New legislation in the field of public procurement resulting from the measures adopted to confront the economic and social impact of COVID-19

The COVID-19 pandemic is causing a health emergency that is spreading to the economy and to society at an unaccustomed speed, affecting both production and demand and citizens' welfare.

To soften the effects that this pandemic and the measures for containing this health crisis are causing, the Spanish government has approved: (i) Royal Decree 463/2020, of March 14, 2020, declaring a state of emergency to manage the COVID-19 public health crisis ("RD 463/2020") (ii) Royal Decree-Law 8/2020, of March 17, 2020, on urgent and extraordinary measures to confront the economic and social impact of COVID-19 ("RDL 8/2020") and (iii) Royal Decree-Law 11/2020, of March 31, 2020, adopting additional social and economic measures to confront COVID-19 ("RDL 11/2020"), which makes various amendments to this last royal decree-law and to the public procurement legislation in force.

These decrees have brought important new legislation in the field of public procurement which we explain below.

I. New legislation in RD 463/2020: suspension of procedures in the field of public procurement

One of the most important measures included in RD 463/2020 is the suspension of time periods for conducting all the procedures of entities belonging to the public sector under additional provision three.

That suspension logically affects public contract tenders in the way specified below:

- While the state of emergency is in place, as a general rule there will be a suspension of all tenders in progress that are being carried out by entities belonging to the public sector within the meaning of this term defined in Law 39/2015, of October 1, 2015, on the Common Administrative Procedure of Public Authorities (namely, central government, autonomous community government, local corporations and the institutional public sector).
- In this respect, although it is true that RD 463/2020 uses the terms "suspension" (
 "suspension") and "interruption" ("interrupción"), the truth is it does not appear to have used them very precisely from a legal standpoint. It may rather be interpreted that they have been used as synonyms or loosely, because, as a general measure, it provides that the time periods "will resume" when RD 463/2020 or its extensions cease to be in force (without distinguishing between cases of suspension and interruption). For this reason, we consider that the time periods have been paused or are on hold during the state of emergency, and will resume when it is lifted from the point they were at, and for the number of days that remained, when the state of emergency was declared.
- This same view was stated by the Subdirectorate General for Consultation Services of the Government Lawyer's Office in a report issued on March 20, 2020, in reply to the request for information on how to proceed when the suspension of administrative time periods ceases. According to this report, "the procedural time periods that are mentioned [the decreed suspension] became suspended on declaration of the state of emergency; they

will resume for the remaining period, when that, original or extended, state of emergency disappears, and cannot under any circumstances restart from zero. In other words, they "resume", but do not "restart".

- Nevertheless, additional provision three of RD 463/2020 contemplates a few exceptions to the general suspension rule. Even though the literal meaning of the article proves ambiguous on this point and could cause doubts over its scope, the central government's Public Procurement Consultation Board has interpreted its content and specified in an information notice that those exceptions would be as follows in relation to public procurement:
 - (i) Where the contracting authority orders, in a reasoned decision, measures with rules and instructions on the procedure, provided these measures are strictly necessary for preventing serious detriment to the tenderer's rights and interests and, additionally, the tenderer states its acceptance.
 - (ii) Where, although the tenderers' rights and interests are not seriously affected, the contracting authority addresses them to obtain their consent for continuing with the tender process and they give their acceptance.
 - (iii) Where procedures are involved that relate to situations closely connected with the facts justifying the state of emergency and the contracting body issues a reasoned decision ordering continuation. It is sought with this to prevent the halting of any activities that prove essential for putting or keeping in place suitable measures for managing the COVID-19 public health crisis.
 - (iv) Where the tenders concerned are held for the purpose of satisfying "the most essential needs in the public interest", provided that the contracting body issues a reasoned decision ordering continuation.

In addition to the tenders in progress, we consider that there has also been a suspension, within the meaning described above, of the time period for lodging a special appeal ("recurso especial") in relation to public procurement where there are reasons for doing to.

Additionally, in our opinion, the procedure for settling the special appeal by the body concerned has also been suspended. This has been stated in various information notices, by, for example, the Catalan Contractual Appeals Tribunal or the Basque Country's Administrative Agency for Contractual Appeals.

