with a turnover of less than 2 million euros and with the same limit for its total assets. A small company has fewer than 50 employees, a turnover below 10 million euros and total assets also below 10 million euros. Medium-sized enterprises are those with fewer than 250 employees, annual turnover not exceeding 50 million euros and total assets lower than 43 million euros.

e. The state-owned corporate entity (*Instituto de Crédito Oficial*, ICO) attached to the Ministry of Economy and Competitiveness, has the status of State Financial Agency. Its activity seeks to boost small and medium companies and to encourage technological innovation and renewable energy projects as well as help to alleviate critical situations. ICO direct financing programs are aimed at financing large-scale investment projects in strategic sectors in Spain, backing large-scale investments by Spanish companies abroad, and supporting projects that are economically, financially, technologically and commercially sound and involve a Spanish interest.

f. Other official bodies that grant aid and incentives:
MINHAP - Ministry of Finance and Public Administration
MINETUR - Ministry of Industry, Energy and Tourism
ENISA - National Innovation Company S.A. (under MINECO)
AXIS ICO Group (under MINECO)
INVEST IN SPAIN (under MINECO)
RED.ES (under MINETUR)
IDAE - Institute for Energy Diversification and Saving (under MINETUR)
CERSA - Spanish Guarantee Company S.A. (under MINETUR)
CDTI - Centre for Industrial Technological Development (under MINECO)
Tripartite Foundation for training in employment (under Ministry of Employment and Social Security)
CESGAR - Spanish Confederation of Mutual Guarantee Companies

The Regional Governments

Spain’s 17 regional governments, known as autonomous communities, provide additional incentives for investments in their region. Many are similar to the incentives offered by the central government and the EU, but they are not all compatible. Additionally, some autonomous community governments grant investment incentives in areas not covered by state legislation but which are included in EU regional financial aid maps. Royal Decree 899/2007, of 6 July, sets out the different types of areas which are entitled to receive aid, and their maximum ceilings. Each area’s specific aspects and requirements (economic sectors, investments which can be subsidized and conditions) are set out in the Royal Decrees determining the different areas. Most are granted on an annual basis.

Generally, the regional governments are responsible for the management of each type of investment. This provides a benefit to investors as each autonomous community has a specific interest in attracting investment that enhances its economy. No investment project can receive other financial aid if the amount of the aid granted exceeds the maximum limits on aid stipulated for each approved investment in the legislation defining the eligible areas. Therefore, the subsidy received is compatible with other aid, provided that the sum of all the aid obtained does not exceed the limit established by the legislation of demarcation and EU rules do not preclude it (incompatibilities between Structural Funds).

Types of incentives available:
-- Financial loans and 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 favorable landgrants
-- 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 (access, services, communications, etc.)Incentives from national, regional or municipal governments and the EU are granted to Spanish and foreign companies alike without discrimination. Spain is in compliance with its WTO TRIMS [Trade-Related Investment Measures] obligations.

Municipalities

a. Municipal corporations offer incentives to direct investment by facilitating infrastructure needs, granting licenses, and allowing for the operation and transaction of permits, although they have been reduced significantly due to budget constraints Municipalities such as Madrid offer numerous support services for potential foreign investors. Local economic development agencies often provide free advice on the local business environment and relevant laws, administrative support, and connections to human capital in order to facilitate the establishment of new businesses. Spain recently made starting a business easier by eliminating the requirement to obtain a municipal license before starting operations and by improving the efficiency of the commercial registry.

6. Right to Private Ownership and Establishment

The Spanish Constitution and Spanish law establishes clear rights to private ownership, and foreign firms receive the same legal treatment as Spanish companies. There is no discrimination against public or private firms with respect to local access to markets, credit, licenses and supplies. American construction companies note that they have not been able to win public sector construction contracts. They have, however, won private sector construction contracts.

7. Protection of Property Rights

Spanish law protects property rights, with enforcement carried out at the administrative and judicial levels. Any administrative decision pertaining to property rights can be appealed first at the administrative and then at the judicial level, which has three levels of court appeals. Property protection is effective in Spain, although the system is slow. Mortgages are common in Spain.

Intellectual Property

Spanish patent, copyright, and trademark laws all approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris Convention, Bern Convention, the

Madrid Accord on Trademarks and the Universal Copyright Conventions.

Copyrights
Spanish law extends copyright protection to all literary, artistic or scientific creations, including computer software. Spain has ratified the World Intellectual Property Organization's (WIPO) Copyright Treaty (WCT) and the WIPO Phonograms and Performances Treaty (WPPT), the so-called Internet treaties. In 2006, Spain passed legislation implementing the EU Copyright Directive, thereby also making the Internet treaties part of Spanish law. However, the Internet presents the most problematic area in terms of respect for intellectual property rights in Spain. While law enforcement agencies are combating street piracy, Internet piracy has increased sharply over the past several years. U.S. copyright-dependent industries - music, movies, and entertainment software - continue to report a steady decline in sales attributable to digital piracy and cite Spain as having one of the worst problems in the world in this regard.

