Doing Business in CATALONIA

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Inside

Victor Mallet finds tourism a beneficiary of the resurgence by the Priorat wine region and meets Salustià Alvarez, winemaker (right)

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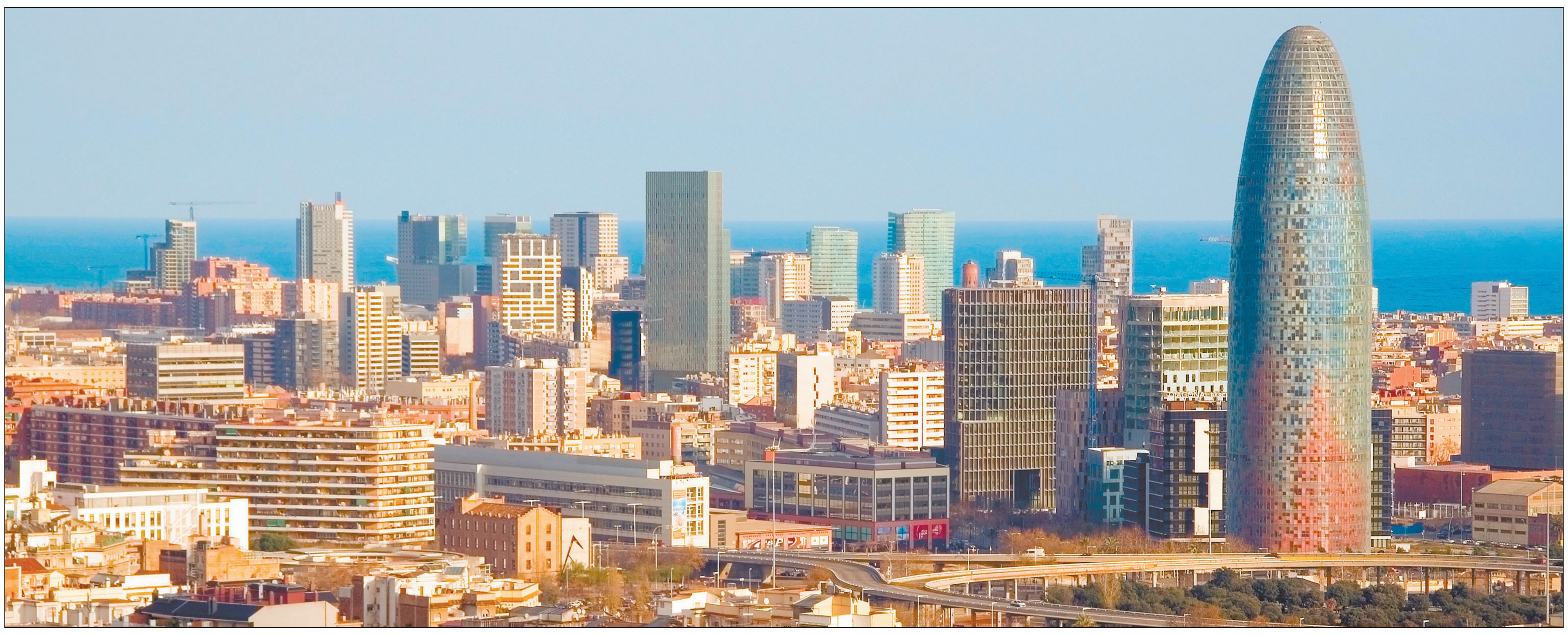
A jewel in the crown – but with flaws

Victor Mallet explains why business likes the region but wants less bureaucracy and reform of the labour market



The business end: the Agbar Tower dominates the skyline of Barcelona, which for all the criticism of policy priorities and implementation, continues to attract businesses Dreamstime

Business is not the first activity that springs to mind when most outsiders think of Catalonia.

This autonomous region of north-east Spain is better known abroad for its artists and sportsmen, living and dead: Antoni Gaudí in architecture; Salvador Dalí and Joan Miró in painting; Ferran Adrià, the chef who shocked the world's gourmets with his January announcement of the El Bulli restaurant's two-year closure from 2012; Juan Antonio Samaranch, the Olympics administrator who died last month; and footballing names such as Joan Laporta, Catalan nationalist and president of the Barcelona club.

Yet among Spanish regions, only the Basque country comes even close to Catalonia in terms of industrial heritage and the vitality of its small and medium-sized export companies.

All layers of business are represented. They include: the Catalan financial giant La Caixa and its listed Criteria holding company; the 3,300 multinationals – such as chemicals group BASF – that have a presence; family-owned groups such as Roca, the global bathroom brand; and a host of smaller local and foreign companies. Fashion, design and biotechnology have all developed from the traditional manufacturing base.

It is rare to go out for the evening in the cosmopolitan regional capital of Barcelona and not chance upon a Briton, a Frenchman, a Filipina or an American who launched a small business and chose Barcelona as a base because of its climatic, geographical and cultural advantages.

"We're not competing with the poorer regions of Europe. We compete with regions such as Lombardy, Rhône-Alpes and Bavaria," says Antoni Castells, the Catalan finance minister. "We've closed the gap with the main European industrial regions, and in some cases we've passed them."

Last year Catalonia, whose population of 7.4m puts it in the same demographic league as Austria and Switzerland, accounted for nearly 19 per cent of Spain's gross domestic product.

The region did not escape the economic crisis, which in Spain began with the collapse of the housing market bubble and was worsened by recession in bigger economies such as Germany, to which exporters send much of their output. Tax revenues from stamp duty on house sales in Catalonia dropped from €4bn in 2006 to just €1.3bn last year, Mr Castells says.

Officials, employers and bankers, however, say they see tentative signs of recovery, both in indicators such as electricity consumption and in anecdotal reports from entrepreneurs and investors.

They hope "contagion" from the Greek sovereign debt crisis, including a sovereign debt downgrade for Spain from Standard & Poor's last week, will not stop a revival in its tracks.

"All the indicators show the worst is past," says Mr Castells.

Joan Rosell, chairman of Foment del Treball Nacional, the employers' group, is more cautious: "There are signs of recovery because we are comparing the figures for 2009, which was a disaster."

