

Doing Business in THE BASQUE COUNTRY

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Peace shifts the focus to growth and investment

With Eta abandoning its armed struggle, the region enters a new era in better shape than the rest of Spain, writes **Victor Mallet**

Hundreds of employees made redundant sounds like bad news for any economy, but in this case it is a sign of political progress: the Spanish interior ministry, following the example of the Basque regional government, has this month laid off more than half the 789 bodyguards who protected officials from the threat of assassination by the militant Basque separatist group Eta.

To the delight of most of the 2.2m residents of the Basque country in northern Spain, and to the relief of investors and business people once menaced with death if they failed to pay “revolutionary taxes”, Eta on October 20 2011 announced the “definitive cessation” of its military operations after more than 800 killings in half a century.

Patxi López, *lehendakari* or premier of the region, calls it “a new era” and says: “We had 30 years in which absolutely everything was contaminated – the economy and investment were threatened by the existence of the terrorist gang.”

The defeat of Eta by Spanish and French security forces has in fact been inflicted on the separatists over many years. “People feel relief and satisfaction, but not an explosion of happiness or emotion,” says Iñigo Urkullu, leader of the moderate Basque Nationalist party or PNV. “In the past three years, we’ve lived without visible attacks, and with the belief that things were moving towards the end of Eta, though there was extortion.” The October announcement, while obviously attractive to potential

foreign investors and seen as a triumph in Madrid, is regarded in the Basque country itself as one more step in a long peace process.

“It’s fantastic news, though in day-to-day life of course there’s no big change,” says Mercedes Oleaga of Naider, a consulting firm. Ignacio Sánchez-Asiain, director-general of Kutxabank, agrees. “Things have been changing for a while – it’s a process,” he says. “I think the declaration of peace had more impact in Madrid than here.”

There remains a risk that extremist splinter groups from Eta, akin to the “Real IRA” in Northern Ireland, will try to launch bomb attacks or shootings in defiance of the Eta leadership and so maintain one of western Europe’s last remaining separatist conflicts.

Basque politicians, however, are already shifting their focus from anti-terrorism to the new landscape of democratic politics, in which radical, pro-independence groups – know as the *izquierda abertzale* or “patriotic left” – are expected to build on earlier successes now they are no longer banned for having links to Eta.

And then there is the economic crisis. By the standards of northern Europe, unemployment in the Basque country of more than 11 per cent of the workforce is worryingly high, but that is less than half the jobless rate in Spain as a whole.

The Basque economy, though small, has proved remarkably resilient since the collapse of Lehman Brothers back in 2008, in spite of its dependence on the vulnerable automotive and renewable energy industries. Exports reached a record €21bn last year.

The small but growing tourism industry – with visitor arrivals of more than 2m – also broke records. Per capita income in the region in 2010, on a purchasing power parity basis, was 133 per cent of the European Union average.



Bilbao by night: the Basque economy, though small, has proved remarkably resilient

Dreamstime

In previous crises, the Basque economy did not fare so well, sometimes recording unemployment higher than the rest of Spain. Today, however, the post-Franco conversion of an economy based on heavy industries such as steel and shipbuilding to one focused on high technology and services is largely complete.

Bernabé Unda, regional industry secretary, was once head of the big shipyard in Bilbao and recalls the time when it had 5,000 employees. Now it employs 5 per cent of that number, relying on flexible subcontractors and specialising in complex, one-off vessels such as dredgers and pipe layers.

“Our economic situation isn’t great, but it’s much, much better than that of the rest of Spain,” says Juan Carlos Martínez, editor of El Correo, the Bilbao-based newspaper.

The parts of Spain most stricken by the crisis are those where the housing bubble was biggest, mostly on the Mediterranean coast. The Basque country on the Bay of Biscay avoided the home construction frenzy and so

suffered less when it ended in 2007.

“Up to now, it’s been a little less serious, because exports have done well,” says Mr Sánchez-Asiain.

