# Portugal - Country Profile

aicep Portugal Global

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# 1. History

The battle of São Mamede which occurred in 1128, between the royalty of Portucale led by Dom Afonso Henriques and the Gallician nobles led by his mother Dona Teresa, was decisive for the birth of Portugal. Once the battle was won and Dona Teresa was expelled from the Condado Portucalense, Dom Afonso Henriques declared the principality independent. Various skirmishes continued against León and Castile and against the Muslims, but it was not until the Battle of Ourique, in 1139, that Portugal's independence was declared and Dom Afonso Henriques, with the help of Portuguese chiefs, was proclaimed sovereign - Dom Afonso I of Portugal. However, the independence of Portugal would only be recognized by the King of Castile in 1143 with the signing of the Treaty of Zamora.

There followed a long period of conquests and a number of treaties were signed between Portugal and the Kingdom of Castile and, in 1297, during the reign of Dom Dinis, the actual frontiers of Portugal were defined (the oldest in Europe).

The fourteenth century saw the appearance of the first bright lights of the Golden Age of Portugal. Its language began to develop apart from the Gallic-Portuguese, the Court became distinguished with intellectual brilliance on a European scale and the University was founded.

The fifteenth century marked the beginning of the Discoveries, during which Portugal witnesses a period of great expansion across the oceans. The archipelagos of Madeira (1419) and the Azores (1425) were officially discovered and a few cities in the Kingdom of Morocco were conquered. Among the numerous personalities involved with this period the following stand out: Diogo Cão, for the discovery of the African coast, Bartolomeu Dias, who in 1488 sailed around the Cape of Good Hope and opened the route to the discovery of India by Vasco da Gama (1498) and, lastly, Pedro Álvares Cabral who discovered Brazil in 1500.

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Padrão dos Descobrimentos (Monument to the Discoveries)

The dream of a new Brazil (this time in Africa, linking Angola and Mozambique through regularly travelled territories that were never settled) was hindered by English imperial ambitions, stirring up forces for a change in political regime. Thus, at the beginning of the twentieth century the First Republic was established in Portugal (1910).

Due to the financial crisis that swept Europe after World War I and to domestic political instability, in 1926 a military coup put an end to the parliamentary regime of the First Republic. In 1933, the regime in power gave way to the Estado Novo, or New State, which ruled the country until 1974.

On 25 April 1974 the Armed Forces Movement cast out the existing political regime that ruled Portugal, replacing it with a democratic regime. With democracy came economic and social development, flourishing cultural and scientific activity and the affirmation of innovation in Portugal.

With the end of the imperial era (with the liberation, in the mid 1970s, of Angola, Cape Verde, Guinea Bissau, Mozambique, and São Tomé and Príncipe), Portugal became a member of the European Economic Community in 1986 and later joined the Euro Area, but without severing the strong links existing with the other seven Portuguese-speaking countries (which led to the creation of the Community of Portuguese Speaking Countries, or CPLP, Comunidade dos Países de Língua Portuguesa) and with the Portuguese communities scattered throughout the world.

Currently, Portugal is a country that enjoys social and political stability that asserts itself more and more due to its ability to engage in dialogue and to understand diversity based on its culture and style of life resulting from centuries of living side by side with other peoples.

## 2. Culture

Portuguese culture is based on a past marked by the peoples that occupied its territory, of which several outstanding examples remain: the temple of Diana in Évora from the Roman period and the Moorish architecture so typical of cities in the South of Portugal, such as Olhão and Tavira.

Portuguese art was enriched by various foreign influences during the centuries. The Portuguese discoveries around the world led to the country becoming more receptive to oriental influences, as well as the period of the fifteenth century when the discovery of Brazil and its riches influenced the development of the Baroque style.

In architecture, Roman and Gothic influences gave the country some of its most imposing cathedrals. In the fifteenth century a completely national style was born – the Manueline style – that expressed the blending together of various art forms into a luxurious and ornamental style.

Various examples of great architectural works can be cited: the Jeronimos Monastery in Lisbon; the Sé (cathedral) of Lisbon, where traces of Roman construction are still visible on the facade; the Palace of Justice in Lisbon, an example of austere modern architecture; the Castle and Church of the Convent of Christ in Tomar; the Portuguese Abbey of Santa Maria da Vitória (in the Gothic style); the Clérigos Tower, in granite, in Oporto, and the Romanesque Cathedral of Braga.

In many monuments one can observe in stone our relationship with the sea. Such can be seen in contemporary Portuguese architecture where names like Álvaro Siza Vieira or Eduardo Souto de Moura stand out, particularly in the Park of Nations, the site of the last world's fair of the twentieth century which was dedicated to the theme of the oceans.



Pavilhão de Portugal (Pavilion of Portugal) – Parque das Nações (Park of Nations)

The splendour of sculpture was expressed in the magnificent twelfth and thirteenth century tombs and in the Baroque sculptures of the eighteenth century, the crèches of Joaquim Machado de Castro truly stand out. The classic and romantic traditions of Italy and France, besides influencing the works of Machado de Castro, were also determining factors in the plastic arts expression of António Soares dos Reis, in the nineteenth century.

The school of painters of the fifteenth century was the precursor of a patrician style of painting of Flemish painters, who left an eminent heritage in religious art by decorating various palaces and convents in Portugal. The romantic period of the nineteenth century, although late, led to the rebirth of national art. There followed a period of natural realism that opened doors to new experiences that followed in the twentieth century; worth noting are the works of Maria Helena Vieira da Silva in abstract painting and of Carlos Botelho in Lisbon street scenes.

The ceramic tile sector is equally very rich. Many sixteenth and seventeenth century buildings are covered in tiles. They were also chosen to decorate the walls of rooms and entrance halls of various palaces and stately mansions where there are panels of tiles, with blue and white colours predominating.

Exceptionally good examples can be seen in the Pátio of Carranca, in the Paço of Sintra, in the Church of São Roque in Lisbon and in the Quinta da Bacalhoa, in Vila Fresca de Azeitão, near Setúbal. Even the Lisbon subway/ underground authority decorated some of its stations with tiles signed by contemporary Portuguese artists.

Literature stands out through the richness and variety of its lyric poetry, through writings exalting history and for subtlety in drama, biographies and essays. The first songbooks, known as "cancioneiros" are witness to a school of poetry based on love, a style that crossed the border and influenced Spanish "cancioneiros". The romantic style absorbed the influence of our neighbours, although without preference for the heroic.

The Lusíadas of Luís de Camões is the great epic work of the sixteenth century; it is the classic poem that exalts the exploits of the Portuguese beyond the sea.

There exist other well known names in poetry as, for example, Fernando Pessoa, Eugénio de Andrade, Florbela Espanca, Cesário Verde, António Ramos Rosa, Mário Cesariny and Antero do Quental, among others.

As for prose, there are Damião de Góis, Father António Vieira, Almeida Garrett, Eça de Queiroz, Camilo Castelo Branco, Miguel Torga, Fernando Namora, José Cardoso Pires, António Lobo Antunes and José Saramago (winner of the Nobel Prize for literature in 1998).

In the theatre, the outstanding figures are Gil Vicente, António José da Silva (known as "the Jew") and Bernardo Santareno.

Popular music and dance and the traditional fado continue to be fundamental forms of musical expression of the country. The most famous fadista in the world was Amália Rodrigues, but today names like Carlos do Carmo or Marisa keep alive this type of song long associated with Portugal.


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Centro Cultural de Belém (Lisbon)

Lastly, speaking of Portuguese culture is tantamount to the ability to spread the language. Portuguese is the fifth most spoken language in the world and the third most spoken in the West; more than 210 million people speak the language.

It is the official language of Angola, Brazil, Cape Verde, Guinea-Bissau, Mozambique, and São Tomé and Príncipe. It is also one of the official languages of Equatorial Guinea (together with Spanish and French), East Timor (with Tétum) and Macao (with Cantonese). It is even spoken in former Portuguese India (Goa, Damão and Diu), Andorra, Luxembourg and Namíbia, in addition to having official status in the European Union, Mercosul and the African Union.

# 3. Geography and Socio-Economic Characteristics

## 3.1 Geography, climate

Portugal is geographically situated on the west coast of Europe, in the Iberian Peninsula. It borders Spain on the north and east, and the Atlantic Ocean on the west and south. Its frontiers were defined as long ago as the thirteenth century and include, in addition to the continental territory, the Autonomous Regions of the Azores and Madeira, archipelagos situated in the Atlantic Ocean.

With a total area of 92,090 km$^2$, Portugal benefits from an excellent geographical location, being situated in a geo-strategical position between Europe, America and Africa.


On the continental territory, the Tagus (the longest river) divides the more mountainous north from the south with its plains and lower elevations. Even the coastal areas, generally of lower altitude, are distinct from the highlands of the interior. The highest altitudes are located in a mountain chain situated in the centre of the country: the Serra da Estrela, at 1,991 meters in altitude, is the highest point. In the archipelagos, the mountain of Pico (2,351 meters) is the highest point in the Azores and the Pico Ruivo (1,862 meters) is the top elevation in Madeira.

On the generally not so indented continental coastline, the main deltas are estuaries (Tagus and Sado). Then there are small bays (Peniche, Sines, Lagos) and lagoon-type formations (Vouga-Aveiro, Óbidos, Faro). The capes of the coastline are few in number and small in size, but of great beauty: these are the capes of Mondego, Carvoeiro, Roca, Espichel, Sines, São Vicente, and Santa Maria.

The climate is characterized by mild winters and balmy summers. The rainiest months are November and December, while the period with the least precipitation occurs between April and September.

## 3.2 Socio-economic indicators

In the last ten years a series of extensive reforms were adopted which had a significant impact on the level of economic development and social cohesion (protection and social inclusion) in Portugal.

The fight against extreme poverty, minimum pensions, the Social Inclusion Income Law, and the Solidarity Supplement for the Elderly Regulation, were paradigm measures in social protection. As for measures relating to social inclusion, the highlight is the assistance to families through care centres, investment in equipment, including a network of continuing care for the elderly and dependent persons, and local intervention to combat poverty and exclusion, taking into account local requirements and the people most in need of assistance.

## Socio-economic indicators

| Demography | | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| Total population (resident) | Thousands | 10,445 | 10,529 | 10,563 | 10,586 | 10,604 |
| Birth rate | Per Thousand | 10.8 | 10.4 | 10.4 | 10.0 | 9.7 |
| | | 2001-2003 | 2002-2004 | 2003-2005 | 2004-2006 | 2005-2007 |
| Life expectancy at birth | Years | 77.0 | 77.4 | 77.7 | 78.2 | 78.5 |
| **Education** | | **2003** | **2004** | **2005** | **2006** | **2007** |
| Preschool [a] | Thousands | 248 | 254 | 260 | 262 | 264 |
| Elementary and secondary [a] | Thousands | 1,560 | 1,548 | 1,530 | 1,492 | 1,512 |
| Higher education [a] | Thousands | 401 | 395 | 381 | 367 | 378 |
| Public spending on education [b] | % of GDP | 5.4 | 5.9 | 7.6 | 7.1 | 4.4 |
| **Culture** | | **2003** | **2004** | **2005** | **2006** | **2007** |
| Museum visitors | Millions | 8.9 | 9.0 | 9.7 | 10.3 | 10.0 |
| Art gallery exhibitions | Nº | 5,880 | 6,130 | 6,449 | 6,463 | 6,609 |
| Publications [c] | Nº | 1,929 | 1,929 | 2,052 | 2,054 | 1,994 |
| Local government spending on cultural activities | $10^6$ EUR | 776.9 | 648.2 | 913.8 | 802.9 | 802.8 |
| **Health** | | **2003** | **2004** | **2005** | **2006** | **2007** |
| Doctors | Nº | 34,440 | 35,213 | 36,138 | 36,924 | 37,904 |
| Hospitals | Nº | 204 | 209 | 204 | 200 | 198 |
| Hospital beds | Nº | 38,117 | 38,239 | 37,330 | 36,563 | 36,178 |
| Health centres | Nº | 393 | 376 | 379 | 378 | 377 |
| Pharmacies and mobile pharmacy points | Nº | 2,986 | 3,012 | 3,034 | 3,037 | 3,038 |
| Current public spending on health [b] | % of GDP | 6.7 | 6.8 | 6.9 | 6.8 | 6.6 |
| **Information Society** | | **2003** | **2004** | **2005** | **2006** | **2007** |
| Internet subscribers | Thousands | 904 | 1,224 | 1,436 | 1,580 | 1,612 |
| Access to Internet service | Rate of Penetration | 8.6 | 11.6 | 13.6 | 14.9 | 15.2 |
| Main telephone lines | Rate of Penetration/ 100 Inhab. | 40.9 | 40.3 | 40.1 | 39.9 | 39.5 |
| Mobil telephone service subscribers | Subscribers (thousands) | 10,003 | 10,571 | 11,447 | 12,226 | 13,451 |
| Penetration rate – land line service | Subscribers/ 100 Inhab. | 95,0 | 100,0 | 108,0 | 115,0 | 127,0 |
| Cable television subscribers | Thousands | 1,335 | 1,343 | 1,400 | 1,421 | 1,490 |
| Penetration rate of cable network | Subscribers/ % Population | 13.0 | 13.0 | 13.0 | 13.0 | 14.0 |
| Share of the communications sector | Receipts/ % of GDP | 5.7 | 5.7 | 5.6 | 5.3 | 5.1 |

Sources: INE - Instituto Nacional de Estatística; Autoridade Nacional de Comunicações

Notes: (a) Ministério da Educação (GEPE) and Ministério da Ciência, Tecnologia e Ensino Superior

(b) Calculations based on data from the Ministério das Finanças

(c) Daily, weekly, monthly, and annual frequency

# 4. Political and Administrative Organization

## 4.1 Political structure

As concerns the political structure, the Portuguese Republic is a nation founded on democratic law, based on popular suffrage, pluralism of expression and democratic political organization, respect and the guarantee of fundamental rights and liberties, and on the separation and independence of powers.

The sovereign bodies are the President of the Republic, the Assembly of the Republic, the Government, and the Courts.

In the Portuguese constitutional system, the President of the Republic is elected by direct and universal suffrage in a secret ballot, and his mandate is five years. (Re-election for a third consecutive term is not permitted.) The President of the Republic is the supreme representative of the Portuguese Republic, he guarantees national independence, the unity of the State and the normal functioning of the democratic institutions, and is, in effect, the Supreme Commander of the Armed forces.

Among his sovereign powers, the most important are the dissolution of the National Assembly, the nomination of the Prime Minister and the other members of the cabinet, the promulgation of laws and decree laws, the naming of ambassadors upon government proposal, and the ratification of international treaties. The current President of the Republic is Aníbal Cavaco Silva, elected on 22 January 2006.

Legislative powers are vested in the Assembly of the Republic which is comprised of 230 deputies, elected by direct universal suffrage for a term of four years. The next elections are due to take place in the second half of 2009.

The Assembly of the Republic has responsibilities at the political, legislative and fiscal levels. Among some of its duties are to approve constitutional changes, approve the political-administrative statutes of the Autonomous Regions, approve the State Budget, make proposals to the President of the Republic concerning whether to hold referenda, evaluate the programs of the Government, deal with tax matters and evaluate activities of the Government and the Administration.

The Assembly of the Republic can be dissolved by the President of the Republic following a hearing with the parties represented in the Assembly as well as the Council of State. The current President of the Assembly of the Republic is Jaime Gama and the distribution of the party seats is as follows: Socialist Party (PS) – 121 deputies; Social-Democratic Party (PPD/PSD) – 75 deputies; Portuguese Communist Party, Ecologist Party and the Greens (PCP/PEV) – 14 deputies; Popular Party (CDS/PP) – 12 deputies; and the Left Bloc (BE) – 8 deputies.

The Government is the principal body in the Public Administration and is responsible for setting general policy for the country. It is composed of the Prime Minister, the Cabinet and the Secretaries and Under-Secretaries of State. The Prime Minister, who presides over the Council of Ministers (Cabinet) meetings, is nominated by the President of the Republic. The other members of the Government are nominated by the President of the Republic upon the proposal of the Prime Minister. The current Prime Minister is José Sócrates who began his term on 12 March 2005.

In essence, it is up to the Government to guarantee the operation of the public administration, to promote the satisfaction of collective needs and guarantee the proper execution of laws. It also has legislative competencies that in some cases are its own and in other cases the function is shared with the Assembly of the Republic (relative competence).

The Courts are the sovereign bodies charged with the jurisdiction of administering justice in the name of the people. The Courts are independent and are only subject to the law.

The Constitutional Court has the specific duty to administer justice in judicial-constitutional matters. It is composed of 13 judges, of which 10 are designated by the Assembly of the Republic and three co-opted by them. The judges, who elect the President of the Constitutional Court, have a nine-year mandate that cannot be renewed.

Besides the Constitutional Court, there are also the following types of courts:

a) The Supreme Court of Justice and the judicial courts of first and second instance
b) The Supreme Administrative Court and the other administrative and fiscal courts
c) The Court of Auditors

There could also exist Maritime Courts, Courts of Arbitration and Justice of the Peace Courts.

## 4.2 Administrative organization

Following accession to the European Community, for statistical purposes, the territory of Portugal was classified according to the Nomenclature of Territorial Units (commonly known as the NUT system from the French acronym), to establish similar designations that allow comparisons with other countries within the European Union. Portugal is designated NUT I, divided into 7 NUT II units equivalent to "regions" – North Region; Centre Region; Lisbon Region; Alentejo Region; Algarve Region; the Autonomous Region of Madeira; and the Autonomous Region of the Azores. They in turn are divided into 30 NUT III units equivalent to "sub-regions" (28 on the Continent and the two Autonomous Regions).

The Alentejo and the Centre share among themselves the largest territories in the country, with 34% and 31% of the total, respectively, the Autonomous Region of Madeira comprises the smallest area.

### Regions (NUT II) determined by areas

| Regions | Areas (km²) | % of total |
|---|---|---|
| Alentejo | 31,551 | 34.3 |
| Centre | 28,200 | 30.6 |
| North | 21,285 | 23.1 |
| Algarve | 4,996 | 5.4 |
| Lisbon | 2,935 | 3.2 |
| Azores | 2,322 | 2.5 |
| Madeira | 801 | 0.9 |
| Total (a) | 92,090 | 100.0 |

Source: INE; Instituto Geográfico Português
Note: (a) Includes 362 km² of interior waterways

### Sub-Regions NUT III
### Regions of the Continent

| | |
|---|---|
| **North** | Minho-Lima |
| | Cavado |
| | Ave |
| | Greater Porto |
| | Tâmega |
| | Entre Douro e Vouga |
| | Douro |
| | Alto Trás-os-Montes |
| **Centre** | Baixo Vouga |
| | Baixo Mondego |
| | Pinhal Litoral |
| | Pinhal Interior Norte |
| | Dão-Lafões |
| | Pinhal Interior Sul |
| | Serra da Estrela |
| | Beira Interior Norte |
| | Beira Interior Sul |
| | Cova da Beira |
| | Oeste |
| | Médio Tejo |
| **Lisbon** | Greater Lisbon |
| | Península of Setúbal |
| **Alentejo** | Alentejo Litoral |
| | Alto Alentejo |
| | Alentejo Central |
| | Baixo Alentejo |
| | Lezíria do Tejo |
| **Algarve** | Algarve |

### Autonomous Regions

| | |
|---|---|
| **A. R. Azores** | A. R. Azores |
| **A. R. Madeira** | A. R. Madeira |

Source: INE – Instituto Nacional de Estatística
Note: This division of regions and their subdivisions is based on the NUTS system (Nomenclature of Territorial Units for Statistics).

According to the NUTS statistical classification, Portugal is divided into 18 Districts on the Continent and they are the following: Aveiro, Beja, Braga, Bragança, Castelo Branco, Coimbra, Évora, Faro, Guarda, Leiria, Lisboa, Portalegre, Oporto, Santarém, Setúbal, Viana do Castelo, Vila Real, and Viseu. The Districts and the Autonomous Regions are subdivided into 308 Councils/Municipalities and 4,257 towns.

The new juridical regime of municipal association[1] determined the organization of municipal associations which can be classified into two types: for multiple ends or for specific purposes.

The municipal associations with multiple purposes, denominated intermunicipal communities (CIM), are comprised of municipalities that correspond to one or more NUTS III and take those names.

Municipal associations with specific purposes were created to achieve those common goals of the municipalities that comprise them, in the defense of collective rights of a sectoral, regional or local nature.

### Major cities

It is worth highlighting the importance of cities, both in terms of geography and politics. There are now 151 cities on the Continent, of which 19 are "District Capitals." Among the oldest Portuguese cities are Lisbon, Oporto, Viseu, Braga, Coimbra, Évora, Guarda, Lamego, Silves, Faro, Lagos, and Tavira, with pre-Portucalian origins that are repositories of an urban history that is of Roman or Arab origin or sometimes both, as in the case of the cities in the South and even Lisbon.

The city of Lisbon (population of about 650,000 – 2.8 million in Greater Lisbon) is the capital of Portugal since the twelfth century, the largest city in the country, the main economic hub, and has the second largest maritime port and the largest airport. The city of Oporto (about 260,000 inhabitants – 1.1 million in Greater Oporto) is the second largest city.

1 Law nº 45/2008 of 27 August

## 5. Population

During the first few years of the twenty-first century, Portugal remained a country with low fertility, a continuing rise in life expectancy and with a declining net migration balance. In 2007, it registered a negative natural balance, a situation that had only occured once before in 1918, and attributable to the deadly Spanish influenza. The rhythm of population growth is very slow, with immigration flows remaining the only element of growth while population ageing continues. The reduction in the number of marriages, the sharp rise in births arising from cohabitation, a rising divorce rate, and the higher average marriage age represent today's new family models in our country.

According to the results of the 2001 census, Portugal had at the time 10.3 million inhabitants. This outcome was 5.1% higher than 10 years previously and significantly higher than had been estimated. The estimates[2] made after the census and revealed in May 2008 by the National Statistics Institute (INE) point to an increase of only 0.17% in the resident population of Portugal in the year 2007 compared with the year before which was due entirely to an increase in immigration (+0.18%), given that the natural population change registered a decline of 0.01% due to the combined effect of the increase in the number of deaths (+1.5%) and the decline in the number of live births (-2.8%).

Furthermore, the trend toward demographic ageing continued due to the decline in fertility and an increase in longevity.

Between 2002 and 2007 the proportion of youth (0-14 years) declined from 15.8% to 15.3%; the share of the active population (15-64) also fell, dropping from 67.5% to 67.2% while the proportion of the elderly population (65 years or older) rose from 16.7% to 17.4% (114 individuals for each 100 persons under 15 years of age).

2 Provisional estimates until a new census is taken, based on definitive results of the 2001 Census reported at 31 December 2007.

## Resident population of Portugal 2000-2007 Trends

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|
| Population on 31 December | 10,256,658 | 10,329,340 | 10,407,465 | 10,474,685 | 10,529,255 | 10,569,592 | 10,599,095 | 10,617,575 |
| Male ratio (%) | 93.3 | 93.4 | 93.4 | 93.7 | 93.7 | 93.8 | 93.8 | 93.8 |
| Total live births | 120,008 | 112,774 | 114,383 | 112,515 | 109,262 | 109,399 | 105,351 | 102,492 |
| Total deaths | 105,364 | 105,092 | 106,258 | 108,795 | 101,932 | 107,462 | 101,948 | 103,512 |
| Net natural increase | 14,644 | 7,682 | 8,125 | 3,720 | 7,330 | 1,937 | 3,403 | –1,020 |
| Migration balance | 47,000 | 65,000 | 70,000 | 63,500 | 47,240 | 38,400 | 26,100 | 19,500 |
| Population change | 61,644 | 72,682 | 78,125 | 67,220 | 54,570 | 40,337 | 29,503 | 18,480 |
| Natural growth (%) | 0.14 | 0.07 | 0.08 | 0.04 | 0.07 | 0.02 | 0.03 | –0.01 |
| Migratory growth (%) | 0.46 | 0.63 | 0.68 | 0.61 | 0.45 | 0.36 | 0.25 | 0.18 |
| Actual growth (%) | 0.60 | 0.71 | 0.75 | 0.64 | 0.52 | 0.38 | 0.28 | 0.17 |

Source: Instituto Nacional de Estatística – Provisional estimates of the resident population, 2007.

The overall data concerning 2008 indicate a population growth of 0.2%, implying an estimated resident population for Portugal of 10,623 thousand inhabitants.

According to the same source, using a baseline projection scenario for the resident population for the 2000-2050 period, assuming the trends currently observed will continue, then Portugal will lose close to 12% of its population between 2010 and 2050.

## 5.1 Regional breakdown

More than three-fifths of the Portuguese population is concentrated in the North Region (which includes the city of Oporto) and the Lisbon Region. The population decline in the rural areas of the interior have continued to affect part of the North Region (excluding Oporto), the Centre and above all, the Alentejo.

### Regional breakdown

| Regions[a] | Population[b] | % of total | Density (inhab./km²) |
|---|---|---|---|
| North | 3,745,236 | 35.27 | 176 |
| Lisbon | 2,808,414 | 26.45 | 957 |
| Centre | 2,385,911 | 22.47 | 85 |
| Alentejo | 760,933 | 7.17 | 24 |
| Algarve | 426,386 | 4.02 | 85 |
| Madeira | 246,689 | 2.32 | 308 |
| Azores | 244,006 | 2.30 | 105 |
| **Total[a]** | **10,617,575** | **100.0** | **115** |

Source: INE – Instituto Nacional de Estatística
Notes: (a) Regions based on NUTS (Nomenclature of Territorial Units for Statistics);
(b) 2007 estimates

Population growth has been greater around the coastal areas of the Algarve, reaching 15.8% in the decade of the 1990s, probably reflecting an increase in the number of pensioners who have chosen to retire in this tourist region.

As a result, the population distribution around the territory of the continent shows a contrast between the coast and the interior of the country.

Similar to what was being observed throughout the country, in 2007 population growth was positive, except in the Centre region where there was zero growth due to the fact that migratory growth was not sufficient to compensate for the natural change which was negative, and in the Alentejo where there was an actual decline in the resident population. The Algarve is the region with the highest effective population growth in 2007, sustained by a very high rate of migration growth.

In analyzing the demographic density of the Portuguese population according to the various regions of the country, Lisbon is the clear leader. In second place is Madeira with about 1/3 the population density of the first. The greatest gap seems to lie in the North Region which, apart from having, in relative terms, the largest resident population, shows a population density about 5½ times lower than that of Lisbon. Then follow the Autonomous Region of the Azores, the Centre Region, the Algarve (the latter two are roughly the same), and finally the Alentejo, with the lowest ratio of inhabitants/km$^2$.

In the coastal stretch between Viana do Castelo and Setúbal, one can spot two areas with particularly high densities, centered around the cities of Lisbon and Oporto. In fact, the 13 cities with the highest number of inhabitants per km$^2$ are part of the Greater Metropolitan Areas: in Lisbon - Amadora, Lisbon, Odivelas, Oeiras, Barreiro, Almada, Cascais, and Seixal; in Oporto - Oporto, São João da Madeira, Matosinhos, Vila Nova de Gaia, Valongo, and Maia. This phenomenon also extends to other metropolitan areas, including most of the towns in the Algarve. On the other hand, a group of towns formed by Cinfães, Baião, Lamego, Resende, Mesão-Frio, Peso da Régua, Santa Marta de Penaguião, Tabuaço, Funchal, Coimbra, Castanheira de Pêra, and Nazaré, experienced a decline in their resident population.

## 5.2 Migrations

The contribution of migration to the dynamics of population growth depends on the interpretation, the inherent characteristics and its duration. Since 1993, net migration has been the primary source of Portugal's population growth.

Portugal experienced inflows of immigrants from its former colonies in Africa, from Central and Eastern Europe, and more recently from Brazil, but there were also small groups of immigrants that originated from India, China and Pakistan, as well as from some other countries of Latin America and the northern part of Africa.