Spanish cultural industries have also been hit hard by piracy. A "Circular" issued in 2006 by the Prosecutor General's Office to guide prosecutors stated that peer-to-peer (P2P) downloading of protected content should not be prosecuted as a criminal offense unless a commercial profit motive can be established. While the Circular defines such activity as a civil wrong, it contributes to a widespread public perception that P2P activity is legal. A number of legal obstacles also impede copyright holders from obtaining redress via civil litigation.

In February 2011, parliament passed the Sustainable Economy Law (LES), which contains provisions giving the government authority to shut down or block websites found to host or link to infringing content. The law provides for an administrative process with two separate judicial interventions before action can be taken against a site. The government approved implementing regulations on December 30, 2011 and established in March 2012 the Intellectual Property Commission (IPC), the administrative body that accepts complaints from right holders. The government is currently in the process of reforming Spain’s IPR legal framework. The Council of Ministers approved amendments to the IP law, civil procedure law, and the penal code, which are now in parliament and expected to be approved in 2014. The penal code clarifies that online piracy in illegal, and the IP law and civil procedure law give the IPC the tools to more effectively protect IPR.

Public and private sector enforcement actions (especially private sector initiatives) using Spain's patent, copyright and trademark legal framework have increased, though less so in cases involving alleged Internet piracy. Industry groups praise police enforcement actions; their concerns have to do more with the judiciary than with Spain's police forces. Despite enforcement efforts, piracy remains a significant problem. Industry sources estimated the following digital piracy levels in 2013: over 90% for music, 74% for films, over 60% for videogames, 68% for digital books, and 44% for business software.

Patents
A non-renewable 20-year period for working patents is available if the patent is used within the first three years. Spain permits both product and process patents. The European Parliament approved the regulations that will establish the single patent for the EU in December 2012. Spain and Italy decided to opt out, however, due to discrepancies with the patent’s linguistic regime

(English, French, and German). A special court will be created to resolve disputes arising from the 25 country signatories. Companies or individuals who want to protect their innovations throughout the EU will have to request a patent in three places – in Munich, the headquarters of the European patent, in Spain, and in Italy (compared to the need to do so in 27 different countries currently) – and will be exposed to litigation in many other jurisdictions. Patents will be issued in English, French, or German, although applications may be presented in any official EU language, along with a summary in one of the three aforementioned languages. Although the regulations entered into force on January 20, 2013, the "Patent Package" will not enter into force until Germany, France, the United Kingdom and 10 other Member States have ratified the UPC Agreement. As of April 2014, only Austria (August 6, 2013) and France (March 14, 2014) had ratified the agreement.

Pharmaceutical companies have expressed concern over recent government cost-cutting measures that affect market access and reference pricing for brand-name medications. They are also concerned with practices by the governments of several of Spain's 17 autonomous regions that the companies believe are incompatible with central government policies, including lengthy payment delays. (Note: In June 2013, the Ministry of Finance presented the Draft Law on Management of Commercial Debt, which was designed to bring regional governments' commercial debt to zero by forcing them to pay their bills within 30 days for services rendered.) Further, industry reported that Spain's lack of patent harmonization with the majority of EU member states has left holders of pharmaceutical process patents with weaker patent protection than required by the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement. In November 2013 the Spanish government amended the penal code to stipulate that patent infringers will receive one to three years imprisonment for infringing on protected plant varieties for commercial or agricultural purposes.

Trademarks

Spanish authorities published a new Trademark law in 2001 (Law 17/2001), which came into effect in July 2002. The Spanish Office of Patents and Trademarks oversees protection for national trademarks. Trademarks registered in the Industrial Property Registry receive protection for a 10-year period from the date of application, which may be renewed. Protection is not granted for generic names, geographic names, those that violate Spanish customs or other inappropriate trademarks. In June 2010, the Spanish parliament passed a reform of the penal code that downgraded certain IPR crimes to misdemeanors if the perpetrator is a person of modest economic means and if the revenue from the sale of infringing merchandise is less than €400. This reform, which entered into force in December 2010, was designed to lower the criminal penalties for the practice of "top manta" – sales of infringing goods on a blanket in informal street markets – when practiced by impoverished, often illegal immigrants. The new standard places an additional burden on right-holders and law enforcement to establish, early in any investigation, that they are pursuing an offense that merits prosecution. In order to reverse these developments, the Spanish government has amended Article 274 of the penal code, which is now in Parliament, to criminalize the peddling, retailing, and wholesaling of trademark-infringing material. With the passage of this law, anticipated later in 2014, the trademark association ANDEMA believes authorities will have better tools to effectively crack down on pervasive infringement of merchandise trademarks in Spain.