Basques take pride in their culture of hard work and entrepreneurialism, and are not averse to comparing themselves favourably with those they regard as the more feckless inhabitants of southern Spain. With a

high proportion of small and medium-sized industrial companies in specialised areas such as machine tools, Basque industry is comparable to the much larger German *Mittelstand*, and indeed has many commercial ties to its German counterparts.

It helps that the Basque country, linked by the port of Bilbao and the nearby iron mines to northern

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Motor industry The Basque region is home to every part of the car production process and output includes the Mercedes-Benz Vito light van (pictured) from a plant at Vitoria **Page 4**



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Global networking sharpens businesses’ foreign focus

Overseas links

Embassy-like delegations go beyond forging cultural ties, says **Miles Johnson**

The Basque country’s high level of autonomy within Spain, which extends to collecting its own taxes, is also reflected in its government’s separate foreign policy.

This is designed to promote the region’s political and business interests abroad.

One of the most important planks in this strategy, adopted by the region’s successive governments, has been a network of embassy-like permanent delegations in cities around the world.

Serving to establish connections with Basque diasporas, and promote the region’s culture and language, these delegations also help to provide infrastructure to Basque businesses that are seeking to expand abroad, and to attract inward investment.

The first of these offices to open its doors, more than 20 years ago, was in Brussels. Other delegations are to be found in Argentina, Chile, Mexico and the US.

Guillermo Echenique, head of foreign activity for the Basque government, says: “The network of offices we have, along with a network of consultants in other countries, has helped Basque companies to internationalise.”

Delegations are now accepted by the Spanish government, but when the Basque community first tried to establish the Brussels office in the 1980s, the region’s right to have representation overseas was challenged in the national constitutional court.

This resulted in a de facto delegation being opened that used a Basque government-established company called Interbasque, which had an office in Brussels.

By 1994, the challenge in the Spanish constitutional court had been rejected, and the Basque regional government was permitted to establish a formal delegation in the Belgian capital.

Mr Echenique says that the all-time high figure for Basque exports, of €21bn in 2011, is evidence that the region is succeeding in its international strategy for business.

While France remains the largest foreign market for the region, buying €4bn of products last year, Brazil and China are in the top 10, while Turkey, Mexico and Poland are in the top 20.

Outside Europe, sizeable diasporas have prompted the establishment of Basque delegations in Argentina and Chile. The latter office was reopened in 2004 after a previous incarnation had been closed in 1973.

The Basque delegation in the US, however, has relied less on forging cultural ties since it opened in 2007, and has focused more on fostering business, technology and research links with the world’s largest economy.

With one of its aims being to “strengthen relationships between US and Basque institutions, both private and public”, the US delegation noted in its founding description that the existence of the Bilbao Guggenheim museum, and its ties with New York’s Guggenheim would be used to build broader relationships with the US city.

“This is an important way to expand abroad,” Mr Echenique says.

“In the past few years, we have sent representatives of the Basque government, with the support of the Spanish government, to emerging market countries

Delegations offer infrastructure to businesses that want to expand abroad or attract inward investment

along with businesses, as well as to the Middle East and the US,” he adds.

Several of the Basque country’s largest companies, or companies with Basque roots, have transformed their client base over the past decade with rapid internationalisation into emerging markets.

Iberdrola, Spain’s largest power utility, which is headquartered in Bilbao, last year purchased Elektro, an electricity distribution company that serves 2.2m clients in São Paulo state in Brazil, for €2.4bn, thereby turning it into one

of the South American country’s leading electricity providers.

BBVA, a bank with Basque roots, has established itself as one of Mexico’s largest retail banks, while also owning a stake in Turkey’s Garanti bank.

Meanwhile, Gamesa, the wind turbine manufacturer, and the workers’ collective conglomerate Mondragon, have significant operations in China, among other countries.

A recent example of the region’s overseas promotional activities was a trip by the Basque government in October last year to Texas.