Nevertheless, it must be taken into account that diverse interpretations among the competent bodies over the scope of this last suspension cannot be overlooked. Namely, for example, the Castilla y León Contractual Appeals Tribunal has informed that, despite the suspension, it will deliver a decision "on any special appeals and claims for which the procedure had been completed and the only remaining step is to deliver a decision".

It needs to be mentioned here that, according to the interpretation expressed by the Subdirectorate General for Consultation Services of the Government Lawyer's Office in its report dated March 18, 2020, "if the state of emergency is extended and there is record of appeals filed against the allocation, the contacting authority may consider the need to ask Central Contractual Appeals Administrative Tribunal (TARCR) to lift suspension [of the allocation], if reasons of public interest really do exist".

II. New legislation in RDL 8/2020

For its part, RDL 8/2020, provides in chapter III various measures to ensure liquidity with the aim of sustaining economic activity in the face of transitional difficulties caused by the situation created by COVID-19. Notably the exceptional provisions adopted in article 34, which had its original wording changed in some respects by final provision one of RDL 11/2020.

Below we explain what those exceptional provisions involve, which, as we shall see, vary depending on the type of contract concerned, and we highlight a few doubts that could arise in practice with its implementation.

Scope of application of article 34 of RDL 8/2020

Before moving on to analyzing those exceptional provisions, we believe it necessary to mention first the scope of application of article 34 of RDL 8/2020.

Although the original wording of that article of RDL 8/2020 did not expressly define that scope of application, following the amendment made by RDL 11/2020, a new subarticle seven has been added which specifies what the term "public contract" means for the purposes of the suspension and compensation regime in this article.

Accordingly, from the current wording of the article, it could be interpreted that there have been left outside its scope of application any public contracts allocated before the entry into force of Legislative Royal Decree 3/2011, which, in our opinion, will have to be confirmed from any reports that may be issued in relation to its interpretation.

Public contracts for services and for supplies with successive obligations

Suspension of performance of these contracts

Article 34.1 of RDL 8/2020 states, in paragraph one, that any contracts for services and supplies with successive obligations (namely, contracts with continuous obligations) in effect, which have been concluded by the entities belonging to the public sector defined in article 3 of Law 9/2017, of November 8, 2017, the Public Sector Contracts Law ("LCSP", after its initials in Spanish), which become "impossible" to perform as a result of COVID-19 or the measures adopted by central government, autonomous community governments or local authorities to combat it, "shall be suspended fully or partially" from when the circumstances of fact preventing their performance occur and until that performance is able to resume. For these purposes, it will be interpreted that performance is able to resume where, when the circumstances or measures preventing their performance have ceased, the contracting authority notifies the contractor of the end of the suspension.

Importantly, despite the ambiguity of the term "impossibility", the Subdirectorate General for Consultation Services of the Government Lawyer's Office issued, on April 1, 2020, a report arguing that this term should be interpreted as an "absolute unviability for performing the contract, which does not occur when it may continue, although, due to the state of emergency, the way in which it may be performed changes".

Moreover, it needs to be highlighted that, although at first that article in RDL 8/2020 referred to an "automatic" suspension, that reference has been removed following the amendment made by RDL 11/2020.

Suspension procedure

In principle, for a contract for services or supplies of this type to be suspended in these cases it is necessary for:

The contractor to send a request for suspension to the contracting authority stating: (i) the reasons that have made performance of the contract impossible; (ii) the personnel, premises, vehicles, machinery, plant and equipment used for the performance of the contract at that time; and (iii) the reasons for the contractor being unable to employ the means mentioned in another contract.

In any event, in the above-mentioned report dated April 1, 2020, the Subdirectorate General for Consultation Services of the Government Lawyer's Office mentions that "despite nothing being specified in article 34.1 of Royal Decree-Law 8/2020, the contracting authority retains the prerogative to suspend the contract by its own decision if it finds that, as a result of the public health crisis associated with COVID-19, the performance of the contract becomes impossible, and this is even if the contractor does not request it".

■ The contracting authority to find expressly the impossibility of performance of the contract within 5 calendar days. As we have already mentioned, after that period has elapsed refusal of the request by silence will be determined to have taken place, although an express decision accepting the request may later be rendered, under article 24.3.b) of Law 39/2015, of October 1, 2015, on the common administrative procedure of public authorities ("Law 39/2015").

