

Spain

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Spain

Sanctions:	None
FAFT list of AML Deficient Countries	No
Higher Risk Areas:	US Dept of State Money Laundering assessment
Medium Risk Areas:	Corruption Index (Transparency International & W.G.I.) Failed States Index (Political Issues)(Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>grain, vegetables, olives, wine grapes, sugar beets, citrus; beef, pork, poultry, dairy products; fish</p> <p>Industries:</p> <p>textiles and apparel (including footwear), food and beverages, metals and metal manufactures, chemicals, shipbuilding, automobiles, machine tools, tourism, clay and refractory products, footwear, pharmaceuticals, medical equipment</p> <p>Exports - commodities:</p> <p>machinery, motor vehicles; foodstuffs, pharmaceuticals, medicines, other consumer goods</p> <p>Exports - partners:</p> <p>France 16.8%, Germany 10.8%, Italy 7.7%, Portugal 7.1%, UK 6.5% (2012)</p> <p>Imports - commodities:</p> <p>machinery and equipment, fuels, chemicals, semifinished goods, foodstuffs, consumer goods, measuring and medical control instruments</p> <p>Imports - partners:</p> <p>Germany 11.8%, France 11.5%, Italy 6.7%, China 5.6%, Netherlands 5.4%, UK 4.1% (2012)</p>	
Investment Restrictions:	

The Government of Spain (GOS) recognizes the value of foreign investment and the economic importance of attracting more of it, particularly to help spur recovery from Spain's current economic crisis. Spain's Finance Minister has repeatedly emphasized the government's goal to increase Spain's attractiveness to foreign investors.

The Constitution and Spanish law establishes clear rights to private ownership, and foreign firms receive the same legal protections as Spanish companies. There is technically no discrimination against public or private firms with respect to local access to markets, credit, licenses and supplies.

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Section 1 - Background

Spain's powerful world empire of the 16th and 17th centuries ultimately yielded command of the seas to England. Subsequent failure to embrace the mercantile and industrial revolutions caused the country to fall behind Britain, France, and Germany in economic and political power. Spain remained neutral in World War I and II but suffered through a devastating civil war (1936-39). A peaceful transition to democracy following the death of dictator Francisco FRANCO in 1975, and rapid economic modernization (Spain joined the EU in 1986) gave Spain a dynamic and rapidly growing economy and made it a global champion of freedom and human rights. More recently the government has had to focus on measures to reverse a severe economic recession that began in mid-2008. Austerity measures implemented to reduce a large budget deficit and reassure foreign investors have led to one of the highest unemployment rates in Europe.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Spain is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

In October, 2010, The FATF recognized that Spain had made significant progress in implementing the 49 recommendations and that from that date it should report on a biennial basis on the actions it will take in the AML/CFT area.

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Spain was undertaken by the Financial Action Task Force (FATF) in 2014. According to that Evaluation, Spain was deemed Compliant for 25 and Largely Compliant for 12 of the FATF 40 Recommendations.

Money Laundering/Terrorism Financing Risks (FATF Mutual Evaluation Report)

Spain faces a range of money laundering (ML) and terrorist financing (TF) risks, and the following are particularly important in the Spanish context.

Organised criminal groups, comprised of both Spanish nationals and/or foreign criminals, are active in Spain. Criminals from several countries live in Spain, often taking advantage of the sometimes large resident communities of fellow citizens,² and may continue their business from Spain, launder the proceeds of crime in Spain, or even invest criminal proceeds in Spain after they have been laundered elsewhere.

Real estate transactions have been involved in recent significant criminal cases and appear to be a major means of ML in Spain. ML through real estate is internationally a subject of concern in its own right. Many cases have involved foreign criminals resident in Spain laundering the proceeds of foreign crime through the Spanish real estate sector. The real estate and construction sectors in Spain underwent a boom in the years before 2009, followed by a significant contraction (during which illicit activity generally becomes more visible). Several high-profile ML cases in recent years (for example, White Whale, and Operation Malaya) have involved major real estate transactions, including the use of cash purchases, and complex networks of companies (and, on occasion trusts) often constituted abroad in nearby off-shore centres, such as Andorra or Gibraltar. There have also been some corruption cases linked to this sector, as described in more detail below.

Spain is a trans-shipment point for cross-border illicit flows of drugs entering Europe from North Africa and South America. Criminals also use Spain as a location to launder the proceeds of the crimes committed in Spain prior to transferring them back to their country of origin. The

market for illicit drugs remains dynamic within Europe's criminal markets, with approximately one third of European organised crime groups involved in its distribution and production³. While drug offences and official seizures in Spain have declined slightly in the past several years, Spain remains a logistical hotspot for African and Latin American organised crime groups⁴, with linguistic and cultural ties to the region. While Colombian cocaine dealers represent the traditional threat, Romanian, Nigerian, Mexican and North African groups have recently entered the drug trade. These groups often import synthetic drugs and hashish from Asia and Northern Africa respectively⁵.