Businesses may seek a trademark valid throughout the EU. The Office for Harmonization in the Internal Market (OHIM) for the registration of community trademarks in the European Union started its operations in 1996. Its headquarters are located in Alicante:

Office for Harmonization in the Internal Market (Trade Marks and Designs)
Avenida de Europa, 4
E-03008 Alicante
Tel: (34) 96-513-9100
http://oami.europa.eu/ows/rw/pages/OHIM/contact.en.do

The World International Property Organization (WIPO, headquartered in Geneva) oversees an international system of registration. Applicants must designate the countries where they wish to obtain protection. However, this system only applies to U.S. firms with an establishment in a country that is a party of the Agreement or the Protocol.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Embassy point of contact: Dovie Holland hollandda2@state.gov or Ana Maria Waflar waflarax@state.gov

Local lawyers list: http://madrid.usembassy.gov/citizen-services/professional-services/attorneys2.html

8. Transparency of the Regulatory System

Spain modernized its commercial laws and regulations following its 1986 entry into the EU. Its local regulatory framework compares favorably with other major European countries. Bureaucratic procedures have been streamlined and much red tape has been eliminated, though permitting and licensing processes can still suffer delays. Efficacy of regulation at the regional level is uneven. To avoid the fragmentation of the domestic market emerging from differences and overlapping of central, regional and local regulation, the Market Unity Guarantee Act 20/2013 was adopted in December 2013. The law aims to rationalize the regulatory framework for economic activities, eliminating duplicities in administrative control over one and the same activity or product through a "single license" system that will facilitate the free flow of goods and services throughout Spain. It also reinforces coordination among competent authorities and introduces a mechanism to rapidly solve operators' problems. With a license from only one of Spain's 17 regional governments, companies will be able to operate throughout the Spanish territory, rather than having to requests licenses from each region. The measures are expected to reduce business operating costs, improve competitiveness and attract foreign investment.

Quasi-independent regulatory bodies exist in several sectors; however, they are for the most part still finding their role and fighting to assert their independence. Making the transition from state-owned monopolies to promoting full and open competition has been a slow, but steady, process. The parliament passed Act 3/2013 on June 4, 2013, by which the entities that regulated energy (CNE), telecoms (CMT), and competition (CNC) merged into a new entity, the National

Securities Market and Competition Commission (CNMC). The law attributes practically all of the functions entrusted to the National Competition Commission under the Competition Act 15/2007, of July 3, 2007 ("LDC") to the new CNMC.

9. Efficient Capital Markets and Portfolio Investment

The implementation of monetary policy following the adoption of the euro led to a significant lowering of interest rates; however, the Eurozone crisis and the downgrades of Spanish sovereign debt have had a negative impact on public financing costs. 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. There is a significant amount of portfolio investment in Spain, including by American entities. During 2012, foreign investment flows in negotiable securities fell 26.02% over the previous year, and accumulated foreign investment amounted to 552.4 billion euros. 99.9% of this amount was in equity securities, and 0.1% in shares of investment funds. Investors were mainly from EU countries (88.9%) and the United States (8.2%.)

Total assets for the six biggest banks in Spain as of late 2013 were 2.596 trillion euros:

Banco Santander: 1.116 trillion euros
Banco Bilbao Vizcaya Argentaria (BBVA): 582.6 billion euros
Bankia: 246.3 billion euros
CaixaBank: 340.2 billion euros
Banco Sabadell: 163.4 billion euros
Banco Popular: 147.8 billion euros

A domestic housing slump that began in 2007 had a great impact on savings banks ("*cajas de ahorros*"), many of which were heavily exposed to troubled construction and real estate companies. The government created a Fund for Orderly Bank Restructuring (FROB) through Royal Decree-law 9/2009 of June 26, which restructures credit institutions with an eye toward bolstering capital and provisioning levels. The number of Spanish financial entities has shrunk significantly since 2009 with 50 entities consolidated into 14 as of early 2014 (Santander, BBVA, Banco Popular, Bankinter, Banco Sabadell, CaixaBank, Bankia, Banco Ibercaja, Catalunya Banc, Kuxtabank, NGC Banco, Banco Mare Nostrum, Liberbank, and Unicaja Banco). Between 2008 and 2013, 12,352 Spanish bank offices closed, with 4,451 closures in 2013 alone, representing 26.7 percent of the pre-crisis total. The sector has also shed 62,000 workers, representing 22.3 percent of the pre-crisis workforce. The downsizing runs in parallel with a 32 percent drop in credit to households and businesses in Spain from 2008 to 2013. Total bank deposits have remained roughly stable at 1.16 trillion euros. Industry analysts foresee a continued downsizing of bank branches until the total drops to about 30,000 offices, suggesting an additional reduction of 3,500 branches.