Economic immigration is a recent phenomenon and represents a radical change compared with what took place in the 1960s and 1970s when many Portuguese used to emigrate in search of a better life. About 4.5 million Portuguese live outside the country, a figure that is equivalent to nearly half of the domestic resident population. Very large communities of expatriates exist in Brazil, France, Germany, Switzerland, Luxembourg, Canada, and South Africa, among other countries.

Until the 1990s, most of the immigrants to Portugal came from Portuguese speaking countries, especially Cape Verde and Angola. Beginning in 1999, Portugal began to receive a different and massive kind of immigration coming from the Eastern European countries, divided into two groups: the Slavs – Ukrainians, Russians and Bulgarians; and the Latin people from the east – Romanians and Moldavians.

In 2003, this type of immigration fell, having been substituted by Brazilians and, to a lesser extent, by Asians of various origins (namely Indians, Pakistanis and Chinese).

In 2007, there lived in Portugal 401,612 citizens of foreign nationality with legal residency status, of which nearly 41.9% were of European origin (due maily to persons from

Eastern Europe), surpassing the number of nationals from African countries (34.4%).

The foreign population is much younger than the native population and comprises mostly members of the active labour force. Classified by gender, the men are the larger component, being the mostly lilkely to emigrate while their family members follow later and then they tend to provide a more balanced situation.

Concerning Portuguese emigration, at first there was a big movement to Brazil that occurred at the beginning of the past century that lasted until the 1920s, followed by a trend towards Europe that occurred during the period of the colonial wars in the 1960s. Both were for periods of long duration. Starting at about the end of the 1980s, there have been emigration flows that have a more temporary nature and which continue today.

## 5.3 Active population

Immigration now is helping to sustain the population in the labour force, whose rate of growth has not been able to compensate for the ageing of the population and the increase in life expectancy (74 years for men and 80.6 years for women, according to the OECD), a factor which is affecting not only Portugal, but the vast majority of Western European countries.

At the end of 2008, the active population was 5,624.9 thousands, while the employed population stood at 5,197.8 thousands. The activity rate (active population as a percentage of total population) was 53% and between the active population (15 years or older) the activity rate was 62.5%.

In terms of the short/medium term, the distribution of population employed by sectors of activity is relatively stable. There has been a movement going on for the past 25 or 30 years towards a greater number of people finding employment in the services sector (59% of the total in 2008), a trend that also has been observed in our other European partners.

### Trends in population employed by sector of activity

| | 1986 | 2006 | 2007 | 2008 |
|---|---|---|---|---|
| | (%) | | | |
| Agriculture, forestry and fishing | 21.9 | 11.7 | 11.6 | 11.5 |
| Industry, construction, energy & water | 33.7 | 30.6 | 30.5 | 29.3 |
| Services | 44.3 | 57.7 | 57.9 | 59.3 |

Source: INE – Instituto Nacional de Estatística

## 5.4 Schooling levels of the active population

Within the framework of the demands of the new global economy, the qualification of persons in the labour force is a major factor affecting competitiveness, economic growth, employment, and possible salary improvement.

Portugal shows some not so positive indicators as to the education and skill level of its active population that have been the focus of public policy regarding human resources.

With the objective of making secondary education the basic minimum standard for Portuguese youth and adults and thus contributing, in the medium term, to increase the country's competitiveness and boost employment and salaries, the New Opportunities Program (Programa Novas Oportunidades) was launched, based on two fundamental points: to allow the qualification of a million persons in the active population by 2010, and expand the number of qualifying professional courses at the secondary level in order that they represent, within the same time frame, half of the total offers at the secondary level.

The participation of the adult population in this initiative has been very high. Since 2007 and up to 31 August 2008, more than 447,000 candidates had enrolled, of which 92,351 obtained a primary school certification (4,021 obtained secondary certification).

The impact of the New Opportunities Initiative is already evident from the following indicators: the rise in the number of matriculated students in the different levels of instruction, implying an increase of almost 21,000 students in the system, particularly towards the professional courses at the secondary level; the increase in the number of students who enter higher education; a reduction in the failure and dropout rates in elementary and secondary education (at the elementary level that rate fell from 11.5% in 2004-2005 to 10% in 2006-2007; and in secondary education, for the same years, the rate declined from 31.9% to 24.6%); a reduction in the rate for early leavers (in 2007 in was 36.3% compared with 38.6% in 2005); an increase in the percent of youth between the ages of 20 and 24 who at least complete secondary education from 49% in 2005 to 53.4% in 2007.

Currently, 73% of the public secondary schools offer professional courses, which is within reach of the goal defined for 2010, namely 100%. In 2007-2008, more than 120,000 students were matriculated, with more than 29,000 registered as studying professional courses. Also at the secondary level of education, there were about 120,764 students matriculated in courses leading to a double certification, with the expectation that in 2008-2009 the number of students would exceed 140,000.

In so far as Technological Specialization Courses (Cursos de Especialização Tecnológica or CET) are concerned, more than 257 new courses were created in the higher education institutes, with more than 60% in the technology area and more than 75% are operational in public polytechnic institutes. The number of graduates in 2007 reached 878, whereas the year before they had been only 233.

The expansion of the New Opportunities Centres network contributed in a major way to the significant in crease in enrollment. There are throughout the country 269 New Opportunities Centres, supported by public and private entities, namely schools in the public network of the Ministry of Education.

# 6. Infrastructures

With the assistance of European Community Funds during the past several years, Portugal was able to make a strong investment effort to improve transport infrastructure and that has resulted in modern networks of motorways, railways, airports, and maritime ports.

Although maritime transport continues to be the major mode of transport in Portugal’s foreign trade, railway transport has assumed a growing importance, especially in connection with European markets. With the completion of the high speed railway (TGV) project, this transport mode will become yet another alternative for the rapid movement of merchandise.

## 6.1 Roadway network

Portugal today has one of the most developed roadway systems in Europe, including highways (Auto-estradas, AE). Portugal has one of the largest AE networks in the EU 15, both as to km per inhabitant as well as for area, most of which were built in the last 10 years, with a length currently reaching 2,860 km and with one of the most advanced electronic toll systems in the world; Main Trunk Roads (Itinerários Principais, IP), Secondary Roads (Itinerários Complementares, IC); National Roads (Estradas Nacionais, EN); and Municipal Roads (Estradas Municipais), which account for 22,000 km of paved roadways.

In the 1990s there was a significant development of roadway infrastructure in Portugal and one factor contributing to this development was the event of the Lisbon World’s Fair in 1998. This major project acted as a catalyst for the construction of major public works, such as the second bridge over the Tagus River – the Vasco da Gama Bridge – and the railway line that was built on the existing 25th of April Bridge, establishing for the first time, a continuous railway link between the northern and southern parts of the country. These infrastructures contributed in a significant way to improve north-south traffic and create new access routes in various parts of the

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Vasco da Gama bridge – Tagus River

capital, mostly in the eastern part of the city of Lisbon. With the launch of the plan which covers 10 new roadway concessions, the network will expand by about 50% (1,316 km of new roads, 612 km of which will be designated AE).

## 6.2 Railway network

The biggest challenge in this area is to strengthen the integration of the national railway system with the Iberian and European network, in order to assure the same operating system as the European and trans-European railway transport. One of the key projects in the government's infrastructure program is the construction of a high speed line linking Oporto, Lisbon and Madrid and three other Spanish cities, to facilitate not only access to our neighbouring country but primarily to the rest of Europe.

The existing railway network is 3,600 km, of which 2,839 km with railway traffic, which serves a population of approximately 8.5 million inhabitants and assures North-South links along the coastal strip of the Portuguese continent as well as transversal links. The railway network density tends to be greater in regions where there are greater concentrations of population.

On the horizon for 2015 various projects are planned, including the construction of 12 new conventional train lines, for passengers and freight, which represent a total investment of around 1.1% of the country's GDP.

According to INE, the volume of goods transported in 2007 was close to 10 thousand tons. In analyzing the regional contributions of goods transported, Lisbon and the Alentejo (basically due to cargo shipments entering into the Port of Sines), were the regions of origin that registered the highest volume of goods transported (more tha seven million tons), and these accounted for 73% of total volume. Lisbon and the North are the major destination regions, having received in total more than 66% of total merchandise shipped by other regions.

©José Manuel

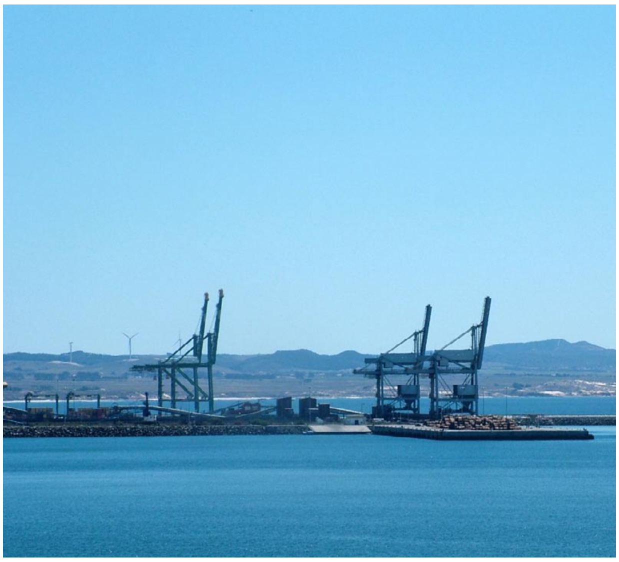
Gare do Oriente (East station) – Parque das Nações (Park of Nations)

## 6.3 Ports

The geographical position of Portugal, with an extensive Atlantic coastline, offers excellent conditions to promote and develop maritime connections.

On the continent there are nine ports: Viana do Castelo and Leixões, in the North Region; Aveiro and Figueira da Foz, in the Centre; Lisbon and Setúbal, in the region of Greater Lisbon; Sines, in the Alentejo; Faro and Portimão, in the Algarve. The Autonomous Region of the Azores has five ports and the Autonomous Region of Madeira has three.

The principal function of the port infrastructure is the transportation of goods, with the major ports being Sines (accounting for 40% of the total in 2008), Leixões (25%) and Lisbon (20%). In the ports of Lisbon, Sines and Funchal there is passenger traffic but very little such activity in Oporto and Leixões.





Port of Sines – Alentejo

The five main Portuguese ports Sines, Lisbon, Setúbal, Aveiro and Leixões moved 63.3 million tons of freight in 2008, rwegistering a slight decline of 1.9% from 2007.

The deep water port of Sines, the national leader when it comes to the quantity of goods moved, boasts unique natural conditions along the Portuguese coast to handle all types of ships. Endowed with modern terminals it has unequalled characteristics, being on the one hand the principal gateway for the country's energy supply (petroleum derivatives, coal and natural gas), and on the other an important cargo container port with strong growth potential. This port uses the latest generation technology platforms, named "Sole Port Window" ("Janela Única Portuária") that allows the rapid dispatch of ships and goods, that links all the participants involved both public and private, permitting economic agents to interact with all the necessary authorities and all port services through a single electronic platform.

In 2008 GALP Energia was granted a concession of the Liquid Graneis Terminal and the integrated management of residues, the Terminal XXI began utilizing the "Lion Service"[3] and work to enlarge and lengthen its pier to allow cargo capacity up to 800,000 TEUs.

This port, with its industrial zone and advanced logistics, with more than 2,000 hectares is already a multifaceted logistics platform on an international scale (maritime-port, industrial and logistical), that will count on full integration with the urban national platform of Poceirão and with the cross-border platform of Elvas/Caia.

## 6.4 Airports

Portugal's air transport system includes a network of 14 airports. On the continent there are three international airports, all situated on the coastal border, with a new international airport on the drawing board for Lisbon, on the southern edge of the city, in the Alcochete zone.

3 New regular direct service Far East/Sines, resulting from the agreement between MSC, Mediterranean Shipping Company and PSA/Sines. With weekly frequency, it will use 8 Ultra-Large Container Vessels, with an average capacity of between 8000 and 9500 TEUs, which will allow a substantial decline in transit time (Singapore-Sines 11 days, Hong Kong-Sines 17 days and Shanghai-Sines 20 days), thereby assuring a strong competitive advantage, and conferring on the Port of Sines the status of top port of entry in Europe for Asian goods transported on this maritime line.

The fact that the autonomous regions are made up of islands explains the presence of their larger number of airports, as can be seen in the following table.

### Main Portuguese airports

| Aeroportos | Número | Localizações |
|---|---|---|
| Continent | 3 | Lisbon, Oporto and Faro |
| A. R. Azores | 9 | Ponta Delgada, Santa Maria, Horta, Flores, Corvo, Graciosa, Pico, São Jorge, Terceira |
| A. R. Madeira | 2 | Funchal and Porto Santo |

Most international airlines serve the principal airports of the country. TAP Portugal is the Portuguese national air carrier.

In 2008, air traffic in Portugal increased 2.5%, as measured by the number or flights landed at Portuguese airports, was up 2.7% with regard to passenger travel and rose 3.1% in cargo transport. The airports of Lisbon, Oporto and Faro were responsible for most of the increase in the number of passengers, and Lisbon and Oporto for the increase noted in terms of freight transported.

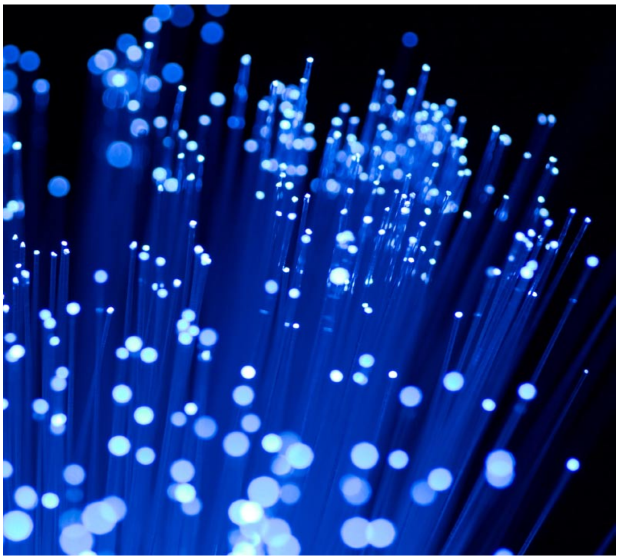
## 6.5 Technological infrastructures

In the last few years, infrastructures relating to the telecommunications sector were substantially improved and modernized, allowing Portugal to stand in a comfortable spot among its European partners. In this area there are three types of systems: a voice system (fixed line telephone and mobile); data services (Internet access) and video service (TV signal), and three types of networks: traditional fixed network, mobile network and TV distribution by satellite, cable and other radio-electric means.

The deregulation of fixed and mobile networks and the entry of new telecommunications operators in the Portuguese market increased competition, improved quality and reduced rates charged.

Portugal Telecom (PT), continues to be the principal provider of telecommunications services, above all in fixed lines, with a 72% market share in 2007. The mobile telecommunications market is served by three operators: TMN - Telecomunicações Móveis Nacionais (Portugal Telecom), Vodafone Portugal (Vodafone - United Kingdom) and Optimus (Sonae and France Télécom's Orange – 20% of the capital), which have had third generation (3G) service available since 2004. In 2007, a new mobile service appeared designated phone-ix launched by CTT which uses, by agreement, the physical network of TMN.

With the arrival of third generation mobile networks, Internet access in broadband and TV distribution were made available to mobile network clients. Today in Portugal satellite networks are used primarily to provide TV distribution services.



Optic fibber

According to a report published by ANACOM[4], the development of the various networks and means of access to telecommunications systems was as follows: the mobile networks have increased their lead by growing on average about 8% per year between 2005 and 2007. (In 2007, Portugal had 127 subscribers per 100 inhabitants whereas the EU15 had only 115.) Meanwhile, the traditional fixed

4 ANACOM - Autoridade Nacional de Comunicações (The National Communications Authority)

network has tended to decline, on average, about 1% per annum. (It represents only one-fourth of total access.) In 2007, the market penetration rate of cable distribution networks in number of subscribers per household was 27% but rose to 39% when considering only households with cable access. Lastly, the number of clients with access to Internet rose from about 900,000 in 2003 to more than 1.6 million in 2007, with 84% of the total accounted for by residential clients.

The results of a Survey of Electronic Communications Use taken in December 2007 by the same organization were as follows: of households with electronic communications, 90 % had mobile telephone service (30% through 3G equipment), about 56% had fixed line telephone service, although this has been on a declining trend for some time, 51% had access to Internet service and 51% pay television service. It should be pointed out that about 17% of those surveyed acquired services in a package deal. The double-play (Internet and television) prevailed with 48% of the total and triple-play (TV, fixed line telephone and Internet) with 19% of households with package deals.

The majority of users who acquire service packages in Portugal are clients of cable TV distribution operators. Moreover, the choice of double and triple-play that combine TV and Internet represent an intensity of usage that is above the European average.

## Owners of electronic communication services as per NUTS II and household size

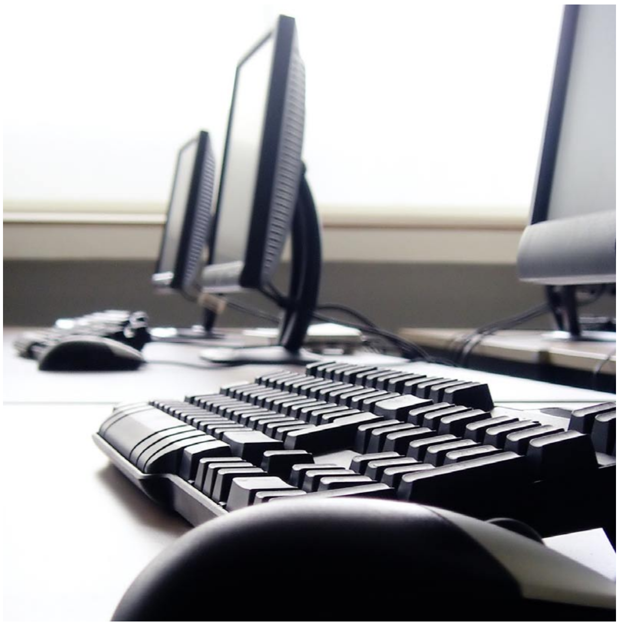
| | Mobile Telephone | Fixed-line Telephone | Internet | Television |
|---|---|---|---|---|
| **Regions (NUTS II) (%)** | | | | |
| North | 91 | 45 | 48 | 43 |
| Centre | 87 | 68 | 48 | 35 |
| Lisbon | 93 | 54 | 58 | 69 |
| Alentejo | 91 | 58 | 44 | 38 |
| Algarve | 90 | 58 | 52 | 43 |
| A.R. Azores | 82 | 71 | 43 | 78 |
| A.R. Madeira | 88 | 54 | 46 | 80 |
| **Number of individuals per household** | | | | |
| 1 | 80 | 51 | 34 | 39 |
| 2 | 85 | 64 | 37 | 47 |
| 3 | 93 | 53 | 62 | 58 |
| 4 | 94 | 53 | 64 | 56 |
| 5 or more | 93 | 54 | 60 | 52 |
| Households with children | 96 | 45 | 60 | 57 |
| Households without children | 87 | 61 | 47 | 48 |

Source: Survey on Electronic and Communication Services, December 2007

At the regional level, Lisbon, the North, Alentejo, and Algarve stand out with with penetration rates for mobile telephone sevice penetration of 90 per 100 inhabitants. The Azores region is the only one where fixed line telephone service exceeds 70 per 100 inhabitants. The only regions where Internet penetration exceeded 50 out of 100 inhabitants are Lisbon and the Algarve. In addition, pay television service in the autonomous regions accounts for a penetration rate of 80 per 100 inhabitants.

According to INE, in 2007, 95% of all Portuguese businesses used personal computers, while 77% had broadband Internet access.

There is an important campaign to bring people closer to the new technologies (including Internet) and an effort by the public sector to make available various kinds of services electronically, aiming to facilitate engagement by citizens and businesses.



Additionally, the government together with the operators, began an initiative called "e-school" (e-escola) aimed at students, teachers, and adults in the process of requalifying, thus promoting the spread of broadband mobiles in Portugal, as a complement to the existing fixed broadband and, more recently, adopted another initiative "e-little school" (e-escolinha) that will allow about 500,000 children in the first cycle of basic education to have access to Magalhães portable computers.

According to the European Commission[5], Portugal is the third country among the EU27 where mobile broadband is becoming an alternative to the fixed broadband, given that the number of connections is equivalent to 8.3% of the population (and that is above the community average of 2.8%), surpassed only by Austria and Finland (11.4% and 9.1%, respectively).

Lastly, it is worth highlighting some data published by the Telecommunications Barometer of Marktest which is quite illustrative of the penetration rate of new technology among the Portuguese population: 2.3 million Portuguese used MMS (December 2008), 2.6 million Portuguese already had at their disposal mobile phones of the latest generation (July 2008), 1.7 million Portuguese used bluetooth mobile phones (December 2007).

5 Report on telecommunications progress in the single market in 2008

## 6.6 Policies for the future

According to the State Budget for 2009, the policy strategy of the Ministry of Public Works, Transport and Communications intends to assure proper conditions in mobility and communications as essential elements for the quality of life of all citizens, as well as the competitiveness of the regions and territorial and social cohesion.

We have adopted as our objectives the promotion of sustainable transportation policies that respect the environment in order to develop and reinforce the intermodality, the interoperability and the integration of the Iberian, European and transatlantic transportation networks, thus strengthening Portugal's role as a logistical platform within the European and global space.

Concerning the roadway sector, the system of access to regular passenger transport, which dates back to 1948, will be reviewed, a Public Transport Intermodal Plan will be launched, providing support and investment in improved standards and safety in public transportation and in the technological modernization and improvement of its energy efficiency.

As the National Highway Network is concluded, about 50 km of national highways will be open to traffic. Within the scope of monitoring and modernization of the same network, there will be a program of concessions to build new fundamental highway centres, especially IP ansd IC, and approval of the annual plan of maintenance and improvement of the existing network.

As for the Conventional Railroad Network, there will be interventions in order to eliminate railway bottlenecks affecting the transportation of goods, and there will be construction of spurs that will permit access to ports and other places (logistical platforms, etc.), among other actions. Investments in the improvement and enlargement of the network will continue, as for example, the linkup of the Port of Aveiro to the North Line and the linkup Sines-Elvas in the South Line.

In order to build a High Speed Rail Network, bids will be proposed to allocate the public-private shares, in order to develop the high priority axis.

As concerns Urban Transit, modernization of the Sintra, Alentejo, Minho and Cascais lines will continue, as will the extension and modernization of the Lisbon Metro, through a series of measures that will be implemented with the purpose of improving the mobility of urban transit and the service provided.

As concerns the Maritime-Port System, the already identified priority areas will be realized within the strategic orientation defined for this sector towards the end of 2006 and the modernization work will continue at the ports of Viana do Castelo, Aveiro, Figueira da Foz, Lisbon (the Santa Apolónia Cruise Ship Terminal and the Container Terminal of Alcântara), Setúbal, and Sines. Also in the planning stage is the enlargement of the "Vessel Traffic System" in the Azores and Madeira regions.

In the Air Transport sector there will continue to be expansion and improvement of national airports that include the expansion work at the Lisbon Airport (Portela), in order to meet increased demand until 2017. Consolidation measures will continue to be implemented at the Sá Carneiro airport as the principal airport of the Northeast Peninsula, primarily through the opening of new routes and destinations and to capture traffic in the North region as well as in Galicia. Plans to expand and remodel the Faro Airport and to expand the John Paul II Airport in the Azores also will be carried out.

The air traffic control system will be preparing to meet the demands of the implementation of the Single European Sky system.

In 2009, the development of the Portugal Logistics plan will continue with the beginning of the construction of the logistics platform at Leixões, the startup of the first spaces of the platforms at Castanheira do Ribatejo and Poceirão, the startup of the construction of the cross-border platform of Elvas/Caia and the execution of the infrastructures for the logistical platform of the Porto of Aveiro (ZALI).

Concerning new services and new information technologies, there will be implementaion of land digital television and plans to proceed with the appraisal of and preparation for the necessary measures to close down analog television service.

In the energy sector, plans will be carried out to promote and anticipate investment plans for the transport network of very high tension electrical energy, primarily through the construction of new infrastructures within the network. Private investment will supply a major impulse to economic activity that will involve about one hundred qualified providers in sectors such as the cable industry, metal-machinery, electrical equipment, and construction.

The state will also invest in solutions to attain improved energy efficiency in many government buildings which use up a lot of energy (hospitals, universities, courts, public spaces, etc.), and that also will provide some dynamism to the activity of various sectors, in order to attain direct gains in reducing costs related to energy.

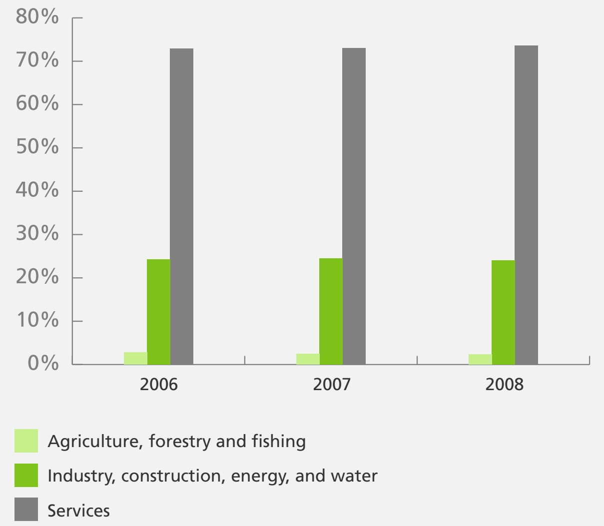
There are also plans for making investments in intelligent energy networks in order to provide 10% of all national, domestic consumers of electricity with intelligent systems of measuring energy consumption, allowing the consumer to optimize consumption while reducing cost, to automate network management and improve service quality, and to develop energy efficiency and environmental sustainability. These investments will allow the creation of a cluster of equipment production and will have a strong impact on the construction sector for its installation.

Regarding the Information Society, the wager in its development passes through aid to investments in new generation broadband on the part of communications operators, with significant impact on the efficency of the economy as a whole and of economic agents.

# 7. Resources and Productive Structure

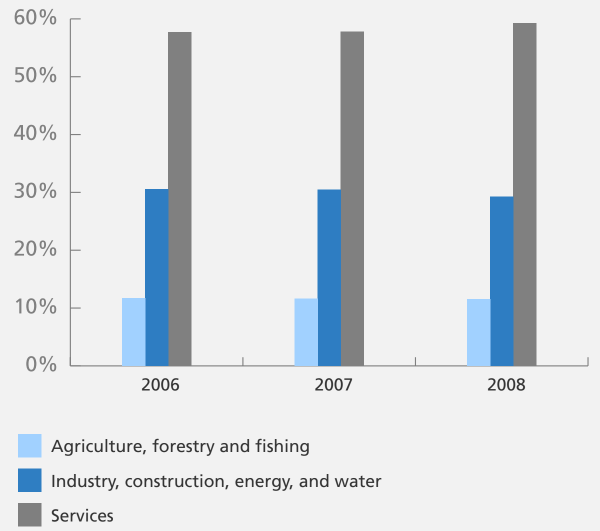
In the past few decades, Portugal, not unlike its European partners, saw its economic development become increasingly based on services. At the present time, this sector accounts for 59.3% of employment and 74% of gross value added (GVA), whereas the agricultural sector only provides 11.5% of employment and contributes merely 2.4% of GVA. Industry, construction, energy, and water represent 29.3% of employment and 24% of GVA.