Spain's geographic position, including the North African enclaves Melilla and Ceuta, expose it to the risk of ML and TF through illicit movement of cash across Spain's borders. The volume of cash movement associated to cross-border trading and to the informal economy across Spain's borders with Morocco in Ceuta and Melilla poses a high risk to camouflage cash flows associated with drug trafficking, tax and customs fraud, counterfeiting and human trafficking.

The money or value transfer service (MVTs) sector has proven vulnerable to exploitation by organised criminal groups seeking to move their illicit gains out of the country.

Spain's general economic situation also affects the ML risks. The recent recession has put pressure on Spain's fiscal position (leading to increased taxation), and has left persistent high unemployment (relative to other EU members). Spain's black economy⁶ represents a significant share of economic activity, comparable with other countries in the region. These factors indicate an elevated risk of tax crimes. Tax crimes, including VAT fraud and evasion of customs duties, are a problem, and there have been a number of large cases in this area which highlight the significant scale of tax crimes in Spain.

Spain faces significant TF risks, and has been the victim of terrorist attacks, from two main groups—the home-grown separatist terrorist groups such as Euzkadi ta Askatasuna (ETA), and Islamist terrorist groups (many of which have links to the al-Qaeda network).

ETA has been characterised by a sophisticated structure, including a branch of operations responsible for financing its activities. The organisation also has strong ties with the Basque region of France, which adds a trans-national element. ETA's methods of TF have ranged from fundraising through raffles, lotteries, and mobile taverns (txoznas), through to extortion (a so-called revolutionary tax), through to operating a complex network of revenue-generating companies. Some abuse of non-profit organisations (NPOs) has also been observed. Through successful investigations and prosecutions, Spain has effectively dismantled the economic wing of ETA and a cease-fire has held for some years. However, ETA has not entirely disappeared and remains a very real risk in Spain.

Spain also faces high terrorism and TF risk from Islamist terrorist groups, many of which have links to the al-Qaeda network. Unlike ETA, these groups tend to operate through small cells that are primarily self back to neighbouring countries in North Africa and the Maghreb, often using informal MVTs (hawaladar) to do so.

Spain is a major advanced economy with a well-developed financial sector, and is exposed to the same general ML/TF risks that affect other advanced economies. The risks affecting the financial sector are also influenced by the financial crisis of 2009-10, which saw significant consolidation in the banking sector in particular.

Spain has no official estimate of the overall value of criminal proceeds or specific types of crime. However, Spanish officials estimate that the value of assets held by high-intensity criminal organisations and standard criminal organisations is EUR 427 million and EUR 1 billion respectively.

On 5 July, 2012 - The FATF heard reports on the Voluntary Tax Compliance programme of Spain. The FATF decided to take no further action in relation to Spain, as its programmes were found to be consistent with the FATF's four basic principles on VTC.

US Department of State Money Laundering assessment (INCSR)

Spain was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Spain is proactive in identifying, assessing, and understanding its money laundering risks and works to mitigate these risks. Spain is a trans-shipment point for cross-border illicit flows of drugs entering Europe from North Africa and Central and South America. The most prominent means of laundering money are through the purchase and sale of real estate, the use of complex networks of companies and legal arrangements, the exploitation of money or value transfer services, and the use of cash couriers.

The major sources of criminal proceeds are related to drug trafficking, organized crime, customs fraud, human trafficking, counterfeit goods, and financial support for terrorism. Illicit proceeds continue to be invested in real estate in the once-booming coastal areas in the south and east of the country, but criminal groups also place money in other sectors, including services, communications, automobiles, art work, and the financial sector.

Moroccan hashish and Latin American cocaine enter the country and are distributed and sold throughout Europe, with the resulting proceeds often returned to Spain. Passengers traveling from Spain to Latin America reportedly smuggle sizeable sums of bulk cash. Informal money transfer services also facilitate cash transfers between Spain and Latin America, particularly Colombia. Law enforcement authorities continue to cite an emerging trend in drugs and drug proceeds entering Spain from newer EU member states with less robust law enforcement capabilities.

Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.: YES

Criminalization of money laundering:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes

Are legal persons covered: criminally: YES **civilly:** YES

Know-your-customer (KYC) rules:

Enhanced due diligence procedures for PEPs: Foreign: YES **Domestic:** YES

KYC covered entities: Banks; mutual savings associations; credit companies; insurance companies; financial advisers; brokerage and securities firms; pension fund managers; collective investment schemes; postal services; currency exchange outlets; money exchangers or transmitters; realty agents; dealers in precious metals, stones, antiques, and art; legal advisors and lawyers; accountants; auditors; notaries; and casinos