In every case, the circumstances submitted in the contractor's request may later be examined by the contracting authority.

Damages payable to the contractor

The damages that the contractor may receive in these cases, "subject to a request and duly authenticated evidence of the actual existence, effects and amount by the contractor", will be exclusively the following:

1. The salary costs that the contractor has actually paid to any personnel that appear as used for ordinary performance of the contract as of March 14, 2020, during the suspension period.

The following comments are needed in relation to these costs:

- RDL 11/2020 has clarified that they include also "any relating to social security contributions that may be required".
- RDL 11/2020 also clarifies that, if among the staff that appear as being used for the contract "there are any staff affected by the recoverable paid leave allowed in article one of Royal Decree-Law 10/2020, of March 29, 2020, the payment by the recipient company of the relevant salary costs will not qualify as indemnity but rather payment on account, of the hours that will be recovered as specified in point 5 of that single article, to be taken into account in the final settlement of the contract". Additionally, the Subdirectorate General for Consultation Services of the Government Lawyer's Office stated in a report, dated March 23, that the reference to those salary costs "must be interpreted as confined exclusively to the costs in

respect of the salaries of staff with whom the contractor holds an employment relationship within the meaning of article 1 of the Workers' Statute", and, therefore, cannot include " costs in respect of salaries actually paid by the subcontractor to the workers for whom the subcontractor is the business owner or employer".

- 2. Costs of keeping in force the final guarantee, relating to the contract suspension period.
- 3. Rental or maintenance costs of machinery, plant and equipment relating to the contract suspension period, used directly for performance of the contract, provided that the contractor evidences that these resources could not have been used for any other purposes while suspension of the contract was in place.
- 4. Costs relating to any insurance policies required in the contract specifications and related to the subject-matter of the contract which have been taken out by the contractor and are in effect when the contract is suspended.

In line with this, the rules on damages in cases of suspension as set out in article 208.2.a) LCSP and those set out in article 220 of the revised Public Sector Contracts Law ("TRLSP"), approved by Legislative Royal Decree 3/2011, of November 14, 2011 would not be applicable.

This last point has been confirmed by the Subdirectorate General for Consultation Services of the Government Lawyer's Office in the above-mentioned report dated April 1, 2020, in which, by contrast, it has stated that the suspension procedure is indeed subject to "letters b) and c) of article 208.2 LCSP, relating to the need to issue a certificate of suspension as a requirement for the indemnification, and to the statute of limitations for the contractor's right, which expires within a year running from when the contractor receives the order to resume performance of the contract".

Moreover, according to that report, the time period the authorities have for deciding on the request for indemnification submitted by the contractor (which must be independent from that for suspension of the contract) is the standard three month time period set out in Law 39/2015.

Other rules applicable to these suspensions

- Where, on expiry of the term of a contract of this type no new contract has been executed ensuring continuity of the obligation as a result of the halt in procurement procedures under RD 463/2020, and the relevant new contract cannot be executed, the provisions in the last paragraph of article 29.4 LCSP may be applied (which allow the original contract to be extended until performance of the new one commences for a period of up to nine months, without amending the other terms and conditions), regardless of the publication date of the public tender for that new contract.
- The suspension cannot, under any circumstances, amount to a ground for termination of these contracts and it will end when the contracting authority so notifies, when the circumstances giving rise to it have ceased.

Public contracts for services and for supplies with non-successive obligations

Delay by the contractor and extension of the time period

Article 34.2 of RDL 8/2020 relates to contracts for services and supplies other than those mentioned above that are in effect and were concluded by the entities belonging to the public sector defined in article 3 LCSP. For these contracts, provided their subject-matter has not disappeared as a result of the circumstances of fact created by COVID-19, it states that, where the contractor incurs a delay in meeting its time periods as a consequence of COVID-19 or the measures adopted by the central government, autonomous community governments or local authorities to combat it, and offers to fulfill its commitments if the initial time period or extension in progress is extended, the contracting authority must allow this, and give the contractor a time period what will be at least equal to the amount of time lost for the reasons mentioned, unless the contractor asks for another shorter period.

So, the contracting body must grant the contractor an extension of the time period, following a report by the contract director, determining that the delay is not for a reason attributable to the contractor, and instead has occurred as a consequence of COVID-19 as described in the preceding paragraph.

