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Attorneys at Law

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IN THIS ISSUE

Legal

TAX SAVING OPPORTUNITIES FOR FOREIGN COMPANIES

13 MILLION TO SPEED UP PORTUGUESE JUSTICE

Business

ECONOMY GROWS IN THE 2ND QUARTER OF 2005

PORTUGAL HAS LOWEST LABOUR COSTS OF THE 15

30 MILLION INVESTMENT IN PORTUGUESE EXPORT TRADE DEVELOPMENT

FORMULA 1 CIRCUIT IN THE ALGARVE IS UNDERWAY

STAPLES PREPARES ITS ENTRY IN SPAIN THROUGH PORTUGAL

INTERNATIONAL TENDER FOR MEAL PROVISION IN PORTUGUESE PRISONS

Legal

TAX SAVING OPPORTUNITIES FOR FOREIGN COMPANIES

The Double Taxation Agreement signed between Portugal and several countries such as Austria, Germany, Finland, Switzerland or the United Kingdom foresees a *tax sparing credit* clause which may be interesting for financial operations or intra-group operations.

Under this clause a credit may be conceded in the State of residence with regard to the tax that would have been paid in Portugal, had it not been for tax incentives.

As an example, should a German company enter into a loan agreement with a company that operates in the Madeira Free Trade Zone (which regime may represent an effective income tax rate of 0%), capital interests due by this later are exempt from taxation. Therefore not only the German company may receive the capital interest without taxation but also may use the amount payable (15 %) as a credit against German tax.

13 MILLION TO SPEED UP PORTUGUESE JUSTICE

“Elimination and Simplification of Acts and Court Procedures Project” is one of the most emblematic projects of Portuguese Government for the area of Justice.

Bureaucracy and slowness are known to be the major problems of Portuguese Justice, and this project, announced this summer by the Portuguese Prime-Minister, foresees an investment of €13 Million in technological means, and intends to improve Notarial and Registration services, by making them simpler and faster, namely by replacing manual files by digital files.

Business

ECONOMY GROWS IN THE 2ND QUARTER OF 2005

The Portuguese Statistics Institute announced in September that the wealth produced in Portugal has grown in comparison to last year.

Engineering and Finance are the main sectors where the growth has been more visible, although the building sector has slightly decreased production. In general Portuguese Economy registered a growth rate of 0,5% in the second quarter of 2005.

PORTUGAL HAS LOWEST LABOUR COSTS OF THE 15

The German Economy Institute has announced this month that Portugal keeps the lowest labour costs of the original 15 EU Member States, just €7,21 per hour. Next in the list is Greece, with labour costs per hour of approximately €10,42. Neighbouring Spain is third in the list with a labour cost per hour that more than doubles the Portuguese labour costs.

Since the tendency of foreign companies is to dislocate their branches to the new members of the EU, having in mind lower labour costs, it appears that Portugal may be the only former EU 15 member that may invert this tendency.

30 MILLION INVESTMENT IN PORTUGUESE EXPORT TRADE DEVELOPMENT

ICEP will be creating within October a project in order to increase the Portuguese export trade around 6,5 % for the next year and up to 8% until 2007.

The investment associated with the project is estimated in a total sum of €30 Million, and aims to create new markets and new products for the Portuguese trade, namely in countries such as Spain, China, Japan, Russia, Brazil and United States of America.

FORMULA 1 CIRCUIT IN THE ALGARVE IS UNDERWAY

October brings the approval of the first Project of Potential National Interest (PIN), under a new and speedier investment procedure established by the Portuguese Government together with the Invest in Portugal Agency last June.

This project comprises the construction of a racing circuit with the ability to host F1 and Moto GP events and also a resort with 160 villas and a 200-bedroom hotel in Portimão, Algarve.

The investment involved is of approximately €140 Million and is currently waiting for publication of its approval in the Official Journal (Diário da República).

STAPLES PREPARES ITS ENTRY IN SPAIN THROUGH PORTUGAL

The American company "Staples Inc.", world-leading seller of office products, wants to enter the Spanish market through Portugal. The company, established in Portugal since 1996, foresees a €120 Million sales profit this year, more 20% than last year. The good performance of Portuguese branches may be one of the reasons for Staples to try its entry in Spain through Portugal.

However, since the Company is still studying Spanish market conditions, the entry is not to be made this year, but the chosen method of entrance through Portugal is being thought by Staples motherhouse for the entrance in all new European markets.

INTERNATIONAL TENDER FOR MEAL PROVISION IN PORTUGUESE PRISONS

The Council of Ministers has approved the call for an international tender for the provision of meals during 2006 to inmates that are imprisoned in various Portuguese Prisons, namely those of Braga, Covilhã, Évora, Lamego, Monção, Viana do Castelo, Castelo Branco, Caxias, Coimbra, Funchal, Santarém and Vale de Judeus.

Within this context, the Council of Ministers also approved the renewal of the existing contracts for provision of meals during 2006 in various other prisons across the country and the allocation of €16 479 639,81 for that purpose.

This Newsletter is designed to provide a summary of the subject matter. It does not purport to be comprehensive or a substitute for specialist legal advice in individual circumstances.

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