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 4,637 in 2014

Number of CTRs received and time frame: 1,503,662 in 2014

STR covered entities: Banks, professional money changers, credit intermediaries, payment systems and managers, and lending firms; life insurance entities and insurance companies that provide investment services; securities and investment service companies, collective investment, pension fund, and risk capital managers; mutual guarantee companies; postal wire services; real estate brokers, agents, and developers; auditors, accountants, and tax advisors; notaries and registrars of commercial and personal property; lawyers, attorneys, or other independent professionals when acting on behalf of clients in financial or real estate transactions; company formation and business agents; trustees; casinos, gaming, and lottery enterprises; dealers of jewelry, precious stones and metals, art, and antiques; safekeeping or guaranty services; and foundations and associations

money laundering criminal Prosecutions/convictions:

Prosecutions: 64 in 2014

Convictions: 186 in 2014

Records exchange mechanism:

With U.S.: MLAT: YES **Other mechanism:** YES

With other governments/jurisdictions: YES

Spain is a member of the FATF.

Enforcement and implementation issues and comments:

Spain has long combated both domestic and foreign terrorist organizations, and Spanish law enforcement entities have identified various threat finance vulnerabilities, including donations to finance nonprofit organizations; establishment of publishing companies that print and distribute books or periodicals for propaganda purposes; fraudulent tax and financial assistance collections; the establishment of "cultural associations;" and alternative remittance system transfers. Other outlets such as small convenience stores and communication centers often act as money service businesses (MSBs), offering wire transfer

services and moving money in and out of Spain by making small international transfers for members of immigrant groups. Spanish regulators also note the presence of hawala networks in the Muslim community. While AML/CFT supervision of banks appears to be robust, significant gaps regarding the identification of unlicensed operators, and the supervision of money or value transfer services operating under EU passport rules remain.

All offenses punishable by more than three months imprisonment are predicate offenses for ML. A stand-alone terrorist financing offense was added to Spain's Penal Code in 2010 which enables terrorist financing activity to be pursued separate from any other collaboration, involvement or membership in a terrorist organization. As of 2014, no convictions have been obtained under this offense, but prosecutions are underway. The level of sanctions is standard with international norms, but in practice, prison sentences being levied against terrorist financiers are low.

In 2015, Spanish police, working with Europol, dismantled a large organized Chinese money laundering network which laundered approximately \$337 million in the past six years, mostly in countries in southern Europe. The Chinese group imported counterfeit products into the EU using fake documents and sold the goods without declaring excise taxes. The group also owned several garment factories in the Madrid area where Chinese workers were allegedly exploited. The Chinese money laundering networks reportedly offered to assist other organized criminal groups launder their illicit proceeds in exchange for a percentage of the funds.

The authorities and financial institutions consider the use of large cash sums a significant risk indicator of money laundering, notably related to tax avoidance. In 2014, 39 million euros (approximately \$47.1 million) were seized in 783 interventions, and 30 million euros (approximately \$33 million) in penalties were imposed. Spanish law does not allow civil forfeiture, but it has recognized and enforced foreign non-conviction based confiscation judgments presented by other countries.

Spain continues to work toward implementing Article 43 of its AML/CFT Law that creates a "Financial Ownership File," a database that will have the date of account opening, the name of the account holder, the name of the beneficial owner, the name of the financial institution, and the branch location for all bank and securities accounts in Spain. The database is housed at the Bank of Spain, but will be under the control of the financial intelligence unit, and will be available to law enforcement. All specified financial institutions will be required by law to provide the prescribed database information at regular intervals. It should be fully operational by 2016.

A number of different types of money laundering cases have been prosecuted, including those involving third party money laundering, self-laundering, and laundering the proceeds of both domestic and foreign predicate offenses. Spain has had success in disabling criminal enterprises and organized criminal groups by identifying and shutting down their complex money laundering networks of national and international companies. However, the relatively low level of sanctions actually imposed for money laundering offenses is a weakness, as is the limited capacity to handle complex money laundering cases in the judicial system in a timely fashion. Spain should take steps to identify and license all MSBs and ensure they are adequately supervised for AML/CFT.

Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):

According to the US State Department, Spain conforms with regard to all government legislation required to combat money laundering

EU White list of Equivalent Jurisdictions

Spain is on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Spain is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016:

Spain remains an important transit point in Europe for cocaine originating in Latin America and for hashish from Morocco, especially across the strait of Gibraltar. The growth of West Africa as a transit point for South American cocaine is a serious concern to Spanish law enforcement, and there have been some recent indications of inflows of cocaine via North Africa. A shift continues away from large containerized shipments from Latin America to smaller more dispersed shipments via small-sized recreational boats. According to the Guardia Civil, enforcement actions have stemmed the flow of small aircraft used to move hashish shipments as an alternate to sea-based shipments. Spanish law enforcement efforts continued to be effective through a strong combination of border control and coastal monitoring, sophisticated geospatial technology, domestic police action, and international cooperation.