There is almost universal agreement among employers and economists that Catalonia and Spain – having lost competitiveness relative to Germany since the introduction of the euro a decade ago – need to reform the inflexible labour market, invest in innovation and high-technology industries and services and bring government spending under control after a national budget deficit of 11.2 per cent of GDP last year.

In spite of protestations to the contrary from the Catalan government, both foreign and local companies also say the regional authorities' nationalistic policies to promote the Catalan language and defend the region's already high degree of constitutional autonomy create bureaucratic obstacles for business and simply cost too much taxpayers' money.

According to Mr Rosell, Spain's central government and the 17 autonomous regions generate nearly 700,000 pages a year of official bulletins on regulation.

The constant debate about autonomy and separatism, which has intensified ahead of regional elections this autumn, means the tripartite Catalan government spends too much time debating independence and not enough on important matters such as the need to improve education, says one local consultant in Barcelona.

"There's an immense political noise which makes it hard to focus on important commercial or educational initiatives," he says.

Defending the Catalan government, Mr Castells is particularly incensed by the accusation that the autonomous regions and their expensive bureaucracies are to blame for the overall Spanish budget deficit that has so spooked international investors.

"That seems to me profoundly unjust and false," he says, noting that figures show regions account for 2 percentage points of the total deficit of more than 11 per cent of GDP.

The strongest argument in the long term for shunning excessive autonomy, or independence, for Catalonia is probably the economic one that arises from recent analysis of the region's competitiveness by professors Pankaj Ghemawat and Xavier Vives of the Iese business school.

They identified weaknesses in Catalonia and Spain, including a low rate of research and development, a shortage of innovation and patenting of new products – despite increases since the 1990s – and a "potentially dysfunctional" educational make-up of the population for such an industrialised region.

But they also found Catalonia's economic strengths lay in its propensity to import from outside Spain and add value to make products that are then re-exported to other Spanish regions.

Catalonia is thus an important trading and import hub, a status that might be diminished in the event of separation.

"Catalonia trades more with [the neighbouring Spanish region of] Valencia than it does with France," says Prof Ghemawat.

Even so, for all the criticism of policy priorities and implementation,Catalonia continues to attract business.

The key advantages are a mix of tangibles and intangibles, including the region's high quality of life, a useful location, good transport infrastructure and wages competitive with those of northern Europe.

Erwin Rauhe, managing director for BASF in southern Europe, grumbles about the cost of electricity and water and, like many corporate executives in Barcelona, would like to see improved productivity and better rail freight links to France.

However, he is full of praise for Catalonia's educated workforce and international outlook. "The infrastructure that Spain has built up in the past 10 years is something that doesn't disappear," he says.

"We would like less bureaucracy, but we would like that in Germany, Italy and other countries too."

Economic recovery after the crisis is likely to be a slow and difficult process across southern Europe, but the executives and entrepreneurs based in Barcelona and the surrounding region believe Catalonia is as well positioned as anywhere in the Mediterreanean basin to benefit from an eventual return of growth.

Inside

Prudent approach to cash flow pays off

Sant Cugat

The city has become a global model for public administration, says **Mark Mulligan**

In these times of austerity, low or negative economic growth and tight credit, Catalonia's 947 local governments – or *ajuntaments* – are in a bind.

Deprived of the construction and property taxes that underpinned their finances during a decade of growth, many are struggling these days to pay their bills.

Delays in remittance to suppliers of more than a year are common in some parts, while many local governments find it impossible to comply with the so-called "60-day payment rule".

In Sant Cugat del Vallès, a dormitory city of 84,000 people in the industrial valleys north-west of central Barcelona, the local government has, in the past seven years, developed a more business-like approach to municipal administration. As part of this, it last year announced a commitment to paying all suppliers within 30 days.

What at first was seen as a media stunt, in keeping with the city's penchant for self-promotion, is today a fact of life: cost-based budgeting combined with healthy bank credit lines has allowed the government to keep its promise.

Processing and approving invoices is generally done within 15 days; once approved, payment takes another 15. Elsewhere, in many cases, local councils drag out the approvals process to delay payment.

Apart from more streamlined bureaucracy – which includes contracting out such functions as sport facility management, street cleaning, and rubbish collection – the city council has something more fundamental in its favour: prudent cash flow management.

As with most local authorities in Spain, Sant Cugat had come to rely heavily on taxes and licences related to construction during the country's long residential housing boom, which wound down in 2007. Of total revenues of €70m in 2008, about €18m came from the construction sector, says Jordi Joly i Lena, deputy mayor and head of economy.

"Like everyone else, we didn't see the crisis coming, but we knew that there would come a moment when there was no more land in the city for residential development," he says.

"The income from construction was a variable which we did not use for current expenditure. We used that money to finance investment, not to pay suppliers.

"So when the crisis hit, we were able to pay our suppliers at 30 days."

The objective of the policy, apart from promoting a positive image, is to give companies – particularly

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Doing Business in Catalonia

Scooters win over trendy citizens

Profile
Cooltra

Mark Mulligan on an idea that saw a business race ahead

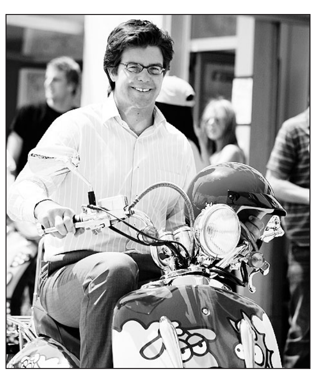
As the birthplace of the popular Vespa, Italy has long been considered the scooter centre of the world.

German entrepreneur Timo Buetefisch thought so, too, until he discovered that Barcelona had the highest scooter penetration rate in Europe – ahead of Rome. Armed with that fact, and an MBA from the Iese business school, he decided to launch, with three financial partners, a scooter hire company in the Catalan capital.

The idea was to lure young travellers off the city tour buses and on to the same mode of transport used by locals. He duly named his company Cooltra – as in "Cool Transport" – paid €30,000 for his first 50 Chinese-built scooters and, in March 2006, rented out his first vehicle. "We improvised in the early days," he says, "putting down our own money and starting out in a garage".

His company now manages a fleet of 1,200 scooters, distributed through rental shops in two other Spanish cities and the Balearic Islands. This makes him the biggest in his specialist class in the country, and there are plans for international expansion.

