2000 Country Reports on Economic Policy and Trade Practices
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SPAIN

Key Economic Indicators

(Billions of U.S. dollars unless otherwise indicated)

	1998	1999	2000	1/
Income, Production and Employment:				
Real GDP (1995 Prices) 2/	538.6	534.1	485.7	3/
Real GDP Growth (pct) 4/	4.3	4.0	4.1	
GDP (At Current Prices)	582.1	595.3	566.3	
GDP by Sector:				
Agriculture	23.2	22.4	19.2	
Industry	122.2	120.8	136.1	
Construction	40.5	43.3	43.0	
Services	344.3	351.7	327.6	
Government	51.9	57.3	58.7	
Per Capita GDP (US$)	14,626	14,957	14,229	
Labor Force (000s)	16,265	16,423	16,700	
Unemployment Rate (pct)	18.8	15.9	14.0	
Money and Prices (annual percentage growth):				
Money Supply (M2)	6.0	6.0	1.0	
Consumer Price Inflation	1.8	3.0	4.0	
Exchange Rate (PTA/US$ annual average)	149.4	156.3	180.0	
Balance of Payments and Trade:				
Total Exports FOB 5/	108.9	111.4	125.0	
Exports to U.S. 5/	4.6	4.8	5.6	
Total Imports CIF 5/	133.1	146.3	170.0	
Imports from U.S. 5/	7.8	7.9	9.0	
Trade Balance 5/	-23.5	-34.9	-45.0	
Balance With U.S. 5/	-3.2	-3.1	-3.4	
Fiscal Deficit/GDP (pct)	1.8	1.1	0.4	
Public Debt	65.6	66.4	51.0	
Debt Service Payments (Paid)	N/A	N/A	N/A	
Gold and Foreign Exchange Reserves	60.7	39.8	42.0	

1/ 2000 figures are all estimates based on available monthly data in July.
2/ GDP at factor cost.
3/ Devaluation.

4/ Percentage changes calculated in local currency.
5/ Merchandise trade. Spanish National Institute of Statistics.

Note: Estimates for 2000 show lower figures in dollars than previous years due to a rise in the U.S. dollar/Spanish peseta exchange rate.

1. General Policy Framework

Spain's economy is expected to grow by four percent in 2000. While this growth is expected to continue in 2001, growth prospects may be dampened somewhat by inflationary pressures due to a prolonged depreciation of the euro, exacerbated by continued elevated oil prices. Thus far, growth continues to be broadly based and is supported by the services sector, agriculture, construction, consumer demand, and capital goods investment.

Throughout the 1990s much of Spain's economic policy had focused on meeting Maastricht targets so that Spain could become one of the founding members of the euro. These policies have continued in the guise of the Stability Pact, which, if anything, has a bias toward even stricter fiscal policy than the preceding agreement. Together these policies have provided continuing benefits in the form of lower interest rates, which in turn have promoted investment, construction, and consumer demand. This increased economic activity has provided increased income and higher tax receipts, which have allowed Spain to handily meet government deficit/GDP targets. Government fiscal restraint, higher tax receipts, and lower interest on government debt (courtesy of lower euro interest rates) should allow the government's deficit/GDP ratio to fall to 0.4 percent in 2000. The government's overall debt/GDP ratio should fall to 60 percent in 2000.

Economic growth has decreased unemployment to the lowest levels in a over a decade. Although high compared to EU averages, Spain's current unemployment rate of 15 percent and increasing evidence of sectoral labor shortages points to a strongly growing economy. Employment growth has been underwritten by changes in 1998 and 1999 that provided flexibility in hiring practices that lessen somewhat the high costs of permanent new hires. Despite the labor market's rigidities, Spain creates more jobs than any other EU country.

2. Exchange Rate Policy

The Spanish peseta/euro rate was fixed on January 1, 1999 at 166.386 pesetas to the euro. Average dollar/euro rate to date in 2000 has been 0.960 or 180.0 pesetas to the dollar. The rate at the time this is being drafted is 1 euro equals $0.8476.

3. Structural Policies

Spain has eliminated tariff barriers for imports from other EU countries and applies common EU external tariffs to imports from non-EU countries. Similarly Spain follows the U.S.-EU mutual recognition agreements in its application of certain nontariff regulations and conformity assessment procedures applied to certain goods from the United States.

