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# Business Opportunities Portugal back on track

## Government measures are tough, but long-needed

THINK ABOUT PORTUGAL in terms of investment and a *fado* might be the first thing crossing anyone's mind. Think again. The days of pessimistic sentiment amongst consumers and investors, derived from the reigning political instability and economic stagnation of the last three years, are over. The shock therapy administered by Prime Minister José Socrates and his government might look painful, but they have been vital for a country whose GDP per capita has been progressively pushed down to the lowest among Euro members.

When Mr. Socrates took office in March 2005, he lost no time in fulfilling his mandate to carry out long-delayed economic reform. With an overall parliamentary majority, and no elections due until 2009, this pragmatic socialist was faced with the daunting challenge of turning the economy around by consolidating public finances and enhancing growth.

The country is unlikely to reap any immediate rewards from such tough measures that have already resulted in a hike in VAT from 19% to 21%. Measures aimed at

reducing the privileges of state employees and bringing them into line with the private sector led to a series of strikes: the retirement age has been raised from 60 to 65, pensions cutback, sick pay reduced and wages frozen. That said, surveys show broad support for Mr. Socrates's reformist prescription that in his own words, will "transform Portugal from fatalism to a country of opportunities".

### Silent co-operation sweetens reforms

Mr. Socrates's ability to implement difficult and unpopular measures has been partially facilitated by the institutional support provided by the President of the Republic Aníbal Cavaco Silva, who took office this February. "Cavaco Silva - a former center-right prime minister - declared his commitment to "strategically co-operate" with Socrates's government in order to bring back "hope, confidence and a sense of future" to the Portuguese people.

Rather than debating policies, Cavaco Silva has opted for an effective "manage-



José Sócrates,  
Portugal's Prime  
Minister

ment of silence", supporting Socrates in their common goal of improving the competitiveness of the Portuguese economy.

"Tough times still lie ahead", Mr. Socrates recently declared

in a public appearance. Nevertheless, the progress achieved in the first 18 months of his tenure might prove that his formula is effective after all. For the first time in 3 years, the consumer confidence indicator showed a positive outlook in the first quarter of 2006. The silent co-operation of the Presidency may have sweetened to some degree the bitterness of painful reforms too. What is undeniable is that the government is now facing a unique opportunity to put the Portuguese economy back on track. So far it seems that the job is being done. ■



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# It's not just about numbers

## Economic reactivation might be more evident than statistics indicate

TAKEN AT A GLANCE, Portugal's macroeconomic picture is still a gloomy one. Economic stagnancy still persisted last year, and government forecasts indicate that growth in 2006 will be around 0.6%, rising to 1.4% in 2007. Inflation averaged 2.3% in 2005, and is likely to average out at 2.5% for 2006.

Moreover, if foreign investment is the answer to growth, there is little comfort from last year's UNCTAD report, which ranked Portugal 81st in terms of its ability to attract FDI, its potential being 36<sup>th</sup>.

The government is aware that progress seems sluggish but is confident that the adopted measures will help to adjusting public finances as well as creating the necessary conditions for sustainable growth. "No one is a priority relative to the other. We must achieve both," emphasizes Minister of Economy and Innovation Manuel Pinho. A tight fiscal policy to tackle an unsustainably high public deficit estimated at 6.1% in 2005 aims at reducing it to 2.8% by 2008. Likewise, a simplification in the tax corporate system has already contributed to enlarging the taxpayer base in the first quarter of 2006, which enabled the government to collect €20 million more than the same period in 2005.

Meanwhile, the PNACE, a master plan coordinated with the EU, has been introduced to oversee reform and stimulate growth. Aware that economic stimulation requires the leadership of the private sector,



Minister of Economy & Innovation, Manuel Pinho

the government has engineered a package of measures aimed at optimizing the business climate. In a country where not long ago registering a company took as many as 30 days, the SIMPLEX program includes a swathe of measures to cut through red tape, including a new service to register a company on-line under an hour (currently the fastest in Europe). In the meantime, over 500 companies have applied for funding from the 142 million-euro PRIME, a program of incentives for setting up businesses.