## Gross Value Added by Sectors of Economic Activity



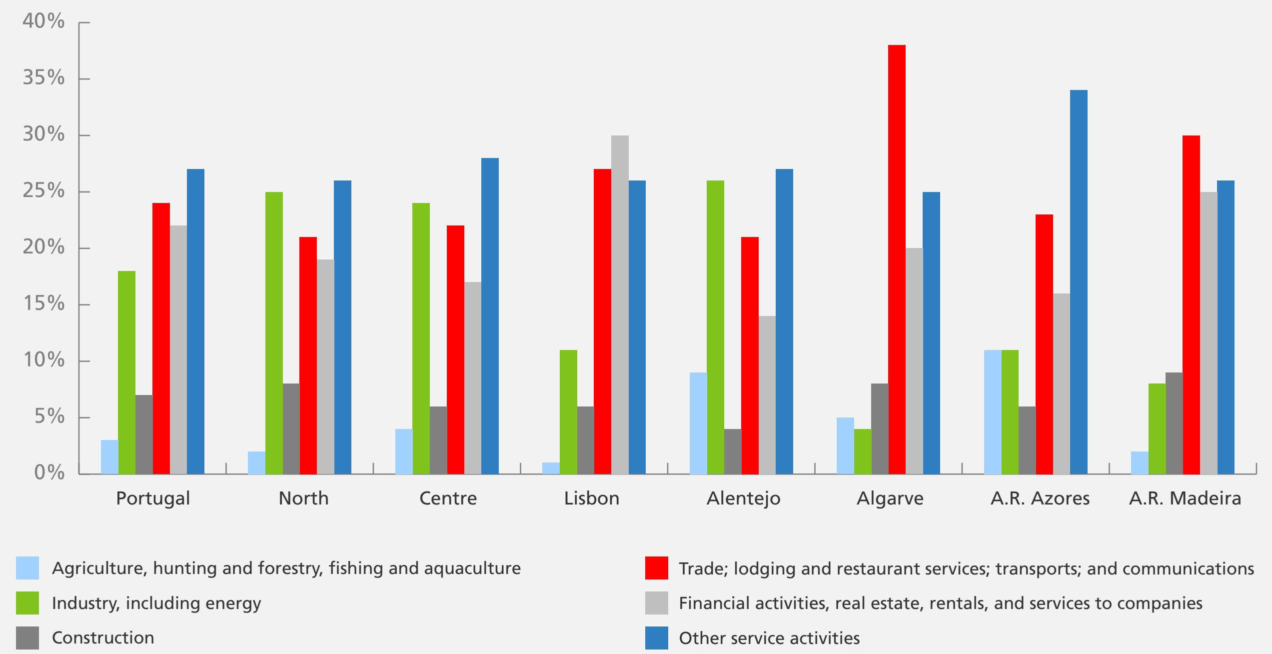

Source: INE (2000 basis)

## Employment by Sectors of Economic Activity




Source: INE – Employment Survey

## Regional Gross Value Added by Sector of Economic Activity in 2007

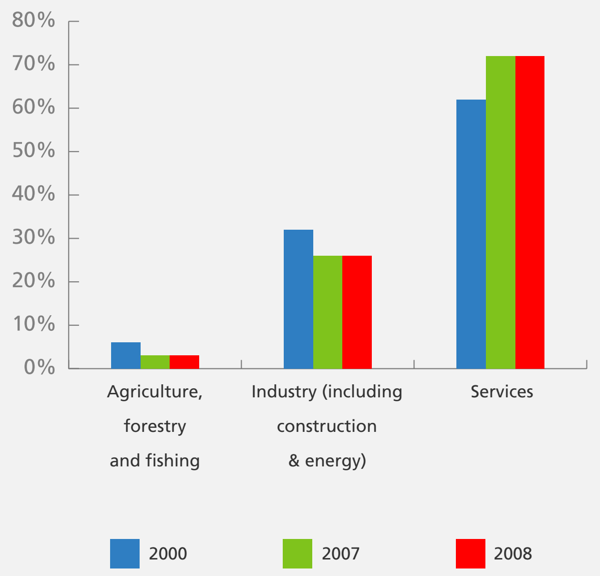



Source: INE – Definitive Regional Accounts, 2006 and Preliminary data for 2007 (2000 basis)

As for the regional distribution of GVA, the table below shows that according to preliminary data, in 2007 the services sector dominated productive activity in all seven Portuguese regions. The contribution of service activities was particularly high in the Algarve, Madeira and in Lisbon. The primary sector continues to lose ground, although it still is important in the Azores region and in the Alentejo. In the latter region, there was a notable shift from the primary sector to the secondary in the last few years. (In 2004, agriculture accounted for 13% of the total GVA, and industry 20%.)

As for the contribution to GDP of each sector of economic activity, the Economist Intelligence Unit (EIU) calculates that in 2007 services accounted for 71.8% of GDP in constant prices, which represents an increase of 15% compared with 2000. Industry, including the energy sector, in the past few years has been declining as a share of GDP (-19% in seven years). Over the same period, agriculture saw its share decline by roughly half.

**Productive Structure**




Sources: EIU – Economist Intelligence Unit – Viewswire
Note: Based on GDP at factor cost

## 7.1 Agriculture, forestry and fishing

### Agriculture

Despite the reduced role of this sector in the overall economy over the past few decades, agriculture is an important source of employment in Portugal (11.5% of the total in 2008, including forestry and fishing). The agricultural sector has undergone a few structural adjustments, namely the increase in areas allocated to agriculture and the introduction of new production processes, even though there continue to be disparities at the sectoral and regional levels.

On the Continent, the principal cultivations show the following distribution: pastures, meadows, and grazing areas 59%; cereals 11%; olives 9%; vineyards 5%; fruit 4%; and horticulture 2%. Relating to these cultivations, the Alentejo stands out because of its reduced areas of olives, wines, fruits, and garden vegetables while in the Algarve over 40% of its area is devoted to these cultivations. In terms of the Continental territory, permanent agricultural plantings, especially vineyards and olive groves, are found primarily in the interior of the country, from North to South, whereas forest areas are located primarily from the centre to the coastline. In the Azores, about 95% of agricultural land under cultivation is given over to pastures, meadows, and grazing areas and in Madeira 77% of total land is devoted to permanent cultivations.

Agricultural cultivation and output has evolved in the past few decades, showing significant changes above all in annual crops (cereals, oils, and forage products), which declined sharply sarting with 1997, and in the meadows and grazing areas (partially covered clean land) which as of the same date, grow in a similar manner. As a result, there has been a transfer in the use of cultivated areas away from annual crops to permanent pastures.

Permanent cultivations have experienced declines, with vineyards and olive growing areas contributing to this change. In the first case, since 1980 areas of vineyards have decreased by about 30%. The improvement in the average size of exploitations, which led to a near doubling of the average area under cultivation (0.66 to 1.1 hectares) together with the increase in consumer demand, have contributed to an improvement in productivity in the wine sector. The most important vineyard areas are concentrated in the Douro Valley. As for the other, mechanization of harvests and renewal of some of the olive groves, intensive and super intensive plantings as well as the modernization of the wine presses, brand certification for olive oil and the rediscovery of olive oil on the part of consumers, have led to a renewed interest by farmers for these cultivations.

Wine, fresh fruits (apples, pears, peaches, and citrus fruits account for 75% of total orchard areas in our country) and vegetables are the main agricultural products grown and they represent almost one-third of total domestic agricultural production.

A series of measures have been taken within the context of the National Agricultural Plan which are designed to give the country a more developed agricultural sector that is competitive and produces quality products while taking into consideration the social importance of this sector.

*Organic farming*

Since the beginning of the 1990s, there has been an exponential increase in biological agriculture or organic farming (production areas and number of producers who converted their lands to such production). Between 1993 and 2006 organic farming lands increased nearly a hundredfold, rising from 2,799 hectares to 214,232 hectares, and that is about 6% of all land under cultivation.

In 1995, the region with the largest area devoted to organic farming was Trás-os-Montes (41%), with olive cultivation predominating (52% of the total). Beginning in 1996, the Alentejo became the largest area as a result of compliance with required controls and certification, especially since the community (EU) regulation applying to raising animals in accordance with organic production methods went into effect. This measure requires forage from this type of production for animal feed. The Alentejo now has the largest area and the largest number of certified producers (39%), followed by Beira Interior, respectively with 62% and 22% of total area in 2006.

Once this kind of farming became predominant in these regions, one could observe a sharp increase in areas devoted to grazing/forage, arable crops and olive groves, which respectively accounted for 68%, 19% and 9% of the total area.

In the region of Trás-os-Montes olive groves continue to predominate, but areas given over to organic farming of dried fruits are also significant. This region groups together about 23% of the total number of producers, although in terms of area it does not exeed 4% of the total land devoted to organic farming.

Another factor fostering development of organic farming in Portugal concerns agro-environmental measures which made financial assistance available, thus attracting the participation of new producers. Since 2003, the area designated eligible for assistance increased 114%, enabling the number of potential producers to rise 86%.

In so far as the raising of animals in accordance with biological norms is concerned, data are available only beginning in 2002 and that is due to the fact that the respective legislation only went into effect in 1999 and that the period required to convert agricultural holdings ranges from two to three years. Even so, there was a considerable increase. Animal production increased about 439% between 2002 and 2006 and the number of producers rose from 141 to 616 in this period (+337%).

In regional terms, the largest number of organic producers can be found in the Alentejo and in Beira Interior, respectively 54% and 27% of all producers in 2006, and so too the corresponding animal production, 69% and 16%, respectively. Cattle raising dominates organic animal production (75% in 2006), and they can be found mainly in the regions of Alentejo, Ribatejo and Oeste and Beira Interior, followed by sheep (18%), raised mainly in Trás-os-Montes, the Algarve and Beira Interior.

Although it is a relatively recent phenomenon, several national organic products have been awarded international prizes. Worth highlighting is the first prize given to "Azeite Virgem Extra" of Herdade Fonte Corcho in Serpa (Alentejo), in the area of "World Competition of Biological Olive Oils" that took place at the BIOFACH Fair in 2009 in Germany.

## Forestry

The importance of forests and the forestry sector in Portugal is unquestionable. This is due to large areas covered by forests; to the relevance of its economic, environmental, social, and cultural importance; to its importance in the manufacturing industry that is based on a renewable, natural resource; to the assurance of the existence of recyclable and reusable products that generate employment and profitability; and even by the large number of agents involved in the production, transformation and commercialization of forest products.

Forests occupy about 36% of the territory of Continental Portugal, representing different rates of arborization according to the various regions of the country.

There are many species that comprise the country's forests: the three most common are the pine (Pinus pinaster), cork (Quercus suber) and the eucalyptus (Eucalyptus spp.) and are also the most important in an economic sense. Together they account for nearly 75 % of the forest area.

The pine tree is the one forest species that covers the largest area (mostly in the Centre region and the Coastal North of the country) and is the main sustenace for logging and agglomerates. The cork tree occupies a territory that is equal to about 25% of its natural global distribution. The economic importance of this species is reflected in the fact that Portugal is the world's foremost manufacturer of cork products, in particular bottle corks.

The eucalyptus is also an important element found in the Portuguese countryside. Besides its exceptional properties that are useful for the production of quality wood pulp, its growth cycle gives it importance from an economic standpoint. This fact, together with the development of a dynamic industrial sector, was responsible for a rapid increase of its importance in the last three decades, including the development of the cellulose industry and of the private sector.

In the Azores, more than 64% of the forest area is covered by incense and natural vegetation, with criptoméria representing more than 60 % of forest production.

In Madeira, 32% of forest space is covered by the laurissilva species and the remaining area is occupied by exotic species (eucalyptus, pine and others).

## Fishing

The need to preserve existing resources and maintain the economic viability of the fishing industry are the top priorities of this sector.

The year 2007 saw a decline of 1.4% in the number of registered fishing ship captains compared with the previous year, which was equivalent to an employment level of about 17,000 fishermen. This decline resulted from the lower number of fishermen registered in dredging and hauling On the other hand there was an increase in the number of fishermen licensed to fish in "non-maritime interior waters," particularly in the captaincy of Viana do Castelo and Aveiro.

In the same year the national fishing fleet totaled 8,637 vessels, representing a certain stability compared with the previous year, both as to number (-1%), and as to gauging (-0,2% GT) and also in power (+0,4% kW). The fleet is comprised of 45 captaincies, of which 32 are located on the Continente, 11 in the Azores and two in Madeira.

The number of fishing licenses issued in 2007 was on average four licenses per vessel, which represented an

increase of 2.4% compared with the previous year.
The Centre Region held the largest number of registered fishing vessels in 2007 (23.9% of the total) and the largent number of vessels for deepwater fishing (41%).

In terms of fish catches, in 2007 a total of 161 thousand tons of fish were caught, unloaded as fresh or refrigerated in bulk, representing an increase of 13.5%in volume caught and 12.7% in value, compared with the previous year. Contributing to this increase was a rise in catches of marine fish and shellfish. Fishing activity in the Azores and the Continent were what contributed most to to this good performance (33.9% and 12.9% in volume and 19.9% and 11.3% in value, respectively).

Concerning fish production, that is, the total of fresh and refrigerated fish, frozen and caught in external fishing boats, Portugal saw its production increase about 11% compared with 2006, sustained by the increase in catches in the Northeast Atlantic and in national waters.

Although the country enjoys natural conditions favorable to the development of aquaculture, its output has been less than expected, accounting for only a slight share in the total production of the sector. Nevertheless, data for the year 2006 show an increase in total production of 3.4% from the year before, with the Algarve being the region with the largest share in the total.

## 7.2 Industry

### Mining

The development of the mining industry (mining, quarrying and water) shows a sharp alteration experienced by the subsector **mines**, due to the extraction of concentrates of copper and tin in the mines of Neves-Corvo. This is currently the most important mining project in the country and, given its location in the Alentejo Region, it implies that this region occupies the top position in this subsector when compared with the other regions. The Minas de Neves Corvo are also responsible for being the major employer in the region of Castro-Verde-Almodôvar (more than 800 workers) and contributes in a significant manner to the high level of regional GDP.

Following in terms of relative importance, is the Centre Region where the second most important mining operation in the country is located – the Panasqueira mine, which produces the mineral wolfram.

Beginning with the middle of the 1990s, the importance in the value terms of the mining subsector fell as a consequence of the accentuated decline of the base metals, precious metals and mineral energy, due to the drop in international prices of basic and precious metals and the decline in the seen in the production of energy minerals (coal and uranium), whose production units were located in the North and Centre Regions, respectively.

Ferro-magnesium, tin, titanium, wolfram, copper, uranium, quartz, talcum, and kaolin are the products extracted, among others, from mines in operation.

The strong points of this sector include the geographical potential of the Portuguese territory, the quality of raw materials destined for the ceramics industry, the existence of dynamic companies, the ample technological infrastructures, and a sound industrial base for developing international markets.

In the subsector **quarrying**, which includes ornamental stones and industrial stones, there has been a considerable pace of growth, due first of all to an increase in competitiveness of the firms operating there, as a result of internal valuation of the products on offer, an improvement in quality standards and an energetic effort to sell into foreign markets. The Alentejo Region, where the most important marble and ornamental granite quarries are located,  is the major production centre in all of Portugal for ornamental stones.

Industrial stones have risen in importance in recent years, reflecting heightened consumption of these raw materials in the civil construction sector and in public works projects. The North and Lisbon Regions are the most significant producers in terms of the value of production.

The **mineral and spring waters** subsector of Portugal counts on a significant hydro-mineral potential as evidenced by the large number of sources found throughout the country and by the vast hydro-chemical diversity that is attributable to the complex and diversified geology of the country.

The North and Centre Regions hold about 74% of hydro-mineral resources and spring waters as a result of their geological-structural conditions.

## Manufacturing Industry

Since Portugal joined the EU, its manufacturing industry witnessed a considerable expansion both as to level of output and to value added, particularly from the period beginning in 1991.

However, even though there was a significant decline of the importance of the industrial sector's contribution to the overall economy, this was not incompatible with changes, although slow, in the specialization of production that resulted in greater value added and the higher input of technology.

While the traditional sectors (textile, clothing, footwear, ceramics, ornamental stones, food and beverages) continue to maintain a significant importance in total manufacturing activity in Portugal, especially in so far as employment and exports are concerned, the industrial base has expanded in those areas with greater technological content. A few examples stand out such as the automotive sector and its components, moulds, electrical and electronic machinery, paper, and plastic materials. However, a few industries are losing their relative importance as to production and employment such as heavy machinery, nonelectrical machinery, transport equipment, and nonindustrial chemicals; these are all sectors where Portugal is a large importer.

From the geographical standpoint, the strong asymmetries in the dispersion of industrial activities allow two regional areas to stand out: Lisbon/Vale do Tejo and the North, which together accounted for three-fourths of employment and GVA in the manufacturing industry in 2007.

In the Algarve, Centre and Lisbon capital intensive industries prevail while in the North labour intensive industries still carry a significant weight in the productive structure due in large part to the importance of activities linked to the textile and shoe industries. The Alentejo has mostly manufacturing industries based on the use of natural resources (food and beverages). In a like manner, the food and beverage industry account for differences in Madeira and the Azores.

## Textile and clothing industry

The textile and clothing industry is one of the most traditional in the entire Portuguese industrial structure and has always had a key role in the national economy. Despite the transformation witnessed by this sector (dislocation and factory shutdowns), it still remains one of the most important contributors to Portuguese manufacturing, being responsible for nearly 12% of national exports in 2008 (in the 1990s this ratio, on average, had been as high as 30%), 23% of employment, 9% of industrial output, and 8% of GVA [source: ATP – Associação Têxtil e Vestuário de Portugal (Portuguese Textile and Clothing Association)].

Here we are dealing with a mature sector which is fragmented and subject to constant changes between supply and demand. Its performance is strongly affected by fluctuations in global economic activity.

The sector is comprised of two industries which are organized in terms of production lines: upstream is the assembly part and includes the textile industry component that includes the production of fibres, spinning, weaving, knitting, and finishings (dyeing, printing and finishing); and the downstream, which includes the clothing industry of which styling of articles of clothing and accessories is a part. It is worth noting that not all output from the textile industry is destined for the clothing industry; there is a component producing home textiles, and another part of production used as input by various industries (techical textiles and articles related to coverings).

In the last few years, the activities of companies operating in this sector have become more dynamic and competitive; they have pusued high levels of investment and introduced technological modernization and changed operating strategy by moving ahead and developing a culture atuned to quality and innovation, rapid response, small series, and control over distribution channels.

From the territorial standpoint, this industry is dispersed throughout the country, although there are two important centres that are found in the North of Portugal (companies in the cotton sector) and in Beira Interior (woolen mills). They comprise 6,000 companies (textiles, excluding clothing) and about 11,000 clothing companies which together represent about 18% of total production units in the national manufacturing indusrty and 2% of all companies operating in Portugal.

This sector represents today a more capital intensive profile, offers brand and design names, and is expanding more and more into new and demanding markets as, for example, Spain, the United States, and even the United Arab Emirates and Saudi Arabia. One can point out a few examples of brand names that have become well-known in international markets: Lanidor, Dielmar, Ímpetus, Petit Patapon, Onara, Do Homem, Vicri, and also how Portuguese companies really stand out for their innovation: intelligent fabrics that are fireproof, anti-bacteria, or have therapeutic and moisturizing properties; cloth made up of a mixture of cotton, bamboo or recycled polyester and cloth made of 100% wool used for suits that are washable and known as the Shower Clean Suit made by Paulo de Oliveira, an innovation obtained through special finishings that include anti-wrinkle, non-shrink, permanent-crease, perspiration-resistant, and quick-dry features.

The exterior and interior clothing worn by the astronauts of the European Space Agency (ESA) and International Space are of Portuguese origin.

In the list of the 50 best inventions for 2008 published by Time Magazine, in 26th place was a Portuguese bathing suit, the LZR Racer manufactured by Petratex, that was used by Michael Phelps at the Beijing Olympic Games. Indeed, 94% of the swimming competitions at the Games were won by athletes using this type of swim suit!

### Footwear industry

The Portuguese footwear industry is currently experiencing a consolidation phase in preparation for facing new challenges. After the adjustment to new realities regarding competition that involved the displacement of a few large production units with foreign capital, the footwear industry finds itself in a more stable situation. In the last few years, the industry downsized, reformulated its business model and placed its wager on foreign markets, affirming a pro-active business attitude.

Comprised mainly of small and medium sized enterprises, this industry survives on foreign demand (about 90% of production is destined for export), and even though it faces powerful competitors that benefit from very favorable production costs, it continues to produce a trade surplus and remains one of the main contributors to the country's trade balance.

Within the manufacturing industry, it is also a major employer. Recent data show that the 1,200 companies that remain employ more than 35,000 workers, that is about 4% of total employment in manufacturing, and they generate a volume of business totaling 1,340 million euros. In 2008, Portugal exported more than 60 million pairs of shoes with an average price of about 20 euros per pair.

The fundamental factors that differentiate Portuguese supply include the development of a value chain, with the wager based the more demanding and valued segments as well as on innovation and reliance on its own brands. In the last decade, the footwear industry attained significant productivity gains: physical productivity in terms of pairs produced per number of workers increased 15% and the gross value of output per worker rose 33%, reflecting rationalization of the production process, investments realized and the introduction of new production methods.

Portuguese brands such as Fly London, Camport, Eject, Sofwaves, Luís Onofre, Paulo Brandão or Carlos Santos, with the last two directed towards the luxury segment, continue to grow and become better known in international markets.

In the leather segment of the footwear industry, which represents almost 80% of Portuguese footwear exports, Portugal has a top position on both a European and world scale: it occupied the seventh position in global terms in 2007 which corresponded to a 3.5% share.

## The wine industry

Portugal possesses the oldest demarcation region in the world – the Douro region – and secular methods of producing wines despite the modern technology that predominates in Portuguese wine cellars.

There are 13 wine producing regions that exist in Portugal each with a typical culture that is apparent in every wine produced.

Portugal's entry into the European Union forced certain changes in the designation of wines produced. A Denomination of Origin was created which associated a wine with a determined region and three official designations were instituted: VQPRD which stands for Vinho de Qualidade Produzido em Região Determinada, Vinhos Regionais attributed to wines that possess a geographical indication and Vinhos de Mesa that are wines that are produced with selections or lots (a mixture of two or more stocks) of wines from various regions. They may have a geographical designation, since there can be no confusion with a VQPRD.

In 2007, the regional structure of wine production in volume presented well defined characteristics. The region of Ribatejo and Oeste produced about 70% of total table wines, the same region associated with the Alentejo accounted for 82% of regional wines produced in Portugal in the same year. As for VQPRD the situation was as follows: the regions Entre Douro and Minho and Trás-os-Montes were responsible for 55% of total production in this category, followed by the Alentejo with 20% of the total. The VLQPRD was only produced to any extent in two regions: Trás-os-Montes (more than 90% of the total) and Madeira (4% of the total). In the Azores, almost 80% of production corresponds to Vinho de Mesa, followed by Vinho Regional with 12% of total wine production in the region.

Good wines have always been produced in Portugal, as is the case with Barca Velha, Porta de Cavaleiros and Caves São João, Tinto Velho of Rosado Fernandes, Aliança, Montes Claros, Quinta das Cerejeiras, Collares, Quinta da Aguieira, Buçaco, Periquita, Pêra Manca and others, but in the last few years the quality became broader with a range that is more varied by wines produced from national and international stocks. Therefore, it was fundamental to apply new wine making processes, adopt new technologies, have well-prepared experts, and create new brands, all of which raised the profile of the quality of Portuguese wines, placing them in an outstanding spot at an international level.

Proof of this can be found in the many prizes that have been awarded to Portuguese wines by prestigious publications and other international magazines linked to the wine industry whenever wine tastings take place abroad. Recently, five wine cellars fron the north of Portugal were featured by such American magazines as "Wine & Spirits" and "Wine Spectator" as being among the 100 best wines of the year. Aveleda, Niepoort, Quinta do Crasto, Quinta do Noval and Quinta do Vale Meão were the wine cellars that received "excellent" classifications.

## Wood and cork industries

With few exceptions, the sub-sectors of wood, furniture and cork are strongly dominated by small and medium sized industries.

The forestry sector accounts for 5.3% of national GVA, 12% of GDP and 12% of employment in manufacturing industry and abot 10% of exports.

The wood industry is essentially comprised of three areas: wood cutting, wood paneling and carpentry. According to data from the Association of the wood and furniture sector, this subsector includes about 2,000 companies, 20,500 workers and a sales volume that surpasses 900 million euros annually. As for their distribution, wood cutting and companies specializing in producing wood panels are concentrated in the North and the Centre (90% of the total), while carpentry firms are scattered throughout the territory of Continental Portugal.

Led by Portuguese and foreign economic groups that are of considerable size and scope on a European level, agglomerates and plywood, offer quality at a competitive price, with specialization in fibre-based agglomerates, where Portugal accounts for more than 30% of installed capacity on the Iberian Peninsula.

In the cork industry, Portugal is the world leader in the production and transformation of cork with more than 60% of total cork exports in the world. Portuguese cork exports (90% of output) account for 0.7% of GDP at market prices, 33% of total national exports and about 30% of total forestry exports. Bottle corks alone account for 70% of the total exported. Portugal possesses a cork tree area that corresponds to 33% of the global total (23% of the national forest area) and produced on average in 2007 more than 50% of all global output (157,000 tons). The Alentejo accounts for 72% of all cork produced in Portugal. The manufacture of cork products is spread over 12 districts with Aveiro and Setúbal providing most of the employment (58% and 28%, respectively).

The wood furniture industry is made up of more than 2,500 companies, 34,000 workers and an annual sales volume of approximately 650 million euros. Production is dominated by small family-run firms that are focused on the national market, although there are now some companies that have grown in size and produce mainly for export. The North region is the one that accounts for the largest number of companies in this subsector (65% of the total). The segment of the furniture industry that specializes in reproductions or in high style enjoys a good reputation abroad, although its share in total exports is still rather low.

## The paper and wood pulp industry

Consolidated into a reduced number of companies, this industry is characterized by a high level of technology, strong productivity, and quality that is internationally recognized. The exceptional planting conditions affecting eucalyptus trees have resulted in Portugal's pre-eminent position as a producer of eucalyptus pulp in the EU.

In addition, there is in Portugal a well-established industrial network in the subsectors of paper, agglomerates and furniture, with the possibility of exploring new opportunities to meet industrial needs and environmental adjustments such as is the case with forest biomass.

Worthy of note is the role played by Portucel Soporcel in wood pulp and paper where it is among the largest producers of of fine uncoated papers within Europe, UWF-Uncoated Woodfree Paper, and is the largest European producer – and one of the largest global producers – of a special pulp named BEKP-Bleached Eucalyptus Kraft Pulp. This company also plays a key role in the energy industry where it enjoys the status of being the largest producer in Portugal of biomass energy accounting for 55% of electrical energy generated from forest biomass.

The "Navigator" paper produced by this group is one of the most widely sold premium office paper products worldwide and the "Navigator Kids" and "Navigator Eco-Logical" have won awards for several consecutive years.

## Chemical industry

This industry is sufficiently diversified and specialized and groups together a series of products that are rather heterogenous, many of which not directly visible, but used in the manufacture of many goods that are consumerd every day, including polyethylines, fertilizers, synthetic resins, plastic materials and artificial fibres. These materials constitute the point of departure for a series of chemical reactions,  syntheses and transformations that give rise to new products that will be used by many of the major industries operating in different sectors of activity.

## Pharmaceutical and biotech industry

The pharmaceutical industry is one of the sectors that generates major employment for qualified workers, contributes significantly to research and scientific knowledge and in the past few years has contributed significantly to Portugal's economic development through an increase in exports of medical products which reached 300 million euros in 2007, most of which was generated by domestic companies.

Its activity is largely concentrated in the Lisbon Region and more than half is dedicated to the production of specialty pharmaceuticals, conditioned by the system of price regulation affecting medicines. The remainder of the output is spread out among unspecified pharmaceutical products and the production of biological products.

Portuguese companies like Bial or Atral-Cipan, are synonymous with the development of new pharmaceutical solutions. Biotecnol, Alfama (which won the prize of best European startup in 2005), Crioestaminal, Medinfar/Cytothera, Biocant, or IBET are engaged in finding solutions to conquer incurable diseases or to preserve stem cells for regenerative medicine.

To cite just one example of the advances made in pharmaceuticals in Portugal in the area of scientific research, in 2008 the European Molecular Biology Organization (EMBO) granted funds to two Portuguese researchers for their research concerning centrossoma, a structure that regulates the multiplication of cells and is frequently altered in cancer, and to expand the study of molecular and cellular bases of neurodegenerative diseases such as Parkinson and Alzheimer.