Financial sector reforms announced in February and May of 2012 sought to increase bank transparency with regard to exposure to toxic assets, reduce oversupply of financial services by encouraging further consolidation, and alleviate the credit crunch by stabilizing bank balance sheets to increase lending. Two phases of Spanish government-mandated provisioning in February and May added 84 billion euros in additional coverage to risky construction sector loans held by banks. At the end of May 2012, the government partially nationalized Spain's fourth largest financial institution, Bankia, which announced it needed 23.5 billion euros in public assistance. That costly nationalization and unexpectedly high bailout costs contributed to a deepening of the confidence crisis that had been dogging Spain for more than two years, forcing the government to seek support from its EU partners on June 10, 2012. The EU committed to provide up to 100 billion euros in financing, of which Spain eventually borrowed 41.3 billion from the European Stability Mechanism to recapitalize the nation's overextended banking sector in return for enhanced oversight and reform conditionality. Drawing on EU funds, the Governing Committee of the FROB approved capital injections of 37 billion euros for four nationalized banks, including Bankia, in December 2012. Sareb, the Spanish "bad bank," received the brunt of the weakest banks' degraded real estate holdings at a cost of 50.65 billion euros (about 20 percent foreclosures and 80 percent loans) from Group 1 (nationalized banks: BFA-Bankia, Catalunya Caixa, Banco Gallego-NCG Banco, and Banco de Valencia) and Group 2 entities (banks that remained independent but received additional public capital: BMN, Liberbank, Caja3, and CEISS). In January 2014, Spain cleanly exited its EU aid program, a conclusion that came amid praise for Spanish restructuring efforts from EU officials.

Corporate Governance

Spain has a civil law and statute based legal system. Court decisions are not a source of law but are of interpretative value. Spain has a quasi-federal system of governance with 17 autonomous regions. Basic commercial, corporate and intellectual property regulations are enacted by the central government, while regional governments enact their own legislation on matters such as health, education, environment and consumer protection. The Spanish legal system has specific commercial courts, which are specialized in corporate issues and disputes. Although corporate disputes can be resolved by arbitration according to Law 60/2003, of 23 December on arbitration, in practice, these types of disputes are rarely resolved by arbitration, but rather by the commercial courts.

Corporate governance in Spain is also subject to a soft rule: the Code of Corporate Governance of Listed Companies approved in May 2006. This Code, which shares the international standards and recommendations on good governance practices, adopts modern trends in corporate governance, as stated by different entities and institutions such as the OECD, the Basel Committee on Banking Supervision and the European Commission. It sets out recommendations under the principle of 'comply or explain'. The companies have to decide whether or not to follow the Code's recommendations, but they must give a reasoned explanation for any deviations in their annual corporate governance report. The evaluation of the degree of compliance with the recommendations is left to the markets. All companies have articles of association establishing the terms and conditions for the operation of the company. These cover the contracts and relationships between shareholders and contain corporate rules. In the event of a discrepancy, legal provisions prevail over articles of association. Listed companies must approve specific regulations regarding the general shareholders' meetings and the board of directors, to further develop the relevant provisions of the articles of association. Spanish companies have legal personality and thus can acquire rights and assets and assume liability.

Due to extensive cross-ownership within a small universe of dominant companies, Spanish corporations have traditionally not had truly independent board members. This situation has changed. The Code of Corporate Governance of Listed Companies recommends, in the interest of maximum effectiveness and participation, that the board should have at least five and no more than 15 members. It is also recommended that companies strike a balance between external and internal directors. Very often powers are delegated by the board to an executive committee, or to one or more executive directors or CEOs, that assume the ordinary management of companies. Spanish listed companies tend to have, in addition to a managing director holding delegated powers from the board, an executive committee with similar powers that in practice operates as a reduced board. The boards of directors of listed companies must create a compulsory audit committee, formed by members of the board (a majority of whom must be external directors) and, at the recommendation of the Code of Corporate Governance of Listed Companies, chaired by an independent director. The Code of Corporate Governance of Listed Companies also recommends that a nomination or remuneration committee (or both) be created within the board, which should be formed mostly by independent directors and chaired by one of these directors. The Ministry of Economy presented a report on a bill for the improvement of corporate governance to the Council of Ministers in December 2013. A draft bill was posted for public comment in January 2014. The bill is expected to be presented to Parliament later this year.

Foreign investment in Spain is generally unrestricted except for investments in certain specific sectors, such as air transportation, radio and television (DTT) broadcasting, and gambling where foreign investment is restricted (the most notable restriction being a 25% limit on foreign ownership of the share capital of the company in question). The manufacture, marketing and distribution of weapons and explosives for civil use and activities related to national security require prior authorization by the government, except for listed companies engaged in any activity related to Spanish national defense. In these cases, investment authorization is required when foreign ownership exceeds 5% of the share capital of the company. The acquisition of a significant stake in certain entities (such as credit entities, insurers, or investment service companies) requires the authorization of the relevant regulator. Moreover, any transaction involving a concentration exceeding the legal thresholds established by Spanish or European law requires prior notification to the antitrust authorities; antitrust clearance is required before the transaction can be implemented.