Although OECD's forecast for the Portuguese economy released in April this year appears rather pessimistic, there is no question that the bold measures adopted indicate that Portugal is on the right path to reactivating the economy and meet average EU growth rates. Indeed, export growth has been revised upwards, predicting an increase of 8% in real terms while unemployment has declined by 2%. "We have well-defined strategies and results will arrive

in the near future," says Minister Pinho, pointing out that "policy matters."

At the same time, a resolution by the Council of Ministers last February set the parameters for an ambitious privatization program, which aims at raising €2.4 billion over the next two years through the sale of its stakes in eight companies. The first sell-off, scheduled for October this year, will entail the state's 26-percent stake in Galp Energia, the national oil and gas utility, as a response to the government's objective of liberalizing the energy sector. Rede Eléctrica Nacional, the national grid operator, is expected to float a share of its capital no later than the end of 2006. Similarly, Portucel, one of the leading pulp and paper manufacturers in Europe and one of the top ten most profitable companies registered on the Lisbon Stock Exchange will be privatized this year too. The state is planning to sell its 25.7% stake, which in the words of Portucel's CEO Pedro Queiroz Pereira, "will further enhance its attractiveness for investors as a company with private management." ■



Portucel's profits increased 24% in 2005

## Here's the plan... **Determined to modernize Portugal**

"The basis for change in Portugal is knowledge, technology, and innovation," asserted Prime Minister Sócrates last year when unveiling his brainchild Technological Plan. Its goal: to boost Portugal's long-term competitiveness by preparing all sectors of the country for the challenges of the information society. With only 11% of the population having a university degree (the EU average is 21.8%), a strong focus has been placed on education through facilitating access to higher studies.

The Plan also envisages a leading role for the private sector as a catalyst for improving productivity and ultimately spurring the economy. "It is strongly focused on companies, since they are the incubators of innovation," explains Minister Pinho, a statement backed by the government's commitment to double public sector spending on R&D to 1% of GDP. Initiatives such as the recently launched FINITIA- a scheme to provide venture capital to universities around the country in support of innova-

tion development- are a reflection of the efforts aimed at overcoming the country's scientific and technological gap. Meanwhile, the entrepreneurial fabric has witnessed a remarkable push, as it adapts to the new demands of the global economy, from PRIME, a program for the modernization of the economy launched at the beginning of 2006.

In his visit to Lisbon last February, Bill Gates presented 18 initiatives as he pledged Microsoft's support for the implementation of the Technological Plan. The training of 1 million nationals over the next 5 years (under the Digital Literacy Plan) and the instruction of the Judiciary Police in fighting cyber-crime are among the schemes considered.

Likewise, an agreement with the Massachusetts Institute of Technology which contemplates scientific partnerships in fields such as automobiles, renewable energy and aeronautics was finally reached in July this year. ■

# Resolving the energy paradox

## Renewables could reduce dependence on energy imports

PORTUGAL FACES A PARADOX: the government sees the energy sector as one of the key catalysts for economic reactivation; however, the country is only able to meet 17% of its energy needs from domestic sources, which renders it the second most dependent country on oil imports in the EU. "Our paradox is that 60% of our energy generation directly depends on oil prices" is the succinct assessment of Dr. José Penedos, executive president of Rede Eléctrica Nacional (REN), the national power grid operator.

