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e-mail: editor@datafileportugal.com

Highlight:
Simplifying property deals

Outlook: Possible tax cuts ahead ?

• Finance minister Fernando Teixeira dos Santos tabling Government's stability and growth plan 2006-2010 (PEC- Plano de Estabilidade e Crescimento (PEC) 2006-2010) says Portugal may be in position to lower taxes if current economic trends remain favourable. He said: "If we are successful in implementing PEC and achieving our macro economic forecasts we could be in a position to reduce taxation". He declined to be more specific on timetables or figures. He said economic recovery would continue although growth would be modest and stagnate at 3% from after 2009 according to the forecasts contained in PEC. Growth by December according to PEC, will be 1.4%, rising by a further four percentage points by end 2007. Inflation this year is expected to be 2.9% by year-end and 2.1% by end 2007. Exports remain the main driver of the current economic recovery. Export growth is expected to be 8.6% by year end 2006, dropping to 7.2% by year-end 2007. Imports however will continue to rise due to increasing private consumption. By 2010 unemployment is expected to average some 6.3%. Despite widespread anticipation of a central European bank interest rate rise, the Stability and Growth Pact states that interest rates are set to increase only slightly over the long term to reach an annual average of 4.2% in 2007 and a further one percentage point over the following four years. Public debt in terms of GDP for 2006 has been revised downwards to 67.4% against an earlier figure of 68.7%. The budget deficit will be 4.6% this year falling to 0.4% by 2010. Government expects to save €5,133 million or 3.04% of GDP between 2007 and 2010 due to reduced expenditure. Ongoing reform of the civil-service will bring savings of €2.34 billion of which €1.5 billion on reduced pay roll costs and €830 million from efficiency gains.

Real-estate: Less red tape in property deals

• The Council of Notaries through its Dean José Barata Lopes has registered opposition to the Government's latest move under the "Simplex" programme which is meant to reduce red tape and simplify transactions involving the public and the civil service. Government's latest *Casa Pronta* programme is designed to make the buying and selling of property more simple and quicker . However the notaries – now a privatised sector – complain that government has both failed to consult and act with them in providing better services. José Barata Lopes said notaries were not opposed to simplifying procedures, indeed, he said "the proposal is our proposal, for some time we have been urging government to bring all stages of the process under one roof namely to make the notary public offices a one-stop shop". Instead he said government appeared to be pursuing a programme of removing more and more functions from notaries cutting out their business and undermining the very basis on which the sector was earlier privatised. Secretary of State for Justice João Tiago Silveira said *Casa Pronta* comprised measures introduced "in the public interest, in the interest of taxpayers and business and not measures to protect the interest of any particular professional class." Government's *Casa Pronta* programme will be launched as a pilot before its nationwide roll-out. It will group together under one roof all real-estate transactions. The property purchase and sale contract will be done on a form which will replace the current public notary document. The payment of municipal tax on property transactions will be completed at a same time along with application for exemption from local rates where applicable and registration of the conveyanced property with the Land Registry.

Distribution: Modelo Continente on acquisition trial

• MC-Modelo Continente (retail Sonae Group) is to invest €400 million in the next two years consolidating its leadership of Portugal's retail sector before advancing in 2008 on an acquisition hunt outside the country particularly in the non-food segment. MC chairman Nuno Jordão said the company is considering acquisitions of small medium or large size retail operators and has know-how and financial resources to expand the business significantly. MC's target for the next two years is €4 billion in revenue in 2008 from 750 outlets and 700,000 m2 of sales area via its 31,000 strong workforce. Nationwide MC has 27,000 staff, 500 outlets a sales area of 500,000 m2. As at September 2006 turnover was €2,197 million, net earnings €91 million and EBITDA €158 million. Nuno Jordão was optimistic about future performance even thoughconsumer outlook for 2007 is less than buoyant. He said the group plans to achieve 10% annual growth in line with current performance. He said the group's non-food business was generating excellent results, accounting for 30% of total corporate turnover and with very high growth potential . Among existing non-food retail outlets the best placed for exporting cross-border is the Worten sports outlet.