The UN's "2015 World Report on Drugs" reported that usage rates of cannabis and cocaine and demand for treatment among Spanish citizens declined modestly, although rates remain among the highest in Europe, especially among the 15-34 age group. Despite continued austerity in the national budget, funding for drug control programs has held steady. Thirty percent of assets seized in counter-drug operations continue to go towards supply reduction programs, supplementing operational budgets.

Domestic drug production is minor, although marijuana production continues a marked increase. There are a small number of labs involved in cutting, mixing, and reconstituting cocaine products. In 2014, law enforcement seizures of cocaine fell to 21.69 metric tons (MT) from 26.7 MT in 2013 and heroin seizures fell to 244 kilograms (kg) from 291 kg in 2013. However, hashish seizures increased to 380 MT from 319.3 MT in 2013, and MDMA (ecstasy) seizures jumped significantly to 554,867 tablets from 154,732 tablets in 2013.

Spain enjoyed excellent bilateral and multilateral law enforcement cooperation in 2015. Spanish cooperation on European Union (EU) operations in the Mediterranean continued, and the EU paid for the construction of an EU command and control center in Spain to oversee maritime operations. Spain is a member country of the Maritime Analysis and Operations Center-Narcotics, which coordinates international efforts to intercept vessels trafficking bulk shipments of cocaine across the Atlantic Ocean. Spain also continues to provide 22 law enforcement liaisons to three EU operational platforms: Dakar, Senegal; Accra, Ghana; and Bogota, Colombia. Additionally, Spain improved law enforcement cooperation with Latin America. U.S. law enforcement agencies maintained strong working relationships with Spanish police services, resulting in multiple significant cocaine seizures in 2015. For example, in July 2015, in a joint operation with the U.S. Drug Enforcement Administration, authorities seized approximately 1.54 MT of cocaine and approximately \$2.2 million worth of assets connected to the arrest of 13 people.

US State Dept Trafficking in Persons Report 2014 (introduction):

Spain is classified a Tier 1 country - is a country whose government fully complies with the Trafficking Victims Protection Act's (TVPA) minimum standards

Spain is a source, destination, and transit country for men, women, and children subjected to forced labor and sex trafficking. Women, primarily from Romania, Ukraine, Russia, Croatia, Bulgaria, Brazil, Colombia, Ecuador, Paraguay, Venezuela, China, and Nigeria, are subjected to sex trafficking in Spain. Victims are recruited by false promises of employment in the service industry or agriculture and are subsequently subjected to sex trafficking and debt bondage upon their arrival to Spain. Nigerian women are increasingly subjected to sex trafficking in the country through debt bondage and threats. Many women in prostitution in Spain are held under the control of organized crime networks, including Chinese, Nigerian, and Albanian trafficking networks that operate out of major cities in Spain. Some undocumented migrant men and women reportedly are forced to work in domestic service, agriculture, construction, and the service industry. Unaccompanied migrant children in Spain continue to be vulnerable to sex trafficking and forced begging.

The Government of Spain fully complies with the minimum standards for the elimination of trafficking. During the year, law enforcement and NGOs cooperated on victim identification and referral for assistance. The government prosecuted and convicted more traffickers, including forced labor cases. However, the government did not improve victim identification among vulnerable migrants and children. Services for male victims and victims of labor trafficking were lacking; specialized shelters and assistance for child victims were inadequate. No awareness campaigns aimed at forced labor were conducted.

US State Dept Terrorism Report 2015

Overview: Spain was an active partner with the United States in efforts to track and disrupt transnational terrorism in 2015. In addition, Spain continued its deep cooperation with Algeria and Morocco, with a focus on the threat posed by instability in Libya. The domestic terrorist group Basque Fatherland and Liberty (ETA) has not launched any attacks since it announced a "definitive cessation of armed activity" in October 2011, and although the group had not formally disbanded or given up its weapons arsenal, its coherence was further eroded by the arrest of more members of its vestigial leadership, often through cooperative Spain-France law enforcement efforts.

Spain has been an active member and its government an outspoken supporter of the Global Coalition to counter the Islamic State of Iraq and the Levant (ISIL) since its inception. Spain has a 300-strong military training mission in Iraq, co-located with the United States at Besmaya, south of Baghdad.

Legislation, Law Enforcement, and Border Security: The Spanish Criminal Code specifically punishes any act of collaboration with the activities or purposes of a terrorist organization. In July, an update to Spain's criminal code came into effect to improve its legal framework to more effectively counter the movement of foreign terrorist fighters from Spain to conflict zones, better pursue suspected terrorists without clear affiliation to a known criminal

organization, and curtail terrorist preparatory activities online. In terms of terrorism prosecution, Spain already boasts a mature legal framework as a result of its long fight against the indigenous terrorist group ETA.

Spain's counterterrorism capabilities, coordinated by the national Center for Counter-Terrorism and Organized Crime Intelligence (CITCO), have proven effective. The National Police and Civil Guard share responsibility for counterterrorism and cooperate well, with strong information sharing and joint threat assessments. Though still developing, Spain is working to implement its cybersecurity strategy to safeguard its critical information systems under the direction of the Cyber Defense Committee, charged with coordinating cybersecurity across the various government departments.