Also, the Flemish biotechnology firm Ablynx, which recently installed a research centre of excellence, one of the best centres in the world for phase display (technology that allows the perception of proteins – antibodies – in order to obtain a certain effect and close to the Molecular and Cellular Biology Institute in the city of Oporto, is interested in contracting new Portuguese researchers to develop a research project exploring the increase of the half-life of its pharmaceuticals, thus creating an additional source of exports of technology based services.

## Electrical and electronic industry

This industry is centered mostly around the regions of Lisbon, Setúbal, Braga, and Oporto, with the largest companies being located in the North. It produces above all industrial machinery, equipment and appliances, cabling sets, lines and cables, telecommunications equipment, information, and professional electronic equipment, and electronic components.

It is a subsector that has an ever greater role in the development of the automotive industry. As a result, the consequences related to the reduction of production that can be seen in this sector at the European as well as global level, is already being felt in the Portuguese electrical and electronic components industry that produces for the automotive companies.

## Automotive industry

The automotive industry has ramifications in all sectors of manufacturing, from metalworking to rubber, from electronics to textile, from glass to plastics.

In Portugal, the development of the automotive industry in recent decades, has been strongly conditioned by the decisions related to industrial policy and the role of foreign investment, especially concerning the installation of local assembly line production that became a focal point for the development of auto components.

The productive structure of the auto sector did not develop until the beginning of the 1970s, but has really grown in the past few years. At the beginning of the 1980s with the arrival of Renault, which besides assembling vehicles, produced various parts such as motors, speedometers, and water pumps, and in the areas of foundry work and motor assembly, creating conditions for the existence of a horizontal industrial zone, that is competitive and of high quality, giving rise to development of an auto components industry. The installation of Auto Europa in 1994, contributed to relaunching the domestic market as well as gave a boost to domestic exports. The Auto Europa Project fit in perfectly with the desire to create an automotive cluster, involving the establishment of joint ventures with existing companies and the start-up of new companies as suppliers of components and systems.

Portugal presents several strong points in this sector: existence of focal points of cooperation among companies, universities and centres of research and development; logistical solutions for markets outside the EU, particularly the North American market; a very adaptable labour force; the existence of certified companies; the existence of focal points and company clusters; and companies involved in international supply networks. In addition, average hourly wage costs are competitive in the European context[6].

This industry today depends on a components sector that relies on a group of firms that is internationally competitive, well-place in the development of new factors of competitiveness, especially in the areas of engineering, research and technological development. The components subsector contributed about 3% of GDP and 7% of the country's exports, according to the Association of that sector, AFIA. In 2007 its membership include 180 to 200 firms with 40,000 workers (about 4% of total manufacturing industry employment) and generated a volume of business on the order of 4.8 billion euros.

The regional distribution of the components firms is not homogenous; it is concentrated in the coastal zone between the Setúbal Peninsula and Viana do Castelo. The areas of Porto/Braga, Aveiro and Lisbon/Setúbal comprise three major industrial poles at a national level to which should be added the  area near Leiria, where the production of injection moulds and plastic are a significant activity.

6 Data for 2006: 10.9€ in Portugal versus 21.5€ for the EU25 average in industry and services; 9.0€ in Portugal versus 22.9€ for the EU25 average in manufacturing

With the objective of helping local companies cope with the crisis affecting the industry globally (with national repercussions) due to a significant drop in demand, towards the end of 2008, the Government launched a plan to grant financial support measures to producers and makers of automotive components that amounts to close to 900 million euros. This plan rests on four stategic points: stimulate employment and retraining, provide financial support, modify the industrial and technological profile of the sector, and grant incentives to stimulate demand for cars – all decisive measures to guarantee employment and improve the competitiveness of the sector.

## The moulds industry

The Portuguese moulds industry has grown over time and gained a global importance. Growth has been driven by foreign demand, by the expertise and experience of Portuguese mould producers, by the level of product quality, delivery times, competitive prices, technological capability, and technical assistance, so that these companies have become major global suppliers of precision moulds, primarily for the plastics industry.

More and more, large multinationals (in the automotive industry, packaging, electronics and telecommunications, household appliances, etc.) choose domestic firms for the production of their moulds, which are subsequently destined to be used in the production of the best products of well-known international brands. Some examples include Samsonite, Nokia, Mercedes, and Porsche, which depend on the talent and engineering of Portuguese mould companies.

At the present time, the Portuguese moulds sector is made up of about 300 small and medium-sized firms that are capable of exporting, who are dedicated to the production of moulds and specialiized tools with excellence. They employ about 7,500 persons, and have a two-location geographic distribution situated in Marinha Grande and in Oliveira de Azeméis.

## 7.3 Construction

The construction sector plays an important role for adding a dynamic element to the economy, with more than 30% of the volume of business of the largest companies being done internationally.

Towards the end of the 1990s, this sector contributed about 10% of GDP and was one of the principal drivers of economic growth, with hallmark projects such as those associated with Expo 98. Currently, it contributes around 6% as there exists a perception by the principal players of the sector, that there is a need to concentrate and to attain ever higher levels each time in the diversification of areas of activity, especially in the energy, environment and tourism sectors.

Projects related with the construction of a series of dams, where bids are about to be launched, and with the new airport for Lisbon and with the high speed railway lines, whose completion is foreseen for the end of the next decade, are all factors that will contribute towards helping the construction sector to experience a much higher rate of growth over the next few years.

## 7.4 Services

The services sector, as previously mentioned, has been gaining greater importance in the Portuguese economy during the last few decades, being currently responsible for about two-thirds of economic activity and 59% of all employment in Portugal, compared with 69% in the EU27. Besides their economic pre-eminence, services are one of the areas that registered some of the greatest technological advances, with many examples in telecommunications truly standing out such as the fixed and mobile networks, Internet access, broadband, etc.; the energy sector; financial sector services; and the information technology sector.

### Public services

At the level of public services, the improvement in quality, effort, accessibility, and availability of on-line public services are examples worth highlighting in that they greatly facilitated the lives of citizens, favoured business activity, improved the availability and quality of services rendered, thus increasing the transparency of the administration and the development of industry and national services.

Portugal finds itself in third and fourth places in the latest report on European Ranking of Public Services Online[7] concerning the availability of on-line public services and the sophistication of services offered.

The efficiency of the public administration in this area is due to the positive impact of the "Technological Plan" and some of its key components, such as Simplex and Ligar Portugal, that have improved the quality of services offered to citizens and to companies.

The advances registered in the creation of an environment favourable to business such as the "On the Spot Firm" ("Empresa na Hora") were recognized for good practice by the European Commission and named "top reformer" by the World Bank. They were decisive factors in attracting the best technology companies in the world to invest in Portugal: Microsoft, Cisco, and Nokia-Siemens, and contributed towards putting the country in second place among the European rankings and seventh on a global level in terms of electronic government[8].

The Simplex 2009 Program continues to bring together, consolidate and develop important measures and gives particular attention to the simplification of procedures in the health sector, as well as a reduction in related costs for small and medium sized industries.

7 According to the European Commission Report, Portugal's performance improved 125% as to availability between January 2005 and September 2007 (rising from 14th place to third place) and, over the same period, by 32% as to sophistication (rising from 13th place to fourth place).

8 Portugal passed from 48th to 7th place in the ranking of the Global e-Government Study, developed by Brown University in the United States, that examined 1,687 public sites of 198 countries.

It contains 200 measures designed to reduce bureaucracy for the ordinary citizen and for companies, and thus contributing to quality improvement and modernization of services in the public administration. One of the major components is designed to reduce administrative charges affecting Portuguese companies, as, for example, the creation of a "Via Verde" affecting projects of small and medium sized companies whose financing has been approved by the QREN - Quadro de Referência Estratégico Nacional (National Strategic Framework). Another example is the simplification of value added tax (VAT) reimbursements for companies that export that now is being approved automatically. Certain other measures take advantage of the Internet in order to simplify transactions between the Government and companies as is the case with the "Portal de Empresa 2.0," as the only on-line contact point between companies and the public administration.

## Energy

The promotion of renewable energy sources and energy efficiency aims to reduce carbon emissions and also reduce Portugal's energy dependence on foreign sources, on combustible fossil fuels, on exposure to ever higher and volatile prices for petroleum and natural gas in international markets, and improve certain environmental conditions. All this will not only will lead to profound changes in this sector but will also increase the competitiveness of the country.

The increased capacity to produce domestic energy with recourse to developing renewable energies and the improvement in energy efficiency and reduction of $CO_2$ already has produced some visible results. One of the largest photovoltaic plants[9] in the world is located in Moura (Alentejo), the largest wind park[10] in Europe is located in Monção (Viana do Castelo) and a pioneer project in area of wave technology[11] on a global scale, not far from Póvoa do Varzim (near the city of Oporto), make Portugal a point of reference when it comes to renewable energy forms.

According to REN – Rede Energética Nacional (National Energy Network), in 2008 wind power production rose 42% compared with the previous year, representing 11% of total consumption of energy provided by the national public network.

In order to reduce the distance which still separates Portugal from the European average in this area, the "Plan of Action for Energy Efficiency" was adopted which includes various measures to encourage use of new technologies, improve organizational processes and to change the behaviour and sense of values that will lead to more sustainable consumption habits.

The measures taken allow for a reduction in consumption equal to 10% up to 2015, thus exceeding the 8% goal established by the EU and will also mitigate by about 1% per annum the expected growth in the energy bill until 2015.

9 The plant occupies an area of 250 hectares and is comprised of 262,080 photovoltaic modules. They have an installed capacity of 46 MW, it will produce 93 million kw/hour per year, the equivalent of energy consumed by 30,000 families, avoiding the emission of 86,000 tons per annum of CO2 into the atmosphere.

10 This wind farm comprises 120 wind turbines and is capable of producing energy that is equivalent to the consumption of 300,000 households and allows the saving of 500,000 tons per year in CO2 emissions.

11 The Aguçadoura Wave Farm, in its first phase will produce electricity using three Pelamis Wave Energy converters, a sort of marine snake that captures wave energy, installed about three miles from Póvoa de Varzim. The project will supply 15,000 families and avoid the emission of more than 60,000 tons per year of carbon dioxide. In the second phase of the project, another 25 machines will be produced and installed in order to increase capacity up to 21 MW.

During the year 2009, there are plans to promote extraordinary support measures for the installation of 300,000 $m^2$ of thermal solar panels for the residential community, enabling adoption on the part of consumers while dynamizing a cluster of domestic industries providing photovoltaic panels that will have a positive impact on construction as these panels are installed. In addition, there will be provisions for extraordinary support for the installation of 12,500 microgeneration units, designated as mini wind generators, in the services sector, and so dynamizing the domestic industrial cluster sector that produces these technologies, with a beneficial effect on the metal-machinery, moulds and electrical equipment industries.

Until 2012 there are plans to invest more than 12 billion euros in the energy sector that applies to the construction of dams, combined cycle plants, wind farms, and related infrastructures that will permit yet another ambitious goal, the fifth objective within a European context, namely to allow Portugal to derive 60% of its electricity requirements from renewable sources by 2020.

The last objective will be have 10% of fuels used by the automotive sector to be dervied from biofuels by the year 2010.

According to statistics published by the European Commission, Portugal is among the top five European countries in terms of energy efficiency, along with Denmark, Germany, the Netherlands, and Ireland, as a result of having implemented good practices, such as, for example, the certificate of energy redemption, the air quality found inside buildings, and the training of professionals, all of which are aleady serving as examples for other European countries to emulate.

## Information and Communications Technologies ( ICT)

Despite the sharp decline in investment and spending in information technology in various parts of the world as forecast by IDC (International Data Corporation) for 2009, Portugal will continue to maintain an annual rate of growth that is higher than that of Western Europe, although this has been revised downwards from 11.2% to 7.5%.

The companies in the technology and information field fulfill a fundamental role in the modernization of Portugal and its many businesses in various sectors of the economy. Top on the list are those that introduced new technologies and new business processes that contributed to the improvement in business productivity and thereby the country as well. Many of them have achieved a leading position both domestically and internationally. We can cite the following examples: Critical Software is a key global reference in the software for critical information systems; SISCOG continues to gain the most demanding clients in the world; Number Five holds 75% of the global market in auto-identification; Altitude Software is the technological leader for call centres; and CRM, has won accolades such as "Member's Choice Awards" from ContactCenterWorld.com, through secret and controlled voting by users of contact centre solutions around the world; Chipidea, recently acquired by the American company MIPS Technology of Silicon Valley, a deal that creates the second largest group in the world in semiconductor design, with 15% to 20% of global market share, and the foremost world provider of analog IP;  ISA – Instrumentação e Sistemas de Automação, has widened the scope for the application of its products (automatic management of fuel storage, secure supervision of free flowing of fuel from storage areas, transport and planes; Novabase (leader in business solutions based on information technology), was the firm chosen by the Ministry of Justice and by the AMA, the Agency for Administrative Modernization (Agência para a Modernização Administrativa) to develop the service "Marca na Hora", or One-Hour Trademark Service, a project that took a fundamental step forward in carrying out the "Programa Simplex;" HPS Portugal owned by INEGI ad by the German company HPS – High Performance Space Structure Systems, is developing technology (material for thermal protection) for those vehicles that are expected to be used in the next space mission by the European Space Agency to the red planet in 2020.

The scientific advances that occurred in 2008 in Portugal also were of equal importance. In the microelectronics field, there was the development of transparent integrated circuits to provide a support role in memory transistors instead of the traditional silicon, a product destined for various applications: screens, labels for intelligent packaging, identification chips, or medical applications in the area of biosensors.

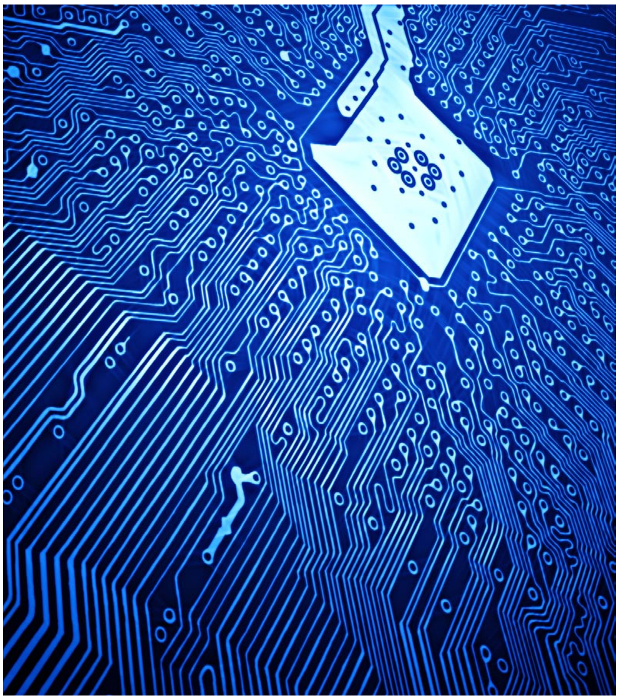
Another discovery was that of a new material, designated as ionic gel, that will be used in developing batteries and combustible cells that will be both cheaper and environmentally friendly.

Geographically, the Lisbon metropolitan area continues to represent the largest concentration of services with about one-third of establishments. As for services rendered to businesses, the percentage rises by more than half, while the metropolitan area of Oporto hosts only 18% of the total.

## Trade

The macreconomic indicators referring to both structure and trends in economic activity illustrate the importance of the services sector and of trade in particular within the scope of the overall economy; services account for 20% of domestic GVA, 38% of the volume of business and 22.6% of employment. As for the companies involved, the sector comprises nearly 230,000 entities, that are concentrated in the regions of the Centre, North and Lisbon.

Retail trade represents 60% of the total compared with 26% for wholesale trade, with the remaining 14% accounted for by automotive commerce and fuel distributors. As for distribution, the urban areas with the highest concentration are Lisbon, Oporto, Aveiro, Braga, and Setúbal, which together represent 70% and 58% of retail and wholesale trade, respectively. Of note, the food sector is a major component in both retail and wholesale trade, accounting for 27% of the first and 47% of the latter.



In reality, Portugal's trade has pretty much followed the same broad tendencies witnessed by the rest of Europe: patronage of supermarkets, hypermarkets, discount stores, widespread franchising, preference for shopping centres, and growth of electronic commerce.

This sector has deepened its knowledge of its clients, to appreciate service, improving factors such as proximity, convenience, quality and logistics; there has been an increase in brand development, in products that improve health and safety of clients, and the development of deep discounting, medium-sized supermarkets and large specialized areas.

In the last few years, Portugal witnessed a sharp increase in areas given over to large retail businesses and shopping centres. (Sonae Sierra is a European leader in the creation and management of these consumer giants, with 50 shopping centres in Europe and Brazil, and recently won awards such as "Sustainable Energy Europe Awards" in the category "Market Transformation" which recognizes the company's innovation in the area of sustainable energy through implementation of the "green centre" concept in the development and management of its shopping centres.) Shopping centres have expanded in size and can be found not only in major urban centres but also in medium-sized cities.

### Financial services

In the last few years the banking system, the insurance sector and capital markets in general experienced major changes. Today, Portugal's banking sector is modern and encompasses commercial banking, investment banking, investment funds, and insurance companies. They operate on similar standards as their counterparts in other European countries as to profitability, solvency and cost structure.

The global financial crisis that started in the mortgage market in the United States around the middle of 2007 and then appeared in the banking system with the bursting of the bubble in speculative real estate, with cascading losses in the financial sector, spread at an extraordinarily high speed to the entire international financial world. The rapid "contagion" to a large extent was due to the fact that it occurred in a sector that operates on a global basis and is stongly linked through networks involving loans and insurance risk covering those loans. That led to disequilibrium and instability and, in extreme circumstances, provoked the failure of important financial institutions and raised the need for Government intervention to halt its spread.

Portugal too did not remain immune to this crisis. Even though it benefits from a modern and robust financial system, there has been a need for public intervention in order to stabilize the system so as to avoid an even greater risk of insolvency and reduce the effects of a sharp halt to credit availability.

There are five major banks and they are Caixa Geral de Depósitos (part of the public sector) and the private banks: Millennium BCP, BES - Banco Espírito Santo, BPI - Banco Português de Investimento, and Banco Santander Totta.

# 8. Economic situation

## 8.1 Recent economic policy

During the decade of the 1990s, Portugal pursued an economic policy determined by the convergence criteria of the European Economic and Monetary Union (EMU) which resulted in Portugal's admission to the euro area in January 1999.

At the end of a period of expansionary monetary policy geared to the needs of the economy, there was an obligation to implement a more restrictive policy starting in 2002 in order to reduce the public deficit. Among the measures adopted were an increase in the basic value added tax rate, a reduction in public spending, the closing or restructuring of various public sector institutions, the phasing out of temporary work contracts in the public sector, and adoption of reforms primarily affecting the labour market.

In 2006, the Portuguese economy grew 1.3%, a much more favourable outcome compared with previous years. In general, the growth picture reflected the extremely positive results from exports of goods and services, with strong foreign demand contributing 1.0 percentage points (p.p.) to overall growth compared with declines in the prior two years (-1.3 p.p. and -0.5 p.p. in 2004 and 2005, respectively).

For its share, the contribution of domestic demand to Gross Domestic Product (GDP) growth was almost nil (0.3 p.p.), due to the weakening of consumer demand and the decline in public sector consumption. Although the decline in investment was less than that of 2005, this indicator remained the most unfavourable element of economic performance.

Also noted was a deterioration in the foreign deficit reflecting the marked deterioration in the investment income category, and to a lesser extent, to transfers of capital.

On the positive side, it sould be worth noting that there was a reduction in the public sector deficit to 3.9% of GDP, a much more favourable outcome compared with the 6.1% result of the previous year and which exceeded the target established by the Stability and Growth Program for the 2006-2010 period. In 2007, Portuguese economic growth accelerated and its GDP increased by 1.9%, a rate that was still below the average of the other countries that are part of the Euro Area, but slightly higher, by one tenth of a point, than the target set by the Government in the state budget for that year. The good results registered in the fourth quarter of the year when GDP expanded by 2%, the best performance for the year, contributed to the overall favourable yearly outcome.

Exports of goods and services continued to be the primary driver of economic growth, with significant increases noted both in sales of traditional goods as well as in sales to new markets. In addition, this was the first year that the technology balance was positive, an eloquent testimony to the profound transformation that the Portuguese productive apparatus has experienced. This caused a change in the composition of exports, hitherto dominated by traditional products such as textiles and footwear.

During 2007 it was confirmed that there was a recovery in investment by companies, a fact consistent with the improvement in the competitiveness and productivity of companies in general. This growth standard, sustained by exports and a recovery in investments reflected a progressive improvement of economic fundamentals, which in turn was a result of a development strategy that was based on improving the qualifications of human capital, on technological modernization, on the reduction of administrative costs especially by small and medium sized companies, and on the consolidation of public finances, all of which were essential conditions for creating an environment propitious to investment and economic competitiveness.

## 8.2 The economic outlook

Based on estimates available as of the end of the first quarter of 2009, the performance of the Portuguese economy in 2008 was to a large extent conditioned by a particularly unfavourable external economic situation that began originally in the second half of 2007. The repercussions of the financial crisis that originated in the United States and spread to the rest of the world led to a cutback in financing, a highly uncertain economic climate and to global economic recession.

The unfavourable global environment caused a trend reversal in Portugal's economic performance which had been on an upswing since 2005, leading to a deceleration in GDP growth in real terms (GDP was flat in 2008 compared with a growth of 1.9% in 2007), reflecting a softening of net external demand that resulted in a reduction in exports of goods and services (-0.5% in volume) and a deceleration of domestic demand, with investment being most responsible for this decline (-1.% in 2008 after increasing 3.2% the previous year).

In nominal terms, GDP reached 166,127.6 million euros in 2008, reflecting an increase of 1.8% compared with the year before.

### Main economic indicators (%)

| | 2004 | 2005 | 2006 | 2007 | 2008[a] | 2009[b] | 2010[c] |
|---|---|---|---|---|---|---|---|
| Gross domestic product[d] | 1.5 | 0.9 | 1.4 | 1.9 | -0.0 | -3.7 | -0.8 |
| Private consumption[d] | 2.5 | 2.0 | 1.9 | 1.6 | 1.6 | -1.3 | -0.4 |
| Public consumption[d] | 2.6 | 3.2 | -1.4 | 0.0 | 0.5 | 0.6 | 0.2 |
| Gross fixed capital formation[d] | 0.2 | -0.9 | -0.7 | 3.2 | -1.1 | -14.4 | -8.0 |
| Exports of goods and services[d] | 4.0 | 2.0 | 8.7 | 7.5 | -0.5 | -11.7 | -0.1 |
| Imports of goods and services [d] | 6.7 | 3.5 | 5.1 | 5.6 | 2.1 | -10.0 | -2.3 |
| Current balance (% of GDP) | -7.6 | -9.5 | -10.1 | -9.5 | -11.9 | -9.8 | -9.5 |
| Public sector balance (% of GDP) | -3.4 | -6.1 | -3.9 | -2.6 | -2.6 | -6.5 | -6.7 |
| Public debt (% of GDP) | 58.3 | 63.6 | 64.7 | 63.6 | 66.4 | 75.4 | 81.5 |
| Unemployment rate | 6.7 | 7.6 | 7.7 | 8.0 | 7.7 | 9.1 | 9.8 |
| Inflation rate[e] | 2.5 | 2.1 | 3.0 | 2.5 | 2.7 | -0.3 | 1.7 |

Sources: 2004/2008 INE - Instituto Nacional de Estatística , Banco de Portugal and European Commission;
2009/2010 Banco de Portugal, MFAP and European Commission
(a) Preliminary data; (b) Forecasts; (c) Projections; (d) Change in real terms; (e) Harmonised Index of Consumer Prices

The labour market was characterized by some employment growth in the first half of the year which brought about a decline in the unemployment rate to 7.4% but economic conditions worsened in the second half and brought up the jobless rate to an average for the full year 2008 of 7.7%.

By sectoral breakdown, the services sector contributed to changes registered in the labour market. This indicates a significant mobility of workers and strong dynamism in the sector. Contrary to that, the secondary and primary sectors experienced reduction and stagnation, respectively, indicating a transfer of manpower to service-related industries.

The increase in prices of raw materials, especially for crude petroleum, and the appreciation of the euro in relation to the dollar contributed to an acceleration in consumer prices, with inflation as measured by the average change in the purchasing power index reaching 2.7% in 2008, up three tenths compared with the year before.

Due to the adverse economic conditions prevailing, the Banco de Portugal forecast for 2009 calls for a contraction of -3.5% of the GDP (the European Commission forecast is -3.7%), compared to the previous year when growth had been flat. The negative prospect relects weakness in domestic demand. The greater difficulty in obtaining access to credit associated to the high level of indebtedness by individuals and the high degree of uncertainty related to the development of the economy, will affect private consumption growth (-1.3%). As for public consumption, it is expected that there will be negative growth here due to certain reductions in public spending.

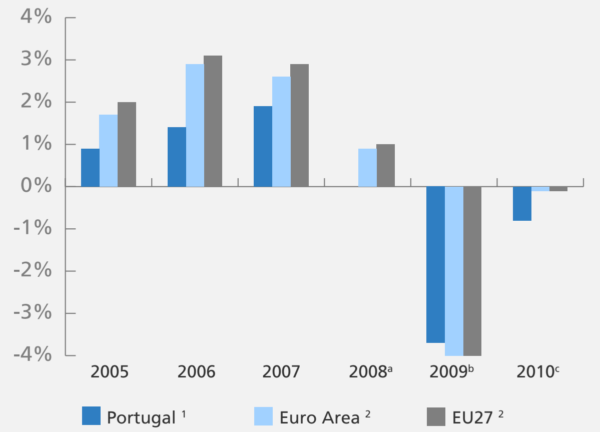
The unfavourable external picture should also affect trends in investment outlays. Only in 2010 are they expected to feel the positive impact from the start of definite plans that involve private sector participation in the development of important projects in the public works area, the highlights of which include the energy, tourism, railway, and highway construction sectors.

The above developments are likely to lead to an increase in the merchandise trade deficit, which will be only partially offset by the services component.

The rate of inflation, which in 2006 saw the trend shift away from reductions that had been in evidence since 2001, rose to 3.0% that year, a rise attributable to the impact on consumer prices from the rise in indirect taxes, as well as an increase in prices of imported goods, fell to 2.5% in 2007. In 2008, the acceleration of international prices for energy products made inflation turn around and record a slight increase from the previous year.

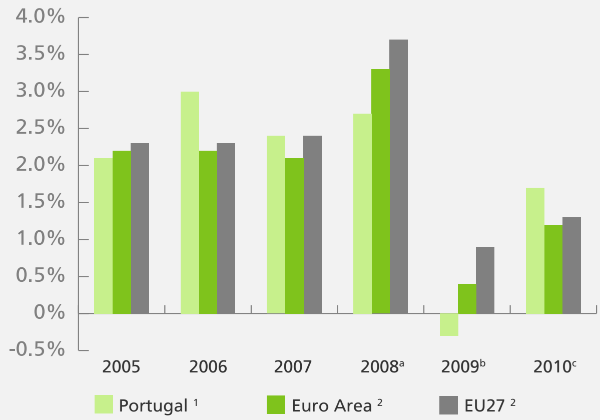
For 2009 a significant decline in the rate of inflation is anticipated, based on the assumption that raw material prices, especially for energy products, will decline and that domestic demand will register another decline.