His original target clientele has been joined by local residents who want to travel about on a scooter without the hassle of maintenance and insurance. "The tendency in the market these days is that you rent, you don't buy," says Mr Buetefisch. "We offer rentals from €87 a month, all included. That's €3 a day, which means we are competing with public transport."



Buetefisch: man about town

Local investors have helped Mr Buetefisch and his original partners every step of the way. "We had a very successful first summer, so I decided I needed some business angels," he says. "So, I went back to Iese and did my pitch."

A four-strong group put up €700,000 in return for a 30 per cent equity stake. Mr Buetefisch used the money to open a hire shop in Valencia.

Around the same time Cooltra also branched into scooter sales. This has since grown into its own business, accounting for 50 per cent of group revenues. From this new base, Mr Buetefisch diversified his revenue stream further by using branded scooters and selling advertising space on his vehicles. This year he also became an official Spanish importer and distributor of Star scooters, which are made in India under an old Piaggio licence. "We are now a full scooter company," he says. "We started with rentals, but keep adding businesses."

He admits that mistakes have been made: in 2008, for example, there was a "premature" experiment with franchising, and he found himself overstaffed. "Like any start-up, this is not a 100 per cent success story," he says. Nonetheless, last November he raised another €1m, which he will use to consolidate the Cooltra network in Spain before taking the concept abroad. The company is also working with the Barcelona city council on an electric scooter roll-out.

Mr Buetefisch forecasts revenues this year of €2.7m, compared with €1.5m in 2009 and about €110,000 in the first year.

'Ultra-light' online start-up keeps costs ethereal

Profile
GetApp.com

Entrepreneur reaps benefits of local skills, writes **Victor Mallet**

The online business founded by Christophe Primault in Barcelona is as unlike the traditional company – with the paraphernalia of offices, support staff, fixed-line telephones and overhead costs – as it is possible to be.

"Why would we get an office?" asks Mr Primault, a 44-year-old Frenchman who launched GetApp.com this year with partner Manuel Jaffrin, the only other full-time staffer.

"This is an ultra-light start-up company," he says at a hotel coffee shop near his home and around the corner from the Iese business school. "We've set it up like that and want to remain like that. We have very, very small overheads and very automated processes, so we've got the ability to scale and still keep those low overheads. Location is irrelevant."

Mr Primault, a former senior marketing executive with NCR, and Mr Jaffrin, previously with Sun Microsystems, run an online store for businesses seeking software applications. These "apps" were once laboriously installed on corporate computers, but are now routinely accessed via the internet.

GetApp.com says it already has more than 400 application providers signed up to the site and hopes to move into profit next year. The site offers sellers of apps a marketing platform, while buyers benefit from an easy and efficient way of finding what they need for their businesses.

The company, Mr Primault says, is a "huge user of Skype" and spends only about €100 a month on phone calls all over the world. His business card carries only his mobile number and email address.

He and Mr Jaffrin outsourced the development of the site to a local Catalan company.

> 'There is such a network of talents, of people who are either local or who come to Barcelona to enjoy the lifestyle'

Design work is done by a Finn living in Barcelona. A German, also resident in the city, is contracted as a search engine optimisation expert to ensure that GetApp comes near the top of internet search results when a potential user hunts online for applications.

"There is such a network of talents, of people who are either local or who come to Barcelona to enjoy the lifestyle," says Mr Primault. "There are loads of businesses operating in exactly this way in Barcelona," he says, describing the city as "an interesting ecosystem".

The key to Catalonia's success in attracting such entrepreneurs is therefore not so much the local market – GetApp is not particularly interested in the fledgling Spanish online market, and its main computer servers are in the US – as the allure of a pleasant place to live that is also well connected to the outside world. "We are going after global business," says Mr Primault.

Mr Primault – who first moved to Barcelona in 2003 with NCR and then spent four years in the city as chief executive of Kinamik, a data protection technology company – likes a flexible lifestyle that allows him to carry out global business transactions one day and do a triathlon the next. "We wanted to set up a company where we would have no location and time constraints."

The two partners decided to use their own savings to finance the business rather than spend time raising equity or bank finance, and will therefore reap the maximum benefit if the company succeeds and is sold or floated in the future. "The risk is competition. The challenge is the ability to build the brand," says Mr Primault.

Nothing is perfect, of course, and the bureaucracy involved in establishing a business in Spain is considerably more onerous than in, say, the UK.

"Here you need a *gestoria* [to fix paperwork and deal with administrative problems] and a notary, and it takes a few weeks," he says.

Primault: after global business

But the benefits of Barcelona as a place to live, and now as a launchpad for his "zero-capex" company, were quickly evident as soon as he visited the city in 2003 after six years of the corporate life in London.

"I just got seduced by what I was seeing and decided, 'That's it. Let's move to Barcelona'," says Mr Primault. "Really what attracted me was the quality of life – it's as simple as that."

Enterprise enriched by student workforce

Talent pool: the Iese (above) and Esade business schools in Barcelona have become world leaders in collaborating with public and private business

Business education

Top schools are forging productive partnerships, says **Mark Mulligan**

It is mid-afternoon in the upmarket Pedralbes district of Barcelona and two residents of New York City are pitching a business plan to a group of local investors.

Patricia Bayley and Martin Mazza, recent MBA graduates of the Iese business school, are back on the main Barcelona campus to attend the 44th "Business Angels Forum", where young entrepreneurs try to catch the attention of private financiers.

Their idea is simple enough: launch a bike-share business in New York City based on the successful *Bicing* model in the Catalan capital. The proposal, they enthuse, already has the support of Mayor Michael Bloomberg, and the business could generate revenues of nearly US$27m in its fourth year of operation.

The partnership is seeking start-up funds of $570,000, out of total estimated capital requirements of $9.6m, to launch the first phase. If the pitch is successful, the couple will join a growing list of small companies partly financed by private equity investors linked to Iese.

Since launching the business angels initiative in 2004, the school's investor network has helped to build 22 companies, including some of Catalonia's most innovative. That the flow of ideas and willing investors continues to expand shows entrepreneurship flourishes despite – or perhaps because of – the financial crisis, says Jordi Canals, dean of Iese.