Patxi López, the *lehendakari* or Basque regional leader, announced a discovery of shale gas in the Basque country of a possible 180,000 cubic metres, or enough to supply the region for 60 years at today’s consumption levels.

Two survey wells will be drilled this year, to assess the commercial and environmental viability of the shale gas reserves, by Heyco, a Texan company that specialises in unconventional energy.

This month, in a further international relations push, a delegation of Basque businesses and politicians visited India as part of a drive to strengthen ties with Asian governments.

Mr Lopez declared the Basque country the “model student” that could act as a bridge between India and Spain, as well as Europe.

“This is a policy that is clearly working,” says Mr Echenique.

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Doing Business in the Basque Country

Wave of innovation is fuelled by investment in alternatives

Energy

Victor Mallet explores initiatives that aim to build on the region's strengths as an industrial exporter

Who said alternative energy was easy? So corrosive is the wet, salty air on the sea wall at Mutriku that the supposedly stainless steel plaque commemorating the opening last July of one of the world's first wave-driven power stations has already started to rust.

And so high were the waves in one of the autumn storms for which the Bay of Biscay is notorious that they surged around the sea wall and smashed through the doors of the power station's control room.

The Basque government has nevertheless chosen Mutriku, a fishing port in one of the narrow coves of Spain's north coast, as the site of what it says is the first such electricity generating systems to be attached to the grid, although similar systems have been installed in Scotland and the Azores.

At a cost of €6.7m – of which €2.3m is for the power plant and the rest for the huge sea wall that contains it and simultaneously protects the harbour – the project is based on an ingenious technology known as OWC, for “oscillating water columns”.

Voith Hydro, a joint venture of Voith and Siemens, supplied the equipment to turn wave power into electricity. The waves enter chambers open to the sea in the outer wall and compress the air within, forcing the air up through a turbine and thus generating power. The same process works in reverse as the wave retreats and the water level falls, sucking the air back down through the turbine in the other direction.

This is not a large power station: its maximum capacity is just 296KW and it could produce enough electricity for about 600 people in the course of the year, the government estimates. Among other drawbacks, the internal machinery has to be power-sprayed with fresh water every half an hour to wash off the corrosive salt.

But the Mutriku plant is only one example of a series of initiatives aimed at promoting the region as a centre for innovation.

This is especially so in the field of alternative energy, in which prominent investors include locally rooted companies such as Iberdrola and Gamesa, both big in wind power, and other international power groups such as Alstom.

The sea shelves deeply off the Basque coast, which makes it impractical for offshore wind turbines standing on the seabed, but the regional and national governments are investing some €20m in what is called the Biscay marine energy platform or Bimpe, an offshore zone for research and development of marine technology, including wave power.

Up to 30 scientists are expected to conduct research with Bimpe, for which the biggest cost will be the laying of electrical cables to carry 20MW of power from the experimental installations to the shore.



Making waves: interior and exterior of the Mutriku plant, which uses 'oscillating water columns' technology

Corbis; Victor Mallet

Green capital Vitoria-Gasteiz ticks all the boxes for European Commission accolade

At first glance, Vitoria-Gasteiz, the modestly sized administrative capital of the Basque country, seems to have nothing in common with the larger and better known cities of Stockholm and Hamburg.

But like those two northern European cities, the Basque capital has been awarded (for 2012) title of European Green Capital by the European Commission.

It may be hyperbole for Javier Maroto, the city's mayor, to describe an annual award that is far from famous as “the environmental Nobel Prize for cities”, but it sends a useful signal to investors about the lifestyle benefits of choosing a medium-sized town as a base for industrial operations.

In the case of Vitoria, multinationals have already made that choice. They include Mercedes-Benz, which makes its Vito vans here, and Michelin, which makes tyres for cars

and big industrial vehicles. Another big local employer is Aernnova, a high-technology aircraft component maker.