Tax: Restaurants used false accounting software

• Tax inspectors, CID squads and the anti-corruption and economic crime unit swooped on 25 restaurants across the nation in "Operation Self-service", seizing accounting software which allegedly allows restaurants to run two sets of books - one for tax authorities and one for themselves. The WinRest programme , sold by legitimate retailers around the country, was reportedly being offered with a subsidiary application enabling a user to reduce declared income by 30% and thus allegedly defrauding tax authorities. Tax inspectors fear the same programme is being used elsewhere in the retail trade such as footwear and clothing. The raids resulted in seizure of 110 accounting programmes and an undisclosed number of restaurant owners are expected to be charged with tax fraud and falsification of IT. Tax inspectors were tipped off to the fraud when they posed as potential buyers of the application and were told about the parallel operation that would save on tax . Most of the restaurants involved are family or privately owned business. None belong to international chains. Twenty people have been arrested and charged.

Wine: Wine of Origin Scheme

•Port wine is to join other upmarket branded exports in a common promotional strategy combining efforts by products from protected Wine of Origin Scheme wards (in this case Região Demarcada do Douro) and prestige brands such as Champagne, Madeira, Bordeaux and Marsala wines. The strategy was tabled by George Sandeman chairman of the Association of Port Wine firms (Associação de Empresas do Vinho do Porto - AEVP). It is designed as a joint effort to hep with entry to new markets. "To reach new consumers we need to join forces with other prestige wines," George Sandeman said. The marketers will take the best of strategies used in the various wine regions and exchange ideas on best marketing practice implemented by each product. For port wine firms the new approach could be useful in their efforts to enter markets in Asia. George Sandeman said a trend has emerged where product marketing has become very general and banal "our aim is to emphasise the value of products coming from a specific demarcated area – this represents an added value and a guarantee for the consumer", he said. The plan was released as the Association announced that port wine sales were down 2.1% by volume and 1.5% by value through to end October 2006 with sales set to be lower by year-end than in the same previous year. According to Isabel Marrana, AEVP executive director, sales to the Netherlands showed the greatest decline. Sales to the United States, Germany Portugal and the United Kingdom were positive. 80% by volume and 90% by value of port wine is exported. AEVP is refining its current Wine of Origin Scheme which it launched in 2005 and 2006 for marketing port wine, champagne and sherry in the US. The programme – 50% funded by the EU, up to €2 million – is regarded by the producers as a positive marketing tool. George Sandeman said that 45% of North Americans who bought port wine did not discriminate about its origin and because the price was the same "they will as easily select a wine produced in the Douro as they will wines grown in their own country." The Wine of Origin Scheme aims to drive up Portuguese wine exports by some €20 million in value.

Technology: Laser optics could get venture funding

• Multiwave Photonics, a Portuguese laser optics technology specialist focused on industrial and medical applications, took second place in the recent European Venture Contest just behind EpyCrystals, the Finnish winner. The event which was held in parallel with the European Venture summit convened recently in Lisbon aims to select the start-up with the best innovative project and best business plan. As runner-up Multiwave Photonics has opened the door to possible international venture capital investor interest. Multiwave will now submit its project along with 485 other candidates, to a jury comprised of international investors. The aim is to obtain cross-European funding. Only 125 projects will go on to the next pre selection stage with the winner chosen from 18 finalists. The 2005 European Venture Contest was won by Alfama, a Portuguesa specialist developer of anti inflammation drugs

• EXCHANGE: Currency rates: Dec 15, 1 EUR-PTE200.482; 1 USD = €0.755839 , 1 UKP-€1.48680

• The attached tourism supplement is a double issue – numbers 1 and 2 for December – due to difficulties in

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producing the first issue earlier this month. We apologise for any inconvenience.