The comment process for proposed rule-making changes is not as formal as in the United States. Spain does not have an official comment procedure for government regulations similar to what exists in the U.S. system. The 1997 Government Law (Law 50/1997) contains requirements for consultation for draft laws and regulations that affect citizens' rights and interests. However, the vague requirements of the Government Law have been interpreted differently by the various government ministries and application of the requirement is inconsistent. Some ministries routinely post draft articles and regulations online for a 15 day public comment period, while others consult with officially recognized industry sector associations or consumer organizations. Although most new laws and regulations are published as drafts before they go into force, there are often limited opportunities to change them by the time they are published. The general public will not necessarily be aware of a regulation until it is finalized and published.

10. Competition from State-owned Enterprises

A process of privatization of state-owned firms began in the mid-1980s and was carried out by both Socialist and Popular Party governments in several stages. Spain's privatization process was especially intense between 1996 and 2000, when large utilities and industrial groups, such as Telefonica, Tabacalera, Repsol, and Endesa, among others, were completely privatized. However, several of these companies maintain a de facto monopoly position under private ownership, and a high degree of sector concentration persists years after the main privatizations, reflecting the slow progress of competition in those sectors. U.S. companies have reported difficulty competing particularly in regulated sectors.

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 U.S. companies. However, many observers believe these changes have not been broad enough to fully stimulate competition. It is frequently difficult for new entrants to gain traction in sectors dominated by former state-run monopolies such as Telefonica. Moreover, in the energy sector, the GOS seems to favor domestic control of "national champion" companies.

In 2004 the government began the privatization of the railroad system. Effective January 1, 2005, the Spanish government dissolved the National Rail Network (RENFE) and formed two new companies, ADIF and RENFE-Operadora, both of which remain under state control. RENFE still controls 80% of freight transport, and private operator profits are close to zero. On October 29, 2013, the Board of Directors of RENFE-Operadora met to finalize the privatization plan. Starting January 1, 2014, RENFE reportedly was to become a joint-stock company and be divided into 4 parts (cargo, passengers, workshops, and railway equipment rental). ADIF, the owner of rail infrastructure, was to be split into 2 parts (State network and AVE network). On January 2, independent investors, creditors, and companies were to be able to purchase a portion of the companies. This measure is part of the European directive which called for an open transport market by 2019. The process appears to have been delayed. However, Minister of Public Works said publicly on March 29 that by July 2014 private companies could compete with RENFE in the rail passenger transport business.

In January 2011, Iberia Airlines completed a multi-billion-euro merger with British Airways upon the listing of the shares in the International Airlines Group (IAG). The merger created Europe's third largest airline and the world's sixth largest carrier. On December 31, 2013, the state-owned industrial holding company SEPI still owned 2.41% stake in IAG, and a 20% stake in the Spanish electricity grid, Red Electrica Espanola. Additionally, airlines and private bus companies have complained about unfair competition from the state-owned rail company, claiming that high speed passenger tickets are being sold below costs in a manner "that can be considered state aid." The rail company RENFE announced that in 2010 it had for the first time turned a small operating profit on its commercial and long-distance operations and that, in keeping with European regulations, it no longer receives a state subsidy.

The Public Works Ministry announced plans in 2012 to privatize AENA (airports), but it is still in the development phase and no political decision has been made yet.

11. Corporate Social Responsibility (CSR)

Spanish companies consider corporate reputation, competitive advantage, and industry trends to be the major driving forces of CSR. Initiatives undertaken by the EU and international organizations have influenced companies' decision to implement CSR, and companies continue to increasingly adhere to its principles. Associations and fora that bring together the heads of leading corporations, business schools and other academic institutions, NGOs and the media are actively contributing to implementation of CSR in Spain. Although the amount of CSR is still moderate by international standards, in the last two decades there has been a growing interest in adopting CSR. Today, almost all of Spain's largest energy, telecommunications, infrastructure, transport, financial services and insurance companies, among many others, have undertaken CSR projects, and such practices are spreading throughout the economy. The Spanish government has taken some measures to promote CSR since 2002. The government endorsed the OECD Guidelines for Multinational Enterprises, and the national point of contact is the Ministry of Industry, Energy, and Tourism.

