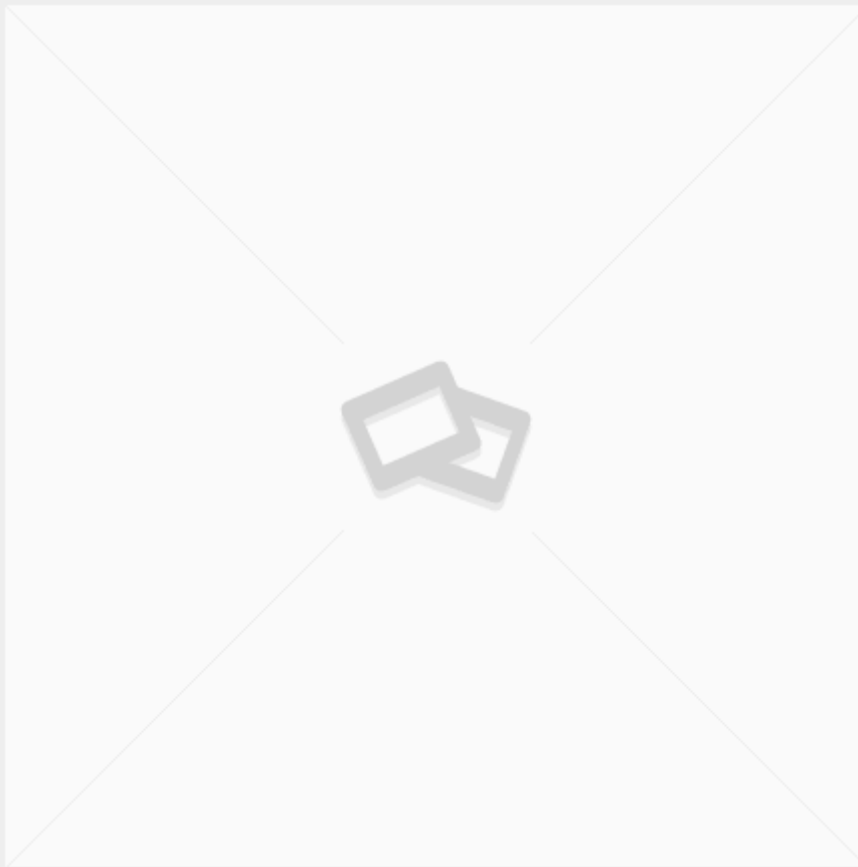
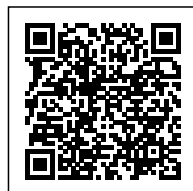


GIBRALTAR RELAUNCHED - THE REBIRTH OF THE ROCK

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Gibraltar's Iberian status has long been contentious. A British Overseas Territory, it has been an ongoing issue for successive Spanish governments, but the last few years have seen pragmatism in both Madrid and Gibraltar as to its status and future direction.

Along with warmer political relations, the "Rock's", economy is booming, and many on either side of the border are looking to capitalise on the opportunities this may bring.

From Gibraltar's airport, which marks the border with Spain, to its southerly tip at Europa Point, an air of optimism fills the small peninsula. Although much of the "Rock's" recent history has been as a British military fortress, and a recurring political issue for successive Spanish governments, it is now the borderless money markets that are helping to determine both its political and economic direction.

Gibraltar is enjoying thriving banking and insurance markets, an emerging funds market, and warmer political relations with Spain. Many there now predict that it will become a natural channel for

inbound and outbound Iberian investment. While there will be those in Spain that may bet against such a scenario, Gibraltar could still see their money – as it is also the corporate location of choice for many of the world's leading online gaming and casino companies.

New life

The British may still utilise Gibraltar as a strategic military outpost, but its influence on the daily life of Gibraltar's 28,000 residents is much reduced. "Fifteen years ago the Ministry of Defence (MoD) accounted for almost 60% of Gibraltar's economy, today it accounts for 6%," says Keith Azopardi, former Deputy Minister of Gibraltar, and now partner at one of its largest law firms, Attias & Levy.

While this reduction may have been good for geopolitics it was bad news for the peninsula, leaving a hole in its employment base and economy.

"By the start of the 1990s Gibraltar had to balance its economy," explains Robert Vasquez, partner at Triay & Triay. "There was already a financial sector, on which the government was seeking to capitalise, as well as potential in property and tourism. But it was the downturn in MoD spending that motivated more concerted activity."