Although the article does not refer to the time period that the contractor has to request that extension, the Subdirectorate General for Consultation Services of the Government Lawyer's Office has interpreted, in its above-mentioned report dated April 1, 2020, that the period is that established in article 100 of the General Regulations on the Public Authority Contracts Law, namely, "fifteen days from when the cause that gave rise to the delay occurs".

Importantly, the comments outlined above, as we have mentioned, are only applicable if the subject-matter of the contract has not disappeared, because, otherwise, according to that Report dated April 1, 2020, "the contract becomes extinguished (due to disappearance of the cause, because its subject-matter has become impossible), and the contractor is entitled to settle the obligation performed".

Special rules applicable to these delay scenarios

- The imposition of penalties on the contractor or termination of the contract will not be allowed.
- Contractors will be entitled to receive payment of any additional salary costs that they have actually incurred as a result of lost time by reason of COVID-19, up to a maximum limit of 10 percent of the initial contract price, although that payment will only be allowed subject to a request and duly authenticated evidence of the actual existence, effects and amount of those costs by the contractor.

Public works contracts

Scope of application: contracts with terms that expire while the state of emergency period is in place

Under a literal interpretation of article 34.3 RDL 8/2020, in principle, "the provisions in this subarticle shall be applicable to any contracts where, under the "schedule for completion of the work or project plan" it is provided that the term for their performance ends between March 14, start date of the state of emergency, and over the period it lasts, and as a result of the circumstances of fact created by COVID-19 or the measures adopted by the central government the final delivery of the work is unable to take place".

In these cases, the contractor may request an extension of the time period for final delivery, provided that it offers to fulfill its outstanding commitments if its initial time period is extended.

The article, however, does not expressly specify what happens in these cases where it was envisaged that performance of the contract would be completed on a date after the end of the state of emergency but this time period could be affected by the declaration of the state of emergency. In these cases, the above-mentioned Report dated April 1, 2020 concludes that "the contractor may request for its time period for delivery to be extended, because it is not responsible for the reason for the delay, and under article 195.2 LCSP in force (or article 213.2 TRLCSP)".

Suspension of performance of these contracts

Article 34.3 of RDL 8/2020 provides, in paragraph one, that the public works contracts in effect as described above which were concluded by the entities belonging to the public sector defined in article 3 LCSP, provided that their subject-matter has not disappeared as a result of the circumstances of fact created by COVID-19 or the measures adopted by central government (because otherwise, the contact would become extinguished as described above) and where these circumstances make it impossible for performance of the contract to continue, the contractor may request suspension of the contract from when the circumstances of fact preventing their performance occur and until that performance is able to resume. For these purposes, it will be interpreted that performance have ceased, the contracting authority notifies the contractor of the end of the suspension.

The same comments apply here as those made above for public contracts for services and for supplies with successive obligations on the definition of "impossibility", the non-automatic nature of the suspension and the option for suspending by decision of the authorities. Additionally, the Subdirectorate General for Consultation Services of the Government Lawyer's Office appears to interpret in its Report dated April 1, 2020 that partial suspension of these contracts would also be allowed.

Suspension procedure

In principle for a contract of this type to be suspended in these cases it is necessary for:

The contractor to send a request for suspension to the contracting authority stating: (i) the reasons that have made performance of the contract impossible; (ii) the personnel, premises, vehicles, machinery, plant and equipment used for the performance of the contract at that time; and (iii) the reasons for the contractor being unable to employ the means mentioned in another contract.

The contracting authority to find the impossibility of performance of the contract expressly within 5 calendar days. After that period has elapsed refusal of the request by silence will be determined to have taken place, although an express decision accepting the request may later be rendered, under article 24.3.b) of Law 39/2015.

Although it has not been expressly stipulated, we consider that in these cases, the circumstances expressly submitted in the request by the contractor also may be examined later by the contracting authority.

Damages payable to the contractor

When the suspension or extension of the period for performance of works contracts referred to is ordered, the contractor will only be indemnified for the following items:

1. The salary costs (including those relating to social security contributions that the contractor actually pays to any staff that appear as used for ordinary performance of the contract, during the suspension period.