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• *An Executive Summary of the tourism business news*

Highlight:
Concerns about Alentejo developer

Tourism: Herdade de Pinheirinho developer problem

• Economy Minister Manuel Pinho personally delivered the construction licence for the PIN-graded Herdade de Pinheirinho tourism project (Alentejo west coast) to Joaquim Mendes Duarte, chairman of developers, Pelicano – Investimento Imobiliário SA, says a December 8 report. As he did so the Minister was reported to have said: "it is a disgrace that the developers of the project have been kept waiting 10 years for authorisation to begin work". However according to Correio da Manhã newspaper, the Minister certainly was unaware that an insolvency application is currently running in the Lisbon civil courts against Pelicano. The report notes that among criteria required for a development to be a classified as a PIN or Project of Potential National Interest, by government are a requirement for a coherent investment structure to enable the developer to complete the project in full. Companies applying to the Agência Portuguesa para o Investimento (API) or Invest in Portugal agency, for PIN classification, have to prove their financial health and produce other critical indicators of financial capacity. Should insolvency hearings go against Pelicano doubt would be cast on the financial capacity of the developer to complete the project. According to the CM report in November 2001 Pelicano signed a promissory purchase and sale contract on a 412.85 m2 plot at Quinta da SAPEC, in Quinta do Anjo, Palmela. The public notarised deed of sale was to have been completed within 30 months from date of promissory contract, or 29th May 2004. According to documents filed at court the purchasers tried several times to fix a date for the notarial deed for completing sale, but Pelicano never formalised the matter even though it had accepted a €340,000 deposit. The applicants for the insolvency are demanding €1,021,577.23 in compensation which they claim is twice the present capital of the company. The purchasers of the land say Pelicano is clearly unable to meet this demand and should be declared insolvent. Pelicano spokesman Paulo Belo said the company was interested in "responding to the truth of the issue rather than out of context reports". Herdade do Pinheirinho, located between Tróia and Melides was formerly owned by Sílvio Narciso family whose firm had earlier built many of Lisbon's major avenues. The project for the estate was drawn up 25 years ago by Sílvio Narciso and has remained unchanged except for the location of two hotels. At the end of the 70s/early 80s the estate was acquired by a Swiss group which has since then attempted to conclude the project. It has been revised several times to meet various planning issues and master plan requirements for the Alentejo coast all of which have brought considerable delay. In 2001 Pelicano group became interested in the property and made an offer for some 300ha of the estate. Pelicano was incorporated in 1992 with equity capital of €25,000. the Herdade do Pinheirinho estate comprises 204 plots for individual villas of between 1000 and 5000 m2 , green space and artificial lakes in a complex of three tourism villages, shopping areas, apart hotels, and 27-hole golf course.

Tourism: New framework law

• The recently promulgated basic framework law for Tourism will permit the new Turismo de Portugal (Portugal Tourism organisation) to open its own offices abroad says Luís Patrão, chairman of ITP (to be merged into Turismo de Portugal). He said any structure established outside Portugal would be minimal, focused in markets where tourism flows justified or are emerging. He said the tourism sector would benefit considerably (but gave no figures) from the new IVth Community Support Framework (IV QCA) funding now under negotiation. He described "the short-term future of the industry as facing a critical time". He said among areas to benefit from funding would be reform of the public sector where this affected tourism, and public investment in tourism infrastructures and the environment. (again no figures were offered).

Tourism: Treble golf courses and earn €8 billion pa

• Carlos Melo Ribeiro, chairman Siemens Portugal, suggests the country should be planning on attracting and providing for 20 million tourists a year and creating a very strong brand grounded on golf in the same way that other tourism resorts specialise in snow and associated activities. At the recent congress of Associação Portuguesa das Agências de Viagens e de Turismo (APAVT), the Portuguese Association of Travel and Tourism agencies in Ponta Delgada, Azores (2-6 December) he said the existing 75 golf courses in Portugal , currently generating €1.8 billion a year, should be trebled with revenue targets raised to €8 billion. This he said would be the equivalent of the

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output of four AutoEuropas (VW plant Palmela). "This could be a attractive option for the country and a partial solution to structural delays, ahead of the next economic cycle," he said. He told the delegates that tourism was the base line of the country's current offer. "It will be increasingly more difficult to attract further investment in the industrial sectors. New plant is practically all going to China, India or East Europe," he said. He added that a link between health and tourism was one aspect of a development package which should be examined for the sector. "Why not think more long-term and establish partnerships with the health systems of countries whose tourists visit us", he asked. This would involve an integrated strategy – "and what we lack in Portugal is long-term strategies. We continue to think in terms of the electoral cycle. Ireland, Spain and Singapore are success stories which have in common a focused effort to win through a major national cause". According to Henrique Veiga, chairman of the Portuguese Hotel Association – Associação dos Hotéis de Portugal, *Brand Portugal* remains a "negative factor for products and services" in the country. Luís Patrão, Tourism Portugal chairman said government was committed to eliminating so-called contextual costs - red tape and redundant procedures. He said government would commit €50 million to external tourism promotion in 2007 closely focused on targets such as Portuguese communities and Luso descendants. Turning to brand and marketing issues he noted: "It is much easier to promote the Douro as region producing port wine and known worldwide, than it is to promote the region as a destination in itself."