In order to resolve the paradox, the government had necessarily to liberalize the energy sector by adapting the corporate structures of the energy utilities. Mr. Pinho's approach has been to enhance competition in the energy market by creating two rival energy utilities that would secure energy supply in competitive terms, both at domestic and international levels. To this aim, Energias de Portugal (EDP) was partially pri-

vated last year and the IPO for Galp Energia (GALP) is scheduled for October this year. José Gonçalves, CEO of GALP, sees the IPO "crucial to implementing our strategic plan aimed at increasing production and expanding internationally." The investment of €1 billion in a conversion refinery in Sines -recently declared Project of National Interest- will enable GALP to increase production to 100,000 barrels per day while further improving their profits under currently soaring oil prices. Despite heavy invest-

**The paradox we are facing must be solved by betting on renewables.**  
Dr. Penedos.



Dr. José Penedos,  
executive president  
of REN

ments in exploration and production, which have yet to yield returns, GALP managed to post record profits of €442 million in 2005, a 33% increase over 2004 results.

Likewise, the unbundling of gas storage and transportation activities, now in the hands of REN, finally concluded last June. This was a pre-requisite before moving ahead with the respective privatizations of GALP and REN. In return, REN will give up its 18.3-percent stake in GALP before the launch of the oil company's IPO this October.

As far as REN's privatization is con-

## Winds of change in energy efficiency

"Portugal is rich in energy", asserts Carlos Pimenta, President of SIF Energias Portugal. Considering that, if compared to the EU average, Portugal uses twice the amount of energy to produce one unit of GDP and that it depends on imported energy to meet 85% of its energy demand, Mr. Pimenta might appear rather wrong. However, he is right. "Firstly, Portugal is rich in terms of the energy it wastes", he clarifies. "As much as 60% of our energy is wasted due to poor infrastructure". Most importantly, Portugal's climate creates a huge potential for economic competitiveness through the development of renewables, so far largely untapped. "Portugal embarked late on renewable energies, despite being a remarkably rich country in wind, sun, water and biomass", explains Mr. Pimenta. Austria, a

country which enjoys significantly less hours of sun per year than Portugal, constructs an average of 40,000 new houses with solar panels each year. Paradoxically, Portugal's annual average is only 2000-2500 houses.

Fortunately, the situation is changing in Portugal. The government has just issued licenses for the first 1,800 MW of wind power capacity, the target being 5,100 MW by 2010. With an overall capacity of 240MW, the wind power farm Alto Minho I, owned by the Consortium VentoMinho Energias Renováveis (VER), represents the most ambitious project in renewable energy currently being implemented in Portugal. The VER Consortium, owned by Empreendimentos Eólicos do Vale do Minho -a partnership between SIF and EOL Verde- will be making the largest private

investment ever in the region of the Minho Valley, amounting to €340 million. The four municipalities involved in the project (Paredes de Coura, Valença, Monção e Melgaço) also participate in the Consortium in proportion to the capacity installed in their respective districts, which will contribute significantly to the sustainability of the region.

With an annual gross production estimated at 667GWh, the region will become a net exporter of electricity to the country, while contributing to save 466 thousand tons of CO2 emissions yearly. The project, which consists of 5 sub-farms spread throughout the four municipalities, will begin construction in October 2006 and completion is expected in August 2007. In addition to its environmental friendliness, "Alto Minho I will pose a noteworthy source of temporary employment in the phase of construction as well as qualified job positions during the stage of exploration", highlights Mr. Pimenta. ■

cerned, Dr. Penedos recently declared that the operator "is prepared to go into the market as soon as the government decides to". The state, which holds 70% of the capital, is likely to give the green light to the IPO by the end of 2006. With record profits of € 110,7 million in 2005, a 61% increase over 2004, Dr. Penedos is confident that the share flotation of REN will be a success since "grids provide significantly solid investment refuges for institutional and pension funds as well as stakeholders".