## GDP growth rates (%)

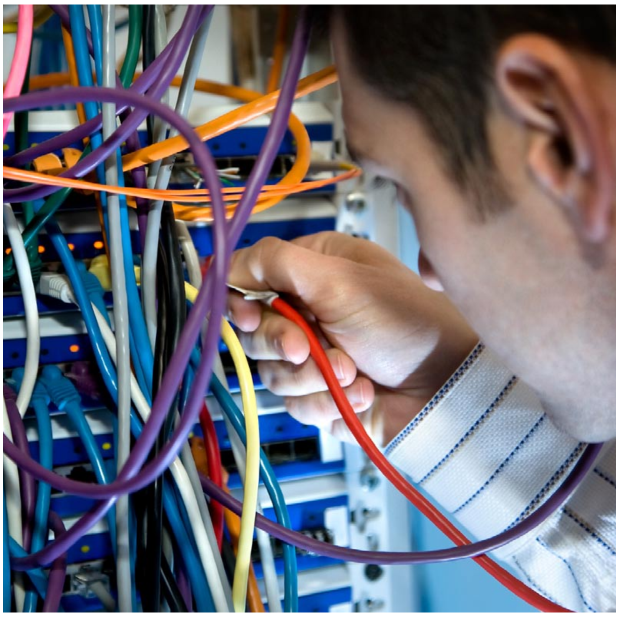



Source: (1) INE – Instituto Nacional de Estatística (2005-2008), European Commission (2009-2010)
(2) European Commission – Economic Forecast, Spring 2009
Note: (a) Preliminary estimatess; (b) Forecasts; (c) Projections

## Inflation rates




Sources: (1) INE – Instituto Nacional de Estatística (2005-2008), European Commission (2009-2010)
(2) European Commission – Economic Forecast, Spring 2009
Notes: (a) Preliminary data; (b) Forecasts; (c) Projections;
Inflation rate – Harmonized index of consumer prices

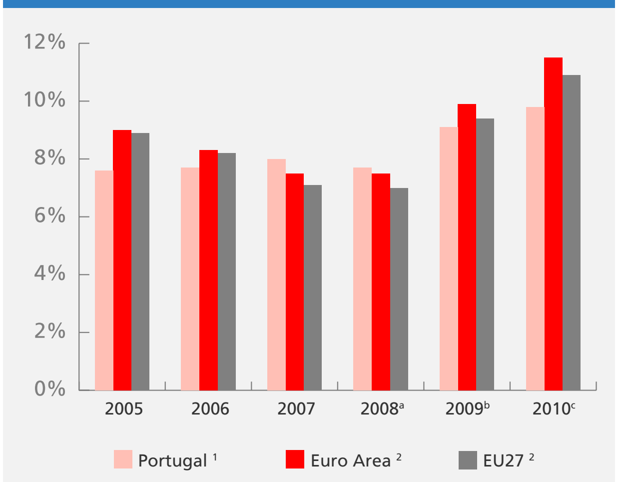


Regarding public finances, the process of budgetary consolidation that began in 2005, resulted in a correction of a significant portion of the existing budgetary disequilibrium due to the adoption of a restrictive budgetary policy and implementation of structural reforms that resulted in an increase in revenues (higher fiscal receipts) and the reduction of expenditures (primary and capital spending). This coupling of efforts resulted in a budget deficit in both 2007 and 2008 that fell to 2.6%, the lowest ratio in the last 30 years.

Even the level of public debt saw some improvement; its decline was more than had been foreseen and in 2007 there was a decline of the debt-to-GDP ratio.

In 2006, the increase in GDP was accompanied by a slight increase in the employment level, particularly in the private sector, so that the unemployment rate in Portugal remained more or less stable, but in the following year the trend changed with a consequent rise once again in the unemplyment rate to a level of 8%. In 2008 due to more dynamisn in the labour market, the unemployment rate declined again to 7.7%, and so fallin back to levels that prevailed in 2005 and 2006, that although they were high, were foreseen to be on a new stabilization trend.

## Unemployment rate (%)




Source: (1) INE – Instituto Nacional de Estatística (2005-2007; European Commission (2008-2010)
(2) European Commission – Economic Forecast, Spring 2009
Note: (a) Preliminary data; (b) Forecasts; (c) Projections

With a diffcult year foreseen in 2009, the improved balance in public accounts finds Portugal better prepared to deal with the adverse consequences of the financial situation and the economic outlook, with the euro area set to register the worst decline in GDP since the introduction of the European common currency with some countries experiencing a contraction in their economies, including Germany, France, Italy, and Spain, all of which are Portugal's main export markets.

Despite serious constraints on the economic ront, Portugal succeeded in consolidating a few structural changes in its

economy: the weight of services has increased its share in in total exports and the geographical diversification of exports was enhanced (the four major markets saw their share of the total decline 2.5% compared with 2007), in counterpoint with a decline in the importance of the EU as a trading partner of Portugal.

With the objective of attenuating the effects provoked by the international crisis on the economy, the Portuguese Government launched a package of measures to stimulate the economy, assist families and businesses – the main victims of the of the crisis,  and to encourage investment and protect employment. It also implemented measures to strengthen financial stability, a vital area needed to restart the economy.

## 8.3 The regional economies

In 2007 the value of regional GDP in nominal terms grew less than the national average of 4.9% only in Lisbon (4.6%), the Algarve (4.6%) in the A.R. of Madeira (4.7%), and in the A.R. of the Azores (4.5%), with the remaining regions growing above the national average, also in nominal terms, most notably the Centre Region (5.3%).

As for the geographical breakdown of GVA and employment, the region of Lisbon stands out, accounting for the largest share in terms of GVA (36.6% of the national total), and the North Region, in so far as it accounts for the largest share of employment (34.3% of the total).

In both 2006 and 2007, only the Lisbon Region exceeded the European average in terms of per capita GDP expressed in terms of PPP[12] (106% of the EU 27 average, while the national average stood at 76%).

In 2006, the latest available data, gross fixed capital formation (GFCF) for the country as a whole, expanded 2.0% in nominal terms over 2005, with the regions of Lisbon, the Algarve and the North making above-average, positive contributions of 15.3%, 10.7%, and 4.2%, respectively.

In the remaining regions, investments made were below the 2005 level, due to declines registered in the categories relating to trade, hotel, restaurant, transport, and communications, except for the Centre Region that was most adversely affected by the reduction in investments related to financial activities, real estate, rentals, and business services.

Also in 2006, gross disposable family income expanded 4.2% in nominal terms compared with the previous year, while at the regional level this indicator grew at different rates, with families in the Algarve region experiencing disposable income growth well above the national average.

12 PPP – Purchasing power parities

## North

The North is one of the oldest regions of Portugal but is the one that has the youngest population of the Continent (39% of the total). In this region can be found the second largest Portuguese city, Oporto, which contributes in a major way to the important position the region has relative to the national GDP (second position with 28.1% of the total in 2007). Also in 2007, the North recorded the highest growth rate in GDP in real terms: 2.4% compared with the national average of 1.9%. As for investments, the North was in second place with a 28% share, having risen in nominal terms for the last three years. The labour force participation rate is equal to the national average, but the region also has the highest unemployment rate in the country, accounting for 41% of the total, a not so positive factor that can be explained by the industrial characteristics of this region. Meanwhile it keeps up a significant export activity, accounting for 41% of all Portuguese exports, mostly industrial products.

## General Data

| | |
|---|---|
| **Capital:** | Oporto |
| **Area:** | 21,286 km$^2$ (23.9% of the Continent) |
| **Population (2007):** | 3,745,236 |
| **Sub-regions:** | Alto Trás-os Montes, Ave, Cavado, Douro, Entre Douro e Vouga, Grande Porto, Minho-Lima, and Tâmega |
| **Councils:** | 86 (27% of the national total) |
| **Geomorphologic characteristics** | Plains along the coast; hills and mountains in the interior. |
| **Major rivers** | Minho and Douro. |
| **Flora** | Pines, including the maritime type on the coast;<br>Eucalyptus, which is replacing oaks. |
| **Agricultural sector (major economic activities)** | Wheat, maize, vegetables and vines (first region of demarcation in the world - Douro), with Port wine that is unique.<br>Cattle grazing and fishing. |
| **Industrial sector (principal industries)** | Electric and electronic equipment, automotive components, shipbuilding, textiles, footwear, furniture, cutlery and ironworks, wood and cork, dairy products; mining. |
| **N° of exporting companies (2007)** | 8,972 (36.7% of the total) |
| **Infrastructure** | Oporto International Airport; good roadway connections (auto-estradas, IP and IC); Oporto subway/underground system |

©Antonio Sacchetti

Douro river (Oporto city)

## Main Economic Indicators

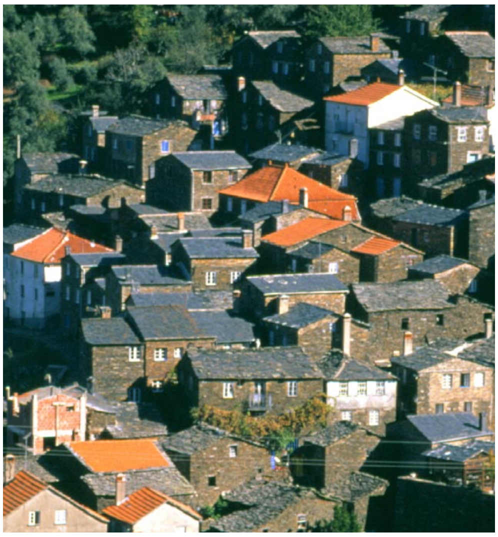
| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 39,056 | 40,415 | 41,799 | 43,511 | 45,780 |
| GDP per capita (b) | 10.6 | 10.9 | 11.2 | 11.6 | 12.2 |
| Gross value added (GVA) (a) | 33,950 | 35,139 | 35,980 | 37,244 | 39,240 |
| Gross fixed capital formation (GFCF) (a) | 8,245 | 8,447 | 9,041 | 9,424 | n.a. |
| Gross disposable family income (a) | 28,268 | 29,445 | 30,402 | 31,734 | n.a. |
| Employment (c) | 1,762.6 | 1,761.4 | 1,752.4 | 1,758.6 | 1,756.1 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007
Notes: (a) Millions of euros; (b)Thousands of euros; (c) Thousands of persons; n.a. - not available

## Centre

The Centre Region, although it is not a major contributor to national GDP (19% in 2007), has an activity rate (58%) that is above the national average (53%), despite being the second region of the country in terms of having the highest population of persons aged 65 and over. The employed population corresponds to over half (54%) of the resident population and 57 % of the population is over 15 years of age. The latter group is employed mostly in manufacturing and services. The region also was responsible for almost 22% of the country's exports in 2007. This region, due to the diversity of its countryside and its beautiful architectural sites, has seen a major expansion in tourism activity in the last few years, as can be seen fro the number of hotel nights spent in the area which exceeded three million in 2007.

## General Data


©Antonio Sacchetti
Piodão Village (partial view)

| | |
|---|---|
| **Principal cities:** | Coimbra and Aveiro |
| **Area:** | 28,200 km$^2$ (31.7% of the Continent) |
| **Population (2007):** | 2,385,911 |
| **Sub-regions:** | Baixo Mondego, Baixo Vouga, Beira Interior Norte, Beira Interior Sul, Cova da Beira, Dão-Lafões; Médio Tejo, Oeste, Pinhal Interior Norte, Pinhal Interior Sul, Pinhal Litoral, Serra da Estrela |
| **Councils:** | 100 (25,2% do total) |
| **Geomorphologic characteristics** | Relatively flat terrain near the coasts; Rocky terrain in the interior (shale, granite, wolfram). |
| **Flora** | It is one of the richest areas in forests, especially olive trees. |
| **Predominant countryside** | Diversified countryside with contrasts between beaches on the coast and mountains; rich in architectural landmarks |
| **Industrial sector (principal industries)** | Chemical industry, automotive components, moulds, pulp and paper, textiles (wool), ceramics, dairy products, olive and meat processing, winemaking; mining (gold, lead, wolfram, and tin). |
| **Nº of exporting companies (2007)** | 5,236 (21.4% of the total) |

## Main Economic Indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 26,635 | 27,717 | 28,417 | 29,652 | 31,229 |
| GDP per capita (b) | 11.3 | 11.7 | 11.9 | 12.4 | 13.1 |
| Gross value added (a) | 23,153 | 24,099 | 24,461 | 25,381 | 26,768 |
| Gross fixed capital formation (a) | 6,601 | 6,880 | 7,089 | 6,942 | n.a. |
| Gross disposable family income (a) | 19,815 | 20,513 | 21,192 | 22,150 | n.a. |
| Employment (c) | 1,245.1 | 1,233.3 | 1,221.5 | 1,235.7 | 1,229.7 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007
Notes: (a) Millions of euros; (b) Thousands of euros; (c) Thousands of persons; n.a. - not available

## Lisbon

The Region of Lisbon is made up of Greater Lisbon and by the Península of Setúbal. Given the economic importance of the Greater Lisbon sub-region in the overall economy, this region is the most important contributor to national GDP, in productivity, in investment, and in gross disposable family income. Also, in terms of GDP per capita, Greater Lisbon is above the national average by 70% and in 2007 accounted for more than one-fourth of employment (27%), and for 37% of the country's GVA. It is also the a region that generates a lot of exports, being responsible for nearly 30% of Portugal's total exports in 2007. Despite being the second region in terms of number of exporting companies (surpassed only by the North), the most qualified labour force and the largest number of high technology companies can be found here.

## General Data


©José Manuel

Praça do Comércio and Terreiro do Paço squares – Arch of Augusta St.

| | |
|---|---|
| **Capital:** | Lisbon |
| **Area:** | 2,935 km² (3.3% of the Continent) |
| **Population (2007):** | 2,808,414 |
| **Sub-regions:** | Greater Lisbon and Península of Setúbal |
| **Councils:** | 18 (5.8% of the national total) |
| **Countryside:** | There are beaches and many green areas. |
| **Major rivers** | Tagus and Sado |
| **Agricultural sector (predominant agricultural activities)** | Has much fertile land in areas near rivers.<br>Principal crops: cereals, fruit, vines,a and horticultural products. |
| **Industrial sector (principal industries):** | This region groups together many large and medium-sized companies in manufacturing. For example: petrochemical, shipbuilding, steel-making, automotive industry, textiles, salt extraction, stone quarrying, fishing, and wine-related activities. |
| **Nº of exporting companies (2007)** | 8,446 (34.6% of the total)a |
| **Services:** | In this region are concentrated most of the service activities, with the tourism sector being a major industry. |

## Main Economic Indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 50,891 | 53,208 | 55,140 | 57,087 | 59,722 |
| GDP per capita (b) | 18.7 | 19.3 | 19.9 | 20.5 | 21.3 |
| Gross value added (a) | 44,238 | 46,261 | 47,463 | 48,864 | 51,190 |
| Gross fixed capital formation (a) | 10,333 | 9,859 | 9,731 | 11,218 | n.a. |
| Disposable family income (a) | 31,799 | 33,037 | 34,657 | 35,827 | n.a. |
| Employment (c) | 1,365.2 | 1,366.3 | 1,369.7 | 1,370.5 | 1,376.5 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007

Notes: (a) Millions of euros; (b) Thousands of euros; (c) Thousands of persons; n.a. - not available

## Alentejo

The Alentejo Region is characterized by great distances between localities; it is sparsely populated despite having experienced large numbers of emigration and migrations. The economic profile of this region has been changing in the past few years as a result of two large projects with enormous implications for the economic structure of the Alentejo: in the interior the Alqueva and along the coast the industrial zone and port of Sines. Because of these changes the region is experiencing per capita GDP growth that is closer to the national average and has produced gains that are above average in terms of productivity.

The multifaceted project of the Alqueva has added a great deal of dynamism to the interior area of the Alentejo. Various infrastructures of the Alqueva Global System have already been built and many other are well advanced. Today, the Alqueva is about to become one of the finest tourist destinations.

The logistics platform of Sines and its port (the country's leader in the quantity of merchandise moved) have assumed a fundamental role in the economic and entrepreneurial fabric of the region.

## General Data

| | |
|---|---|
| **Principal cities:** | Évora and Beja |
| **Area:** | 31,552 km² (35.5% of the Continent) |
| **Population (2007):** | 760,933 |
| **Sub-regions:** | Alentejo Central, Alentejo Litoral, Alto Alentejo, Baixo Alentejo, and Lezíria do Tejo |
| **Councils:** | 58 (18.8% of the national total) |
| **Geomorphologic characteristics** | There are plains, except in the north and east which is characterized by mountain areas of low altitude. (Serras of São Mamede and of the Marão). |
| **Climate** | Hot and dry (different from the rest of the Portuguese territory), due to low precipitation. |
| **Flora** | Above all olive trees, cork trees, red oaks, and pines. |
| **Mining** | Copper, sulphur, marble, and pyrite. |
| **Agricultural sector (major agricultural activities)** | Wheat, barley, oats, and sunflowers; raising of pigs, sheep, and horses. |
| **Industrial sector (principal industries)** | Petrochemical industry, automotive and electronic components, marble industry, winemaking, olive and meat processing. |
| **Nº of exporting companies (2007)** | 1,155 (4.7% of the total) |
| **Major projects at the regional level** | Alqueva Dam - largest dam in Portugal and in Europe, situated on the Guadiana River, in the interior part of the Alentejo, close to the Spanish frontier.<br>Port of Sines – logistics platform for ports and industries, international logistics for services and energy. |

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Alqueva Dam

## Main Economic Indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 9,388 | 9,728 | 10,051 | 10,670 | 11,192 |
| GDP per capita (b) | 12.2 | 12.7 | 13.1 | 13.9 | 14.7 |
| Gross value added (a) | 8,161 | 8,458 | 8,652 | 9,133 | 9,594 |
| Gross fixed capital formation (a) | 2,703 | 3,256 | 2,817 | 2,385 | n.a. |
| Gross disposable family income (a) | 6,627 | 6,865 | 6,961 | 7,312 | n.a. |
| Employment (b) | 317.9 | 316.8 | 317.5 | 318.9 | 319.7 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007

Notes: (a) Millions of euros; (b) Thousands of euros; (c) Thousands of persons; n.a. - not available

## Algarve

The Algarve is the southernmost region of the mainland of Portugal and is known as one of the principal tourist destinations in Portugal, offering many diversified and quality attractions. As a result, the services sector, which absorbs 63% of the employed population, dominates economic activity in the region, with tourism being the primary "motor" driving economic development in the Algarve.

This region, which every year receives almost 10 million visitors, accounted for more than 35% of the number of all rated hotels, about 41% (10.7 million) of registered nights spent in hotels and received an impressive one-third of the all the income generated by hotels. The importance of this subsector allowed the region to register per capita GDP growth and productivity advances that exceeded the national average.

## General Data


©José Manuel

Lagos beach

| | |
|---|---|
| **Capital:** | Faro |
| **Area:** | 4,996 km² (5.6% of the Continent) |
| **Population (2007):** | 426,386 |
| **Cities (16):** | Albufeira, Alcoutim, Aljezur, Castro Marim, Faro, Lagoa, Lagos, Loulé, Monchique, Olhão, Portimão, S. Brás de Alportel, Silves, Tavira, Vila do Bispo, and Vila Real de Santo António. |
| **Geomorphologic characteristics** | Plains along the coast; higher elevations in the interior. The highest point is in the Serra de Monchique. |
| **Main rivers** | Guadiana, on the frontier with Spain. |
| **Flora** | Characterized by almond trees, prickly cactus, thistle flowers, lavender, red oaks, cork trees, olive trees, and carob shrubs. |
| **Agricultural sector (main agricultural activities)** | Maize and wheat. Traditional agricultural products of note are dried fruits (figs, almonds and carob beans), berry brandy and cork. Donkey raising prevails in grazing. |
| **Industrial sector (principal industries)** | Fish farming, forestry (cork and carob bean), marble works, pottery, copper and wood, food products (biological products), fishing industry (canning). |
| **Nº of exporting companies (2007)** | 381 |
| **Services:** | Tourism. The region has beautiful beaches and natural scenery. |

## Main Economic Indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 5,669 | 5,852 | 6,169 | 6,540 | 6,842 |
| GDP per capita (b) | 14.1 | 14.3 | 14.9 | 15.6 | 16.1 |
| Gross value added (a) | 4,928 | 5,088 | 5,311 | 5,598 | 5,865 |
| Gross fixed capital formation (a) | 1,617 | 1,609 | 1,642 | 1,817 | n.a. |
| Gross disposable family income (a) | 4,064 | 4,169 | 4,347 | 4,594 | n.a. |
| Employment (b) | 202.0 | 206.8 | 207.6 | 208.7 | 209.0 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007

Notes: (a) Millions of euros; (b) Thousands of euros; (c) Thousands of persons; n.a. - not available

## Azores

The Autonomous Region of the Azores is considered the western frontier of the European Union. It is an archipelago full of so much natural beauty as to make it a logical choice for tourism development, a sector considered of strategic importance in the region's development. In the years from 2003 to 2007, the number of hotel nights rose 47.3% to almost 1.2 million at the end of the period, the average occupancy rate rose from 37.4% to nearly 40% and total profits went up 45.8%, reaching a level of 55 million euros by 2007.

The gross domestic product of the Azores reached three billion euros in 2007, due to a nominal increase of 4.5% from the previous year and a rise of nearly 47% compared with 2000.

The excellent performance of the regional economy in the last few years made it possible for the Azores to surpass the regions of North and Centre in terms of per capita GDP in 2007.

## General Data

The Pico island

©Associação de Turismo dos Açores

| | |
|---|---|
| **Capital** | Ponta Delgada |
| **Other major cities:** | Horta and Angra do Heroísmo |
| **Area:** | 2,322 km² |
| **Population (2007):** | 244,006 |
| **Composição do arquipélago** | Nine islands and some uninhabited islets (the Formigas). Islands of the eastern group: Sta. Maria and S. Miguel. Central Group: Terceira, Graciosa, S. Jorge, Pico, and Faial. Western group: Flores and Corvo. |
| **Geomorphologic characteristics** | Volcanic origin, except Sta. Maria. There are still active volcanoes on the island of S. Miguel. |
| **Flora** | There are 56 indigenous species; the typical local vegetation of the Azores is one of the most interesting in Europe. The most important are cedar, holly, the ericaceous tree, heather, and heath, etc. |
| **Fauna** | Migratory birds, the São Miguel bulldog and various types of fish of interest to sports fishermen. |
| **Agriculture and fishing sectors (principal activities)** | Maize, sweet potato, wheat, and yams. Cattle raising. Fishing activity (especially tuna) and the traditional whale hunt. |
| **Industrial sector (principal industries)** | Besides industries linked to agriculture (dairy products and similar) and fishing, there is some light manufacturing. |
| **Nº of exporting companies (2007)** | 99 |
| **Services** | Tourism |

## Main Economic indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 2,785 | 2,887 | 3,018 | 3,199 | 3,343 |
| GDP per capita (b) | 11.6 | 12.0 | 12.5 | 13.2 | 13.7 |
| Gross value added (a) | 2,421 | 2,510 | 2,597 | 2,738 | 2,866 |
| Gross fixed capital formation (a) | 1,167 | 1,027 | 1,290 | 871 | n.a. |
| Gross disposable family income (a) | 2,085 | 2,153 | 2,250 | 2,348 | n.a. |
| Employment (b) | 100.8 | 103.2 | 104.2 | 104.5 | 104.8 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007

Notes: (a) Millions of euros; (b) Thousands of euros; (c) Thousands of persons; n.a. - not available

## Madeira

The economy of the Autonomous Region of Madeira is based mostly on the services sector, with tourism being the most important source of revenue. The primary agricultural crops are bananas for local and national consumption, flowers and the well known Madeira wine. In the industrial sector, which accounts for 10% of regional GDP, there coexist handicrafts activities aimed at the export market such as embroideries, tapestries and wicker baskets, together with others oriented towards the regional market such as milling, bread and pastry, dairy products, beer, tobacco, and wine.

In the last few years, there has been a rapid build-up of infrastructures, particularly to enhance accessibility, as well as more schools and health facilities, in order to improve living conditions of the population and businesses so they can participate more actively in the Region's development. It is worth noting that the dynamic conditions in the area have resulted in job creation for the local active population, given that the unemployment rate was only 6.7% as of 2007.

## General Data

| | |
|---|---|
| **Capital:** | Funchal |
| **Area:** | 801 km$^2$ |
| **Population (2007 estimates):** | 246,689 |
| **Geographical situation** | Archipelago in the Atlantic Ocean at 978 km southwest of Lisbon and about 700 km from the African coast. |
| **Composition of the archipelago** | Island of Madeira, island of Porto Santo, Ilhas Desertas and Ilhas Selvagens. The last two are not inhabited but are natural reserves. |
| **Geomorphologic characteristics** | Volcanic origin. |
| **Flora** | The indigenous forest of Madeira, the Laurissilva, is a treasured patrimony for being one of the rarest forests on the planet. There are other plants and trees and flowers (orchids). |
| **Agricultural sector (principal activities)** | In the lowlands, close to the sea: banana, custard fruit, mango, sugar cane, and maracujá. At moderate elevations: potato, beans, wheat, maize, and Mediterranean fruit trees (fig trees, medlar trees). In higher elevations: pasture lands, pines and woods. As for grazing, there are sheep and goats and a few cattle. There are some traditional forms of fishing in catching tuna and swordfish. |
| **Industrial sector (principal industries)** | Handicrafts activities: embroidery, tapestry and wicker items. Small industries focused on local markets: pastas, dairy products, sugar cane. |
| **Nº of exporting companies (2007)** | 141 |
| **Services** | Tourism |


©Paulo Magalhães
View of the city of Funchal

## Main Economic Indicators

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|
| Gross domestic product (a) | 3,887 | 4,156 | 4,348 | 4,609 | 4,824 |
| GDP per capita (b) | 16.1 | 17.1 | 17.8 | 18.8 | 19.6 |
| Gross value added (a) | 3,379 | 3,613 | 3,743 | 3,945 | 4,135 |
| Gross fixed capital formation (a) | 1,064 | 1,496 | 1,480 | 1,090 | n.a. |
| Gross disposable family income (a) | 2,299 | 2,446 | 2,491 | 2,588 | n.a. |
| Employment (c) | 119.0 | 123.9 | 122.1 | 124.2 | 123.7 |

Source: INE – Instituto Nacional de Estatística – Definitive Regional Accounts for 2006 and Preliminary 2007
Notes: (a) Millions of euros; (b) Thousands of euros; (c) Thousands of persons; n.a. - not available

## 9. Regional Economic Framework – Portugal and the European Union

The course of Portugal's European journey, first as a member of EFTA between 1960 and 1985, then with the European Community beginning in 1986, had an impact on its economic development. The EFTA effect had an impact in generating more trade between Portugal and the other member countries, the EEC effect introduced new elements with major consequences at an economic level, such as the introduction of the "single market", trade liberalization, customs and monetary union, and even an opening up towards Spain which became in just a few years Portugal's principal trading partner.

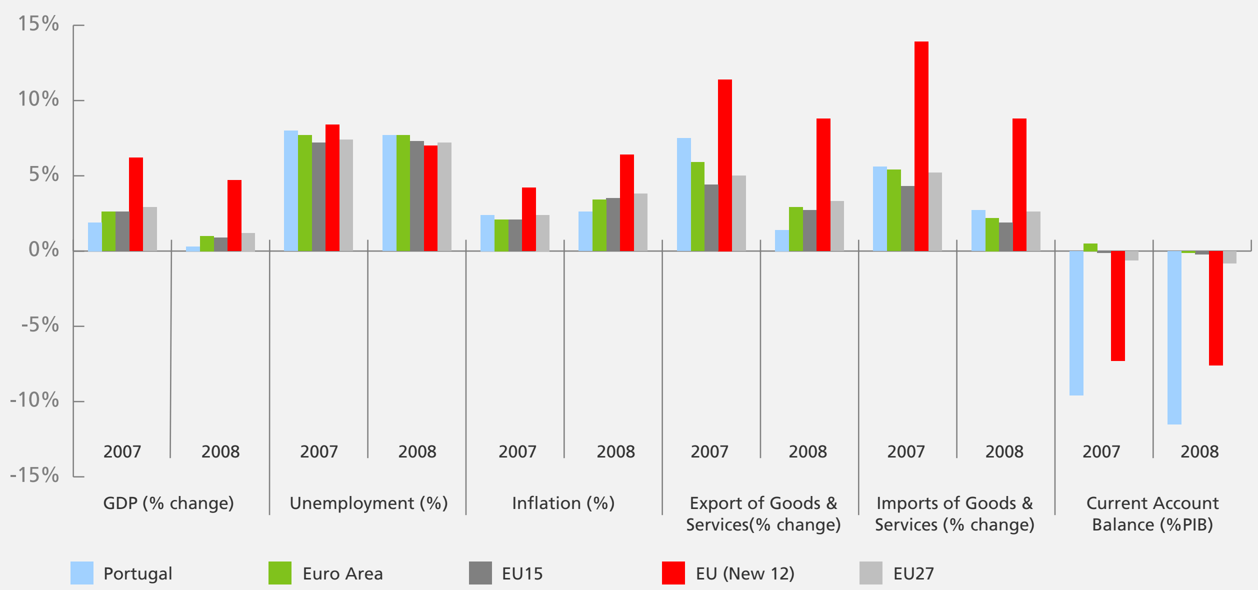
Portugal also has strong cultural ties with the countries that comprise the Portuguese Speaking Language Community (Comunidade de Língua Portuguesa – CPLP) and has been trying to transform these ties into greater political and economic cooperation with the various member countries, especially with the larger countries such as Brazil, Angola and Mozambique where there is a significant Portuguese presence.