Tourism: Spanish oil refinery - bad for Alqueva ?

• There is concern among Alentejo municipalities and the Alqueva dam area, namely Moura, about a Spanish oil refinery which is planned for the Guadiana river near the border town of Badajoz. Ambassador Gonçalo Santa Clara Gomes, chairman of the committee managing Water Affairs in the Portuguese-Spanish Hydrographical Basins said Lisbon aims to ensure that the planned development will have no negative impacts on Portugal. However the Mayor of Moura (Alentejo) said any such project presented risks for water quality in the Guadiana and thus for the Alqueva Dam which is fed by the river, and for significant tourism investment now being attracted to the region. The oil refinery initiative is the brainwave of a Spanish businessman Alfonso Gallardo. Portugal has made it clear to Spain that a very precise detailed environmental impact study must be undertaken before any development goes ahead.

Tourism: €380 mn on Lisbon airport improvements

• Expansion of Lisbon airport will cost €380 million and is expected to be completed in the year ahead says a December 9 report. Air traffic at the airport increased by 9% in H1 2006 and works underway are being speeded up as a result. A new passenger terminal and two new aircraft taxiing areas are being built while the number of terminals using telescopic gangways will be increased. The expansion works at the existing airport will enable air traffic movements to increase from 32 to 40 aircraft an hour.

Tourism: Solverde hit by new Lisbon casino

• Solverde, which owns Espinho and Algarve casino concessions, is seeking compensation for losses it claims it has suffered since the opening of the new Parque das Nações Lisbon Casino (owned by Estoril-Sol). The concession holder wants government to agree a formula adjusting for the losses it says it has suffered. This might involve permission to boost marketing of leisure amenities and events at its casinos and a lower rate of the offset Solverde pays to the state for the concession. Solverde chairman Manuel Violas said: "we are not asking to be allowed to do what the Estoril-Sol group has managed –building a new casino – we merely wish to have compensation for the fact that Lisbon Casino has changed the rules of the game and is affecting our business." He said comparing gross revenues from the various casinos in the first three quarters 2005 with the same period this year showed that Espinho's 13.1% national market take in traditional gaming had fallen to 11.2%. In slot machines market share fell from 15.4% to 14.3% "and Lisbon casino only opened in April," he said. Over the same compared periods gross gaming revenue at Estoril and Lisbon rose with national market share in traditional gaming rising from 46.1% to 49.1%. The position for slot-machines was up from 42.2% at end Q4 2005 to 47.2% in the same period this year. The gambling concessions held by Solverde were renegotiated in 2001 and expire in 2013. They contain clauses allowing for the right for an affected party to modify the contract should changed circumstances impact on the concession. Government has agreed it will reappraise its Solverde casinos situation but only in 2009. Secretary of State for Tourism Bernardo Trindade said losses "must not be presumed they must be justified". He said it was important to have the accounts for two full years – 2007 -2008 to be able to assess the impact of the new casino opening on the Solverde concession. Manuel Violas said he was pleased government recognised there was an problem but "waiting until end 2009 will be too late – we are under pressure now".

Tourism: Vila Galé occupation rates at 72.2%

• Vila Galé group is forecasting year end turnover of €60 million in Portugal according to chairman Jorge Rebelo de Almeida. This would be a 10% trading improvement in Portugal over 2005 . On its Brazilian operations the group – which owns three units at Fortaleza, Salvador and Marés in Guarajuba – expects turnover of between €12.7 and €14.1 million. Occupation rates in Portugal averaged 72.2% through to October, up 8.52% over the same previous year period.