The result was to breathe new life into Gibraltar's financial, property and shipping sectors, attracting new business and investors (see box [Gibraltar: A new Monaco?](#)), and reinvigorating its legal market (see box [On the rise: the Gibraltar legal market](#)).

"Gibraltar's economy has expanded primarily because of two things," explains Azopardi. "The opening of the frontier with Spain and the diversification of the private sector – prominent within which was the financial services sector."

Gibraltar's Chief Minister, Peter Caruana, announced in his June 2007 budget that: "Once again I am able to report that in terms both of public finances and of the economy as a whole, Gibraltar's overall economic position is excellent and has never been better."

The past year saw Gibraltar's economy grow by around 10%, with GDP now close to €1.1 billion. The government is enjoying a record budget surplus, with revenue up 6% to €387 million, it has record reserves of €148 million and there is virtually full employment.

Changing perceptions

Louis B Triay, managing partner of another major firm, Triay Stagnetto Neish, expresses the sentiment of many there when he notes however that: "Gibraltar's success has come about despite the policies of successive Spanish governments."

Due to the territorial dispute that extends back to the British capture of Gibraltar in 1704, relations with its most immediate neighbour have never been easy and often tense.

Tim Jones, Head of Corporate at Freshfields Bruckhaus Deringer in London, spent six years in Madrid between 1994-2000, and notes that throughout this period his office had virtually no contact with Gibraltar. "I saw no flow of work at all, and I wouldn't have expected there to be. The connection was always with the London finance markets."

Gibraltar lawyers appreciate that there still remains much to be done before Spanish business, and their legal advisers, fully appreciate the benefits it offers.

"The biggest problem we have in Spain is perception. We have always been labelled as a loose tax haven," says Christian Hernandez, partner at Gibraltar's oldest firm, Isola & Isola. "But since the early 1990s Gibraltar has had UK standard EU regulation, and is now among the best-regulated markets in the world. Most Spaniards however, still don't know that. Gibraltar has been regulating Company and

Trust providers since 1990."

A May 2007 International Monetary Fund (IMF) report endorsed both Gibraltar's regulatory environment and anti-money laundering regimes. "Due to the historical publicity that we have received in Spain for political reasons, we are now repositioning Gibraltar PLC in Spain's financial community as a testimony you can work with and that speaks your language," adds Benjamin Marrache, managing partner at Gibraltar's most international law firm, Marrache & Co.

Warmer relations

Spain is however already one of Gibraltar's largest trading partners, accounting for almost a quarter of all exports and imports (double that of UK). Much of this is the result of local trade with Andalusia, with around 4,000 workers commuting daily across the border from La Línea.

Building on almost a decade's momentum, and perhaps catching up with economic realities, the "Córdoba Agreement" signed by the Spanish, British and Gibraltar governments in September 2006, has signalled a new era in political relations (see box [The Córdoba Agreement](#)), unlocking recurring issues such as the expanded use of Gibraltar airport, Spain's recognition of Gibraltar's "350" international dialling code, and Gibraltar mobile telephone roaming in Spain, as well as the increased fluidity of the land frontier.

"Córdoba is the beginning of a new perception of Gibraltar and an acceptance of the Gibraltarian identity. It is now a sophisticated finance centre, and the agreement gives the signal that it is an accepted place to do business with," says Michael Castiel, partner at Gibraltar's largest firm, Hassans.

"This is indeed an interesting time for relations with Gibraltar, and I think there is considerable optimism in Spain that infrastructure and legal systems are being successfully harmonised in the same way as they are being throughout Europe," agrees International Bar Association (IBA) president Fernando Pombo, chairman of Spain's Gómez- Acebo & Pombo. "Ultimately, I believe this will make finding a solution to the political issues much easier to achieve."

One outcome of Córdoba has been the resumption of direct flights to Madrid, with direct flights to Barcelona proposed for the end of 2007. Planes full of Spanish businessmen have yet to arrive, but Hernandez (also Director of Gibraltar's Chamber of Commerce) notes that, "There is already greater cooperation with Spanish Chambers of Commerce than at any time in the last ten years – when previously the Spanish government loomed over them."

Despite the optimism it remains early days. "I think you will find that old habits die hard," says one partner at the Madrid office of a UK magic circle law firm. "There is still minimal contact between Madrid and Gibraltar on legal issues, with part of the problem being Gibraltar's listing by the Spanish anti-money laundering authorities as a fiscal paradise, so everyone has to move very carefully."