For Mr Maroto, an important characteristic of the 2012 award is that it has gone to a city that is not in “green” northern Europe and to one with a population of 260,000 inhabitants – in other words to the kind of medium-sized town in which the overwhelming majority of Europeans actually live.

Vitoria ticked all the right boxes for criteria such as air quality, public transport, the number of parks and the recycling of waste. The city includes a historic old town, a pedestrian avenue of tall plane trees, and broad commercial avenues. “It's grown a lot in the past 50 years, and it's been possible in the modern era to urbanise in a more thought-out way,” says Mr Maroto. Unlike Bilbao, which is squeezed in a valley between the hills and the

sea, Vitoria is set on a plain with plenty of space.

The city is not resting on its laurels, and is implementing 10 green urban projects linked to the award that will be partly financed by sponsoring companies taking advantage of tax incentives.

Probably the most ambitious plan – mirroring similar projects in Seoul and Chicago – is for an “inner greenbelt”. It will involve restoring a buried stream from under one of the town's main avenues, replacing car parking spaces with trees and bicycle lanes and adding hanging gardens down the walls of large buildings.

“It's revolutionary for a city,” says Mr Maroto, “because normally a city is taking space from nature and urbanising it.”

This, he says, is exactly the opposite.

Victor Mallet

Global drive puts wind in group's sails

Interview Jorge Calvet

Miles Johnson and Victor Mallet find Gamesa's chairman in confident mood

As Gamesa, Spain's leading wind turbine manufacturer, expands into countries thousands of miles from its home market, the group has intentionally stayed close to its roots in the Basque country.

After starting life in 1976 as a Basque developer of industrial equipment, as well as devising technology for cars and then emerging businesses such as microelectronics, by the 1990s Gamesa had decided to focus on renewable energy in the form of wind turbines.

Since floating on the Madrid stock exchange in 2000, growing to become a member of the blue-chip Ibex 35 index, Gamesa has expanded steadily into foreign markets such as China, where it now has six manufacturing plants.

When Jorge Calvet, Gamesa's chairman and chief executive, took over in 2009, 35 per cent of sales were in Spain, with 33 per cent going to one large customer, Iberdrola, which also owns just under a fifth of Gamesa.

Today, 98 per cent of its sales are outside Spain, with Iberdrola's contribution having halved.

“We have been able to globalise, not just internationalise. I make a big difference between the two concepts. The company in two years has entered into 32 countries, and won numerous customers.”

Part of Mr Calvet's international strategy has been to bring to new markets the same suppliers the company has used in Spain, many of these being from the Basque country.

“We are a very important employer in the Basque country, and I think it is very important that we are an engine for our supplier base in the Basque country.

“I feel a duty to help them in the current state of the economy of Spain, and to give them opportunities to follow us in our globalisation moves,” he says.

This has seen several medium-sized, often family-owned, Basque suppliers of tools, components, and software follow Gamesa into markets including Brazil, China, and India.

“It is a way we can help them to grow with some kind of risk mitigation,” he explains.

He adds: “This is a commercial relationship, and we are not becoming an NGO of any kind. We know [the Basque suppliers], so we know the

products from a quality point of view”.

Closer to home, Mr Calvet has also begun to invite these same suppliers to join Gamesa as it enters the offshore UK wind power market in the next two years. It has been considering where to locate its operations.

While Gamesa has enjoyed success abroad, the company, like others in the field of renewable energy, has struggled with the combination of the financial crisis, falling energy demand, low gas prices, and the expected disappearance of billions of euros of government green energy subsidies.

In Spain, a moratorium was called at the start of 2012, scrapping renewable energy subsidies and no new wind farms are being built.

But as the world has changed during the financial crisis, creating new challenges for Gamesa, Mr Calvet believes the attractions of wind farm investments, have in certain ways been boosted.