Finaves, the school's own private equity fund, has been more active than ever, he says, while faculty is dedicating more research capacity to the subject of business start-ups.

"We do not want to replace the role of other private or public agencies [in helping launch new business ventures]," says Prof Canals, "but we do want to be a catalyst".

At Esade, the other high-ranking business school based in Barcelona, the role of business-facilitator is equally well-defined. Eugenia Bieto, director general of Esade, was also the founder of the school's Entrepreneurship Institute in 1997, which, she says, "has become a sort of incubator of new ventures".

Undergraduates and MBA students alike often wonder whether entrepreneurship can be taught, or whether it is something that people are born with, she says.

"I always tell them that entrepreneurship is both born and made," she says. "You can learn to be an entrepreneur, but you can't learn motivation, which is the innate part."

Founded by separate Roman Catholic orders in the 1950s, both Iese and Esade have grown to become global yardsticks for league-topping MBAs, executive training, and active involvement in local and international business, as well as the public sector.

In keeping with the final role, Esade last year opened its "Creápolis" innovation centre just outside Barcelona, in Sant Cugat. There, banks, local government offices, entrepreneurs and other companies mingle with students from the school's undergraduate and masters programmes.

The idea is for business to stimulate academic ideas, while students and academics put their theories to work in real-life settings.

As the world economy rebuilds after the global credit crunch and ensuing recession, both sides have a lot of lessons to digest, says Prof Canals.

"I think the first lesson is the need for a better balance between the public and private sector when it comes to the financial system," he says. Following on from this, he says, is the need to rediscover the importance of weighing up financial risk, which had become "almost irrelevant" at the peak of the credit bubble. The advantages of geographical diversity – both at a company and macroeconomic level – were also brought into sharp relief by the crisis, he says.

> 'We've been trying to get companies to think a little deeper about financial structures'

Iese was trying to reflect these points in its MBA and executive training programmes. "A better understanding of the work and functions of government has become very important," he says, "particularly when it has to do with regulation".

"Another thing, of course, is that we've been trying to get companies to think a little deeper and a little more intelligently about financial structures."

Despite their worst fears, both Iese and Esade have emerged relatively unscathed from the turmoil of the past three years. Although income from customised executive programmes declined just over 10 per cent as companies reined in expenses, demand for MBAs and open executive courses has held up well, both schools report.

Helped by cost controls, which strictly excluded faculty reduction and the research budget, Esade reported revenues of €71m in the academic year that ended last summer, compared with €70m for the previous year. Iese, similarly, trimmed operating costs while enlarging its faculty by four to report "more or less the same level of revenues", according to Prof Canals.

He has noted a slight recovery in demand for custom programmes and strong demand for the MBA courses. Located in one of Europe's most livable cities, neither school has ever had problems attracting keen young executives looking to refine their skills base, improve their salary prospects or launch a venture.

Some, like budding entrepreneurs Patricia Bayley and Martin Mazza, take their newfound knowledge elsewhere.

Many, however, try their luck in Barcelona, or other parts of Catalonia.

"This whole idea of business innovation in Catalonia didn't just pop up out of nowhere," says Prof Bieto from Esade. "This is where the industrial revolution entered Spain."

Cheap hotels cater for urban explorers

Profile
Budgetplaces.com

No-frills travel market provided a lucrative opportunity, reports **Mark Mulligan**

American John Erceg has a theory about the proliferation of small, global businesses in Barcelona.

Although offering an attractive lifestyle to young, creative business graduates, the Catalan capital is short on conventional job opportunities in large financial or industrial companies.

"This is not a city of large multinationals," he says. "You can't just show up and knock on the door of, let's say, JP Morgan's headquarters, and ask for a job.

"You've really got to start your own thing."

Having said that, after completing an MBA at the Iese business school Mr Erceg, 41, did land a job with multinational Hewlett-Packard, which designs and develops its large format printers in a business park near Barcelona.

During four years at HP, based both in São Paulo and Barcelona, he held a series of senior jobs, including distribution manager for Latin America. Nonetheless, he was keen to go out on his own, launching a few failed ventures – including a mobile photo-processing business – before investing in the local property market. From letting out his own and other Barcelona apartments to tourists in 2003, he recognised a nascent trend driven partly by the growth in low-cost airlines.

Instead of spending all their money on flights and hotels, travellers were flying with low-cost airlines, checking into budget hotels and then splashing out on fine dining, shopping and cultural pursuits.

"There were actually two trends," Mr Erceg says. "People were no longer taking all their holidays at once and just lying on the beach for a month: they would take four, five or more smaller breaks a year and spend some of those checking out cities."

As the demand profile changed, and cities such as Barcelona also pitched hard for a slice of the meetings and conferences market, a new type of hotel was born.

> 'People were no longer taking all their holidays at once and just lying on the beach for a month'
> **John Erceg**

Smart, clean, and high-tech, the new "urban chic" range was nonetheless based on a no-frills model with low operating costs, much like the airlines, and so appealed to the budget-conscious.

By acting as a distributor for these, along with privately-owned apartments and other types of affordable but smart bed and breakfast and hostel accommodation, Mr Erceg saw a chance to plug into a fast-growing tourism trend.

Using the trading name EnGrande, he started in Barcelona, but gradually expanded internationally to the point where today his main website, Budgetplaces.com, lists 4,000 accommodation options in 78 destinations, from Stockholm to Sydney.

Gross bookings handled by the company were worth €43m last year, compared with €35m in 2008 and €25m in 2007. Since its humble inception, EnGrande now has a full-time staff of 60, covering 25 nationalities.

"From a business perspective, Barcelona has a fantastic asset in that it is full of underemployed, highly-talented, multi-lingual people," he says. "You can always count on the high quality of applicants whenever you are looking to recruit."

As with most start-up businesses, mistakes have been made: in 2006 Mr Erceg flirted briefly with the rural break market, but it did not work out. The fleeting detour did, however, serve to underline the particularly strengths of his urban tourism model.

"When I started out, there was already competition – online travel distribution was hardly new," he says.

"The trick, then, was to refine it and do it better – and I think we have successfully done this."