In 1989 as part of the investment sector reforms necessary to comply with EU membership, Spain made stock market rules and operations more transparent and provided for the licensing of investment banking services. The reform also eased conditions for obtaining a broker's license. A 1992 Investment Law removed many administrative requirements for foreign investments. EU resident companies (i.e. companies deemed European under article 58 of the Treaty of Rome) are free from almost all restrictions. Non-EU resident investors must obtain Spanish Government authorization to invest in broadcasting (signatories to the WTO Telecoms Agreement are exempt from this requirement), gaming, air transport, or defense. Restrictions in transport are facing increasing pressure as the government looks to finalize privatizing its national airline, Iberia.

Under its EU accession agreement, Spain was forced to transform its structure of formal and informal import restrictions for industrial products into a formal system of import licenses and quotas. While Spain does not enforce any quotas on U.S.-origin manufactured products, it still requires import documents for some goods, which are described below. Neither of the following documents constitutes a trade barrier for U.S.-origin goods:

> Import Authorization (*autorizacion administrativa de importacion*) is used to control imports which are subject to quotas. Although there are no quotas against U.S. goods, this document may still be required if part of the shipment contains products or goods produced or manufactured in a third country. In essence, for U.S.-origin goods, the document is used for statistical purposes only or for national security reasons;

> Prior Notice of Imports (*notificacion previa de importacion*) is used for merchandise that circulates in the EU customs union area, but is documented for statistical purposes only. The importer must obtain the document and present it to the general register.

Importers apply for import licenses at the Spanish general register of Spain's secretariat of commerce or any of its regional offices. The license application must be accompanied by a commercial invoice that includes freight and insurance, the C.I.F. price, net and gross weight, and invoice number. License application has a minimum charge. Customs accepts commercial invoices by fax. The license, once granted, is normally valid for six months but may be extended if adequate justification is provided.

Not infrequently, U.S. products face rigorous application of import requirements. Goods that are shipped to a Spanish customs area without proper import licenses or declarations are subject to considerable delay, may run up substantial demurrage charges, and have recently been rejected outright. U.S. exporters should ensure, prior to making shipments, that the necessary licenses have been obtained by the importing party. Also, U.S. exporters should have their importer confirm with Spanish customs whether any product approvals or other special certificates will be required for the shipment to pass customs.

The government has signed and ratified the Marrakech Agreement which concluded the Uruguay Round of multilateral trade negotiations and established the World Trade Organization.

4. Debt Management Policy

Almost 30 percent of Spanish medium and long-term debt is held by non-residents. Approximately 21 percent of Spanish Government debt is short-term (less than one year) and 79 percent is long-term (i.e. maturities greater than five years).

At the end of June 2000, international reserves at the Bank of Spain totaled 39.4 billion euros or $37.7 billion.

5. Significant Barriers to U.S. Exports:

In general, EU agreements and practices determine Spain's trade policies. These policies include preferential trade agreements with many countries.

Import Restrictions: Under the EU's Common Agricultural Policy (CAP), Spanish farm incomes are protected by direct payments and guaranteed farm prices that are higher than world prices. One of the mechanisms for maintaining this internal support are high external tariffs that effectively keep lower priced imports from entering the domestic market to compete with domestic production. However, the Uruguay Round agreement has required that all import duties on agricultural products be reduced by an average of 20 percent during the five year period from 1995 to 2000.

In addition to these mechanisms, the EU employs a variety of strict animal and plant health standards which act as barriers to trade. At times, these regulations end up severely restricting or prohibiting Spanish imports of certain plant and livestock products. One of the most glaring examples of these policies is the EU ban on imports of hormone-treated beef, imposed in 1989 with the stated objective of protecting consumer health. Despite a growing and widespread use of illegal hormones in beef production in the EU, including in Spain, the EU continues to ban U.S. beef originating from feedlots where growth promoters have been used safely and under strict regulation for many years. Despite a WTO ruling requiring the EU to remove the ban, the EU ban on imports of hormone treated beef remains in effect.

One important aspect of Spain's EU membership is how EU-wide phytosanitary regulations, and regulations that govern food ingredients, labeling and packaging impact the Spanish market for imports of U.S. agricultural products. The majority of these regulations took effect on January 1, 1993 when EU "single market" legislation was fully implemented in Spain. Agricultural and food product imports into Spain are subject to the same regulations as in other EU countries.

While many restrictions that had been in operation in Spain before the transition have now been lifted, for certain products the new regulations impose additional import requirements. For example, Spain requires any foodstuff that has been treated with ionizing radiation to carry an advisory label. In addition, a lot marking is required for any packaged food items. Spain, in adhering to EU-wide standards, continues to impose strict requirements on product labeling, composition, and ingredients. Like the rest of the EU, Spain prohibits imports which do not meet a variety of unusually strict product standards. Food producers must conform to these standards, and importers of these products must register with government health authorities prior to importation.