12. Political Violence

The Government of Spain is involved in a long-running campaign against the significantly weakened but still viable Basque Fatherland and Liberty (ETA), a terrorist organization founded in 1959 and dedicated to promoting Basque independence. ETA has traditionally targeted Spanish government officials, members of the military and security forces, journalists and members of the Popular Party and Socialist Party for assassination. More broadly, symbolic targets include representatives of the Spanish state, security forces and prominent industrialists, as well as infrastructure linked to railroad construction and television repeaters. U.S. citizens and U.S. companies have not been direct ETA targets. ETA's main methods are car bombs and assassinations with firearms. ETA has killed more than 40 persons since January 2000 and more than 850 persons since its campaign began in 1968. Its last attack in Spain was in 2009.

Suspected ETA operatives have extorted "revolutionary taxes" from businesspersons and professionals living in the Basque region, sometimes bombing their property or sending the demands to their children to intimidate them into paying extortion demands. Though these extortion demands have ceased according to local business organizations, there remains the possibility that ETA may reinstitute the practice. ETA supporters have also engaged in street violence and vandalism against government facilities, economic targets (particularly banks), and the homes and property of persons opposed to ETA's cause. ETA gunmen in late 2008 killed a Basque businessman whose construction company is involved in the construction of a high-speed rail known as the "Basque Y" linking the Basque cities of Bilbao, San Sebastian, and Vitoria to Madrid. In mid-2009, the group marked its 50th anniversary with a series of high-profile and deadly bombings. On July 29, 2009, ETA detonated an explosive-laden stolen van outside a Civil Guard barracks in Burgos. The blast injured more than 60 Civil Guards, spouses, and children. The following day, ETA murdered two Civil Guards in Mallorca with a car bomb.

There were no terrorist attacks within Spain in 2010. Arrests and seizures in 2010, combined with the cumulative effect of years of intense crackdown, effectively decapitated ETA's leadership and neutralized its capacity to sustain a prolonged operational campaign. Nevertheless, the group retains the capacity to kill. The lone fatality attributed to ETA in 2010 occurred outside Paris, France in March, when ETA members shot a French policeman during a botched car-theft attempt. In January 2011, ETA announced a “permanent” ceasefire; however, similar declarations made by the group previously were followed by new terrorist attacks, giving rise to skepticism on the part of Spanish government officials. In October 2011, ETA declared a “definitive cessation of armed activities.” ETA reaffirmed the “definitive cessation” in January 2012. The October 2012 second place finish for left-wing separatist Basque political coalition Bildu led ETA political wing Batasuna to dissolve itself on January 3, 2013. Batasuna claimed it would continue its struggle for an independent Basque Country through other political tools (alluding to the recently-elected Bildu). Spanish authorities continue to question the credibility of such messages, given ETA has neither disarmed nor disbanded.

On March 11, 2004, Islamic terrorists killed 191 people on commuter trains headed for Madrid's central Atocha train station. Several foreign nationals died in the attack, although there were no American citizen casualties. Although U.S. citizens and companies in Spain have not been direct targets of terrorists, the potential for violent extremism exists in Spain. In the aftermath of the train bombings, the Spanish government mobilized against the threat and continues to fight aggressively against international terrorism.

13. Corruption

Giving or accepting a bribe is a criminal act. Under Section 1255 of the Spanish civil code, corporations and individuals are prohibited from deducting bribes from domestic tax computations.

Spain has a wide variety of laws, regulations, and penalties dealing with corruption. The legal regime has both civil and criminal sanctions for corruption, bribery, financial malfeasance, etc. The Spanish Criminal Code was amended in December 2010 to allow corporations (legal persons) to be held criminally liable for their actions, as per Article 31bis.

On November 29, 2006, the parliament passed a tough law against tax evasion designed, in part, to combat corruption. The government also issued two regulations imposing new requirements on banks and financial institutions to fight money laundering. In April 2010 Spain’s parliament passed Law 10/2010 aimed at protecting the integrity of the financial and other economic sectors through the establishment of obligations to prevent money laundering and terrorist financing. With this law, Spain has successfully transposed the third EU money laundering Directive (Directive 2005&60/CE) of the European Parliament and the Council of October 26, 2005. Banks and other financial institutions, investment services firms, collective investment institutions, management companies of private equity and venture capital firms are all obliged to comply with the law. Some portions of the new law entered into force immediately, but others are still awaiting implementing regulations. Law 7/2012, passed October 29, 2012, restricts cash transactions in an attempt to reduce the size of Spain’s large underground economy. The law prohibits cash payments equal to or above 2,500 euros involving business deals by entrepreneurs and freelancers. The limit is up to 15,000 euros for non-resident payers. In December 2013, the Parliament approved the Law of Transparency aimed at reducing corruption among public officials. Central and regional administrations have one and two years, respectively, to implement the articles of the law that deal with corruption and transparency. In an additional attempt to fight corruption, in February 2014, the Government presented in Parliament its plan for democratic regeneration that includes two bills that are currently being debated in Congress: the Law of Control of Political Parties' Economic and Financial Activities, and the Law for the regulation of public office of officials in the General Administration.