“Insurance and pension funds today have a big problem: where to invest? Even sovereign bonds are a risky proposition, so they have to look for other long-term investments,” he



Wind farms can generate a very good return, says Gamesa's Jorge Calvet

says. “Wind farms are typically a 20-year investment, and they can generate a very good return.”

Mr Calvet recognises the challenges the sector faces, but is confident that wind technology can become more price efficient relative to conventional energy sources, so it will continue to make up an important part of the energy mix in many countries.

“Governments are not going to have the financial means to support this industry as they have. So it is our duty to lower the cost of energy, without having to depend on subsidies.”

Having been in the job for almost three years, Mr Calvet says: “I sometimes feel like putting a banner on top of my desk that says ‘the perfect storm’. We have had the macroeconomic downturn, lower demand for electricity, and the financial crisis, and subsidies gone.”

But with Asia's demand for wind energy still strong, Gamesa's global presence has provided a shelter, and means Mr Calvet remains staunchly optimistic for the future.

“Everything that could happen has happened, just not all in the same place.”

Collective approach pays big dividends

Profile Mondragon

Employees are partners in the business, writes Miles Johnson

In a world where bankers and executives often argue that high pay is directly correlated with success and talent, Mondragon, the Basque workers co-operative, is proud to offer an alternative model.

Founded in 1956, with its roots in a technical college set up by a Catholic priest, the Mondragon Corporation is one of Spain's top 10 largest companies by sales, with worker-owned businesses including the Eroski supermarket chain, banking, electrical domestic products and car parts manufacturing.

José María Aldecoa, Mondragon's chairman, earns no more than eight times that of the lowest paid workers within the

co-operative, making him probably one of Europe's lowest paid corporate leaders weighted against sales.

At the same time, more than 90 per cent of Mondragon's collective workers have salaries that are the same, or higher, than those working in equivalent companies.

“Our workers are partners in the business,” he says, speaking from an office overlooking the mountains of Mondragon, a town of less than 25,000 inhabitants which grew up around the co-operative and technical university.

“Our aim is not simply to maximise profits. We need to have a competitive business, otherwise there is no co-operative, but 100 per cent of our profits are reinvested in the co-operative.”

Mondragon employs a total of 83,000 people, of whom just under half are co-operative members. Several of its companies are industry leaders working across global markets, with 77 overseas

production plants, including 12 in China and six in Brazil.

Its collective model makes it unique, but, like many other Spanish companies, Mondragon has steadily diversified its sales away from Europe. Last year, €3.59bn of the total of €5.71bn sales in its industry division were international.

The collective's credit union, Caja Laboral, and its use of workers' share capital and loans, has over its history allowed it to avoid the short term vacillations of a stock market that would have been unlikely to tolerate its business model.

Each year, Mondragon publishes the number of jobs it has created, and has often set job creation as a priority target in its annual strategy plans.

As the Harvard International Review remarked, “most large global corporations, by contrast, develop strategies to increase earnings through job reduction”. But while diversified

across industries and continents, Mondragon suffered like any other business during the economic crisis. Revenues fell by 11 per cent from 2008 to 2009, with Mr Aldecoa and his fellow members of the co-operative's general council being forced to reassess how the business was being run.

While diversified across industries and continents, Mondragon suffered during the economic crisis

Convinced of the need constantly to keep the company's partner-workers informed of its fortunes, Mondragon called various meetings and came up with the solution of moving some workers into different businesses, or asking them to work flexible hours.

“The economic cycle of a crisis does not happen in all sectors all at the same time, so this enables us to exchange people between businesses, and make adjustments.”

During 2009, more than 600 workers were reallocated to new businesses, and 2,000 agreed to work flexible hours. Salaries were frozen, and the company changed its raw materials and commodities sourcing to lower cost countries.

“In our business, the maintenance and development of the co-operative is in everyone's interest, as they can earn more or less, depending on how conditions turn out.

“People will then realise that it is good not to raise salaries or to have flexible hours, as that will guarantee the future of our project,” says Mr Aldecoa.