The salary costs to be paid, under the VI general collective labor agreement for the construction sector 2017-2021, published on September 26, 2017, or equivalent collective agreements agreed in other collective bargaining areas, will be the base salary referred to in article 47.2.a of that collective agreement, the disability supplement under article 47.2.b, and the extraordinary bonuses under article 47.2.b thereof, as well as vacation remuneration, or their respective equivalent items agreed in other collective agreements of the construction sector.

The costs must relate to the above-mentioned personnel that were used for the performance of the contract before March 14 and who continue to be used when it resumes.

- 2. Costs of keeping in force the final guarantee, relating to the contract suspension period.
- 3. Rental or maintenance costs of machinery, plant and equipment provided that the contractor evidences that these resources could not have been used for purposes other than for performance of the suspended contract and their amount is lower than the cost of termination of those rental or maintenance contracts for machinery, plant and equipment.
- 4. Costs relating to any insurance policies required in the contract specifications and related to the subject-matter of the contract which have been taken out by the contractor and are in effect when the contract is suspended.

However, such entitlement to indemnification and to the payment of damages will only arise when the principal contractor awarded the contract "duly proves" that the following conditions are fulfilled:

- That the principal contractor, any subcontractors, providers and suppliers that it has contracted for the performance of the contract were up to date with the fulfillment of their labor and social security obligations, on March 14, 2020.
- That the principal contractor was up to date with the fulfilment of its obligations to pay its subcontractors and suppliers under the terms provided in Articles 216 and 217 of the Public Sector Contracts Law (LCSP), on March 14, 2020.

In these cases the provisions on damages set out in articles 208.2.a and 239 LCSP will not be applicable, nor will the provisions of articles 220 and 231 of the revised Public Sector Contracts Law (TRLCSP), in relation to cases of suspension and force majeure.

Public contracts for concession of works and of services

Right to the restoration of the economic balance of the contract

The situation arising from the declaration of the state of emergency determined in Royal Decree 463/2020, of March 14, could particularly affect concession-holder companies whose collections are subject to a demand risk, either by means of a shadow toll or direct toll, whereas we consider that the impact will be less in the case of concession contracts under which remuneration is linked to availability criteria -although, for other reasons, they may be affected by the circumstances generally-.

For these companies and for their financing entities directly affected in the way outlined above, the right to restoration of the economic balance of the concession contract provided in article 34.4 of RDL 8/2020 is particularly important, since it may enable them to resolve once the relevant finance agreements are adapted any potential contingencies which the current situation may have in relation to the revenues of the aforementioned concession-holder companies, and consequently, the possible damage to their capacity to pay or the strength of their financial ratios.

To be specific, article 34.4 of RDL 8/2020 provides, in paragraph one, that in the case of public contracts for works concessions and services concessions in effect which have been concluded by the entities belonging to the public sector defined in article 3 of the LCSP, the circumstances of fact created by COVID-19 and the measures adopted by the central government, autonomous community governments or local authorities to combat it "shall entitle the concession holder to restore the economic balance of the contract by, as appropriate in each case, the extension of its initial term up to a maximum of 15 per cent or by the amendment of the clauses with economic content included in the contract".

For such purpose, it will be necessary for the contracting authority to find, at the request of the concession holder, the "impossibility of performance of the contract", either as a consequence of the circumstances of fact created by COVID-19, or as a consequence of the measures adopted by the public authorities to combat and mitigate its effects.

Regarding this definition of "impossibility" and in line once again with the comments in the Report dated April 1, 2020, you are asked to see the comments made above in the section relating to public contracts for services and supplies with successive obligations.

Interestingly, the above-mentioned Report contains some important comments in relation to toll motorways or "first generation" highways which, in our opinion, could, in some cases, also apply to other concessions for works or services, which no doubt will be debated intensely and be hugely controversial in the tribunals. In particular, that Report mentions that:

- Impossibility of performance of the contract does not exist if the motorway or highway stays open to traffic and traffic is legally permitted.
- The reduction in revenues as a result of the decline in the number of vehicles is not a ground for rebalance.

That reduction in revenues could not be regarded as attributable to events of force majeure, unforeseeable circumstances or "factum principis". This is because (i) the circumstances of fact caused by COVID-19 cannot be treated as an event of force majeure and (ii) it is not allowed, by applying the general rules on rebalance of concessions, to end up renegotiating the concession contracts and therefore giving rise to effects other than those of suspension and indemnification envisaged in article 34 of RDL 8/2020.