Spain continued to focus on improved security and the detection of false documents at its borders. Spain participated in the U.S. Immigration Advisory Program, which maintains staff at Madrid-Barajas International Airport, and allows for coordination between Customs and Border Protection and Immigration and Customs Enforcement officials, airline security personnel, and police regarding high risk passengers traveling to the United States. Spain finished implementation of an automated system to read EU passports with biometric data, and explosive trace detection equipment was also deployed at Spain's five largest airports at passenger checkpoints. Spain continued to use a network of radar stations, known as the Integrated External Surveillance System, along its maritime borders.

As a founding member of the Global Coalition to Counter ISIL, Spain has increased its already proactive efforts to identify and disband terrorist recruitment and foreign terrorist fighter facilitation networks. Spanish law enforcement generally has been proactive in pursuing terrorism-related investigations, arresting about 100 individuals suspected of terrorist recruitment or travel facilitation. Spain is an exceptionally cooperative and capable partner on efforts to apprehend, convict, and punish terrorists, working closely with the United States, and European and regional partners.

Countering the Financing of Terrorism: Spain is a member of the Financial Action Task Force (FATF). Its financial intelligence unit, the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Infractions, is a member of the Egmont Group. Spain continued to demonstrate leadership in the area of anti-money laundering and combating the financing of terrorism. Spain enacted its current law on Preventing Money Laundering and the Financing of Terrorism in 2010; the law entered into force immediately. The related regulations greatly enhance authorities' capacity to counter terrorism financing by placing greater requirements, with stiffer penalties for non-compliance, on financial institutions and other businesses, and by strengthening monitoring and oversight. The government diligently implemented relevant UN Security Council Resolutions and had the legal authority to impose autonomous designations.

Countering Violent Extremism: Spain passed a National Counter Radicalization Strategy on January 30, managed by the Ministry of Interior's CITCO. The whole-of-government effort has established a national level working group, named local level leaders, and is in the implementation phase. Spain claimed success in preventing prison radicalization, and intends to use the kind of victim-centered messaging model that helped turn public opinion against domestic terrorist group ETA in its efforts to counter violent Islamist extremism. In December, police launched a telephone hotline, email, and mobile application to receive

tips on potential radicalization. Security forces also announced the launch of a new ISIL counter-messaging campaign on police websites. With respect to rehabilitation and reintegration, most of Spain's 25 returned foreign terrorist fighters remained in detention.

International and Regional Cooperation: Since 2004, Spain has been part of the informal working group on violent Islamist extremism known as the 5 + 5. The group brings together defense ministers or their designees from five European countries (Spain, Portugal, France, Italy, and Malta) and five Maghreb countries (Mauritania, Morocco, Algeria, Tunisia, and Libya). Its mission is to exchange information and discuss the operational implications of the threat from violent Islamist extremists in the European theater, including that posed by returning foreign terrorist fighters. In July, Spain hosted a Ministerial Level Special Meeting of the UN Counter-Terrorism Committee on stemming the flow of foreign terrorist fighters. It is a founding member of the Global Counterterrorism Forum, and is also a member of the Council of Europe and the OSCE.

Spain's participation in the G-4 with Portugal, France, and Morocco also has an operational objective. The four countries freely exchange tactics and intelligence on counter-narcotics, counterterrorism and organized crime/illegal immigration. Spain continued its work with the Global Initiative to Combat Nuclear Terrorism.

Spain cites the lingering effects of its economic crisis as an impediment to further regional and international counterterrorism cooperation. All efforts are made to not reduce operational capacity according to the Ministry of the Interior, but resource constraints reduced Spain's ability to take part in international training exercises. Spain believes the EU should supplement the country in terms of counterterrorism and border issues, especially given the uniqueness of Spain's North African exclaves forming the southern border of the EU.

International Sanctions

None applicable

Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	58
World Governance Indicator – Control of Corruption	69

Corruption and Government Transparency - Report by US State Department

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.

Section 3 - Economy

Spain experienced a prolonged recession in the wake of the global financial crisis. GDP contracted by 3.7% in 2009, ending a 16-year growth trend, and continued contracting through most of 2013. Economic growth resumed in late 2013, albeit only modestly, as credit contraction in the private sector, fiscal austerity, and high unemployment continued to weigh on domestic consumption and investment. Exports, however, have been resilient throughout the economic downturn, partially offsetting declines in domestic consumption and helped to bring Spain's current account into surplus in 2013 for the first time since 1986. The unemployment rate rose from a low of about 8% in 2007 to more than 26% in 2013, straining Spain's public finances as spending on social benefits increased while tax revenues fell. Spain's budget deficit peaked at 11.4% of GDP in 2009. Spain gradually reduced the deficit to just under 7% of GDP in 2013, slightly above the 6.5% target negotiated between Spain and the EU. Public debt has increased substantially – from 60.1% of GDP in 2010 to 93.4% in 2013. Rising labor productivity, moderating labor costs, and lower inflation have helped to improve foreign investor interest in the economy and to reduce government borrowing costs. The government's ongoing efforts to implement reforms - labor, pension, health, tax, and education - are aimed at supporting investor sentiment. The government also has shored up struggling banks exposed to Spain's depressed domestic construction and real estate sectors by successfully completing an EU-funded restructuring and recapitalization program in December 2013.