Faced with the loss of the Spanish feed grain market as a result of Spain's membership in the EU, the United States negotiated an enlargement agreement with the EU in 1987, which established a 2.3 million ton annual quota for Spanish imports of corn and specified non-grain feed ingredients and sorghum from non-EU countries. The Uruguay Round agreement had the effect of extending this agreement indefinitely.

As an EU member state, Spain must also abide by EU procedures for approving the commercialization of products generated with the aid of biotechnology. The EU's lengthy and non-transparent process for approving bioengineered agricultural products has halted U.S. corn exports to Spain. Due to the EU's failure to approve all but two transgenic corn varieties, U.S. corn exports to Spain have virtually been eliminated, costing U.S. exporters about $150 million per year. Unless the EU takes steps to lift its moratorium on approval of transgenic products and streamlines its biotech product approval process, U.S. exporters will continue to be unable to ship U.S. corn to Spain. The United States remains interested in maintaining access to the Spanish feed grain market and will continue to press the EU on this issue and is currently exploring the concept of providing USDA certified, identity preserved corn shipments, containing only EU approved varieties.

Telecommunications: Spain liberalized its telecommunications market beginning December 1, 1998. Prior to this date, the government phased in competition in basic telephony through licenses granted to privatized second operator Retevision and to third operator Lince/Uni2 (France Telecom), in addition to incumbent operator Telefonica. Cable operators were allowed to provide basic telephony beginning January 1, 1998, but only by using their own networks; that is, they could provide basic telephony by interconnecting with the Telefonica or Retevision networks. This, in combination with several other mitigating factors, such as bureaucratic obstacles at the municipal level, the arrival of digital satellite television, and problems with new entrants forging interconnection agreements that are unbundled, transparent, timely and cost-oriented, has resulted in a slow start for the establishment of the cable sector in Spain.

Digital television, especially via satellite, has emerged as a promising industry in the Spanish market. There are three digital television platforms, Via Digital, Canal Satellite Digital, and Onda Digital/Retevision (over a terrestrial network), which currently offer digital television programming. Spain's mobile telephony market has also experienced a very rapid growth in subscribers. The government granted four licenses for third generation mobile telephony in March 2000, and six licenses for wireless local telephone services. New opportunities are emerging in advanced telecommunications services, including the internet and high-speed data transmission. Finally, the government has established the Telecommunications Market Commission (CMT) as an independent regulatory authority to oversee all activity in this sector.

Government Procurement: Spain's Uruguay Round government procurement obligations took effect on January 1, 1996. Under the bilateral U.S.-EU government procurement agreement, Spain's obligations took effect also on January 1, 1996, except those for services which took effect on January 1, 1997.   Offset requirements are common in defense contracts and some large non-defense related and public sector purchases (e.g. commercial aircraft and satellites).

Television Broadcasting Content Requirements: On May 13, 1999 the Spanish parliament adopted new legislation that incorporates the revised EU Television without Frontiers Directive and revises the 1994 Spanish law on television broadcasting. The new law explicitly requires television operators to reserve 51 percent of their annual broadcast time to European audiovisual works. It also obliges television channels to devote five percent of their annual earnings to finance European feature length films and films for European television.

Motion Picture Dubbing Licenses and Screen Quotas: In January 1997 the government adopted implementing regulations for the 1994 Cinema Law, which reserved a portion of the theatrical market for EU-produced films. Thanks to successful industry-government negotiations, the new regulations eased the impact of the 1994 law on non-EU producers and distributors in regard to screen quotas and dubbing licenses. The screen quotas finally adopted required exhibitors to show one day of EU-produced film for every three days of non-EU-produced film instead of the original ratio of one to two. The three-tiered system established for dubbing licenses under the 1994 law ended in June 1999. In January 2000 the administration sent new draft film legislation to Parliament that calls for a gradual elimination of screen quotas over a period of five years. Approval is pending.

Despite remaining protectionist elements, Spain's theatrical film system has been modified sufficiently in recent years so that it is no longer a major source of trade friction as it had been earlier. In 1998, however, the Catalan regional government adopted a decree under its new law on language policy, which calls for both dubbing and screen quotas in order to increase the number of films being shown in the Catalan language. Due to strong industry opposition and the start of negotiations with film distributors and exhibitors to resolve their differences, the Catalan government decided to suspend implementation of the law. In March 2000 the regional government annulled the legislation due to strong resistance from film distributors.