One example of this combination of direct communication with workers and flexibility came during 2009, when policies across western Europe to stimulate car

sales after a sharp contraction meant opportunities arose for agile parts manufacturers.

“Suddenly, carmakers had an opportunity to sell cars, but they didn't have components,” Mr Aldecoa says.

“A client said ‘I need to make 1,000 more cars this month, as there is an opportunity to sell them’, and knew I needed 40 per cent more components in the next 15 days.”

Informing workers of the opportunity, Mondragon suddenly had the parts manufacturers working 10 hours a day to complete the order. “We have to explain the opportunity to our workers, and then they will understand,” he says.

The co-operative structure means that the interests of the business and its workers are more closely aligned than in more typically structured corporations, Mr Aldecoa argues.

“Workers are in the double position of wanting to earn a salary in the short term, but also are



José María Aldecoa: sanity on salaries

Victor Mallet

owners who want to have a good business in five or 10 years,” he says.

“In a regular company, the worker thinks: ‘You, the boss, pay me, and if later the company closes I get compensation, and it is not my problem’. Here, the company is ours, and if there is no company there is no work.”

While directors have left to join higher paying competitors, the majority of the highest ranking executives at Mondragon have been promoted from

within the company, with many educated in the associated technical college.

“It is obvious that the system of salaries of our directors has nothing compared to finance, which is madness, but it is fine, as we earn enough to live on, and we don't lack anything,” he says.

“We don't need a boat in Marbella, or a Ferrari. The moral compensation we get from working in a project like this is a great satisfaction.”

Doing Business in the Basque Country

Three-way merger strengthens region's savings banks

Financial sector

The banks have a stability to match local prosperity, says **Victor Mallet**

The impression of financial solidity given by the imposing bank buildings on the Gran Vía Don Diego López de Haro in central Bilbao is not an architectural illusion. Since the 17th century, manufacturing industries based originally on the exploitation of iron ore deposits and trade with northern Europe have made the Basque country one of the most prosperous regions of Spain, with a banking sector to match. Not without difficulty,

Bilbao and the surrounding region managed to adapt to the opening of the Spanish economy in the 1970s, when heavy industries were exposed to brutal international competition and needed to be supplemented or replaced with smaller, high-technology businesses. Last year, the value of Basque exports hit a record high in spite of the euro-zone's sovereign debt crisis and the economic slowdown. What's more, the 11.2 per cent unemployment rate in the region is less than half the Spanish average. Companies providing services such as rubbish collection say this is one part of Spain where municipalities almost always pay their bills on time. With domestic demand having fallen since the collapse of Lehman Brothers

in 2008, Spain as a whole has been impoverished by the crisis, says Ignacio Sánchez-Asiain Sanz, director-general of Kutxabank, the new Basque bank formed out of three merged cajas or savings banks. Yet the Basque country has been spared the worst. "Up to now, it's been a little less serious, because exports have done well," he says at the Kutxabank headquarters. Mr Sánchez-Asiain is a member of a family prominent in Basque and Spanish finance. His father José Angel was chairman of the Banco de Bilbao and then of BBV (later BBVA) after it merged with Banco de Vizcaya, while his brother Francisco heads the Iberian business of Nomura Securities. In Spain and beyond, the

Madrid-listed BBVA is the biggest and best-known bank with Basque roots. Another important local institution is the Caja Laboral, part of the Mondragon co-operative group. Many of the recent headlines, however, have been generated by Kutxabank and its component parts, because of its involvement in the nationwide upheaval among Spanish savings banks. (Kutxa is Basque for caja, so Kutxabank means "caja-bank", the same as the Catalan Caixabank). Some Spanish cajas collapsed and had to be rescued after lending too much to property developers and homebuyers during the home construction boom, although it was those in the south and east of the country that were generally hardest hit.