Agriculture - products:

grain, vegetables, olives, wine grapes, sugar beets, citrus; beef, pork, poultry, dairy products; fish

Industries:

textiles and apparel (including footwear), food and beverages, metals and metal manufactures, chemicals, shipbuilding, automobiles, machine tools, tourism, clay and refractory products, footwear, pharmaceuticals, medical equipment

Exports - commodities:

machinery, motor vehicles; foodstuffs, pharmaceuticals, medicines, other consumer goods

Exports - partners:

France 16.8%, Germany 10.8%, Italy 7.7%, Portugal 7.1%, UK 6.5% (2012)

Imports - commodities:

machinery and equipment, fuels, chemicals, semifinished goods, foodstuffs, consumer goods, measuring and medical control instruments

Imports - partners:

Germany 11.8%, France 11.5%, Italy 6.7%, China 5.6%, Netherlands 5.4%, UK 4.1% (2012)

Banking

Spain has a diversified modern financial system fully integrated with international financial markets. The system includes credit, stock and money markets, and specific markets for derivatives (options and futures based on different assets).

The banking system is regulated by the Directorate General of Treasury and Financial Policy in the Ministry of Economy and Finance; the Directorate General of Trade and Investments in the Ministry of Industry, Tourism and Trade; and the Bank of Spain.

The EU single market in banking and insurance services has changed the Spanish legal framework. Spain has adopted EU Directives regulating the equity and solvency ratio of credit institutions, and Council Directives on banking coordination. It has also adopted EU Directives on the securities market and insurance services.

Spain's 15 years of rapid economic growth greatly benefited the banking industry. Competition in the banking market is intense. Interest rates have been low by traditional Spanish standards, and they now fluctuate according to European Central Bank actions. Spanish banks withstood reasonably well the initial phase of the economic crisis that started in 2007. However, as time passed, certain imbalances became apparent. Over the past year, regional savings banks ("cajas de ahorro") have undergone an adjustment process involving numerous mergers which saw their number fall from 45 to 17 savings banks or groups to improve efficiency through capacity reduction and transparency. This sector is still undergoing change as a result of new government requirements.

Stock Exchange

The Spanish stock market is comprised of four stock exchanges. The two major exchanges are the Madrid Stock Exchange and the Barcelona Stock Exchange. After dealing only in stock and bond issues, Spain's stock exchanges underwent a process of renovation, which brought new ways of operating and new types of financial assets.

The Spanish system of market regulation is based on a British/U.S. model. Spain has a single computerized and centralized continuous stock market in which insider trading is penalized. The National Stock Exchange Commission supervises the system and cooperates in developing its regulations.

The competitive securities market has a three-day settlement system. Trading on credit is permitted and new hedging instruments, index and warrant options are available. The government has enacted stricter and more comprehensive regulations regarding takeover bids. Other positive developments in the stock market in Spain include establishment of markets for options and futures and an unofficial second market for trading in fixed-income assets. These advances have made the Spanish securities market safer and more transparent.

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 "exequatur" 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 is 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 request 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 Báñez 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

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

civil law system with regional variations

International organization participation:

ADB (nonregional member), AfDB (nonregional member), Arctic Council (observer), Australia Group, BCIE, BIS, CAN (observer), CBSS (observer), CD, CE, CERN, EAPC, EBRD, ECB, EIB, EITI (implementing country), EMU, ESA, EU, FAO, FATF, IADB, IAEA, IBRD, ICAO, ICRM, IDA, IEA, IFAD, IFC, IFRC, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAIA (observer), MIGA, NATO, NEA, NSG, OAS (observer), OECD, OPCW, OSCE, Paris Club, PCA, Schengen Convention, SELEC (observer), SICA (observer), UN, UNCTAD, UNESCO, UNHCR, UNIDO, UNIFIL, Union Latina, UNRWA, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO, ZC

Section 6 - Tax

Exchange control

In principle, all direct investments into Spain require previous verification by the Dirección General del Tesoro y Política Financiera (DGTPF). Outward direct investments also require approval by the DGTPF.

Treaty and non-treaty withholding tax rates

Spain has signed **102 agreements (93 DTC and 9 TIEA agreements)** providing for the exchange of information.