What sets Budgetplaces.com apart from the competition is its focus on central locations in interesting cities at budget prices, and its use of videos and online customer feedback.

Mr Erceg has also eschewed hotel chains and other large sector operators in favour of dealing with individual property owners to better control quality and the customer experience.

"When it comes to e-commerce, travel is the biggest thing and we have managed to carve out a niche."

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Banks and clients have both been battered in the crisis

Banking & finance

Victor Mallet finds strict regulation by the Bank of Spain helped avoid the worst

Catalonia likes to be different but along with the rest of Spain the region began 2010 with a painful financial hangover caused by the bursting of the domestic property market bubble and exacerbated by the global crisis.

With some exceptions, both sides of the finance business – the banks and their customers – have suffered. The banks have been hit by bad loans and falling interest rate margins and their clients by the credit squeeze and the long recession in the real economy.

From the end of the 1990s, says Juan María Nin, president and chief executive of La Caixa, the venerable Barcelona-based savings bank that is Spain's third biggest financial institution, "Europe was a sea of liquidity and Spain was the fastest-growing country . . . this liquidity was like jet-fuel for the Spanish economy and was a very important factor in the bubble."

Fortunately for the economy and the Spanish exchequer, many Spanish banks were at least protected from toxic US subprime mortgage assets and from excessive leverage by the strict regulation and supervision of the Bank of Spain.

But the smaller banks and *cajas de ahorros*, the savings banks, still face the question of how to restore growth when their foreign sources of wholesale financing have dried up, the domestic economy is stagnant and loan losses are rising.

"The small savings banks at the moment do not have easy access to wholesale financing," says Mr Nin. "Wholesale financing pressure will increase. But the mass of credit fell 3.5 per cent in 2009 – the pressure of refinancing is therefore high but not so much that you can't look for internal solutions."

One result of this credit squeeze is that Catalan and other Spanish businesses are likely to endure a long period of tight lending conditions.

"The monetary mass at the disposal of the banking system will not grow," says Carlos Tusquets, chairman of Fibanc Mediolanum, the Barcelona-based bank and asset manager.

Companies and families have responded by tightening their belts and sharply increasing their savings rates. When they seek credit, it is more likely to be to refinance a maturing loan than for a new investment.

"We [the banks] complain that there is no credit demand, but some people complain that there is a credit shortage," says José Oliu Creus, executive chairman of Banco Sabadell, the listed Catalan bank and Spain's fourth largest. "Entrepreneurs are still cautious about starting new projects."

'Liquidity was like jet-fuel for the Spanish economy and a very important factor in the bubble'
Juan María Nin

The Catalan economy does have some distinctive features. It was slightly less exposed than some other regions to the excesses of the home construction market. The region also has a strong manufacturing and export base, particularly of small and medium-sized companies, often controlled by families reluctant to cede control through public listings or mergers.

Bankers and entrepreneurs are wary of talking too much about the "green shoots" of recovery, but they do see signs of an upturn after the recessionary shock and export decline of 2008 and 2009.

"Catalan companies are run by professionals and sometimes by families. This is not so much a financial type of capitalism," says Mr Oliu.

"In the kind of crisis we've been having, our companies have been performing more strongly."

Nevertheless, it is the smaller companies of Europe that are complaining most bitterly about the difficulty of accessing credit from over-cautious banks. "This segment of industry and services in medium-sized companies is the great hope, but it is also the part that will suffer from lack of financing," says Mr Tusquets.

But La Caixa's Mr Nin says that the key issue for Catalan companies is not access to capital markets but whether the owners are willing to merge or do whatever else it takes to give themselves sufficient weight.

"The industrial sector in Catalonia is facing the challenge of size. It is very important that these companies, which are excellent, reach the right size to be competitive at European and global levels. You need funding for this size."

In the financial sector itself, the crisis has prompted a wave of merger plans among the smaller *cajas* – most are heavily exposed to property and construction in the weak domestic Spanish market. Of the 10 *cajas* in Catalonia, six are in merger talks.

"The dance has begun," says Mr Nin. "The Spanish financial system has always restructured with agility."

La Caixa, like the other large Spanish financial groups, is diversifying into new markets in Asia and the Americas. Although La Caixa is itself the product of a merger in 1990 – its full Spanish name is La Caja de Ahorros y Pensiones de Barcelona – it is not involved in the latest round of mergers.

In Catalonia, as elsewhere, the stronger banks and *cajas* are starting to reap what benefits they can from the consolidation of the financial sector.

"There's going to be a smaller number of players, and every time there are fewer players there are opportunities for those that remain," says Mr Oliu of Banco Sabadell.

Traffic queues: new airport terminals and expanding ports have done little to quell complaints regarding congestion on the region's roads Reuters

Barcelona Hub dreams are pinned on Spanair

Catalonia will next month mark the first anniversary of Terminal 1, the €1.3bn extension to Barcelona's El Prat airport, on the southern outskirts of the city, **writes Mark Mulligan**.

Hailed at its opening as the region's most important infrastructure to be built in 20 years, the 544,066 sq m facility had, according to most accounts, equipped the region for 20 more years of passenger volume growth. Barcelona, according to public authorities, was ready to become a global hub.

The problem, however, is that the terminal's opening coincided with a concerted drive by Iberia, the Spanish flag-carrier, to consolidate Madrid, the national capital, as the feed-in hub for its long-haul services.

As the airline reduced its connections to Barcelona, it seemed the city would be relegated forever to being a point-to-point destination for short- to medium-haul leisure and business travellers.

"The problem that we have always had in Spain and Catalonia is that we have two relatively big cities with world-level infrastructure, but at the European level you could argue they are two poles that are too close together," says Alejandro Lago, a logistics specialist at the Iese business school.

"Barcelona now has a leading airport . . . but we are not yet sure whether there is a leading airline to create an intercontinental hub."

Determined to remedy this, a group of investors from Catalonia last year joined together to bail out Spanair, the troubled Spanish subsidiary of Scandinavian Airline System, with dreams of creating an international hub at El Prat. The first step has been a brutal round of job cuts as part of a broader restructuring.

Spanair has also started to build its European and Mediterranean network. By 2012, it may start offering flights to the Americas or Asia.