In July 2010, Bilbao Bizkaia Kutxa (BBK), now the leading partner in Kutxabank alongside the smaller Kutxa and Vital, took over CajaSur, a failed savings bank previously run by Roman Catholic priests in

'We are strong in capital terms but you never know what you'll need'

to those that were most affected. There were cajas increasing credit at 30 to 40 per cent a year," says Mr Sánchez-Asiain, noting that the Basque cajas avoided the construction bubble in the decade to 2007. Kutxabank is relatively small – its €74bn in assets makes it about the same size as the listed, Madrid-based Banca Civica – but its capital strength and the solidity of its Basque retail banking franchise have earned it credit ratings higher than those of its Spanish rivals. Half the salaries and two-thirds of the pensions deposited each month in Basque banks go straight to Kutxabank's branches, executives say. Fitch, the credit rating agency, noted its "stable retail funding base and sat-

isfactory asset quality", as well as "good management, pure real estate exposure that is lower than its peers, sound earning generation and robust capitalisation". Perhaps inevitably, central bank and central government officials eager to complete the restructuring of the Spanish banking sector are turning to the strong to buy the weak, and Kutxabank has been cited as a possible buyer of Banca Civica. Part of its potential firepower consists of its holdings in scores of industrial companies – including a 5.5 per cent stake in Iberdrola, the electricity group, that could be sold to realise capital gains. But Kutxabank, having swallowed CajaSur, may not be in the mood for extra risk-taking outside

the territory it knows best, even if Mr Sánchez-Asiain acknowledges that "these days, size is necessary". The now-completed merger between the three Basque cajas, after all, had been under consideration for years. Each was centred on one of the region's three provinces and had refrained from encroaching on the territory of the others, so there were only minor overlaps to deal with when the merger was consummated in January. And for all the Basque country's industrial prowess, Mr Sánchez-Asiain is under no illusion that this is going to be an easy year. "We're not in talks with Banca Civica. We're not in talks with anyone," he says. "We are strong in capital terms, but you never know what you'll need."

Tempting morsels keep bars busy, as chefs expand

Food and tourism

Miles Johnson finds Basque cuisine serves an important role as a cultural export – and whets the appetite, too



Taste of success: Juan Mari Arzak prepares a chocolate omelette in the kitchen of his three Michelin star restaurant in San Sebastián

Reuters

Contributors

Victor Mallet
Madrid Bureau Chief

Miles Johnson
Madrid Correspondent

Andrew Baxter
Commissioning Editor

Steven Bird
Designer

Andy Mears
Picture Editor

For advertising details, contact:
Maria Gonzalez
Phone +34 91 564 1810
Fax +34 91 564 1255
Email: maria.gonzalez@ft.com

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The Basque country is so often known for its work ethic and industrial strength that its contribution to lighter things in life can be overlooked.

San Sebastián, which stakes a claim to being the geographic centre of Basque food, is lauded as one of the best places to eat in Europe, with the quality on offer in the most humble bars said to outshine expensive eateries across the continent's capital cities.

Any visit to the Basque country would be wasted without trying *pintxos* – tapas-like small dishes often constructed with artisanal attention to detail – that are on offer in bars across the region.

Ferran Adria, the Catalan chef who has borrowed from aspects of Basque cuisine in his own work, has gone even further in his praise for the city's food.

"In terms of the average quality of the food," he says, "in terms of what you can get at any place you happen to walk into, maybe it is – probably it is, yes – the best in the world".

This wealth of food has lured an increasing number of visitors to a region already known internationally for the Guggenheim museum in Bilbao, and for its natural beauty.

Tourism, while less important to the Basque country than other parts of Spain, still makes up about 5 per cent of its gross domestic product, with just

under 1m foreign visitors each year, according to the region's statistical agency.

Mixing both Spanish and French influences, and the products of the Cantabrian sea and the fertile earth of the region's valleys, Basque food is grounded in fresh fish, stews and peppers, and prepared with subtlety.