Portugal's external relations policy will continue to be based on maintaining strong relations with the North Atlantic countries, mainly the United States, due primarily to its NATO presence, as well as promoting closer economic relations with the key emerging markets such as Russia, China and India.

Within the European Union, Portugal can be considered as a medium-sized economy that has made all the necessary efforts to achieve economic convergence with the EU. Nevertheless, the international crisis that was unleashed already in 2007 and affected all countries, led to the change in defined goals and a postponement of any further closer integration with the rest of the European Community.

In order to have a global overview of Portugal's position in the last two years, in context of the EU and the euro area, below is a comparative table of key economic indicators, published by the Economist Intelligence Unit.

**Selected Economic Indicators for the European Union**



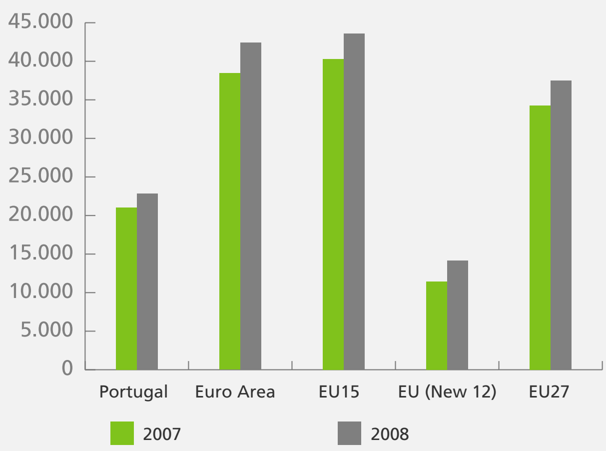

Source: EIU Viewswire – 5 Year Forecast Table

Notes: Year 2007 – Final data for Portugal and estimates for the other groups; Year 2008 – Estimates; exports and imports of goods and services include intra-regional trade; EU12 includes Bulgaria, Cyprus, Estonia, Slovakia, Slovenia, Hungary, Latvia, Lithuania, Malta, Poland, Czech Republic and Romania. Data for Malta are not included.

Portugal has a per capita GDP that is nearly double the average of the 12 enlargement countries, but only about half that of the euro area and the EU15.

As for the remaining indicators, as can be seen from the above table, they all registered declines in 2008. The growth rate of the Portuguese economy has been quite penalized by the international crisis and has deviated from the European average, the unemployment rate is aligned with the euro area average and is only slightly higher than the EU average. Expected inflation shows a much lower rate than the average for the EU and the euro area. The new members of the EU are showing inflation that is three times higher than that of Portugal.

**GDP per capita**




Source: EIU Viewswire – 5 Year Forecast Table
Notes: Per capita GDP at current prices.

Concerning the forecasts relating to growth of goods and services, even considering that they include intra-community trade, it is important to single out the negative impact of the international crisis on foreign trade at a global level, affecting the European market and Portugal in particular.

Lastly, the least positive component of this group of indicators is the deficit in the current account balance, where Portugal continues to show a much larger disequilibrium on average compared with the other members of the EU.

# 10. Foreign Trade

Within the context of a sharp decline in global demand, the preliminary estimates of the World Trade Organization point to a 2% growth in international trade in 2008, versus an increase of 5.5% in 2007, with prospects of a worst performance in 2009 when the decline is expected to be 9% in volume, and particularly linked to a sharp decline in developed countries (-10%) while the exports of emerging market countries may not increase more than 2/3%.

In 2007, Portugal registered a nominal increase of 11% in exports of goods and services, the second best showing for the 2004-2008 period and had a gain in market share on a global basis. In 2008, there was an increase of only 2.4%, with the last quarter alone showing a 8.9% decline, the worst for the year.

Portugal's foreign trade was especially impacted by the effect of the international crisis on its principal trading partners, particularly those countries that are other members of the EU, where there was a negative growth rate of 2.8%, the first decline since 1993.

All together it is important to point out that Portuguese exports of goods and services, especially the latter, had shown exceptional strength, without parallel, in the last few years even with a strong euro and the loss of competitiveness of some of our most important industries, becoming one of the factors that most contributed to the good performance of the Portuguese economy (206% and 135% in 2006 and 2007 to overall growth in GDP).

The importance of merchandise exports in the economy has also increased, and in 2008 accounted for 34% of GDP compared with only 26.8% in 1995.

## 10.1 Trade balance trends

The Portuguese trade balance of goods and services is traditionally in deficit and in 2008 it showed a negative outturn that approached 17 billion euros. In the last five years, the sales of goods and services to the rest of the world registered an average annual growth rate of 7.7%. In annual terms, the largest change occurred in 2006 when there was an increase of 14%. As for purchases from abroad, the average annual growth rate over the same period was slightly lower (7.5%) and the year 2006 also registered the highest increase in imports of the entire period (9.1%).

Analysing each one of the components of the trade balance individually, the services sector, even though they account for only 32% of total sales and 16% of Portugal's purchases abroad, registered over the period 2004-2008 an annual average growth rate of 11.1% for capital coming inwards (credits) and 9.8% in the outflows of capital (debits).

It is worth noting that, not only did growth in credits in absolute terms exceed 50% in five years and 45% for debits, but also this component presented a surplus in the overall balance, with a coverage ratio that in 2008 was over 150%.

In the year 2007 there was a greater increase in capital outflows (+19%) whereas in 2006 there occurred the largest increase in purchases of services from abroad (+15%).

Over the same period, foreign trade in merchandise registered an average annual growth rate of 6% in exports and 7% in imports in nominal terms, although there was a very sharp decline in the rate of growth of our sales abroad in the last two years, which followed a sustained period of growth that comenced at the beginning of the decade. The decline was justified by the difficult period experienced by the world economy and above all in Portugal's principal markets. This led to sharp declines in demand that were only partially compensated by the higher demand outside the EU, as will be explained later.

The opposite happened to Portugal's purchases abroad which maintained a healthy rate of growth and and thus contributed towards a deterioration in the trade deficit which reached almost 23 billion euros in 2008.

In summary, despite expectations of a decline in Portugal's international trade, at least for the duration of 2009, a gradual upturn is hoped for in 2010, even though these forecasts contain a high level of risk.

## Portuguese Trade Balance (services)

| | 2004 | 2005 | 2006 | 2007 | 2008 | AAGR (%) |
|---|---|---|---|---|---|---|
| **Credits** | 11,853 | 12,255 | 14,635 | 16,980 | 17,928 | 11.10 |
| **Debits** | 7,838 | 8,412 | 9,681 | 10,490 | 11,380 | 9.81 |
| **Balance** | 4,015 | 3,843 | 4,954 | 6,490 | 6,548 | |
| **Coverage ratio (%)** | 151.2 | 145.7 | 151.2 | 161.9 | 157.5 | |

Unit: Millions of euros (current prices)
Source: Banco de Portugal (Balance of Payments)
Notes: Credit – Capital inflow; Debit – Capital outflow; AAGR – Average annual growth rate

## Portuguese Trade Balance (goods)

| | 2004 | 2005 | 2006 | 2007[a] | 2008[a] | AAGR (%) |
|---|---|---|---|---|---|---|
| **Exports** | 29,870 | 30,710 | 34,511 | 37,589 | 37,961 | 6.27 |
| **Imports** | 46,598 | 49,138 | 53,100 | 57,056 | 61,175 | 7.05 |
| **Balance** | -16,728 | -18,428 | -18,589 | -19,467 | -23,214 | |
| **Coverage ratio (%)** | 64.1 | 62.5 | 65.0 | 65.9 | 62.1 | |

Unit: Millions of euros (current prices)
Source: INE – Instituto Nacional de Estatística
Notes: (a) Estimates for January-December; AAGR – Average annual growth rate

Exports will continue to be one of the principal drivers of Portuguese economic growth, and for this reason it is important to continue to depend on the "excellence", quality and innovation of our goods and services and encourage businesses to improve their competitiveness in the context of a global market that has become ever more aggressive.

## 10.2 Main trading partners

In 2008, all of the EU countries taken together accounted for 73.7% and 73.5%, respectively, of all Portuguese exports and imports. As a result, Portugal's principal clients that year were its EU trading partners, in particular Spain (27.2%), Germany (12.9%), France (11.7%), and the United Kingdom (5.5%). In like manner, the most important suppliers were Spain (30.8%), Germany (12.4%), France (8.3%), and Italy (5.3%).

Despite this, there continues to be a gradual decline in the proportion of trade accounted for by the EU. In 2006, the EU represented 77% of Portugal's exports and 76% of its imports. At the same time, new markets have risen in importance such as Angola, which has become the fourth most important client, Singapore is now in tenth place and Malaysia occupies the twelfth spot, not to mention the United States  which ranks as the seventh most important market.

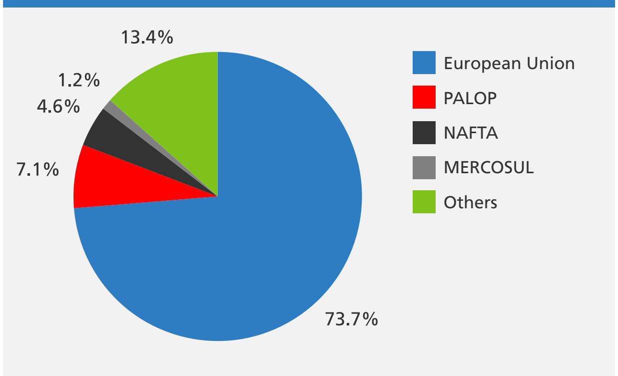
The quota of the three countries in the North American Free Trade Association (NAFTA) amounted to 4.6% of exports and 2.2% das imports in 2008, shares that were slighly lower than those of the year before. The United States was the seventh most important client, having fallen two places in ranking compared with 2007, and was the 11th provider, accounting for 1.7% of total goods imported. Last year, exports to the United States dropped 25% (or 445.9 million euros) from 2007 levels, and were the primary reason for Portugal's overall negative export experience.

Portuguese-speaking African countries (known by the Portuguese acronym PALOP) comprise an important partnership for Portugal with an ever growing interest in those markets on the part of Portuguese companies. The PALOP members took up 4.6% of Portuguese exports in 2008, and this corresponds to a significant share of the imports of these countries, especially Angola, which, as already noted, in 2008 became Portugal's fourth most important client as it rose two places in ranking compared with the prior year. However, its importance as a provider of Portuguese imports is not so significant and accounts for approximately one percent of the total.

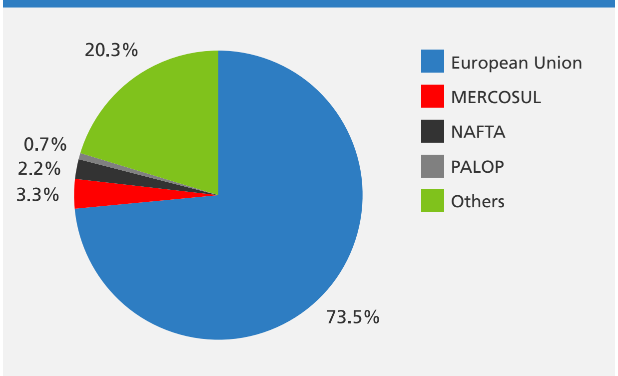
Exports to Latin America also have gradually increased in importance for Portugal, especially with those trade partners that are members of MERCOSUL. These countries now account for 1.2% of total exports and provide 3.3% of imports, with Brazil being the most important trading partner, especially as a provider, given that Portugal buys a considerable volume of petroleum products from that country.

### Geographical Distribution of Portugal's International Trade in 2008

**Exports**




**Imports**




Source: INE

Notes: EU – Data for January to December are estimates; Third country data – Preliminary results for Jan/Dec (first-run data)

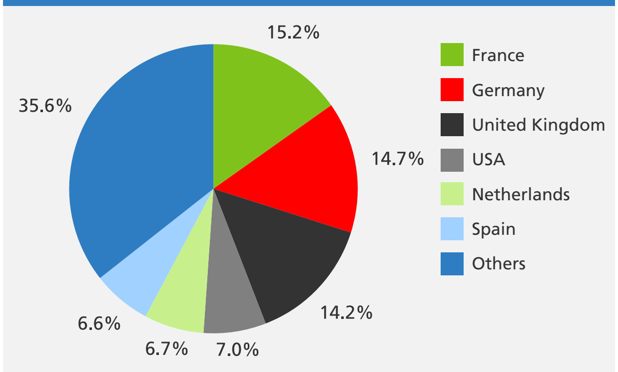
Asia too has increased its share in Portugal's foreign trade, thanks to the influence of China and some other countries such as Singapore and Malaysia. China is more important on the import side while the other two countries have a greater weight in Portuguese exports. In 2008, Asian countries represented 5.0% of Portuguese exports and 5.8% of imports. China provided 2.2% of our imports, while 3.3% of our exports were destined for Singapore and Malaysia.

In analyzing developments on a country by country basis and comparing results beginning with the year that Portugal joined the EU, what really stands out is the sharp increase in the importance of Spain which has become Portugal's top trading partner with its share rising from 6.6% in 1986 to 27.2% in 2006 on the client side, and from 10.9% to 30.8% on the supplier side, over the same period.

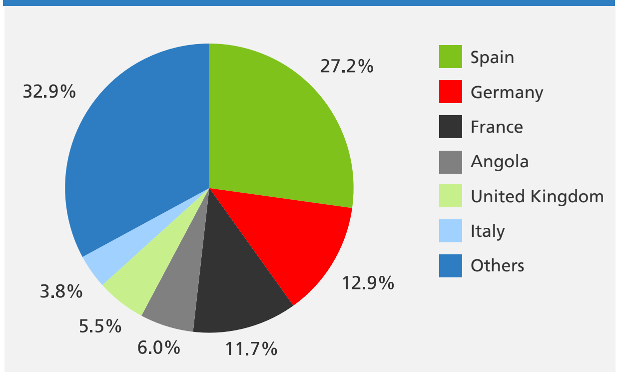
Another important aspect to emphasize concerning trade is the development of greater market diversification, especially with regards to sales abroad, where countries such as Angola and Singapore appeared among the top 10 destinations, both countries that were not on that list in 1986. Another notable development is that among the eight markets that showed the highest growth in value terms, these are all countries that are outside the European Union (Angola, Singapore, Mexico, Algeria, Morocco, Nigeria, Brazil, and Saudi Arabia), and that among the 20 markets accountable for most of the growth in Portuguese exports, only five are EU partners (Ireland, Czech Republic, Finland, Poland, and Romania), and four of those are among the group of countries that comprise the 12 member states that recently joined the EU.

## Portugal's Main Trading Partners – 1986-2008

### Clients - 1986

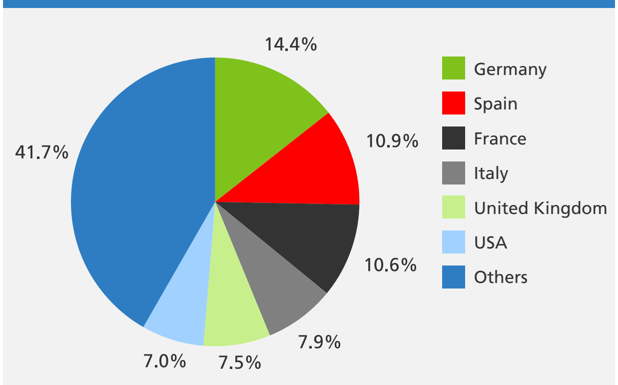



### Clients - 2008[a]

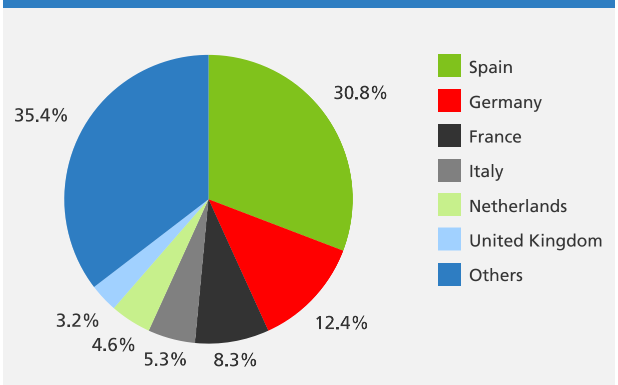



Source: INE Notes: (a) EU – Data for January to December are estimates; Third country data – Preliminary results for Jan/Dec (first-run data)

### Suppliers - 1986




### Suppliers - 2008[a]




Source: INE Notes: (a) EU – Data for January to December are estimates; Third country data – Preliminary results for Jan/Dec (first-run data)

## 10.3 Composition of trade

In examining the composition of Portuguese exports by groups of products, one can note that export growth is now being driven by new sectors rather than by the traditional industries, and this reflects the structural changes stemming from the impact of foreign investment and the strength of those sectors that incorporated the most technology and value added.

The most important groups of products exported in 2008 were machinery and tools, vehicles and transport equipment, base metals, clothing, plastics and rubber, oil products, minerals and mineral products, and food products, all of which represented close to 69% of total Portuguese sales abroad.

Machinery and mechanical and electrical tools (19.1% of total exports in 2008, compared with 18.7% in 2005) constitute another significant group in foreign sales and they include modern companies offering certified products and high technology and are growing in importance, including among the most important, moulds for the plastics industry and iron working machinery, as well as electric lines and cables, transformers and electronic components.

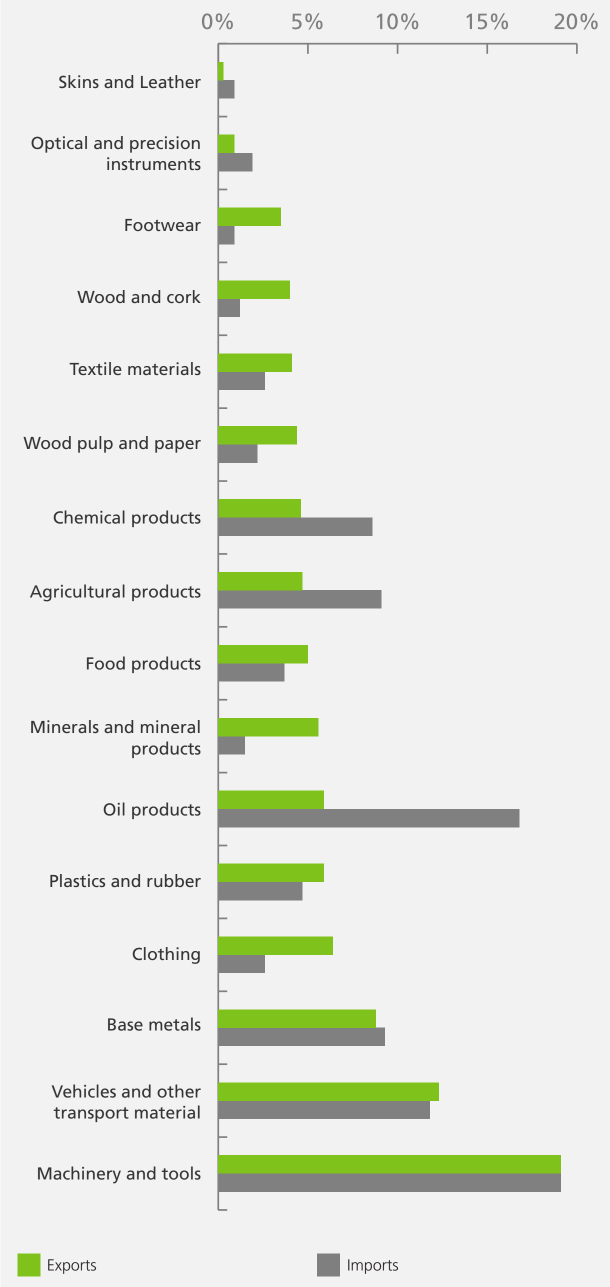
Textile materials, clothing and footwear (representing 14% of sales abroad in 2008, versus 15% the previous year) are the most important traditional Portuguese exports, but they show a clear trend towards an increase in value added due to investments made by the sector in order to improve the quality and "design" of their products.

Vehicles and other transport materials represented 12.3% of all goods exported in 2006 (against 12.7% the previous year), reflecting a contractionary phase in the industry which is also having repercussions on subsidiary subsectors (components and accessories for motor vehicles).

The wood, cork, paper and wood pulp industries together provided 8.4% of total exports in 2008, and have shown no major changes in terms of shares, although in value terms there was a slight decline from the previous year. Portugal is the global leader in the cork market, with a share that is over 60% of total world exports of the product.

Even though Portuguese exports last year rose only 1% in value terms, oil products recorded the largest contribution to export growth last year with 138.9% of total growth,

**Breakdown by Groups of Products in Portugal's Foreign Trade in 2008**




Source: INE – Instituto Nacional de Estatística
Nota: Preliminatry results

followed by agricultural products (77.2%), food products (47.2%) and plastics and rubber (29.3%).

In the composition of imports, the market leaders were machinery and tools (19.1%), followed by oil products (16.8%), vehicles and transport equipment (11.8%), base metals (9.3%), agricultural products (9.1%), chemicals (8.6%), and plastics and rubber (4.7%), all of which together accounted for 79% of Portugal's total purchases abroad.

Portugal maintained its dependency on oil products which increased in importance as their share rose to 16.8% in 2008 from 14% in 2007, keeping pace with sharp price increases for petroleum and natural gas in the international markets, and were the category most responsible for the growth in imports from up 4% to up 7% over the period.

Data for industrial manufactured products classified by degree of technological sophistication indicated that those products that are designated high and medium technology products represented 41.7% of all Portuguese exports of this kind in January-November 2008, whereas low technology products accounted for only 34.8% (-17% compared with the same period one year earlier).

## 10.4 International trade[13] and the regions

In 2007 (the latest regional breakdown available), the North, the Centre and the Alentejo were the regions where exports were greater than imports with coverage rates of 112.2%, 112.3% and 108.9%, respectively. Only the coverage ratio of the North increased somewhat when compared with the previous year. There was also some improvement in the negative coverage ratios of the autonomous regions, as these became less negative compared with a year earlier and, in the case of Madeira, the improvement there was due to both an increase in exports as well as a decline in imports. The coverage ratios were lower in the remaining regions.

Of the three regions that most contributed to international trade (North, Lisbon and Centre), Lisbon was the one that showed the largest deficit, since the value of its exports did not even reach one-third that of imports, due to the fact that, on the one hand, trade composition is quite varied, and on the other hand, there is a great concentration on new technology companies, and these characteristics are responsible for the growing importance of imports.

The Autonomous Region of the Azores recorded the highest growth rates for both exports and imports which grew by 32% and 22%, respectively. These results stemmed from the high value and percent change of sales of agricultural products and purchases of manufactured products. Next in importance was the Algarve that saw its exports rise 16%, due to the sales of agricultural products, while its import growth surged 22%.

As far as principal trading partners are concerned, the EU dominates in all regions of the Continent both as to exports markets for Portuguese products as well as the region from where most imports originate.

In the Alentejo, Algarve, Centre and North (purchases only), the share of EU countries exceeded 80% of the total. In Lisbon its share was less, but always greater than half the total reached by flows in both directions. In the Autonomous Regions, sales

13 Declared values

to countries outside the EU dominate in Madeira as in the Azores with 67% and 51% of the total respectively, but only in the Azores do these countries constitute the principal source of purchases made abroad with 57% of the total. In Madeira, the EU is the primary source for imports of that island (71%).

There is also some concentration noted concerning the regions' foreign trade with certain countries, such as the four top markets, both as to outflows and inflows, large enough to account for more than half of regional flows.

Spain, as might be expected, was the foremost trading partner of all the Portuguese regions on the Continent, with shares ranging from 26% in the North to 48% in the Algarve. In Madeira, Angola took top spot by purchasing 42% of the total exported by that autonomous region, and in the Azores, on-board supplies and provisions with 29% of the total prevailed, followed by the United States market with 7.5%.

As for suppliers to the Portuguese regions, Spain occupied the foremost position with significantly high shares. The smallest bilateral share was with the Azores with 26% of the total, while the largest occurred with the Algarve, with Spain accounting for more than half of all products purchased abroad by that region.

Besides the importance of the EU countries, (after Spain we have Germany, France, the United Kingdom, and Italy) in nearly all regions it should be noted that the key role played by Angola which, besides being the number one client for Madeira, can be found among the top 10 clients of the Centre, Lisbon, the Alentejo, and the Algarve. Then follows the United States, which although it is losing its overall share in Portuguese trade, still maintains a key share among the clients of the North, where Singapore and Malaysia have surged in importance, perhaps due to the exports of memory chips from Quimonda in Vila do Conde, as well as in the Centre and in Lisbon.

In so far as imports are concerned, Nigeria was the second most important supplier to Lisbon and the Azores with a quota of 3% e 4%, respectively, Turkey accounted for a quota of 15% in the Azores and 8% in Madeira, and Brazil was the supplier of the following shares for these regions: Centre (3%), Lisbon (3%) and Madeira (10%).

## 11. Investment

Gross foreign direct investment in Portugal and Portuguese direct investment abroad both declined in 2008, but the reduction was much greater for the latter. Foreign direct investment fell only 2% while Portuguese investment abroad dropped 32%. In terms of flows, the former rose almost 8% from the year before while investments by Portuguese companies fell by more than half – actually by 64% – compared with a year earlier.

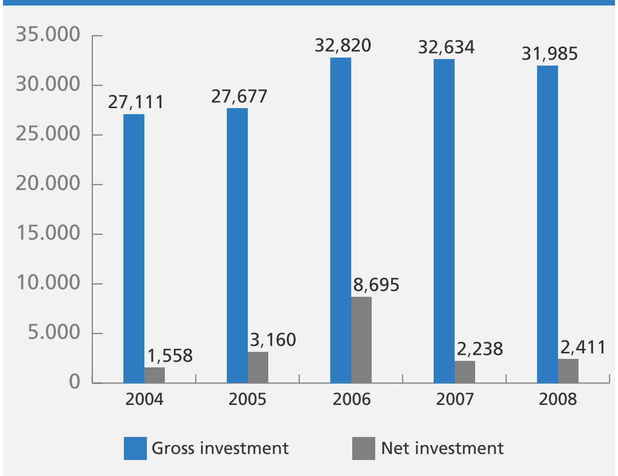
This rather unfavourable situation results from the strong negative impact of the international financial crisis, not only on those countries that are large foreign investors, but also on the major receptive markets, thereby leading companies to reassess their strategy and position vis-à-vis the rest of the world. However, this negative performance comes after many successful years in which Portugal was an important destination for foreign investment because of so many favourable social and economic features such as political stability, a stable social situation and a high quality of life, while being part of the euro area was an important consideration as was having a qualified labour force available at reasonable cost and good prospects for higher productivity and strong economic expansion.

## 11.1 Foreign direct investment trends in Portugal

Foreign direct investment (FDI) in Portugal, amounted to around 30 billion euros in gross terms during the last five years, with 2006 being the year in which there occurred the largest share of the total for this period.

In terms of investment flows, 2006 was also the year in which the highest investments were made, namely 8.5 billion euros, while the following year there was a very sharp decline followed by a slight recovery in 2008.