Spanair chairman Ferran Soriano compares Barcelona' with Milan. "In the business sense it is logical for an airline to have everything concentrated in one hub," he says. "But the cases of Barcelona and Milan are special, because they are big cities with large GDPs.

"If you exclude transit passengers, the volume of passengers starting or ending their journeys is roughly the same for Barcelona as for Madrid.

"So, there are grounds for having a hub here," he says.

Construction of big projects calms critics

Infrastructure

Mark Mulligan reports on the efforts to placate locals and ease congestion

Few things inflame passions in Catalonia like inadequate infrastructure.

When snowstorms isolate urban communities, motorways become clogged or rail tunnelling threatens the foundations of important monuments, Catalans often blame penny-pinching or neglect by the central government in Madrid.

There is a sense that a 1997 constitutional pledge by Madrid to correct an infrastructure deficit in the autonomous region – Spain's biggest contributor to central revenues – is not being honoured. Spain's socialist government, and its allies in the regional administration, deflect the accusations by brandishing their latest achievements in public works.

Barcelona's El Prat airport – for years the overburdened poor cousin of Madrid's Barajas – last year opened a huge state-of-the-art terminal.

Adif, the state rail infrastructure company, says it will this year complete the final tranche of an extension of the Madrid-Barcelona high-speed train service to the French border.

The Port of Barcelona is pursuing a €3.5bn public and private sector-financed expansion and pushing for construction of a freight railway line from the port to the French border.

Work, meanwhile, continues on a €4bn underground train line that will trace a half-loop from El Prat airport, 15km south of the city centre, to Barcelona's northern outskirts. There are also plans to widen from two to four lanes the transversal C-25 motorway between Girona, 100km north-east of Barcelona, and Lerida, Catalonia's third city and the regional centre of agri-industry and food processing.

For the most part, projects have not fallen victim to the economic crisis. A special unit within the Economy and Finance Ministry has been charged with monitoring public-private partnerships to address any significant threats arising from a lack of credit.

However, shortage of credit and state revenue for big projects is a problem, agree industry leaders, although some play down the importance of the issue.

"We are going to see a drop in infrastructure investment over the coming years," says Jorge Miarnau, chairman of Comsa-EMTE, Catalonia's largest construction and services group. "However, you could argue that all the important big projects have been done. We now have good infrastructure – partly thanks to this, Catalonia is not a bad place to invest."

> 'Is Catalonia well endowed with infrastructure? Not exactly but nor are we headed for a disaster'

Sebastiá Alegre, managing director of Beton Catalan Group, a subsidiary of CRH, a building materials business, agrees – but with reservations.

"Is Catalonia well endowed with infrastructure?" he asks. "Not exactly, but nor is it the case that we are headed for a disaster."

"Anything we do now to expand on existing infrastructure will simply improve efficiency."

One shortcoming that merits constant mention in Catalonia is the lack of connectivity with France: plans for a new high-voltage electricity line between the neighbours have for years been held back by lack of political will and environmental concerns.

France, keen to protect its low-cost nuclear-focused electricity system, is in no hurry to buy Spain's excess output, which is increasingly generated by heavily subsidised wind and solar farms. Road and rail connections, too, could be better, say many.

"When it comes to its connections with Spain, France has never been in a hurry to make them better," says Alejandro Lago, a logistics specialist at the Iese business school in Barcelona.

Nonetheless, heavy vehicle congestion on the motorway between Catalonia – and, therefore, the rest of Spain – and French logistics centres, is "more about the nodes at the entrance to the big cities than the trunk roads themselves", he says.

The answer, say many specialists, should be the unification and upgrade of Europe's freight rail network to take some of the pressure off its highways. However, gauge incompatibility, and the inadequacy of siding and loading infrastructure in Spain and other countries renders this alternative more of a long-term dream that a real solution.

In the meantime, short sea freight shipping is picking up the slack, and has become one of Barcelona's big growth stories. The business is dominated by two Italian companies – Grimaldi and Grandi Navi Veloci – who have enjoyed robust growth in demand since setting up their freight lines in the Catalan port. Grimaldi currently offers almost daily freight and passenger services to Civitavecchia, near Rome, with connecting or separate routes to Sardinia and Livorno.

According to Prof Lago, the shipping lines have secured the same market share of freight movement in and out of Spain as trains in "a matter of four or five years".

"People always tend to pin a lot of hope on trains," he says, "but it never really takes off."

Prudence with cash flow pays off

Continued from Page 1

small, local concerns – a fighting chance to ride out the recession.

This commitment to efficiency last year won the city hall a European Public Sector Award (EPSA), for "Leadership and Management for Change".

The city's policies have also helped develop Sant Cugat's business park, just to the east of the city. Called Sant Joan, the park was one of Barcelona's early experiments in decentralisation and is now one of its best-known business estates.

It is home to R&D, logistics and administration centres for multinationals such as Hewlett-Packard and Roche and is also the site of Creápolis, where students from Esade business school mix with established businesses, government agencies and small start-ups in an interconnected campus and office complex.

Sant Joan had its share of critics at the time of conception but was backed whole-heartedly by Sant Cugat council.

Although in its early days it failed to draw the sort of high-tech investments it had promised, today it is an important part of what is promoted as the "Catalonia Innovation Triangle" (CIT).

As part of the effort to enforce its image as the centre of an innovation cluster, Sant Cugat in 2007 ran as a candidate to be the site of the European Institute of Innovation and Technology.

Despite intensive lobbying in favour of Sant Cugat, Budapest was chosen. However, according to Mr Joly i Lena, the candidacy helped the city focus on its goals.

"Although we didn't win, it was important for us to be part of the process."

"We want to create a CIT brand," he says, "to the point where the Hewlett-Packards and Esades of this world use the CIT logo".

Sant Cugat itself, meanwhile, has become a global model for public administration, according to a report by the EPSA judging committee.

"Although the city council has reduced the public debt significantly," it says, "the administration has maintained its ability to strategically invest to improve the quality of the city . . . and build strategic assets for the knowledge society."

Mayor's Olympic ambition has a mountain to climb

The Pyrenees

The winter games could help regeneration, says **Mark Mulligan**

When Barcelona mayor Jordi Hereu announced plans in January to compete for the rights to host the 2022 Winter Olympics, there was a collective groan from large parts of the city.