The issue is one that James Tipping, Director of Gibraltar's Finance Centre, notes is important, but which is already on the agenda for further discussion. "If you had asked me two years ago could the issues agreed at Cordoba be overcome, I would have had to say no. The Chief Minister has now said publicly that future talks will include financial services issues, but the feeling we have already is that Spain is coming round to the fact that Gibraltar does not represent a threat to either its own public finances, or financial services."

Financial markets

Gibraltar's financial services sector is recognised as comparable to many major onshore centres, and now accounts for a quarter of GDP employing around 2,700 people, says Tipping. The jurisdiction's appeal is again recognised by Pombo. "The strict regulatory framework which is now imposed on the territory's financial sector has helped to attract investors to what is a fiscally attractive destination

supported by a recognised good-governance environment." One of the key drivers of this success is Gibraltar's unique position within the EU, emphasises Azopardi. As the only small European territory with EU membership, it enables resident financial services companies to "passport" directly into Member States.

One result, notes Tipping, is a booming insurance sector. "Since 2000, the number of licensed insurance operations has risen from around 23, to 84 (including cells), with almost a third operating as captive insurance arms. We are now competing head on with locations such as Dublin. While an emerging area is the funds sector, particularly niche funds."

Gibraltar's banking sector is also important, its 18 regulated banks holding assets of around €11.7 billion. The absence of the major Spanish banks is however notable, with only BBVA present – operating as BBVA Privanza International (Gibraltar) Limited.

"The Spanish banks were here, and they are again showing interest. We get the impression that people are saying 'how can we use Gibraltar?' – for entry into the UK and other EU markets, or for its similarity with UK legislation," says Castiel.

The belief is that with an increasing flow of workers, cross-border business, and now political approval, the Spanish banks will inevitably return. "It is a matter of confidence building therefore I suspect we will see the arrival of the Spanish High Street banks sooner rather than later," says Isaac Marrache, senior partner at Marrache & Co. "The last ten years saw a number of them retreat, which I don't think would be the case today."

GibEX

A further development is the Gibraltar Stock Exchange (GibEX), which looks set to finally open for business after almost a decade's debate. "For a long time it was considered impossible – no one thought it would ever be realised. But we are almost there. We have had the vision to seek opportunities, and get government support," says Castiel.

His firm, Hassans, has been a key driver in GibEX's development, and through an investment arm holds a minority stake, alongside the Vienna Stock Exchange, Austria-based Bank Medici, Dutch liquidity provider Van Der Moolen NV, and the Gibraltar government.

The exchange is initially intended to operate for listing purposes only, with trading commencing at a later date. "The intention is to cater to the demand for bonds or funds, or companies from emerging markets, that need to be listed, but not traded," explains Castiel. "Gibraltar is an accessible place, that offers a degree of proximity to senior people, regulators and decision-makers."

"The Exchange while it has been talked about for a while is not driven by any one event, but is rather a further example of the diversification of the financial services sector," adds Azopardi.

Some believe that a stock exchange will ultimately prove a key factor in Gibraltar's ascendance as a recognised finance-led jurisdiction, channelling new investment into Europe from Asia and Latin America. "You only have to look to the success of the Cyprus and Maltese exchanges as an example," notes Benjamin Marrache.

Betting on success

A now established aspect of the Gibraltar economy is the online gaming industry. It is the corporate base for around 15 of the industry's leading online players, among them 888, 32Red, Victor Chandler and PartyGaming – which last year saw revenue of US\$1.1 billion (€800 million) – as well as the location of choice for high street bookmakers looking to expand online.

This attraction is down to more than good luck. Gibraltar's position within the EU has proved crucial,

as has its English-speaking workforce – around 1,700 are employed by the industry – but also fundamental has been the government's willingness to create an attractive yet sufficiently robust regulatory framework.

This point is emphasised by Jones at Freshfields, who advised both PartyGaming and 888 on their London Stock Exchange IPOs. "For businesses that are transportable Gibraltar has very specific attractions, including the tax system and a very thorough regulatory regime – which the government put in place fairly quickly once it was realised the gaming companies wanted to be based in the EU. This is certainly to their credit, and was absolutely necessary to enable companies to seek London listings – they all look like UK companies from a governance perspective."

Others add that the government's emphasis on the "blue chip" portion of the market has been significant. "There have been only very limited number of licences, and the government has been very selective as to who receives them," says Triay.