Simultaneously, in a country with no natural base to generate energy, the approach to energy had to be urgently re-considered, to which the government responded with the National Energy Strategy. "The National Energy Strategy aims at significantly increasing the weight of renewable energies", Minister Pinho unveiled last October, particularly that of wind power where the installed capacity target has been set at 5,100 MW by 2010. "I believe the paradox we are facing must be solved by a jump forward, and that jump forward is to bet on



Since January 2006, GALP increased its value in €1.2 billion.

renewables", Dr. Penedos says emphatically. In order to reduce energy dependence, domestic production capacity needs to be increased and the necessary funds invested in order to tap renewable sources. To this purpose, the government has recently launched a tender to license the first 1,800 MW for which Portuguese and international consortiums are competing in response to

the government's efforts "to promote competition among all domestic and foreign investors, rather than generating protections", Minister Pinho concludes.

Dr. Penedos believes wind-generated electricity can be competitive "as wind farms in some regions of Europe are now reaching the break-even point". His major concern is the quality of supply and he emphasises the need for Portugal to invest in Fault-Ride-Through technology. From his position as president of the 33-nation Union for the Coordination of the Transmission of Electricity (UCTE), Dr. Penedos highlights the need to invest in mechanisms to control the feeding of wind energy into the European grid.

Inter-regional co-operation between close neighbours and their respective markets appears to be crucial to relatively small markets like Portugal. In this regard, Portugal's bid to create national energy groups able to match Spain's is more vital than ever following the initial step taken this summer towards the launch of the integrated Iberian electricity market, MIBEL. ■

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# The X factor

## Economic reactivation relies on export competitiveness

GROWTH IN PORTUGUESE exports has been improving since the second half of 2005, as businesses struggle to improve competitiveness against Asia and Eastern Europe. Growth for the first quarter of this year was 7.9%, at just over €33 million. "It is good to see that at last, Portuguese companies have understood that exports need to be the basis of their business," says Mr. João Marques da Cruz, CEO of ICEP-the Portuguese Agency for Economic Promotion.

In order to help small and medium sized companies succeed abroad, venture capital will be allocated within the framework of *Portugal a Exportar Mais*, a program that ambitions to increase export volume by

6.7% in 2006 and over 8% in 2007. Priority will be placed on those projects that perform best in terms of innovation, consistency, diversification, target markets, and differentiation and position in the value chain. Nevertheless, Mr. Marques da Cruz highlights that for the Portuguese economy to achieve a satisfactory degree of internationalization "FDI, Portuguese investment abroad and competitive exports" are proving to be crucial. A supporting force of Portuguese exports, ICEP's priorities are to strengthen its intervention in the distribution channels abroad as well as to enhance the penetration of Portuguese exports in new markets.

Meanwhile, certain sectorial clusters such as the machinery industry pose remarkable showcases of export competitiveness, accounting for €11 billion in net hard currency earnings (out of a total of €42 billion in 2005).

Likewise, Portugal's reputed highly skilled workforce has attracted important players in the automotive and telecommunications industries, where they have managed top levels of productivity among its respective global subsidiaries. Showcases requiring a high technological level such as VW, Renault, Siemens or Microsoft together with more than 7,600 ICT companies in Portugal dispel any perception of Portugal

## Restructuring and location give Lisnave a competitive edge

The competitive and entrepreneurial best practices strongly encouraged by the new Portuguese government already exist in a number of key areas of industry. One of the best examples is ship-maintenance and repair firm Lisnave, with almost 70 years of experience.

Taking advantage of Portugal's strategic position on the Atlantic seaboard, Lisnave has established a global reputation among shipping lines and operators for the quality of its facilities, equipment, and expertise. In the process, it has become a key export earner for Portugal, reporting an operating profit for 2005 of €9.7 million, and a net cash flow of €9.2 million. "Quality and timely deliverance of our services are the crucial factors for our position: time is one of the most important things for our clients," explains CEO Frederico J. Spranger. Likewise, the geographical shift of oil-gas suppliers from the Persian Gulf to the Atlantic Rim has significantly increased bulk transportation traffic in the region, further reinforcing Lisnave's competitive-



Mr. Spranger bets on the new generation to sustain Lisnave's excellence.

ness. Moreover, recent restructuring helped lower Lisnave's break-even point by 30%, a "decisive factor" according to Mr. Spranger, which "not only maintained competitiveness but increased it during the last four to five years."