Despite memories of the successful 1992 summer games, many suspected the idea was a gimmick employed by city hall to revive the governing party's flagging fortunes ahead of regional elections scheduled for late this year.

Although he supported the bid, opposition leader Xavier Trias said the idea reflected electoral "desperation" within the left-leaning coalition in power.

Residents' patience, meanwhile, has been worn thin by two decades of mass tourism in one of Europe's most visited cities.

If it were to win, Barcelona's already-congested streets would become unbearable, and prices would soar as local traders sought to cash in on the influx of competitors, organisers and spectators, was the lament.

In any case, the Catalan capital is a good two hours by road from the closest ski fields, in the eastern Pyrenees, and further yet from the best Catalan resort, Baqueira-Beret, close to the border with the neighbouring region of Aragón.

Nor were the inhabitants of Aragón, which is also mounting a bid, pleased with the sudden competition from a city with a proven Olympic record.

Mayor Hereu, however, was insistent. "This is a long-distance race," he said, "and there are a lot of runners.

"Barcelona wants to show itself again to the world."

Whether or not it wins, Barcelona would benefit from the bid, says Antonio Dávila, a professor of entrepreneurship at Iese business school.

He says the boost to the city's already strong brand could help it win the hosting rights to other high-profile sporting or cultural events, and give it a competitive economic edge over other Spanish and European regions.

More importantly, if it were to win, the subsequent investment in infrastructure could help revive remote mountain communities that have fallen victim in recent years to depopulation.

"The Barcelona Olympics of 1992 were a great excuse to redo the city," he says of the massive urban makeover, particularly along the city's ugly, semi-industrial coast, which preceded the event's staging.

"Similarly, the Winter Olympics could be a good excuse to invest in infrastructure to make certain areas more sustainable than they are at the moment.

"Building a tunnel, or a new highway, or putting in some hotels in the Catalan Pyrenees perhaps won't yield the same economic return as putting them in the middle of Barcelona," he says.

"But from a socio-political point of view there is a lot of value in saving a rural area from dying."

> 'The Barcelona Olympics of 1992 were a great excuse to redo the city'

Indeed, the growth in popularity of ski-ing and other alpine pursuits has already rescued a string of Pyrenean towns and hamlets from abandonment, not least because of heavy investment in roads, accommodation, restaurants and the ski stations themselves.

The path, however, has not been smooth: private companies have struggled to make money out of the resorts, meaning many are these days controlled by public or semi-public organisations such as regional governments and cajas, Spain's unlisted savings banks.

The future of at least one company-owned ski centre in Catalonia is currently in doubt because of debt concerns.

Regardless of this, the popularity of winter sports continues to grow unabated.

Even in the depths of Spain's worst recession in decades, Aragonese resort operator Aramón recently reported its second best season ever in terms of visits.

Despite an abundance of snow, the season was marred by constantly bad weather and visibility, making the results even more remarkable.

In Catalonia, the scene was similar: publicly owned La Molina, the region's oldest and most popular ski resort, also reported one of its best seasons ever.

The privately-owned resort of Baqueira-Beret, winter playground of Spain's royalty and social elite, also reported solid results in spite of the variable conditions and economic downturn.

To outsiders, however, Spanish – and Catalan – resorts remain in the second division of European winter destinations, while their sportsmen and women rarely collect medals at the Winter Olympics.

And while Catalonia and Spain are starting to make a mark in the world of extreme mountaineering, they lag well behind countries such as France, the UK, New Zealand and Korea.

Catalonian authorities hope Barcelona's Olympic bid might speed up the development of alpine pursuits in the country, and consolidate the region's ribbon of Pyrenees as a world-class leisure zone.

Pere Alcober, head of sports at the Barcelona City Council, compares the bid with that for the 1992 summer event.

"Just as the 1992 Olympic Games opened Barcelona to the sea, the 2022 games could help the metropolis open itself to the mountains," he says.

Wine spirits visitors to a region once in decline

El Priorat

Tourism is probably the most important economic benefit of the industry's revival, says **Victor Mallet**

High in the hills above the small southern Catalan town of Porrera, the terrain is so steep and rocky that it is hard to imagine a plant up here producing any kind of fruit after the long, dry summers for which the area is known.

But the vines of the Priorat wine region are nothing if not hardy. The stunted, well-pruned plants – some a century old – send their roots as far as eight or nine metres into the ground in search of a few crumbs of friable soil and a taste of moisture.

It is this perpetual struggle in the face of scorching summer heat and icy winters that gives Priorat wines the deep colours, extraordinary potency and mineral attributes now prized by wine lovers from Berlin to Boston.

In modern times, none of these qualities counted for much until the 1990s. El Priorat – named after the Carthusian monastery of Escaladei ("the staircase of God") that oversaw the region for 600 years – was marked by poverty and decline in the decades after the Spanish civil war of the 1930s.

The local wine was sold to give colour and body to cheap, bulk-produced wines in Spain and France. Even this business faltered when other wine regions developed methods of adding colour and alcohol to their output. El Priorat's younger inhabitants migrated to the cities and some vineyards were simply abandoned.

It took a combination of inspired vineyard owners and investors – they now include famous names such as Gérard Depardieu, the French actor – and government aid for small growers to develop the potential of Priorat as an international brand.

"The revolution in the 1990s was that we started to think of wine for the end-consumer, not for bulk sales," says Salustià Alvarez, chairman of the Priorat wine region's regulatory council and winemaker for Vall Llach. "With the Priorat brand we succeeded in that the wine experts of America, France and the UK sensed the mineralisation of this terroir. The great value of El Priorat is in the soil."

Salustià Alvarez: 'The great value of El Priorat is in the soil' Victor Mallet

Globalisation has been essential for the success of this micro-economy within Catalonia. Growing export markets such as those of Switzerland and Austria are complemented by occasional surges of demand from places such as Dubai or Mexico. Owners and investors, meanwhile, include enthusiasts from South Africa, the UK, Switzerland, France, Italy and the US as well as Spain.

Some Priorat wines are now acknowledged as being among the world's finest.

L'Ermita, one of those produced by Alvaro Palacios, member of a well-known wine family of La Rioja, has sold for €600 a bottle, according to Mr Alvarez.