Product Standards and Certification Requirements: Product certification requirements have been liberalized considerably since Spain's entry into the EU. After several years in which telecommunications equipment faced difficulties, Spain adapted its national regulations in this area to conform to EU directives. For example, now all telecom equipment must carry the CE mark, which certifies that it complies with all applicable EU directives. This process may take three to four months after all tests have been performed and necessary documents are submitted. However, recognition from other EU countries and an early presentation of all documentation can speed up the process considerably. There is still some uncertainty as to whether the earlier exemption from homologation and certification requirements for equipment imported for military use is still valid.

In general there has been improved transparency of process. For example, the CE registration for medical equipment from any of the EU member states is considered valid here. Thus, the product registration procedure is shortened (to about six months) and no longer must be initiated by a Spanish distributor. Pharmaceuticals and drugs still must go through an approval and registration process with the Ministry of Health requiring several years unless previously registered in an EU member state or with the London-based EU pharmaceutical agency, in which case the process is shortened to a few months. Vitamins are covered under this procedure; however, import of other nutritional supplements is prohibited, and they are dispensed only at pharmacies. Spanish authorities have been cooperative in resolving specific trade problems relating to standards and certifications brought to their attention. The U.S.-EU MRA, when fully implemented, will permit certain conformity assessments (e.g., product tests) to be performed in the United States to EU requirements. This should improve market access, reduce costs, and shorten the time required to market certain U.S. products in the EU.

Aviation: Under the "Open Skies" aviation agreements that the U.S. has with most EU member states, there are no restrictions on bilateral routes, capacity or pricing. Spain is one of several member states without an Open Skies agreement, and where the U.S.-Spain bilateral aviation agreement still contains some limitations.

6. Export Subsidies Policies

Spain aggressively uses "tied aid" credits to promote exports in Latin America, the Maghreb, and China. Such credits reportedly are consistent with the OECD arrangement on officially supported export credits.

As a member of the EU, Spain benefits from EU export subsidies which are applied to many agricultural products when exported to destinations outside the Union. Total EU subsidies of Spanish agricultural exports amounted to about $221.2 million in 1999. Spanish exports of grains, olive oil, other oils, wine, sugar, dairy products, beef, pork, poultry, and fruits and vegetables benefited most from these subsidies in 1999. Agricultural exports totaled $17.2 billion in 1999.

The Spanish government has indicated that it is likely to provide financial support to Airbus for the development of the A380 megaliner. The terms of its financial support had not been decided at the time of writing.

7. Protection of U.S. Intellectual Property

Spain adopted new patent, copyright, and trademark laws, as agreed at the time of its EU accession in 1986. It enacted a new Patent Law in March of 1986, a new Copyright Law in November 1987, and a new Trademark Law in November of 1988. All approximate or exceed EU levels of intellectual property protection. Spain is a party to the Paris, Bern, and

Universal Copyright Conventions and the Madrid Accord on Trademarks. Government officials have said that their laws reflect genuine concern for the protection of intellectual property.

In October 1992 Spain enacted a modernized Patent Law which increases the protection afforded patent holders. At that time, Spain's pharmaceutical process patent protection regime expired and product protection took effect. However, given the long (10 to 12 year) research and development period required to introduce a new medicine into the market, industry sources point out that the effect of the new law will not be felt until 2002 or 2003. U.S. pharmaceutical manufacturers in Spain complain that this limits effective patent protection to approximately eight years and would like to see the patent term lengthened. Of at least equal concern to the U.S. industry is the issue of parallel imports, i.e. lower-priced products manufactured in Spain that are diverted to northern European markets where they are sold at higher prices. U.S. companies have suffered significant losses as a result. This year the government introduced an amendment to Article 100 of the Medicine's Act in an attempt to address the issue.

The Copyright Law is designed to redress historically weak protection accorded movies, videocassettes, sound recordings and software. It includes computer software as intellectual property, unlike the prior law. In December 1993 legislation was enacted which transposed the EU software directive. It includes provisions that allow for unannounced searches in civil lawsuits and searches to take place under these provisions.

In 1999 Spain was placed on the Special 301 "Watch List" because of the continuing high level of business software piracy. The U.S. Trade Representative found that "illegal copying of business application software for internal use remains pervasive and continues to account for the majority of losses to industry in Spain stemming from piracy." In addition, the Special 301 review found that despite earnest efforts by Spanish government officials to educate the judiciary about the importance of intellectual property rights protection, civil and criminal court proceedings continued to move so slowly as to dilute the impact of improved police enforcement.