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Albania	DTC	2 Jul 2010	4 May 2011	Unreviewed	Yes	
Algeria	DTC	7 Oct 2002	6 Jul 2005	Unreviewed	No	
Andorra	TIEA	14 Jan 2010	10 Feb 2011	Yes	Yes	
Argentina	DTC	11 Mar 2013	not yet in force	Yes	Yes	
Armenia	DTC	16 Dec 2010	21 Mar 2012	Unreviewed	Yes	
Aruba	TIEA	24 Nov 2008	27 Jan 2010	Yes	Yes	
Australia	DTC	24 Mar 1992	10 Dec 1992	Yes	No	
Austria	DTC	20 Dec 1966	1 Jan 1968	Yes	No	
Azerbaijan	TIEA	12 Nov 2009	1 Dec 2010	Unreviewed	Yes	
Bahamas, The	TIEA	11 Mar 2010	17 Aug 2011	Yes	Yes	
Barbados	DTC	1 Dec 2010	14 Oct 2011	Yes	Yes	
Belarus	DTC	1 Mar 1985	7 Aug 1986	Unreviewed	No	
Belgium	DTC	14 Jun 1995	25 Jun 2003	Yes	No	
Belgium	DTC Protocol	2 Dec 2009	not yet in force	Yes	Yes	
Bolivia	DTC	30 Jun 1997	23 Nov 1998	Unreviewed	No	
Bonaire, Saint Eustatius and Saba	TIEA	10 Jun 2008	27 Jan 2010	Unreviewed	Yes	
Bosnia and Herzegovina	DTC	5 Feb 2008	4 Jan 2011	Unreviewed	Yes	
Brazil	DTC	14 Nov 1974	3 Dec 1975	Yes	No	
Bulgaria	DTC	6 Mar 1990	14 Jun 1991	Unreviewed	No	
Canada	DTC	23 Nov 1976	26 Dec 1980	Yes	No	
Chile	DTC	7 Jul 2003	23 Dec 2003	Yes	No	
China	DTC	22 Nov 1990	20 May 1992	Yes	No	
Colombia	DTC	31 Mar 2005	23 Oct 2008	Unreviewed	Yes	
Costa Rica	DTC	4 May 2004	15 Dec 2010	Yes	No	
Croatia	DTC	19 May 2005	20 Apr 2006	Unreviewed	Yes	
Cuba	DTC	3 Feb 1999	31 Dec 2000	Unreviewed	No	
Curaçao	TIEA	10 Jun 2008	27 Jan 2010	Yes	Yes	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Cyprus	DTC	14 Feb 2013	not yet in force	Yes	Yes	
Cyprus	EEC directive	1 Jan 2003	1 Jan 2004	Yes	No	
Czech Republic	DTC	8 May 1980	5 Jun 1981	Yes	No	
Denmark	TIEA	12 Nov 2009	1 Dec 2010	Yes	No	
Dominican Republic	DTC	16 Nov 2011	not yet in force	Unreviewed	Yes	
Ecuador	DTC	20 May 1991	19 Apr 1993	Unreviewed	No	
Egypt	DTC	10 Jun 2005	28 May 2006	Unreviewed	No	
El Salvador	DTC	7 Jul 2008	13 Aug 2009	Unreviewed	Yes	
Estonia	DTC	3 Sep 2003	28 Dec 2004	Yes	No	
Finland	DTC	15 Nov 1967	30 Oct 1968	Yes	No	
Former Yugoslav Republic of Macedonia	DTC	20 Jun 2005	1 Dec 2005	Yes	No	
France	DTC	10 Oct 1995	1 Jul 1997	Yes	No	
Georgia	DTC	7 Jun 2010	1 Jul 2011	Unreviewed	Yes	
Germany	DTC	3 Feb 2011	18 Oct 2012	Yes	Yes	
Greece	DTC	4 Dec 2000	21 Aug 2002	Yes	No	
Hong Kong, China	DTC	1 Apr 2011	13 Apr 2012	Yes	Yes	
Hungary	DTC	9 Jul 1984	20 May 1987	Yes	No	
Iceland	DTC	22 Jan 2002	2 Aug 2002	Yes	No	
India	DTC	8 Feb 1993	12 Jan 1995	Yes	No	
India	DTC Protocol	26 Oct 2012	not yet in force	Yes	Yes	
Indonesia	DTC	30 May 1995	20 Dec 1999	Yes	No	
Iran	DTC	19 Jul 2003	30 Jan 2006	Unreviewed	No	
Ireland	DTC	10 Feb 1994	21 Nov 1994	Yes	No	
Israel	DTC	30 Nov 1999	20 Nov 2000	Yes	No	
Italy	DTC	8 Sep 1977	14 Nov 1980	Yes	No	
Jamaica	DTC	8 Jul 2008	16 May 2009	Yes	Yes	
Japan	DTC	13 Feb 1974	20 Nov 1974	Yes	No	
Kazakhstan	DTC	7 Feb 2009	18 Aug 2011	Unreviewed	Yes	
Korea, Republic of	DTC	17 Jan 1994	21 Nov 1994	Yes	No	
Kuwait	DTC	26 May 2008	19 Jul 2013	Unreviewed	Yes	
Kyrgyzstan	DTC	1 Mar 1985	7 Aug 1986	Unreviewed	No	
Latvia	DTC	4 Sep 2003	14 Dec 2004	Unreviewed	No	
Lithuania	DTC	22 Jul 2003	26 Dec 2003	Yes	No	
Luxembourg	DTC	3 Jun 1986	19 May 1987	Yes	Yes	
Malaysia	DTC	24 May 2006	28 Dec 2007	No	No	
Malta	DTC	8 Nov 2005	12 Sep 2006	Yes	Yes	
Mexico	DTC	24 Jul 1992	6 Oct 1994	Yes	No	
Moldova, Republic of	DTC	8 Oct 2007	30 Mar 2009	Unreviewed	Yes	
Morocco	DTC	10 Jul 1978	16 May 1985	No	No	
Netherlands	DTC	16 Jun 1971	20 Sep 1972	Yes	No	
New Zealand	DTC	28 Jul 2005	31 Jul 2006	Yes	No	
Nigeria	DTC	23 Jun 2009	not yet in force	Yes	Yes	