Spain is a signatory of the OECD Convention on Combating Bribery. The government amended domestic law to make the Convention a more useful investigative and prosecutorial tool in 2010. Following a December 2012 review of Spanish implementation of the OECD Convention, the OECD noted that "Spain's enforcement of its foreign bribery laws has been extremely low, with not a single prosecution out of seven investigations in 13 years…." The OECD report concluded that "Spain must vigorously pursue foreign bribery allegations and strengthen its legal framework for fighting bribery by addressing gaps in its Penal Code."

The General State Prosecutor is authorized to investigate and prosecute corruption cases involving funds in excess of roughly $500,000. The Office of the Anti-Corruption Prosecutor, a subordinate unit of the General State Prosecutor, has 15-20 prosecutors in Madrid, Barcelona, and Valencia who are tasked with investigating and prosecuting domestic and international bribery allegations. There is also the "*Audiencia Nacional*," a corps of magistrates with broad discretion to investigate and prosecute alleged instances of Spanish businesspeople bribing foreign officials.

Spain enforces anti-corruption laws on a generally uniform basis. Public officials are probably subjected to more scrutiny than private individuals, but several wealthy and well-connected business executives have been successfully prosecuted for corruption. There is no obvious bias for or against foreign investors. U.S. firms have not identified corruption as an obstacle to investment in Spain. Although no formal corruption complaints have been lodged, U.S. companies have indicated that they have been disqualified at times from public tenders based on reasons that these companies' legal counsels did not consider justifiable.

Spain's rank in Transparency International's annual Corruption Perceptions Index worsened in 2013, going from position 30 to position 40. According to Transparency International, one of the reasons for this decline is more efficient enforcement, which has brought many corruption cases to the public's attention.

14. Bilateral Investment Agreements

Spain has concluded bilateral investment agreements with Hungary (1989), the Czech Republic (1990), Russia (1990), Azerbaijan (1990), Belarus (1990), Georgia (1990), Tajikistan (1990), Turkmenistan (1990), Kirgizstan (1990), Armenia (1990), Slovakia (1990), Argentina (1991), Chile (1991), Tunisia (1991), 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), South Korea (1994), Bulgaria (1995), Dominican Republic (1995), El Salvador (1995), Gabon (1995), Latvia (1995), Malaysia (1995), Romania (1995), Indonesia (1995), Venezuela (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), Bolivia (2001), Jamaica (2002), Iran (2002), the Federal Republic of Yugoslavia (2002), Bosnia and Herzegovina (2002), Serbia (2002), Nigeria (2002), Guatemala (2002), Namibia (2003), Albania (2003), Uzbekistan (2003), Syria (2003), Equatorial Guinea (2003), Colombia (2005), Macedonia (2005), Morocco (2005), Kuwait (2005), China (2005), the Republic of Moldova (2006), Mexico (2006), Vietnam (2006), Libya (2007), Bahrain (2008), and Senegal (2008).

Spain and the United States have a Friendship, Navigation and Commerce (FCN) Treaty, and a Bilateral Taxation Treaty (1990), which was amended on January 14, 2013, although the changes must be ratified by both the Spanish Parliament and the U.S. Senate before entering into effect. Some U.S. and other foreign companies operating in Spain say they are disadvantaged by the Tax Administration's (AEAT) interpretation of Spanish legislation designed to attract foreign investment. For the past several years, AEAT has investigated and disallowed deductions based on operational restructuring at the European level involving a number of U.S.-owned Spanish holding companies for foreign assets (*Empresas de Tenencia de Valores Extranjeros* or ETVEs), claiming the companies are committing "an abuse of law." This situation disadvantages foreign direct investment in Spain; many U.S. companies now channel their Spanish investments and operations through third countries.

15. OPIC and Other Investment Insurance Programs

As Spain is a member of the European Union, OPIC insurance is not offered. Various EU directives, as adopted into Spanish law, adequately protect the rights of foreign investors. Spain is a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

16. Labor

The economic crisis has had a significant adverse impact on employment in Spain. After substantially reducing unemployment between 2000 and 2007, Spain is suffering one of the highest unemployment rates recorded in the last 20 years. The unemployment rate climbed from 8% in third quarter of 2007 to 26% at the end of 2013. According to the National Statistics Institute, 5.9 million people were jobless at the end of 2013, while there were 16.8 million people employed in the work force. Unemployment among youth (ages 18-25) is exceptionally high at 54%. Immigration has slowed significantly as a result of the severe employment crisis, which disproportionately affects the immigrant community. Spain experienced net emigration in 2012, as it lost more residents than it gained. A number of immigrant workers, especially from Latin America, have returned home. The government introduced an initiative in September 2008 to pay jobless immigrants their unemployment benefits in a lump sum if they returned to their home countries and promised not to return to Spain for three years. A very small number of immigrants are reported to have taken advantage of this program.