"We offer a sophisticated, well-regulated business environment. It is part of the selling point that we have the best operators in the market, the regulation has to be transparent to attract companies that wish to list publicly," adds Castiel.

Most of the major Gibraltar law firms count gaming companies as clients, while even those that do not are enjoying the boom in commercial property and new businesses – some of the wealth of companies' founders has found its way into new local enterprises, and reportedly accounts for a large number of purchases in Gibraltar's gleaming marina developments.

In any event new players continue to arrive, among them leading French casino operator Partouche – which is being advised by Hassans, although their current landlord is Cruz & Co.

"The companies that are established here have said that they are committed to Gibraltar, and even though Partouche has arrived in part due to the French prohibition on online gaming, they have said that even if the French markets open up, they can see no reason to leave Gibraltar once they are up and running," says Castiel.

Legal certainty

Gibraltar's position within the EU has however also brought major issues. In 2001, and again in 2002, the European Commission (EC) challenged the legality of Gibraltar's exempt-companies scheme.

"The 1967 Exempt Companies Act kickstarted the jurisdiction, and when that looked like ending there were those that thought that it was the end of Gibraltar's status as a finance centre when in fact the opposite has been the case," says Triay.

The structure, the backbone of its corporate and fiduciary business, had proved hugely attractive with around 8,400 entities incorporated. The EC's challenges were stopped but the Gibraltar government agreed to close the door to new tax exempt entities by 2006, while existing companies have until 2010 to restructure their operations.

While there was disappointment among many in Gibraltar's legal and finance sectors that the government chose not to announce the imminent launch of a replacement low-rate corporate regime (of between 10-12%) in its June budget, there is clear relief that it has at least announced a timetable for its introduction (see box [Corporate countdown: setting out a tax timetable](#)).

One reason for the delay is the EC's current challenge, under state aid rules, of Gibraltar's proposed wider tax regime. The claim has been countered by both the British and Gibraltar governments, who state that Gibraltar is entitled to operate its own tax system, and is currently before the European Court of Justice (ECJ).

While most in Gibraltar were already confident of success, their position has been enhanced by a

decision of the ECJ in September last year, backing the Commission's decision regarding tax cuts in the Azores, a Portuguese dependency (see box [The Azores Ruling](#)).

The ECJ's ruling is expected imminently, but for some the outlook is already sufficiently positive. "Gibraltar is already experiencing a lot of work, and if the ECJ case were decided today firms will need to gear up very quickly to cope with the resultant increase in workloads," says Vasquez.

Official recognition

While there remains consternation over the delay in the introduction of the flat-rate low tax regime, the consensus within Gibraltar is that times have never been better. Though it may be perceived as insular, and has been isolated even from its closest neighbours, Gibraltar's ability to react positively to changing economic and political landscapes has proved one of its key characteristics.

"Gibraltar is clearly now a different place to that which it was even a decade ago," adds Jones at Freshfields. "We have seen a number of big corporate players in the UK using Gibraltar, and there is now a two-way business flow, and I'm not sure which way dominates."

Gibraltar's compact size, and the proximity of its government and regulators, enables law and business-makers to engage directly with each other. "Gibraltar has proved able to think fast and act accordingly. Companies here like being able to speak with the regulators and have very meaningful discussions. It is a tight regulatory model, but one that can be approachable," says Triay.

Undoubtedly, the signing of the Córdoba Agreement marks a new era in political relations with Spain. But it also places official approval on Spanish businesses seeking to do business with Gibraltar. This recognition has been further enhanced by the impending arrival of the Instituto Cervantes – the official Spanish Government Cultural Centre.

"The Iberian airlines flights and the arrival of the Instituto Cervantes help affirm that Gibraltar has a lot to offer. We can be the perfect platform assisting Spaniards as a sophisticated financial centre," says Benjamin Marrache.

"Whilst a political solution is not something which is going to happen overnight, I am confident that the benefits of recent developments and continuously improving relations will pay dividends to all concerned," says Pombo expressing sentiments held on both sides of the border.

"Many people are now looking at what Gibraltar has to offer," believes Azopardi. "Our status within the EU means that we are able to offer direct access to the EU markets, and we are now in many respects a complimentary jurisdiction, for corporate restructuring, or multidisciplinary products."

Gibraltar's unique status is clearly already proving attractive to international investors. Should the ECJ ruling go its way, there will undoubtedly be increased interest, and pressure on Madrid to reconsider its "fiscal paradise" status – the optimism of Gibraltar's lawyers will then be felt far beyond the Rock.