Jurisdiction	Type of EOI Arrangement	Date Signed	Date entered into Force	Meets standard	Contains paras 4 and 5	
Norway	DTC	6 Oct 1999	18 Dec 2000	Yes	No	
Pakistan	DTC	1 Jan 2010	not yet in force	Unreviewed	Yes	
Panama	DTC	7 Oct 2010	25 Jul 2011	Yes	Yes	
Peru	DTC	6 Apr 2006	not yet in force	Unreviewed	Yes	
Philippines	DTC	14 Mar 1989	12 Sep 1994	Yes	No	
Poland	DTC	15 Nov 1979	6 May 1982	Yes	No	
Portugal	DTC	26 Oct 1993	28 Jun 1995	Yes	No	
Romania	DTC	24 May 1979	28 Jun 1980	Unreviewed	No	
Russian Federation	DTC	16 Dec 1998	13 Jun 2000	Yes	No	
San Marino	TIEA	6 Sep 2010	2 Aug 2011	Yes	Yes	
Saudi Arabia	DTC	19 Jun 2007	1 Oct 2009	Yes	Yes	
Senegal	DTC	5 Dec 2006	not yet in force	Unreviewed	Yes	
Serbia	DTC	9 Mar 2009	28 Mar 2010	Unreviewed	Yes	
Singapore	DTC	13 Apr 2011	2 Feb 2012	Yes	Yes	
Sint Maarten	TIEA	10 Jun 2008	27 Jan 2010	Yes	Yes	
Slovakia	DTC	8 May 1980	5 Jun 1981	Yes	No	
Slovenia	DTC	23 May 2001	19 Mar 2002	Yes	No	
South Africa	DTC	23 Jun 2006	28 Dec 2007	Yes	No	
Sweden	DTC	16 Jun 1976	21 Dec 1976	Yes	No	
Switzerland	DTC	26 Apr 1966	2 Feb 1967	Yes	Yes	
Tajikistan	DTC	1 Mar 1985	7 Aug 1986	Unreviewed	No	
Thailand	DTC	14 Oct 1997	16 Sep 1998	Unreviewed	No	
Timor-Leste	DTC	30 May 1995	20 Dec 1999	Unreviewed	No	
Trinidad and Tobago	DTC	9 Mar 2009	28 Dec 2009	No	Yes	
Tunisia	DTC	2 Jul 1982	14 Feb 1987	Unreviewed	No	
Turkey	DTC	5 Jul 2002	18 Dec 2003	Yes	No	
Turkmenistan	DTC	1 Mar 1985	7 Aug 1986	Unreviewed	No	
Ukraine	DTC	1 Mar 1985	7 Aug 1986	Unreviewed	No	
United Arab Emirates	DTC	4 Feb 2006	2 Apr 2007	Yes	Yes	
United Kingdom	DTC	21 Oct 1975	25 Nov 1976	Yes	No	
United Kingdom	DTC	14 Mar 2013	not yet in force	Yes	Yes	
United States	DTC	22 Feb 1990	21 Nov 1990	Yes	No	
United States	DTC Protocol	14 Jan 2013	not yet in force	Yes	Yes	
Uruguay	DTC	10 Sep 2009	24 Apr 2011	Yes	Yes	
Uzbekistan	DTC	8 Jul 2013	not yet in force	Unreviewed	Yes	
Venezuela	DTC	4 Aug 2003	29 Apr 2004	Unreviewed	No	
Viet nam	DTC	3 Jul 2005	22 Dec 2005	Unreviewed	No	

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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Any questions or queries should be addressed to: -

Gary Youinou

Via our [Contact Page](#) at KnowYourCountry.com