**Foreign direct investment trends in Portugal**



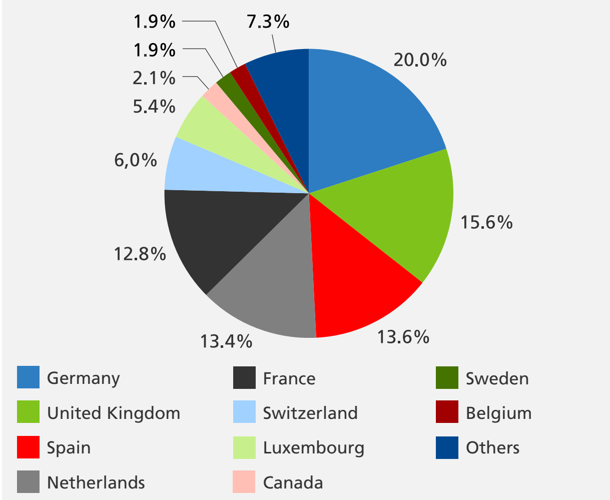

Source: Banco de Portugal, Statistical Bulletin for March 2009
Unit: Millions of euros

The stock of FDI reached almost 72 billion euros at the end of 2008, a level that was 8.4% lower than that of the previous year.

### 11.1.1 Main investors by country

The EU accounts for most of the foreign capital invested in Portugal with 87.4% of total gross FDI in 2008. In recent years the five largest investors were Germany, the United Kingdom, Spain, the Netherlands,and France. Their rankings vary among them from one year to another, but together they accounted for 75.4% of total FDI in 2008, in gross terms. Besides the EU countries, other important FDI providers are Switzerland which accounts for 6% of the overall total and Canada with 2.1%. In 2008 they ranked sixth and eighth in importance, respectively.

**Foreign Direct Investment in Portugal by Country of Origin in 2008[a]**

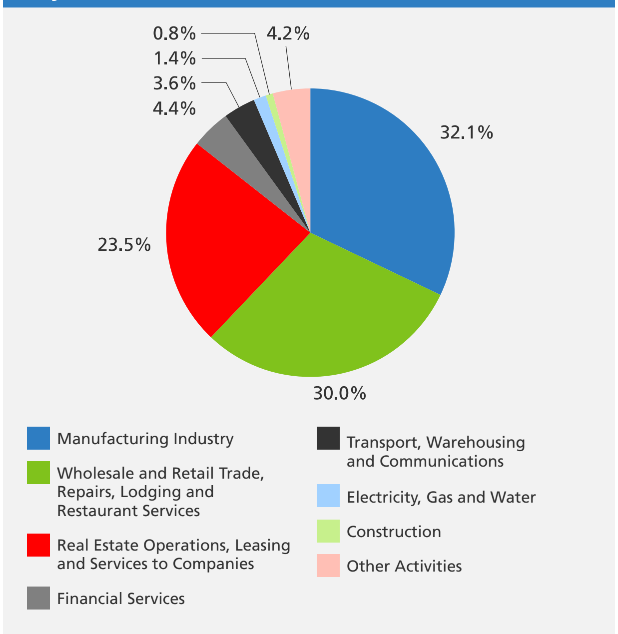



Source: Banco de Portugal: Statistical Bulletin for March 2009
Unit: Millions of euros Note: (a) Gross investment

### 11.1.2 Foreign direct investment by major sectors

The breakdown of FDI by sectors shows that the manufacturing industry is the most important economic activity, contributing 6.3% to the overall growth in FDI; followed by trade, real estate operations, leasing, and services to companies, and, much further down, by financial activities.

**Foreign Direct Investment in Portugal by Major Sectors in 2008[a] (%)**




Source: Banco de Portugal: Statistical Bulletin for March 2009
Note: (a) Gross investment

### 11.1.3 Recent foreign direct investment projects in Portugal

In the last few years, the most attractive sectors for foreign investors were the following: automotive and components, energy, biotechnology, electricity and electronics sector, chemicals, information and communication technology (ICT), and the tourism sector.

As concerns the most recent projects undertaken by foreign investors, among the ones that had a profound impact on the Portuguese economy in a structural sense are the following:

The choice of AutoEuropa by Volkswagen for the production of their new minivans (MPV) and for a fourth model in the Palmela plant, a factor that will increase the contribution of this company to the Portuguese economy to about 2% in 2010 (in 2007 its contribution to Portugal's GDP was 1 %).

Another project with a major impact on the local economy and that also bears a strong technological component is that of Embraer, the third largest producer of airplanes in the world and global leader in the production of commercial jets of up to 120 seats, that will invest 148 million euros in two factories in Portugal over a period of six years. Located in Évora, the first factory will produce metal structures and the other composite materials for use in airplane construction. With production scheduled to come on stream in 2009, this investment will generate 570 direct jobs in one of the most depressed regions of Portugal.

Although the auto sector is in complete crisis, Renault invested 28.8 million euros in its factory at Cacia, for the purpose of building speed boxes, oil tanks and manifolds among other mechanical components. This investment is at the forefront of the strategy to provide diversification based on cost components, presenting the investor with an opportunity to gain value for its clients through research and development and will permit Renault C.A.C.I.A. to be the sole supplier of manifolds for the joint venture Renault-Nissan and one of the suppliers of mechanical components for the new series of speed boxes and motors of the group. The project is estimated to reach a sales volume of 2.6 billion euros and a value added of 447 million euros in 2013.

Tesco, a Japanese multinational company in the automobile components industry and a subsidiary of Honda, opened a new production unit in the town of Famalicão, close to the plant it already occupies in Trofa, creating more than 50 new employment opportunities. Built by incorporating some of the most modern technology such as reutilization of rainwater, special air cleaning filters, and the use of as much as possible natural light with the purpose of reducing energy consumption, this factory will produce motor parts as well as air conditioning compressors.

Iberdrola, one of the four largest companies operating in the energy sector, intends to invest about 1.7 billion euros in the construction of four new dams in Portugal, namely in Gouvães, Padroselos, Alto Tâmega, and Daivões. The outlays will be made between 2012 and 2018 and the exploration of the undertakings will take place over a period of 65 years. These new plants will be capable of producing about 2,200 gigawatts/hour per year, equal to 3% of Portuguese electricity consumption, and which will be sufficient to meet the demand for annual consumption by approximatley one million people. Moreover, these hydrelectric facilities will contribute toward the reduction of Portugal's energy dependence.

The Hydroelectric Complex of Alto Tâmega, besides being one of two large projects of its kind built in Europe in the last 25 years, will contribute towards the hydroelectric development of the of the da Bacia do Douro foresees the the creation of 3,500 direct jobs and about 10,000 indirect jobs.

Repsol will expand its presence in the petrochemical complex in Sines. This Spanish company which doubled its presence in Portugal over the past three decades, currently accounts for a significant presence in the commercialization of oil products and is present in the petrochemical complex at Sines where it will invest one billion euros in its expansion, and this will allow an increase of 40% in the production of ethylene cracker (570,000 tons/year). The investment provides for the construction of new polyethylene and propylene units that will triple the current capacity of the petrochemical complex, in addition to a cogeneration unit of 45 megawatts. This project, one of the 10 largest undertakings globally by Repsol, will create about 500 new positions both directly and indirectly when the projects become operative, and close to another 1,500 employment opportunities during the construction phase and will have a major impact in terms of value added and exports while generating more than 1.2 billion euros of annual production, 80 % of which will be for export.

Also in the Sines area, the multinational company La Seda de Barcelona, the European leader in polyester, decided to establish a petrochemical plant in Sines that will produce about 700,000 tons per year of polyester (PTA – purified tereflatic acid), and is planning for the construction of a new unit in the field of pre-forms (moulds for plastic packaging). The new factory represents an investment of 400 million euros and the creation of 150 direct jobs and 500 to 700 indirect positions. The project will be used to cover the actual lack of PTA – which is the main raw material for the strategic product of the plant, PET (polymer, thermoplasticor plastic used in packagings) – in the European market.

Air Liquide, the Iberian Peninsula leader in the production of industrial gases decided to install in Sines a plant for the separation of gases from the air that will produce 400 tons/day of nitrogen, oxygen and argon in liquid form. The new unit, whose opening is due towards the end of 2009, will use the most up-to-date technology of the group in order to save energy. Air Liquide has two other investments totaling about 70 million euros invested in a new hydrogen production unit in Estarreja and in a centre to fill up bottles located in Arruda dos Vinhos, in the Lisbon region.

Agni, Inc. from Malaysia will build a factory in Portugal, in Montemor-o-Velho, for the production of fuel cell batteries. Besides this factory, the project also includes a research and development centre. The total amount of the investment should be around 65 million euros and will generate 225 new jobs of which 55 for highly qualified workers for its research centre.

The American multinational Cisco Systems decided to establish its first sales support centre at the European level with a portfolio of 20,000 products. The reasons for choosing our country were several: cultural and linguistic diversity, a good work ethic, an abundance of qualified resources, and competitive economic factors. Within the scope of this investment, Cisco entered into a partnership with the Portugal Telecom Foundation in order to recruit collaborators with disabilities and handicaps, and thereby give support to the social inclusion program of that firm.

Nokia Siemens has five research and development centres in Portugal, with 1,500 highly qualified engineers.

The IKEA group will continue to invest in a major way in the Portuguese market with a multi-phased project. It plans to invest more than 660 million euros in Portugal up to 2015 for projects that will include the installation of industrial units for the production of wood and wood products with output destined for export markets in Europe and in the United States, the construction of new IKEA stores, in addition to those already existing in Alfragide and Matosinhos, and the opening of a new shopping centres of the Inter IKEA Centre Group.

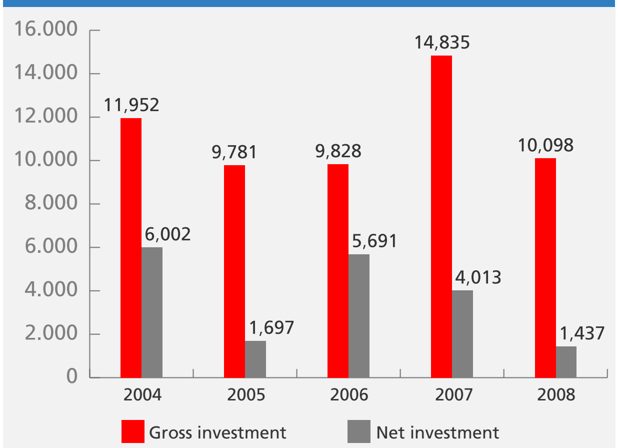
Lastly, it is worth noting some examples of companies that found Portugal an attractive place to invest in shared services centres. These are Microsoft, Siemens, Qimonda, IBM, Fujitsu, Santander, and Solvay. This choice was due to several factors, among the most important were: availability of qualified workers with widespread knowledge of foreign languages in all the key cities of Portugal; highly skilled labour force in the areas of finance and information technologies; reasonable labour costs; cosmopolitan culture and leisure time activities; and a favourable climate (springtime weather all year round).

## 11.2 Trends in Portuguese foreign direct investment

Portuguese foreign direct investment (PFDI), in gross terms, increased substantially during the decade of the 1990s, reflecting a favourable global economic climate, and resulting in a greater participation by Portuguese companies in international markets. Until 2000, the increases in PFDI were significant, transforming Portugal into a net exporter of capital, which was a reversal of its long-standing position as investment recipient. In the last five years, 2007 was the year that saw the largest capital outflows abroad with a total amount of about 15 billion euros.

In net terms, PFDI has followed an irregular pattern, with three of the last five years showing outflows valued at between four and six billion euros and the remaining two years, values of about two billion euros.

**Trends in Portuguese Foreign Direct Investment**




Source: Banco de Portugal: Statistical Bulletin for March 2009
Unit: Millions of euros

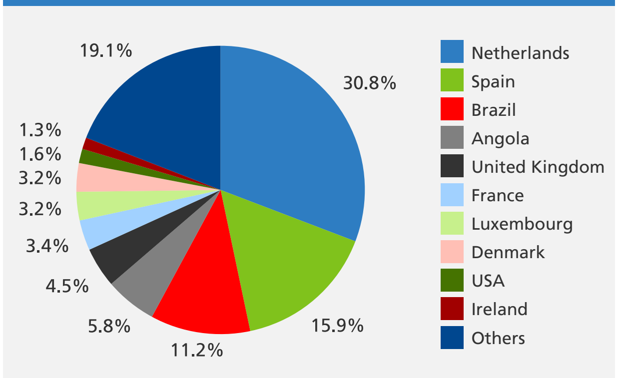
At the end of 2008, the stock of PFDI had reached 45.7 billion euros, representing a decline of 0.6% compared with the total of a year earlier.

### 11.2.1 Portuguese foreign direct investment by major recipients

In analyzing developments over the last five years we note that there is considerable diversification among the destinations for PFDI. However, in 2004 there was a clear domination of three EU countries Denmark, Netherlands and Spain, and in subsequent years, other countries gained in importance as was the case of Brazil, and more recently, Angola and some countries of Eastern Europe (Poland, Romania and Hungary).

It is worth noting that, in 2004, Angola accounted for 1% of total PFDI, but by 2008 it had more than quintupled its share, which in value terms corresponded to an increase from 103 million euros to 588 million euros.

**Portuguese Foreign Direct Investment by Major Recipients - 2008[a]**

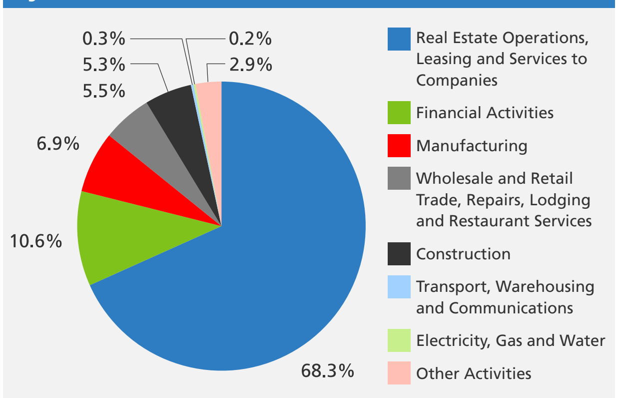



Source: Banco de Portugal: Statistical Bulletin for March 2009
Unit: Millions of euros Note: (a) Gross investment

### 11.2.2 Main sectors

The breakdown by major sector of economic activity indicates that real estate operations, financial activities, manufacturing, and trade were the preferred choices for Portuguese investors abroad.

**Portuguese Foreign Direct Investment by Sectors – 2008[a]**




Source: Banco de Portugal: Statistical Bulletin for March 2009
Note: (a) Gross investment

### 11.2.3 Recent projects indicating the internationalization of Portuguese companies

In the last two decades there was considerable internationalization of a large number of Portuguese companies which had a great deal of success in large foreign projects. This important step in the consolidation of a foreign presence in external markets, catapulted Portugal to a noteworthy position among capital exporting countries.

This process of internationalization can be characterized as a sustained effort (particularly since Portugal's accession to the EU) marked by the widening number of participants (large and medium sized companies) and by the progressive diversification of markets so that Portuguese firms are present in nearly every part of the world. Small and medium sized industries acquired a leading role, following a first phase when large companies dominated the process, so that a broad representation of Portugal's businesses now have become foreign investment players. This success also included a greater diversification of investments into "new" and more distant markets, even though they might have been more difficult to enter.

Among the largest Portuguese companies, the following stand out: EDP Group, Cimpor Group, Galp Energia, Sonae Group, Amorim Group; banking in general; PT (Portuguese Telecom); the major construction companies operating in civil and public works (Mota Engil, Teixeira Duarte, Soares da Costa, etc.); Efacec Group; Pestana Group; Visabeira Group; Sogrape Group; Portucel/Soporcel; Martifer.

In the civil construction and public works area there are many successful cases of Portuguese companies which alone or integrated in consortia, have come to win important and diversified projects in their field, and where thay have also diversified the markets in which they operate. We will point out a few which, due to their characteristics and markets prove the quality and versatility of Portuguse companies present in this sector.
Mota & Engil won a concession for an autopista in Mexico, a project of almost 60 km in size, a tunnel of 290 metres and 57 bridges and viaducts, an undertaking that is part of the Mexican infrastructure plan and represents one of the fundamental pillars of the national roadway plan of the country. It will permit completion of a direct connection between the port of Vera Cruz (the most important seaport of Mexico) and Mexico City, the capital, whose construction, operation, exploration, and maintenanace over a 30 year period will come to around 400 million euros.

In Poland, the affiliate of the group in the market in partnership with an Austrian company won the contract for the construction of a roadway and highway 180 km from Warsaw (its largest ever project in that country).

In Peru, as part of a consortium, the company recently gained a concession for a 30 year period that includes the operation of already existing installations and the construction and operation of a container terminal at the Porto de Paita. The project involves an annual activity of 140 mil TEUS and a cargo capacity of 200,000 tons, with the initial phase having an investment of 98 million euros.

Lena Construções signed a contract as part of a consortium involved in the construction and expansion of Puerto de la Guaria in Venezuela, in an investment that totals 658 million dollars. In addition to Venezuela, this company has a presence on three continents: in Europe (Bulgaria, Spain and Romania), Africa (Algeria, Angola, Morocco, and Mozambique) and in Martinique in the Americas.

The company Irmãos Cavaco is involved in a mega-project in Angola that involves the construction of what will become that country's foremost fishing port, conducting dredging operations in the famous Baía dos Tigres. Situated close to 100 miles to the south of the province of Namibe, which is one of the richest fishing areas of the Angolan coast. This project is part of the so-called Development Plan of the Baía dos Tigres, which aims to deal with the need to recover and rehabilitate the entire local industrial area which covers 14 fish processing plants, including seven that deal with fishmeal and fish oil. Also in Angola, in a consortium called Angomarinas, the Irmãos Cavaco company signed on to a project for the construction and explotation of a marina in Luanda, that includes a component that will involve the promotion of real estate. With its Portuguese partner, Teixeira Duarte (50%/50%), the construction company won the bidding for a contract for the construction of another marina in Angola. In terms of work volume, the business involving the two projects is expected to be worth 100 million dollars (68.3 million euros).

Irmãos Cavaco also operates in Algeria, Martinique and São Tomé and Príncipe. In the Maghreb it has a share of 24% of the consortium Grupo Marítimo Português that won a series of orders estimated to  be worth 77 million euros. In Martinique, in the Caribbean, where the company has a 60% stake in a consortium with Abrantina, there is currently under way the construction of a fishing port at Grand'Revière, an undertaking budgeted at 25 million euros.

In the cement area, there is a cooperation contract valid for 50 years, between CIMPOR and the govenment of the Chinese district of Shanting in the Province of Shandong, for the construction of an integrated factory for the production of clinker and cement, improving the production capacity of cement by 1.8 million tons per year to more than 5 million.

The same group acquired through the Spanish subsidiary Cimpor Inversiones the assets held by CEMEX in the Island of Tenerife – these are a cement grinding operation of 80,000 tons per annum, seven ready mix concrete plants, a maritime terminal and a pozzolana quarry (to process volcanic ash) – and two share participations of 50% each in the capital of the Spanish companies operating in the Canary Islands. One of them operates a mortar factory in Tenerife, while the other, together with its subsidiaries, has a cement grinding operation in Gran Canaria that has an output of 1.5 million tons per year. In addition, there are seven port terminals, five ready mix concrete grinding operations, three mortar plants, one pozzolana quarry and four prefabricated installations located in three different islands.

At the beginning of 2009, the company acquired almost 100% of the social capital of Yibitas, an important cement company in Turkey, which operates in the areas of cement, concrete and mortar. The company has three factories for the integrated production of cement and three operations for grinding that correspond to a global installed capacity of about 3.5 million tons per year. Yibitas also has 12 plants for the production of ready mix concrete and two aggregate explorations.

In the plastics sector, Logoplaste was chosen by Johnson & Johnson for the creation of a new production unit in Italy for the purpose of manufacturing plastic packaging for a range of antisceptic mouthwash products. This new unit marks the growing presence of Logoplaste in the healthcare sector.

During 2009, Logoplaste inaugurated its new plant in Elst, in the Netherlands, as part of a multi-year exclusive and renewable contract that engages it in work together with the multinational food giant Heinz. This factory will produce packaging using a new technology, known as "multicamada PET", which was developed by Logoplaste in a partnership arrangement, that allows for greater durability and better conservation capacity.

In the food and beverage sector, a major investment is that of Unicer which invested 100 million euros in a production facility in Angola. The unit was needed due to the relevant importance of the export of beer and for rationalizing transport costs. The plant is due to become operational in 2010, when it will have a capacity to produce 200 million litres of beer.

The most important developments involving the internationalization of Portuguese companies in the last few years have been primarily in the energy sector and in particular in the area of renewable energy, with the goal of not only acquiring a stake in the international energy market but primarily to increase the installed productive capacity of renewable, clean energy.

Currently, EDP Renováveis (EDPR) already has a pipeline of wind farms under development with a total power generation of 13,950MW, distributed in the United States, Spain, France, Belgium, Poland, Romania, in addition to Portugal.

In Spain, the company will develop new wind farms in Galicia, with a capacity of 125.7 MW. These new projects located at Corunha and Lugo, are in addition to the six farms that are already in operation in the Galician community, where it has had a presence for the last 10 years. This allotment in Galicia reinforces the position of EDP Renováveis as the third most important wind farming operator in Spain, where it has a presence in eight autonomous communities and has amassed an installed capacity of 1,761 MW.

In Eastern Europe, it acquired wind farms in Poland (Relax Wind Parks) and in Romania. In the latter, the investment involved the acquisition of 85% of two companies, Renovatio Power SRL and Cernavoda Power SRL, which have projects in the wind energy production projects totaling 736MW.

In the United States, EDP acquired Horizon Wind Energy at the beginning of 2007 and as a result became the world's fourth largest producer of wind energy. Within the Group's "portfolio", the American market constitutes 42% of EDP Renováveis' total installed capacity, its second most important market after the Iberian Peninsula where EDP already has 11 wind farms. In June 2008, it inaugurated its largest wind farm, Lone Star, located in Texas, the state that already has the highest wind production potential with 400 MW of installed capacity and which produces the equivalent of the energy consumed by 120,000 families. Also, the wind farms Meridian Way (201 MW), Pioneer Prairie (201.3 MW) and Rattlesnake Road (102.9 MW), installed respectively in Kansas, Oregon and Iowa, already are in full commercial operation marking the company's appearance in two new states, Kansas and Iowa, and reinforcing its presence in Oregon.

Martifer, a company which began to produce wind towers in 2004, thus marking its start in the renewable energy market, and to produce photovoltaic solar panels in 2008 in its factory at Oliveira de Frades, is already present in Eastern Europe, Germany, and the United States where an agreement was reached between Eviva Electricity and Spinnaker Wind to develop wind farms in the southern part of the State of Texas with the goal of reaching 800 megawatts in 2012. Martifer is also present in Italy, one of the markets with a great potential on the international scene. The photovoltaic solar farms that Martifer Solar built in Vaglio di Basilicata, in the province of Potenza (21 bi-axial solar energy farms which will avoid the emission of more than 2,000 tons of $CO_2$ per year into the atmosphere) represents the largest facility in the Basilicata region, exceeding total installed capacity linked to the network in the province of Potenza. In their entirety, these energy farms have become part of 10 largest installations tied into the Italian network which places Martifer Solar among the most important companies holding solar photovoltaic installations in the country across the Alps.

Galp Energia also stands out in this sector. Thanks to major petroleum discoveries along the Brazilian coast, it will have significant gains in the medium term through the consortium in which it operates, together with Petrobrás and the BG Group. The consortium explores the deep waters of Bacia de Santos, and recently announced the discovery of a significant quantity of petroleum in the block BM-S-11. In the Iara well, held 10% by Galp, a reserve of petroleum and natural gas was identified that has a potential output of between three and for thousand barrels, much higher than originally estimated. In this same basin, Galp Energia also has participations in three other blocks: BM-S-8 (14%), BM-S-21 (20%) e BM-S-24 (20%).

EFACEC, in partnership with two Indian companies, will open a new factory in New Delhi in India, to produce medium and high tension equipment in a joint investment valued at 10 million euros. The new factory was built to meet the needs of its two Indian partners, one factory for the production of medium and high tension components will serve the Far East market and the other will be directed specifically for the Indian market.

In the United States, the company will open a new factory to manufacture power transformers in the state of Georgia (USA), a unit that will employ about 400 workers. It is due to become operational around mid 2009.

In Brazil, it will acquire two engineering companies in order to assure qualified resources that will permit it to meet the needs of the three electricity plants that it plans to develop, and other opportunities that may come up in that market.

Many Portuguese companies have also gotten involved in the tourism infrastructure sector on an international scale and several are operating in various countries abroad. Examples include such groups as Pestana and Vila Galé, which have an important portfolio of investment projects, primarily in Africa and Latin America.

The Pestana Group, one of the major players on the Portuguese tourism scene, and one of the top 100 hotel chains in the world, has a presence in six countries: Brazil, Argentina, São Tomé and Príncipe, Mozambique, South Africa, and Cape Verde.

In addition to well defined projects, the Pestana Group continues to develop and prospect new opportunities, such as pousadas in Morocco, Macao and various African countries. It already has plans to expand into new Pousadas in Brazil, which is essential in order to extend the Pousadas concession for five more years. This objective implies creating 220 rooms abroad. Among various projects, the Pestana Hotels & Resorts unit has on its drawing board a hotel in Berlin, as well as in London and, within five years, also in Luanda.

The Vila Galé Group, which is yet another major national hotel group and one that ranks among the world's top 250, has 15 units in Portugal and three in Brazil, the last of which was inaugurated in 2007 at the Guarajuba Beach in the State of Bahia and was elected in 2007 the best five-star hotel in Brazil, having received the trophy entitled Catavento de Prata[14]. The opening of yet another unit is expected at the end of 2009 in the city of Fortaleza: "Vila Galé Cumbuco".

Only in Brazil is the pipeline of Portuguese tourist projects expanding significantly; besides the two aforementioned groups, there are investment projects being pursued by the Espírito Santo Group, Dorisol, Oásis Atlântico, João Vaz Guedes, Reta Atlântico, among others.

Besides the previously mentioned examples, there are also noteworthy successful investments in foreign ventures by small and medium sized Portuguese companies, such as Kyaia (Fly London) and Calzeus (Swear) (footwear); Cin (paints); Coelima (home textiles); Compal (food industry); Impetus (clothing); Lameirinho (home textiles); Lanidor (clothing); and Renova (paper for household use).

In non-traditional industries or in high technology, there can be found key companies such as Critical Software (the world leader in developing software for critical information systems), Ciscog (the industry leader in the European software market for the planning and management of resources of railway companies) and MNI – Médicos na Internet (Doctors on the Internet) that are dedicated to the development, distribution and implementation of health-related software ALERT®, conceived to create clinical environments without paper, a system that is already in use in hospital units in Brazil, the United States, the Benelux countries and even Malaysia was added to the list recently. In the United Kingdom, a selection of ALERT® products has been adopted by the National Health Service (NHS) for its central purchasing catalogue and the signing of the first contract with a British hospital led to the award of the Business Internationalisation prize granted by the UK Trade and Investment agency.

14 The Catavento de Prata award was created to reward companies, institutions and personalities in the entire Brazilian tourism sector that each year show outstanding and meritorious service in the tourism area. The prize is awarded on World Tourism Day.

## 12. Tourism

The World Travel and Tourism Council (WTTC), has reported that tourism activity on a global level probably accounts for more than 10% of GDP, 8% of employment and 12% of exports.

According to the World Tourism Organization (WTO), Portugal ranks among the top 10 European countries in terms of receiving the most foreign tourists at the European[15] level, and is among the top 25 on a world scale. In 2007, Portugal placed 10th in the European rankings with a share of 2.54% and ranked 20th worldwide with a share of 1.25% of the market.