But for this mountainous inland region away from the tourist resorts of the Mediterranean coast, probably the most important economic benefit of the wine industry's revival is the way it has attracted new visitors, whether weekenders from Barcelona or amateur wine lovers from Europe and the US.

This in turn has generated further interest in the wines and thus completed a virtuous circle of complementary economic sectors.

David Esteller Martí, who runs the tourism development programme for the Priorat *comarca* (an area of about 10,000 inhabitants that includes but is not identical to the wine region of the same name), says traditional footpaths and other infrastructure are being restored to promote wine-walking tours "based on the special nature of the countryside and the quality of the wines".

He estimates that about 30,000 tourists went last year to the 45 *bodegas*, or wine cellars, of the *comarca* that receive visitors.

The revival of the tourist sector is evident in the growth in the number of *casas rurales* – small country hotels and lodgings – partly with the help of European Union aid funds. In 1999, there were just seven, but by 2006 the number had grown to 40 and has now reached 50. "The idea is to diversify the economy away from agriculture," says Mr Esteller.

El Priorat has not escaped the effects of the global crisis and the economic recession in Catalonia and Spain.

Before the Spanish property bubble burst, construction magnates were eager to invest in an apparently glamorous business such as wine. "So there was over-investment and production was much higher," says Mr Alvarez. "Prices became volatile."

Weekend visitors from Barcelona, furthermore, started to spend less money on eating out, and tended to arrive on Saturdays, instead of on Friday nights. The only consolation was that some Spaniards who would once have flown to London or Paris for a short holiday decided to take their vacations closer to home.

Investment in wine and tourism in El Priorat has nevertheless had a palpably beneficial effect on the local economy. And the decision to aim for quality rather than quantity was all but inevitable for a winery such as Vall Llach, where the slopes are so steep that most of the work must be done by hand, and it can take as many as seven vines to produce a single bottle of red wine.

> 'The revolution in the 1990s was that we started to think of wine for the end-consumer, not for bulk sales'

"Wine is the engine of the economy, the reference," says Mr Alvarez, "and after that the big engine that accompanies it is the quality of the countryside and tourism."

He indicates the harsh terrain around him and recalls the high cost of working such difficult land. "But there is no point working here unless you are going to make quality wines."

Can-do attitude thrives in face of crisis

Guest Column
JORDI ALBERICH

Spain is suffering because of the global economic crisis, and its (until recently) sound public accounts are beginning to be affected by high unemployment and its public deficit.

The crisis coincides with legal and political disputes about Catalonia's constitutional place within Spain, keeping alive a historical conflict that should be put to rest.

In this context, first impressions might suggest there is little cause for optimism about the Catalan economy.

Behind this image, however, there is a community that has taken advantage of years of boom to build up competitiveness and consolidate its capacity to attract people and investments.

These years of growth have pushed Catalonia's per capita gross domestic product to a level 12 percentage points above the average for the eurozone.

There are two main areas in which Catalonia's advantages are evident.

First, the quality of its "public space". A population that in the mid-1990s was just over 6m has reached 7.5m. Within 15 years, in other words, Catalonia has received almost 1.5m immigrants, equivalent to a quarter of the population it had when the migration began.

In spite of predictions to the contrary, this process has taken place without social conflict. And coexistence is still the rule of thumb, despite the severe crisis and the high unemployment rate.

This is no chance occurrence but is closely related to the priority Catalonia has always given to the quality of its public space.

The very same space that encourages the integration of immigrants enables Catalonia to position itself among the world's top tourist destinations.

It also makes Barcelona a favourite location for trade fairs and congresses and allows it to excel as a city for university or business school students and for international executives, who regard it as one of the best places in Europe to advance their careers.

> The best reason for optimism is the intense private and public modernisation

The second sign of progress is Catalonia's export capacity. Faced with the requirements of integration within the eurozone, traditional industry has experienced a profound transformation in recent years.

When the euro-peseta exchange rate was fixed, alarm bells sounded in the Catalan industrial world.

For an economy long accustomed to competitive devaluation, the abandonment of this possibility and the acceptance of the single currency while the peseta was strong seemed an irresponsible decision that would encourage the near-disappearance of traditional industrial sectors.

In addition, the weakness of the dollar throughout these years only made global competition harder.

But local industry surprised the sceptics by beginning a modernisation process now reflected in its current exporting capacity, as shown by the recovery of exports from the beginning of this year and the constant growth of its share in world exports.

Even so, the difficulties faced by Catalonia's economy and society are significant and evident.

Finding a way out of the crisis is a responsibility shared by politicians and businesspeople alike, but in view of the extent of the crisis it is politicians who must take the lead.

The Catalan government must act directly, or exercise its influence over the Spanish government, in matters that require short-term action, such as cutting public spending, improvement of the labour market and reform of the financial system.

And it should make a commitment to long-term policies in areas such as education and energy to encourage a transition towards a higher value added economy. Further, it must do all this without overlooking the debate on the best fiscal system to ensure an efficient and sufficient welfare state.

High unemployment is affecting the public accounts Bloomberg

There may be fears that the autonomous government elections in the autumn will paralyse the Catalan government until after the polls, and it would therefore be useful to agree on economic priorities regardless of which party or parties may end up in control of the region.

It would also help if the traditional Catalan discourse in favour of industry acquired greater weight in Spanish politics, because business realities and quality of life in Catalonia show that this has helped it reach a privileged economic position in Spain, underpinned partly by Catalan and Spanish investments in Latin America.

Some of the recent economic data have shown signs of improvement but the best reason for optimism is the intense modernisation, both private and public, that has taken place over the past 15 years – a modernisation that has encouraged coexistence in the public space, improved competitiveness among traditional industries and promoted emerging economic sectors.

Catalonia ranks ninth among European regions with the greatest rate of employment in technology and knowledge-intensive industries, and it has four research centres included among the world's top 100.

Prosperity in the 1980s and 1990s, and the property boom in particular, gave birth to more fiestas and partying than desirable.

But it turns out that it also generated a great deal more innovation and modernisation than we ourselves were able to foresee.

Jordi Alberich is director-general of Cercle d'Economia