Spain maintains a sound record of low incidence of motion picture (i.e. video) and audiocassette piracy. The Spanish government prohibits the running of cable across public thoroughfares and also strictly enforces the Copyright Law that stipulates that no motion picture can be shown without authorization of the copyright holder.

Spain's Trademark Law incorporates by reference the enforcement procedures of the Patent Law, defines trademark infringements as unfair competition and creates civil and criminal penalties for violations. The government has drafted a new Trademark Law which will incorporate TRIPS, the EU Community Trademark Directive, and the Trademark Law Treaty, and which will most likely be adopted in 2000. But first, the Spanish Supreme Court rendered a verdict on July 8, 1999, on case presented by Catalan and Basque governments against the existing trademark law, Ley 32/1998. The text of the law and its verdict is available at the Internet address: www.oepm.es, under AVISOS Y NOTICIAS and NORMATIVA. National authorities seem committed to serious enforcement efforts and there continue to be numerous civil and criminal actions to curb the problem of trademark infringement. To combat this problem in the textile and leather goods sector, the government began to promote the creation and sale of devices to protect trademark goods and to train police and customs officials to cope more effectively. Despite these efforts, industry estimates rank Spain as the country with the second highest incidence of trademark fraud in the clothing sector in Europe.

In September 1999, in a trademark case in which a well-known U.S. apparel manufacturer complained about infringement of its brand name, the Spanish Supreme Court handed down a decision denying it the right to continue marketing its products under its trademark name in Spain. The Spanish Constitutional Court has accepted the case for review. A decision is still pending.

8. Worker Rights

a. *The Right of Association:* All workers except military personnel, judges, magistrates and prosecutors are entitled to form or join unions of their own choosing without previous authorization. Self-employed, unemployed and retired persons may join but may not form unions of their own. There are no limitations on the right of association for workers in special economic zones. Under the constitution, trade unions are free to choose their own representatives, determine their own policies, represent their members' interests, and strike. They are not restricted or harassed by the government and maintain ties with recognized international organizations.

b. *The Right to Organize and Bargain Collectively:* The right to organize and bargain collectively was established by the workers statute of 1980. Trade union and collective bargaining rights were extended to all workers in the public sector, except the military services, in 1986. Public sector collective bargaining in 1989 was broadened to include salaries and employment levels. Collective bargaining is widespread in both the private and public sectors. Sixty percent of the working population is covered by collective bargaining agreements although only a minority are actually union members. Labor regulations in free trade zones and export processing zones are the same as in the rest of the country. There are no restrictions on the right to organize or on collective bargaining in such areas.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is outlawed and is not practiced. Legislation is effectively enforced.

d. *Minimum Age for Employment of Children:* The legal minimum age for employment as established by the workers statute is 16. The Ministry of Labor and Social Security is primarily responsible for enforcement. The minimum age is effectively enforced in major industries and in the service sector. It is more difficult to control on small farms and in family-owned businesses. Legislation prohibiting child labor is effectively enforced in the special economic zones. The workers statute also prohibits the employment of persons under 18 years of age at night, for overtime work, or for work in sectors considered hazardous by the Ministry of Labor and Social Security and the unions.

e. *Acceptable Conditions of Work:* Workers in general have substantial, well defined rights. A 40 hour workweek is established by law. Spanish workers enjoy 14 paid holidays a year (12 assigned by central government and 2 by autonomous authorities) and a month's paid vacation. The employee receives his annual salary in 14 payments: one paycheck each month and an "extra" check in June and in December. The minimum wage is revised every year in accordance with the consumer price index. Government mechanisms exist for enforcing working conditions and occupational health and safety conditions, but bureaucratic procedures are cumbersome.

f. *Rights in Sectors with U.S. Investment:* Conditions in sectors with U.S. investment do not differ from those in other sectors of the economy.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		200
Total Manufacturing		7,786
Food & Kindred Products	1,579	
Chemicals & Allied Products	1,507	
Primary & Fabricated Metals	1,191	
Industrial Machinery and Equipment	125	
Electric & Electronic Equipment	1,015	
Transportation Equipment	1,346	
Other Manufacturing	1,022	
Wholesale Trade		1,245
Banking		2,022
Finance/Insurance/Real Estate		435
Services		465
Other Industries		304
TOTAL ALL INDUSTRIES		12,456

Source: U.S. Department of Commerce, Bureau of Economic Analysis.