Lisnave has always seen itself as an exporter, with 98% of its business transacted with overseas companies but the company is fast to highlight the high added-value of its services for Portugal. Although steel is imported "many of our suppliers are from Portugal so Lisnave adds 90% to 95% to the national added value. In other words, everything Lisnave produces stays in our own country," says Mr. Spranger.

With offices in 17 locations around the world, Lisnave is a 24/7 operation, with clients operating out of London, New York, Hong Kong and Singapore. The company has just spent €60 million on refurbishing its main yard, 50 kilometers from Lisbon.

In a company with some 3000 employees, training for the future is also a priority if leadership is to be preserved. The company is presently investing €6 million in a program to create what Mr. Spranger calls "a new generation of employees." The increasing competition from countries with lower labor costs requires an increase in multi-disciplinary skills that match the ever more demanding safety regulations. After the disasters of *Erika* and *Prestige*, international organizations such as the European Maritime Safety Agency are appealing to international operators to enhance preventive maintenance that help avoid such environmental catastrophes. In this regard, Mr. Spranger not only sees preventive maintenance a "growth opportunity" but also "an ethical approach of the shipping activities overall". ■

as an outdated economy - and evidence proves this point. IT is arguably one of the niche markets that best exemplifies the new innovative Portugal- Chipidea, Critical Software, Altitude, Number Five, Siscog are just some examples of Portuguese companies that hold a prominent position in the IT global domain.



Marques da Cruz wants more Portuguese exports with higher technological base.

*Portugal a Exportar Mais* intends to further reinforce such a prominence by supporting product diversification and promoting a higher technological base such as medicine and biotechnology.



Currently, most of Portuguese exports are concentrated in the EU market, which represents € 29 billion yearly. Nevertheless, consumers around the world buy increasingly more goods and services which are designed, produced and commercialized by Portuguese companies. These exports have grown by more than 20% in the open market, constituted by more than 170 extra-EU countries.

In many sectors, Portuguese exports go hand-in-hand with the international expansion of its companies, both in commercial and industrial terms. However, Mr. Marques da Cruz reiterates the need "to develop the skills and qualifications required to win in the global economy by focusing on professional training and innovation". By investing in the development of other economies, these companies reinforce the competitiveness of Portuguese products in international markets.

As the most veteran player in global trade, Portugal has swiftly changed the profile of its products and services to adapt to the markets. Today it strives to strengthen its position as an internationally orientated nation open to the world, a friendly and reliable partner with a singular ability for inter-cultural relations. ■

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# Final destination: Portugal

## Residential tourism offers huge potential for growth

Around 24 million overseas visitors spent their holidays in Portugal last year, boosting foreign earnings by € 6.4 billion, contributing 11% to GDP, and providing employment to around 10% of the workforce. Tourism's importance to the Portuguese economy has been highlighted in recent years, as it has been the only sector of the economy to show healthy growth, registering an increase of 7.1% in the first quarter of this year.



Luis Patrão,  
President of ITP

With some of Europe's finest beaches, as

well as an average of 220 days sunshine a year, 40% of visitors head for the country's southern Algarve coast. But a new plan unveiled by the Portugal Tourism Institute (ITP) in January aims at attracting visitors to other less popular regions as well as promoting other types of tourism, in the process increasing visitor numbers to up to 44 million a year within a decade.

The Strategic Plan for Tourism to 2015 includes a series of specific measures to accelerate the growth of the tourism industry, further increase its contribution to GDP and create more skilled jobs in the sector.

To do so, it has identified a number of key destinations and products as the most important areas of potential growth for the country's tourism industry over the next ten years.

Luis Patrão identifies as priority regions

for development two coastal areas north and south of Lisbon, the Alqueva dam; which has created Europe's biggest artificial lake close to the Spanish frontier in southern Portugal; the Serra da Estrela mountains; the Oporto region; the Douro valley; and the beaches of Porto Santo, a small island close to Madeira.