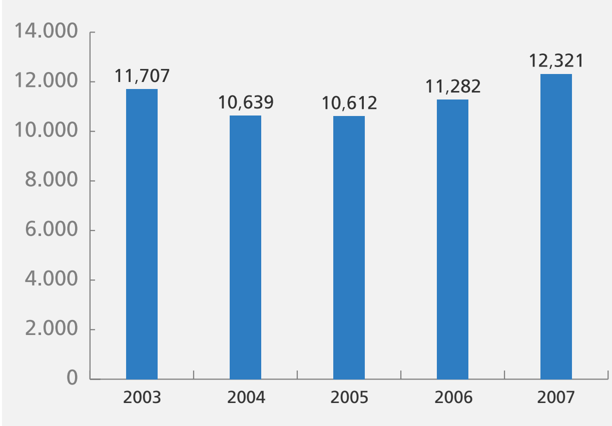
According to the "Travel & Tourism Competitiveness Report 2009" of the World Economic Fórum, Portugal appears in 17th position in the "T&T Competitiveness Índex" among 133 countries covered, and in 10th position among the EU27, situated ahead of such countries as Ireland, Belgium, Italy, and Greece.

Results from the three indicators that are part of this index indicate that Portugal ranks in 15th place for "T&T Regulatory Framework", in 24th position for "T&T Environment and Infrastructure" and in the 16th spot in the category "T&T Human, Cultural and Natural Resources".

In Portugal, the tourism sector accounts for approximatley 6% of GDP, provides employment for about 8% of the labour force directly and makes a positive contribution to the balance of payments. The tourism industry is one of the most important sectors in the Portuguese economy, not only for its monetary contribution to GDP both directly and indirectly, but above all for its strategic importance for the revenues that are generated, for the employment it creates, for the multiplier effect that it has in various areas, and for the positive contribution it makes in enhancing Portugal's image abroad.

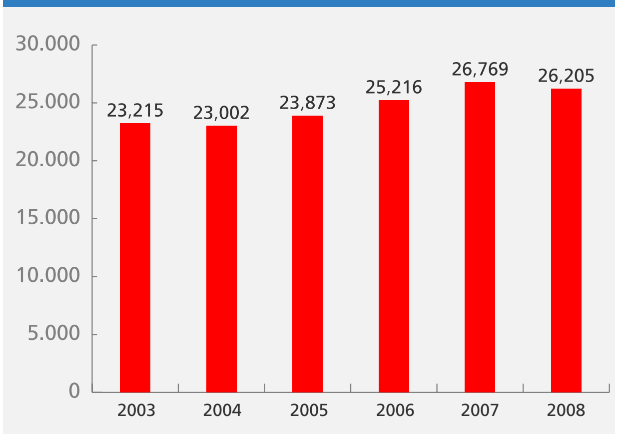
15 Includes the countries of Northern Europe; Western, Central and Eastern Europe; and Southern Europe (European countries of the Mediterranean).

### Trends in Incoming Tourism - Arrivals




Sources: INE – Instituto Nacional de Estatística
Unit: thousands

### Trends in Incoming Tourism - Hotel Nights[a b]




Sources: INE – Instituto Nacional de Estatística
Unit: thousands
Note: (a) Persons staying in a lodging establishment for a period falling within 12 hours of one day and 12 hours of the following day.
(b) Includes hotel nights spent in estalagens (manor houses), hotels, apartment hotels, motels, pensions, and pousadas

### Trends in Incoming Tourism - Receipts


Source: Banco de Portugal
Unit: millions of euros

Portugal offers the incoming visitor many comparative advantages at various levels: climate, safety, coastal proximity, quality beaches, golf courses that are recognized internationally for their quality, diversified attractions (beautiful countryside, casinos, marinas, culture, tradition, gastronomy) and excellent air connections including commercial, charter and low-cost airliners.

There are numerous sites to visit, and not to be forgotten are those sites that feature on UNESCO's World Heritage list which include the historical centres of Oporto, Angra do Heroísmo, Guimarães, Évora and Sintra, as well as monuments in Lisbon, Alcobaça, Batalha, and Tomar, the paleolitic etchings of Foz Côa, the "laurissilva" forest on the Island of Madeira, and the grape growing areas and vineyards of the Douro River and the Island of Pico in the Azores archipelago.

Among a selection of 111 islands or archipelagos, the Azores scored second in a contest of the most attractive destinations in the world, in an initiative of National Geographic Traveler that polled a panel of 522 experts in sustainable tourism. The island of Pico was classified by the magazine Islands as being the fourth best island in the world because of its tourist residency features, and Madeira was chosen as one of the best European islands by readers (over 3.5 million) of the highly regarded magazine Condé Nast Traveller, showing up in sixth place. For the quality of its hotels, and Madeira also was ranked among the "25 Top Europe Resorts", garnering the 21st place with its famous Reid's Palace.

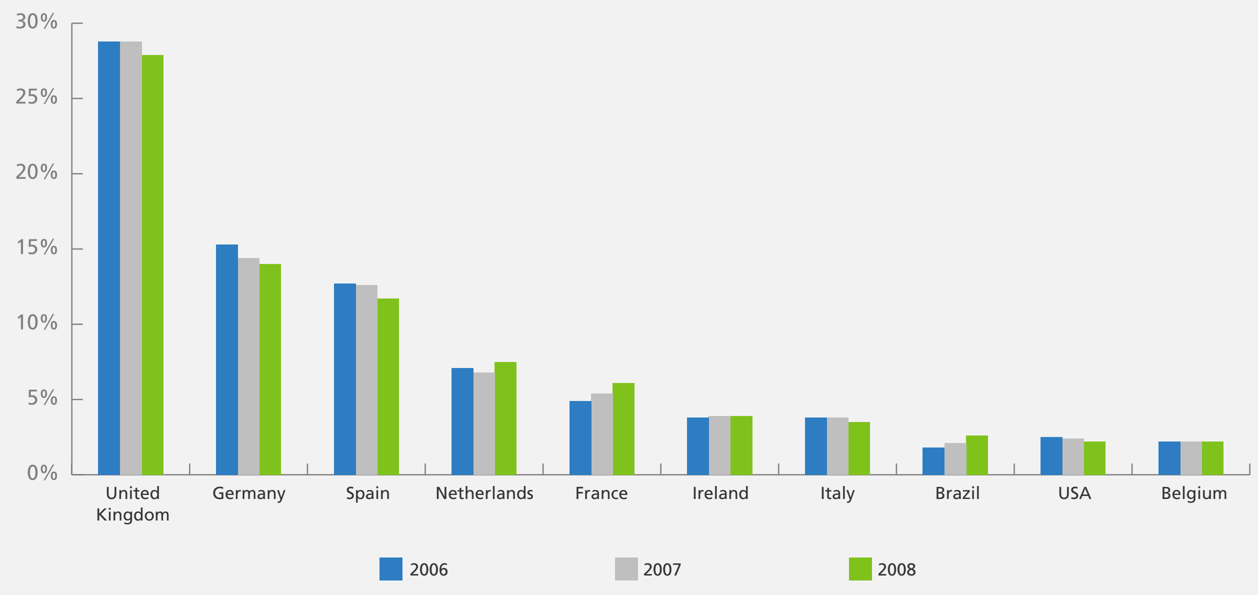
According to INE statistics, 12.3 million foreign tourists entered Portugal in 2007 (latest available data), that is 9.2% more than the year before. The number of tourist nights spent at hotels reached 26.2 million the 2008 according to preliminary data, a decrease of 2% compared with the year before. Tourist receipts continued to register gains as in previous years and were up 2% in 2007.

The top five countries providing visitors to Portugal together accounted for 5.1 billion euros in receipts which represented about 68% of the total. The Netherlands and France registered increases over a year ago that showed a combined increase of 120 million euros.

Most tourists who visit Portugal come from Europe, primarily from the European Union, but Brazil and the United States can also be found among the top 10 countries of origin.

In 2008, the breakdown of hotel nights spent in Portugal by foreigners shows that the United Kingdom is the largest

## Hotel Nights Spent by Foreigners by Country of Origin (%)



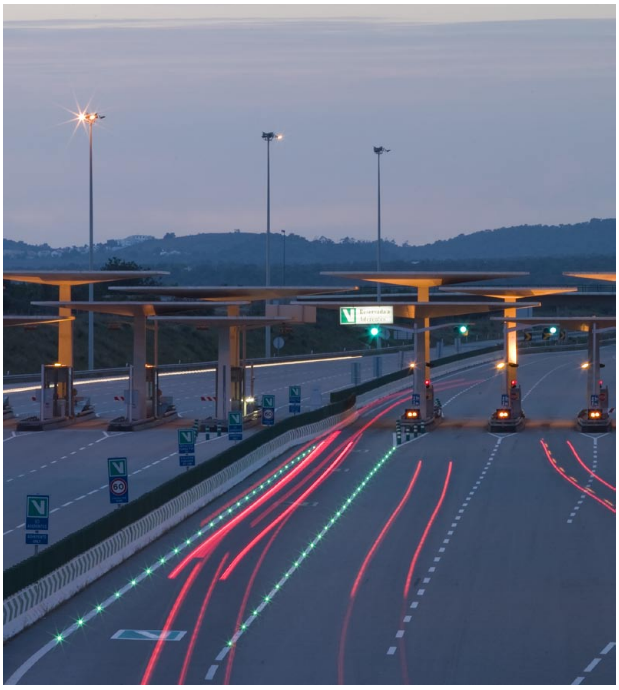

Sources: INE – Instituto Nacional de Estatística, Statistical Bulletin – January 2009 country of origin with 28% of total, followed by Germany (14%); Spain (12%), the Netherlands (8%), and France (6%).

The Algarve, Lisbon and Madeira were the regions that accounted for most of the hotel nights spent in Portugal by foreigners: 84.4% of the total in 2008. The Algarve registered 10.7 million hotel nights (5.6% lower than in 2007), Lisbon 5.9 million (246,000 fewer hotel nights) and Madeira 5.4 million hotel nights (+4.8% compared with a year ago).

The North recorded good results, showing an increase of 4.1% in hotel nights spent by foreigners in 2008 versus the previous year, while in the Alentejo there was an increase of 10% although its overall number remains quite small compared with other regions: 293,000 in 2008.

## 13. International and Regional Relations

Portugal today is a member of a large number of international financial organizations of which the most important are the multilateral development banks given the objectives that guide them, the size of their loans and consequent impact on beneficiaries, and for the "power" that some of them have acquired in the international context.



These organizations led to the formation of other entities with different purposes and different degrees of autonomy. The first group and therefore the oldest group is the World Bank (WB) group which comprises five organizations[16], including one non-financial entity that served as a model for the other groups that were established subsequently such as the Inter-American Development Bank (IDB), the African Development Bank (AfDB) and the Asian Development Bank (ADB).

Portugal joined the "Bretton Woods Organizations" – International Monetary Fund (IMF) and International Bank for Reconstruction and Development (IBRD) in 1960, followed by other global and regional organizations[17] the last of which were in 2002, the Asian Development Bank (ADB) and its Asian Development Fund (ADF) and the Inter-American Investment Corporation (IIC) of the IDB. In the special case of the European Investment Bank (EIB), Portugal's membership came automatically with its entry into the European Economic Community (EEC), given that the EIB statutes constitute an annex to the Treaty of Rome. Portugal is also a member of Organization for Economic Cooperation and Development (OECD), the United Nations (UN) and its specialized agencies, the World Trade Organization (WTO) since 1995 and the World Tourism Organization (UN WTO) since 1976.

In several multilateral financial organizations of which it is a member, Portugal plays a dual role as a Member State donor and beneficiary. It is in the case of the World Bank that Portugal obtains its greatest return on investment,

16 International Bank for Reconstruction and Development (IBRD); International Development Agency (IDA); International Finance Corporation (IFC); Multilateral Investment Guarantee Agency (MIGA); International Centre for Settlement of Investment Disputes (ICSID).

17 International Finance Corporation (IFC – WB Group), Multilateral Investment Guarantee Agency (MIGA – WB Group), International Development Association (IDA – WB Group), Inter-American Development Bank (IDB), Fund for Special Operations (FSO – IDB Group), Multilateral Investment Fund (MIF – IDB Group), African Development Bank (AfDB), African Development Fund (AfDF – AfDB Group), European Bank for Reconstruction and Development (EBRD).

but it is in the IDB that it sees the biggest ratio between donation and return, in large measure because of its reduced financial participation.

At the regional level, Portugal has been a member of the European Union since 1 January 1986 and is part of the Council of Europe, the Western European Union (WEO) and the European Space Agency (ESA). Presently, the EU includes 27 members, but only 16[18], including Portugal, have adopted the common European currency, and thus are members of the euro area and comprise the European Economic and Monetary Union.

# 14. Legal Requirements for Market Access

Portugal's trade relations, and those of the other Member States of the EU, unfold at two levels: those that take place within the EU and thus are intra-community exchanges, and those that occur with third countries and are ruled by the EU's Common Trade Policy.

## 14.1 Intra-EU exchange procedures

Goods that originate within the European Union or are in free circulation[19] in community territory (http://europa.eu/scadplus/leg/en/s07000.htm), are exempt from customs control, without prejudice, however, from any taxation regarding quality and technical characteristics.

In this manner, community economic operators can buy and sell freely, at any point within community space, without having to comply with any formalities at the time when goods pass across an internal frontier. The absence of customs controls does not imply, however, the elimination of rules relating to transport, insurance, quality, and product technical specifications. Such rules exist, and in general, are already imposed through existing harmonized community legislation with the purpose of protecting the health and safety of consumers.

The circulation of merchandise within the European Union must be accompanied by all documentation usually required by the national authorities and these include: transport documents; commercial invoice; and certificates of compliance as to quality, sanitary and phytosanitary measures. The inspection can occur at any time and place, from the point that the goods were shipped up to the point of final consumption.

In addition, there are a complex of intra-community transactions[20] (threshold values defined by INE) that require companies to declare the respective value or amounts of goods (Intrastat Declaration).

18 Euro Area – Germany, Austria, Belgium, Cyprus, Slovakia (2009), Slovenia (2007), Spain, Finland, France, Greece, Ireland, Italy, Luxembourg, Malta (2008), Netherlands and Portugal

19 Goods in "free circulation" are those which have already complied with import formalities (including payment of customs duties and other taxes that may be due) in one Member State, so that they can circulate freely throughout European Community territory without needing to comply with any additional formalities.

20 Available at http://www.ine.pt

## 14.2 General import procedures

The Customs Union implies that besides the existence of a common customs union territory, the adoption of common legislation – Community Customs Code (http://europa.eu/scadplus/leg/en/lvb/l11010.htm) – and the application of common custom duties to products coming from third countries – the Common External Tariff (CET)[21]. However, the Community grants customs advantages to goods originating from developing countries (those that are beneficiaries of the System of Generalized Preferences – SGP, or to countries with which the EU has preferential agreements) which result in the application of more favourable customs duties (or even exemption) compared with those adopted by the WTO, with the exception of products deemed sensitive in terms of community interests.

If the importer intends to benefit from these procedures he is obliged to present proof regarding the origin of the goods in question. In the case of imports originating from countries benefiting from the SGP procedures, he needs the "Certificate of Origin FORM A", for imports from other countries, the "Trade Certificate of Circulation EUR 1". The aforementioned certificates can be obtained from the Directorate General of Customs and Special Consumption Taxes (http://www.dgaiec.min-financas.pt/pt), the relevant agency that gives information relating to the classification of products, from the duties that apply to merchandise imports regardless of origin, to information relating to existing customs procedures.

Besides customs duties, imported products are subject to payment of the value added tax (VAT) (http://www.dgci.min-financas.pt/pt/apoio_contribuinte/guia_fiscal/iva/), which in Portugal is applied at a rate of 20%, although some products benefit from a 12% tax rate and others from a reduced rate of 5%. In the Autonomous Regions of Madeira and the Azores, the rates are slightly lower: the normal rate is 14%, the intermediate rate is 8% and the reduced rate is 4%.

Finally, there exists a Free Trade Zone in Madeira, legally intended as a territorial enclave in which the existing merchandise is, as a rule, considered foreign to the customs territory for the purpose of applying customs duties, quantitative restrictions or measures with a similar intent.

Since they are duly authorized, all kinds of activities of an industrial, commercial or financial nature can take place in the duty-free zone, although the first two are confined to a circumscribed area (since physical movement of merchandise is involved), a situation that does not apply in so far as the so-called "offshore" services are concerned which can function at any location within the archipelago's territory, including the city of Funchal.

The companies that operate in the Duty Free Zone of Madeira have access to a significant array of benefits of a customs, fiscal, financial, and economic nature.

More detailed information relating to the different aspects of customs procedures in the community space, as well as the necessary import documents can be found in Annex 1.

Merchandise originating from the community or from third countries and brought into any Member State, must coply with the technical demands established by community legislation and must be accompanied by all required documentation demanded for its commercialization, namely certificates relating to conformity, quality, sanitary, veterinary, and phytosanitary regulations.

For the purposes of protecting consumer health and safety, the Community has attempted to harmonize (http://europa.eu/scadplus/leg/en/s16600.htm) rules relating to labelling,

21 The CET is based on the Harmonized System for Designation and Codification of Merchandise, with most import duties being "ad valorem", calculated on the CIF value of merchandise.

presentation and advertising of various products, such as food, toys, etc., to minimize obstacles to the free circulation of goods within community territory.

In Portugal the Food and Economic Security Authority (ASAE – Autoridade de Segurança Alimentar e Económica) (http://www.asae.pt/) is the national administrative authority specialized in securing food safety and for conducting inspections. In this manner, it is responsible for detecting and communicating any risks in the food chain as well as exercising oversight of economic activity in the food and non-food sector, through the inspection and protection of compliance with applicable regulatory legislation.

## 14.3 Foreign investment procedures

The European Union Treaty establishes the free movement of capital, and provides for a general framework governing foreign investment applicable in community territory, defines the limits resulting from the principle of subsidiarity, that is, without prejudice to the governing legislation of any Member State.

Within the scope of the free movement of capital, all restrictions on capital movements – investments – are prohibited, as are all restrictions on payments – whether it be a payment for merchandise or for a service.

Member States can, however, take justified measures for the purpose of preventing infractions to their own legislation, namely in fiscal matters and in the supervision of their own financial institutions. The community countries can also adopt procedures for declaring capital movements for administrative, informational or statistical purposes, and they can take other measures that may be justified by reasons of public order or public safety. However, all these measures and procedures must not constitute an arbitrary means to discriminate, nor be intended as simulated restrictions to the free movement of capital and payment flows.

The foreign investor is granted the same treatment accorded to national investors, and since there exist no restrictions affecting the private sector, companies can be completely controlled by foreign capital.

As concerns the structure of the setting up a business, the choice depends on the investor's objectives and also on the degree of autonomy that the investor desires in relation to its headquarters in its home country. More detailed information on this matter, especially regarding the various judicial forms relating to companies, can be found at the Business Formality Centres (Centros de Formalidade de Empresas –CFE) (http://www.cfe.iapmei.pt), where information is available and there are services to assist investors in facilitating the process of setting up, changing or terminating a company and related actions.

In Portugal, in order to bring up to date the Portuguese legal framework to the very latest requirements of the European Union and the OECD, a Single Contractual Procedures (Regime Contratual Único[22] ) was adopted that is governed by Decree Law nº 203/2003 of 10 September (free access at the web site address http://www.dre.pt/). This move revoked the requirement to register a company a posteriori, or after setting up an investment in Portugal, and thus ending the differential treatment of foreign versus national investors. A foreign promoter can also see his investment projects recognized as PIN projects – Projects of Potential National Interest (Projectos de Potencial Interesse Nacional) or PIN+ (Projectos de Potencial Interesse Nacional classified as being of strategic importance), if the business concerned is established through an intermediary of a branch established in Portugal and complies with the requirements foreseen by the following legislation:

22 Regime Contratual Único – applies to large scale investment projects, whether they are of national origin or foreign origin, which represent a value exceeding 25 million euros that is to be invested all at once or phased in over a period of three years, or that in the case of investments under this amount, that it be an initiative of a company whose annual consolidadted turnover is over 75 million euros, or for an entity that is not a business enterprise but whose annual budget is over 40 million euros, independently from the sector of activity or the nationality of the investor.

– PIN - Decree-Law nº 174/2008 of 26 August and Decision nº 30850/2008 of 28 November.
– PIN+ - Decree-Law nº 285/2007 of 17 August.

Those who are interested can obtain further information by accessing the following links that can be found on the site of aicep Portugal Global: http://www.investinportugal.pt/MCMSAPI_vPT/HomePage/Investir+em+Portugal/Vantagens/PIN/

http://www.investinportugal.pt/MCMSAPI_vPT/HomePage/Investir+em+Portugal/Vantagens/PIN/Sistema+PINmais.htm

The entity aicep Portugal Global (http://www.investinportugal.pt/) is the relevant government agency offering guidance to accompany major investment projects (sole interlocutor) including assistance in reception, analysis, negotiation, and contract process; while small and medium-sized companies are handled by IAPMEI – Instituto de Apoio às Pequenas e Médias Empresas e à Inovação, or Institute for the Assistance of Small and Medium Sized Companies and for Innovation, which deals with investments under 25 million euros, except for those in the tourism sector.

Those who may be interested in the regulations relating to incentives offered by the Portuguese Government under the aegis of the new 2007-2013 National Strategic Reference Framework (Quadro de Referência Estratégico Nacional – QREN – 2007-2013), which covers economic, social and territorial development policies in Portugal made possible through the structural and cohesion funds of the European Union’s cohesion policy, may consult the web site http://www.qren.pt/.

# ANNEXES

## Annex 1 – Custom Procedures

The **Community Customs Code** harmonized and simplified administrative formalities affecting the movement of goods between Member States and third countries, enabling the adoption of different types of customs procedures:

**Free Circulation** – introduction of a product originating in a third country into European Union territory conferring on it customs statute of community merchandise, after completing import formalities (including payment of customs duties and other taxes, if due), so that these goods can move freely within EU space.

**Customs Warehousing** – allows for warehousing, among others, of non community merchandise, without these goods being subject to import duties or to trade policy measures.

**Inward Processing** – presupposes the transformation of non-community merchandise and goods introduced under Free Circulation, allowing for the adoption of two systems:

**Suspension System** – use of non-community merchandise destined for subsequent re-export under the form of compensating products (final product resulting from finishing operations performed), without the imposition of customs duties.

**Drawback System** – transformation of goods introduced under free circulation, with re-imbursement or exemption of import duty payments or other taxes, in cases where the goods are exported under the form of compensatory products.

**Outward Processing** – allows for the temporary export of community merchandise in order to permit subsequent working on this merchandise in a third country and to introduce under free circulation the products resulting from these operations and benefiting from total or partial exemption of import duties.

**Transformation under Customs Control** – implies the use in customs territory of merchandise originating from third countries, there to undergo transformation that modifies its nature or its condition without being subject to import duties or trade policy measures, and the respective introduction into free circulation of the resulting transformed products after the payment of respective charges. These products are considered manufactured products.

**Temporary Imports** – temporary admission of non-community products destined for subsequent re-export, with suspension of customs duty payments and other charges, for a determined period of time, without undergoing any modification other than normal depreciation resulting from the use to which the goods may have been subjected to. Portugal is a signatory to the Convention that established the ATA Carnet under which commercial samples, as well as professional materials and equipment destined for trade fairs and commercial exhibitions, shows, exhibits, and the like, are admitted. (http://www.acl.org.pt/CmsPage.aspx?PageIndex=52).

## Annex 2 – Import Procedures

Documents fulfil a fundamental role in whatever commercial transaction, but they are substantially different depending on whether one is dealing with the import/ export of merchandise (trade with non-European Union countries), or with the purchase/sale of goods (trade between Member States of the European Union).

In the case of **non-EU exchanges of goods** what is important are the licenses (where products are subject to restrictions), the declarations (for merchandise subject to statistical vigilance) and to certificates (always if required by law, as is the case with a large part of agricultural products), or a single administrative document, the commercial invoice and the certificate of origin.

Concerning the documentation needed to accompany the **intra-community purchases or sales of goods**, one needs the commercial invoice, the certificate of order depending on the type of goods, and the Intrastat Declaration.

Import operations (similar to those regarding export operations) must be completed with the assistance of a Forwarding Agent familiar with the documentation involved.

### Some examples:

**Trade Invoice** – it is obligatory to present an original and at least one copy of a carefully compiled invoice that is used as the basis for applying whatever fiscal duties are required. This document should include, among others, the following entries: name and address of the exporter/ expediter and of the importer/purchaser, place and date of issue, invoice number and shipping order, country of origin, point of embarkation and destination, means of transportation being used, conditions of sale and means of payment, description of the merchandise, the unit price, and total price.

**Pro-Forma Invoice** – this invoice can be solicited by the importer for merchandise that is subject to licensing or as a business proposal, or even for temporary imports of goods. When it is required it is usually presented in duplicate.

**Bill of Lading** – the elements contained in this document must be in agreement with those appearing on the Commercial Invoice.

**Packaging List** – although not obligatory, it eases the customs disembarkation of merchandise when goods originate in third countries.

**Certificate of Origin** – its presentation is required in the case of imports of merchandise subject to preferential guidelines, originating from countries with which the EU has preferential agreements (EUR 1) or from countries benefiting from the System of Generalized Preferences (FORM A). The importer also can solicit this certificate for reasons that have nothing to do with the application of customs preferences when certification is demanded by a Chamber of Commerce of the country of the origin of the goods.

**Single Administrative Document** – a document used throughout the entire community territory to fulfil customs formalities of both imports and exports.

**Other Documents** – in cases where national, community or specific regulations exist for the protection of health and public safety, the defence of consumers and the environment, certain imports into the Community of an ever increasing number of goods are subject to the presentation of various certification, according to the products in question as, for example, health, phytosanitary, quality, and conformity certificates, among others.

# Annex 3 - Useful Internet sites

**INE – Instituto Nacional de Estatística** www.ine.pt *(National Statistics Institute)*

**GEE – Gabinete de Estratégia e Estudos** www.gee.min-economia.pt *(Ministry of Finance, Research Department)*

**GPEARI – Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais**
www.gpeari.min-financas.pt/ *(Department of Planning, Strategy, Valuation and External Relations)*

**Diário da República** www.dre.pt *(Official Journal of the Government)*

**Portal do Governo Português** www.portugal.gov.pt *(Portuguese Government Portal)*

**Ministério da Economia e da Inovação** www.min-economia.pt *(Ministry of Economics and Innovation)*

**Ministério das Finanças e da Administração Pública**
www.min-financas.pt *(Ministry of Finance and Public Administration)*

**Direcção Geral de Estudos e Previsão** www.dgep.pt *(General Directorate for Research and Forecasting)*

**CFE-IAPMEI – Centro de Formalidade de Empresas** www.cfe.iapmei.pt *(Formalities Centre for Business)*

**Direcção Geral das Alfândegas** www.dgaiec.min-financas.pt *(Customs Office)*

**Câmara Portuguesa dos Despachantes Oficiais** www.cdo.pt
*(Portuguese Chamber of Official Shipping Agents)*

**Associação dos Transitários de Portugal** www.apat.pt *(Portuguese Forwarders Association)*

**ASAE – Autoridade de Segurança Alimentar e Económica** www.asae.pt
*(Food and Economic Security Authority)*

**IPQ - Instituto Português da Qualidade** www.ipq.pt *(Portuguese Institute for Quality)*

**CERTIF – Associação para a Certificação de Produtos** www.certif.pt
*(Association for Product Certification)*

**Portal do Cidadão** www.portaldocidadao.pt *(The Citizen's Portal)*

**Associação Nacional de Municípios** www.anmp.pt *(National Association of Cities and Towns)*

**AEP – Associação Empresarial de Portugal** www.aeportugal.pt *(Portuguese Businessmen's Association)*

**AIP – Associação Industrial Portuguesa** www.aip.pt *(Portuguese Industrial Association)*

**APB – Associação Portuguesa de Bancos** www.apb.pt *(Portuguese Banking Association)*

**APDC – Associação Portuguesa para o desenvolvimento das Comunicações** www.apdc.pt
*(Portuguese Association for Communications Development)*

**ANACOM – Autoridade Nacional de Comunicações** www.anacom.pt
*(National Communications Authority)*

**Turismo de Portugal, IP** www.turismodeportugal.pt *(The National Tourism Authority)*

**Portal Oficial do Turismo** www.visitportugal.com *(Official Tourism Portal)*