Scope of the compensation

The purpose of the restoration of the economic balance of the contract will be to compensate concession holders "for the loss of revenue and the increase of the costs borne, among which will be included the possible additional salary costs which have been actually paid, compared with those envisaged in the ordinary performance of the works or services concession contract for the duration of the situation created by COVID-19".

In relation to the definition of "additional salary costs", the Report issued by the Subdirectorate General for Consultation Services of the Government Lawyer's Office on March 30, 2020 mentions that "the cases in which these additional salary costs may occur will be limited, because the starting point is a scenario in which performance of the contract cannot continue", and it gives as an example of them any created "where the concession holder must hire, by including in its workforce, the necessary staff for upkeep and maintenance of the work or service while the situation created by COVID-19 is in place".

Requirements for entitlement to obtain compensation

The concession holder will only be entitled to such compensation, "subject to a request and duly authenticated evidence of the actual existence, effects and amount" by the contractor of such loss of revenue and/or of the increase in costs paid.

Specific considerations in relation to finance

From the perspective of existing project finance, it will be necessary to analyze - according to each finance arrangement and its particular terms - how this situation may affect the payment schedules, as well as other information obligations and/or grounds for maturity which are provided in the relevant documentation. In particular, each concession holder will have to assess the communications it must make both to financial creditors and to the competent authority, in order to keep them promptly informed - where relevant - of the impact which the current situation has or may have on the relevant finance.

Contracts of excluded sectors

Article 34.5 of RDL 8/2020 provides that the measures indicated above will also be applicable to contracts which are subject to Law 31/2007, of October 30, on contracting procedures in the sectors of water, energy, transport and postal services, or to Book I of Royal Decree-law 3/2020, of February 4, 2020, on urgent measures transposing into Spanish law various European Union directives in the field of public procurement in certain sectors; private insurance; pension plans and funds; taxation and tax litigation field.

Contracts expressly excluded

Article 34.6 of RDL 8/2020 expressly provides that the rules established in subarticles 1 and 2 of the same article are not applicable to the following contracts, except for the option of ordering mandatory extension of them, under article 29.4 LCSP:

- Healthcare, pharmaceutical or other kind of service or supply contracts, whose subject matter is related to the health crisis caused by COVID-19.
- Contracts for services of security, cleaning or maintenance of computer systems.
 - In relation to security and cleaning contracts, however, RDL 11/2020 has given authorization for them to able to be suspended, in whole or in part, in cases where the public buildings or infrastructure where they are performed have been closed, in whole or in part.
- Service or supply contracts necessary to ensure mobility and the security of infrastructure and transport services.
- Contracts awarded by public entities that are listed on official markets and do not obtain revenue from the General National Budget.

It may be presumed that these contracts have been excluded from the scope of the aforementioned regulation on suspension and extension of periods, above all, due to the particular importance of the provision of the services and supplies related to the subject matter of such contracts for the urgent containment of the health crisis caused by the COVID-19 pandemic.

However, although the importance of such contracts is obvious, in our opinion, one cannot rule out the possibility that the situation created by COVID-19 or the measures adopted by the competent public authorities may impede the physical performance of some of them. In such a case, it might be advisable to apply the exceptional rules established in subarticles 1 and 2 of article 34 of RDL 8/2020 to those contracts, although, in principle, they are not subject to those provisions.

Lastly, the last paragraph of article 34.6 of RDL 8/2020 establishes that the system provided in this article "is deemed to be without prejudice to the measures which may be adopted by the minister for transport, mobility and urban agenda, as the competent authority appointed in article 4 of Royal Decree 463/2020, of March 14, 2020 declaring a state of emergency for managing the COVID-19 public health crisis, to ensure the necessary services in relation to protection of persons, property and places. Such measures may involve, inter alia, a modification of the cases in which contracts should be suspended".

III. Amendment of article 29.4 CSP

RDL 11/2020 amends paragraph two of subarticle four of article 29 LCSP, to introduce the exceptional option of specifying terms for supply contracts longer than 5 years, when, until now, that option was only specified for contracts for services.

^{*} Information updated as of April 3, 2020.