In terms of products, the ITP wants to further develop golf, food and wine, residential tourism, weekend and city breaks, the MICE market, spas and wellness, and rural holidays.

Having witnessed how golf enhanced Spain's ability to attract visitors all-year round, Portugal is now profiling itself as a golf destination too. The country has more than 40 courses: more are on the way. This year, the International Association of Golf Tour Operators voted the Algarve as top golf destination for the second year running.



## ALTO MINHO I

### Wind Farm (240 MW)

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Approved for a total investment of 340 M€, the "Alto Minho I" Wind Farm consists of 5 sub-wind farms connected through a 60kV internal grid to a 150/60kV substation.

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Location:

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## Residential tourism

Mr. Patrão says that as the country's standard of living improves, so the country's appeal as a second home and retirement location will increase.

"We have a serious competitive edge to many other European destinations when it comes to residential tourism," explains Mr. Patrão. "This country is safe, enjoys excellent all-year round temperatures," he adds.

Like its neighbor Spain, which has also relied for too long on the low-cost sun and sea tourist, Portugal will increasingly focus on upgrading its tourism facilities, and try to attract higher spenders looking for more upscale facilities. In this regard, Economy Minister Manuel Pinho says the tourism plan will consolidate traditional tourist zones like the Algarve, as well as Lisbon and Madeira, but that licenses will only be granted to high-quality developments.

"This approach has been successful in the Algarve, and we want to replicate it in other regions," says Mr. Patrão. The vast lake



at Alqueva showcases this strategy. "For this area, there will only be four and five star hotels, and they will have golf courses and offer water sports. This offers tremendous potential for investors, and there has already been considerable interest," he notes.

At the other end of the country lies the Douro region, home to Portugal's second city of Oporto: the perfect blend of culture and gastronomy. "In my opinion, this is a very special place that is comparable to the Loire Valley," says Mr. Patrão.

Mr. Pinho also recognizes that red tape and sluggish bureaucracy has put many investors off but points to new legislation to

## Facts & Figures: Portugal at a glance.

**Government type:** Parliamentary republic

**Capital:** Lisbon

**Language:** Portuguese

**Currency:** Euro

**Area:** 92,118 sq. km

**Population (inhab. as of 2005):** 10,569,000

**Demographic density (inhab./sq. km as of 2005):** 114.7

**Head of State:** President of the Republic, Aníbal Cavaco Silva (elected January 2006 for 5-year term)

**Executive branch:** Council of Ministers, headed

by PM José Sócrates (elected February 2005 for 4-year term)

Portugal is a member of EU since 1986 and founding member of NATO.



### The Figures

	2006 (forecast)	2007 (forecast)
GDP (€ bn)	147.9	155.5
Real GDP growth	0.6	1.4
CPI (% change annually)	2.5	1.9
Industrial production growth (%)	0.9	1.3
General government balance (% of GDP)	-5.0	-3.6
Unemployment rate (% seasonally adj. average)	8.0	7.7
Exports of goods fob (US\$ bn)	42.8	46.7
Imports of goods fob (US\$ bn)	62.6	65.9
Current account balance (% of GDP)	-7.9	-6.8

Sources: EIU, INEP, ICEP



facilitate setting up a business in Portugal, and which is already being applied. "There is a strong interest from both domestic and foreign investors and we hope that the new anti-bureaucracy policy will facilitate this development process," he explains.

## Joining forces with Spain

As with the rest of Europe, Portugal has seen visitor numbers from the United States

fall since 9/11. In response, the ITP has teamed up with the Spanish tourism authorities to offer US travellers an Iberian package.

As Mr. Patrão explains, Americans tend to visit between four and five countries when travelling to Europe. "Spain and Portugal need to make a greater effort to attract American tourists by presenting our strengths. Being close to Spain is a great opportunity for us due to its market size." ■

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