With the highest unemployment rate in the European Union, the Spanish government has declared job creation the most important mid-to-long-term priority. Labor market reforms in 1994 and 1997 eased labor market rigidities but did not fundamentally change the difficult labor regime. The labor market is divided into permanent workers with full benefits and temporary workers with few benefits. Labor market reform legislation enacted by the parliament in September 2010 aimed to encourage the use of indefinite labor contracts by reducing the number of days of severance pay under these contracts. It was criticized as insufficient and did not stimulate employers to hire more workers on indefinite contracts. In January 2011, government, business and labor agreed to a pension reform that increases the legal retirement age from 65 to 67 over a 15-year period beginning in January 1, 2013, and gradually increases the number of years of contributions on which pensions are calculated. After consultations between business and labor organizations failed to produce significant agreement on measures to overhaul Spain’s Franco-era contract and negotiating system, the government introduced a labor reform decree in February 2012 that included new provisions related to collective bargaining, hiring, and job placement. On June 28, the parliament definitively approved the labor reform bill presented by the government. The new law makes dismissal quicker and cheaper and gives more power to businesses to change working conditions and wages, although private sector wage restraint will continue to depend on business-labor negotiations. On November 25, 2013, Minister of Employment Fátima Báñez announced that the Government would make some adjustments to the 2012 labor reform to promote hiring. Báñez said that her Department had already announced that it will reduce the number of contract types from 42 to four, and that President Rajoy had announced that the “indefinite contract for entrepreneurs” would be applicable to both part-time and full-time employment. Minister Bañez added that all the incentives that are scattered throughout Spanish legislation will be compiled in a single chapter of the Law of Employment in order to facilitate hiring. According to the Minister, this would be the government’s response to the Eurogroup’s demands for a “second round” of labor reform. In December 2013, the Parliament approved a further reform of the pension system, in order to guarantee the sustainability of Social Security, introducing a sustainability factor, a new indicator for the revalorization of pensions, and the creation of an independent fiscal authority that will be responsible for producing quinquennial reports about the effects of the law on the adequacy of pensions.

Collective bargaining is widespread in both the private and public sectors. A high percentage of the working population is covered by collective bargaining agreements, although only a minority (generally estimated to be about 10%) of those covered are actually union members. Under the Spanish system, workers elect delegates to represent them before management every four years. If a certain proportion of those delegates are union-affiliated, those unions form part of the workers' committees. Large employers generally have individual collective agreements. In industries characterized by smaller companies, collective agreements are often industry-wide or regional. The reforms enacted in 2012 gave business-level agreements primacy over sectoral and regional agreements and made it easier for businesses to opt out of higher-level agreements. They also required collective labor agreements to be renegotiated within one year of expiration.

The Constitution guarantees the right to strike, and this right has been interpreted to include the right to call general strikes to protest government policy.

17. Foreign-Trade Zones/Free Ports

Both on the mainland and islands (and in most Spanish airports and seaports) there are numerous free trade zones where manufacturing, processing, sorting, packaging, exhibiting, sampling and other commercial operations may be undertaken free of any Spanish duties or taxes. The largest free trade zones are in Barcelona, Cadiz and Vigo. Others vary in size from a simple warehouse to several square kilometers. Spanish customs legislation allows for companies to have their own free trade areas. Duties and taxes are payable only on those items imported for use in Spain. These companies have to abide by Spanish labor laws.

18. Foreign Direct Investment Statistics (in millions of euros)

TABLE 2

	2011	2012	2013
Total new FDI in Spain	30,917	19,629	19,484
New FDI in Spain from the U.S.	1,446	2,284	1,301
U.S. share of total new direct investment (%)	6.1	15.7	8.2
Total new Spanish investment abroad	36,901	19,369	21,897
New Spanish investment in U.S.	2,946	731	346
U.S. share of total new Spanish investment (%)	10.0	4.8	2.2

New Foreign Direct Investment in Spain (2013): by country of origin

The Netherlands: 14.2 %
United Kingdom: 11.8 %
France: 11.2 %
Germany: 8.6 %
U.S. 8.2 %
Luxembourg: 8.1 %
Mexico 3.5%
Belgium 2.5%
Switzerland: 1.8%
Japan 1.7%
Hong Kong 1.5%

New Foreign Direct Investment in Spain (2013): by industry sector destination

Rental real estate: 5.7%
Insurance other than life insurance: 4.8%
Manufacture of basic pharmaceutical products: 4.6%
Transportation of goods by road: 4.0%
Waste management services: 4.0%
Aluminum production: 3.9%

Source: Directorate General of Trade and Investment, Ministry of Industry, Energy and Tourism Foreign Direct Investment Statistics

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