This tradition has produced such leading chefs as Juan Mari Arzak, who runs the three Michelin star Arzak restaurant in San Sebastián, and who helped pioneer the so-called New Basque Cuisine movement of the 1980s, the region's answer to France's nouvelle cuisine.

Investment in cultural infrastructure has both contributed to the local Basque economy and enabled entrepreneurs to export food.

One example is the Basque Culinary Centre foundation, a cooking university based in

San Sebastián, created in 2009 to maintain and expand on the traditions of Basque cooking.

A collaboration between the Mondragon co-operative and chefs including Mr Arzak and Martin Berasategui, the young owner of an eponymous three

Basque communities in Latin America and elsewhere are helping promote the cuisine to new audiences

Michelin starred restaurant in Lasarte-Oria, the university is the only one of its kind in Spain.

Students registering for the next academic year will be taught courses ranging from raw materials and products, biology, psychology, and design, as well as being placed into

various Basque kitchens for work experience.

One of the main draws of Basque bar cuisine is that you do not have to enter a formal restaurant setting to enjoy it, meaning visitors to the region can find themselves supping on *pintxos* without realising it.

"The food here is wonderful," says Marina Tikhova, a Russian tourist visiting Bilbao to watch a football match between Manchester United and Athletic Bilbao that brought tens of thousands of tourists into the city earlier this month.

"There is a very different feel from other parts of Spain. I am going to have to come back when the weather gets better."

Aside from bringing people into the Basque country, its food serves an important role as a cultural export, with Basque communities in Latin America and elsewhere helping to promote the cuisine to new audiences.

The Sagardi restaurant group is an example of a company trying to establish Basque cuisine outside the region, both in other parts of Spain and across the world.

Established in 1996 by the Basque chef Iñaki Lopez de Viñaspre and partners, the group has since grown to 19 restaurants within Spain, as well as one in Buenos Aires and another in Santiago, Chile.

Two more will open this year in Europe, in Oporto and Amsterdam, while plans are under way to search for partners to open in New York, London and Paris.

For its existing foreign restaurants Sagardi usually finds a local investor who will take a stake in the venture, while allowing the company's staff to have control over the restaurant. This ensures the style and quality of the food to remain as it would be if it were in Spain.

"We have always aimed to

take Basque food to other parts of Spain, and outside Spain; that has been our mission," says Mr Lopez de Viñaspre.

"I think Basque cuisine has a very large respect for natural products and high quality ingredients. That is something that is respected across the world. The food needs to be authentic, that is very important for the Basque country."

Mr Lopez de Viñaspre cites the work of Gaston Acurio, the Peruvian chef and restaurateur who is credited with raising the profile of his country's food around the world, as an example of how Basque cuisine could too be marketed globally.

"In the past, no one had heard of Peruvian food, and now it has become fashionable. We are lucky to be less well known in some ways. With Italian food, it can be very hard to differentiate, as there is so much on offer.

"We will be new for many people outside Spain."

End of Eta's armed struggle 'can unleash our full potential'

Interview

Patxi López

Victor Mallet finds the Socialist premier is looking forward to a new era of growth

Patxi López, the Socialist politician and current *lehendakari*, or premier, of the Basque country, is only one in a long line of Spanish and Basque leaders who have campaigned at some personal risk against the violent separatists of Eta and demanded an end to their armed struggle for independence.

But Eta's announcement on October 20 last year of the "definitive cessation of its military activity" after more than half a century of violence happened on Mr López's watch, and he does not hide his delight at the arrival of peace and the likely economic advantages that will result. "We're in a new era," he says in an interview in the premier's office in the capital Vitoria. "We had 30 years in which absolutely everything was

contaminated – the economy and investment were threatened by the existence of the terrorist gang.

"Eta used to extort money from businesspeople, blackmailing them with the threat of terror, and some were even assassinated for not giving in. We have freed ourselves from that and the Basque country can now develop its full potential."

Eta was born in the era of the dictator Francisco Franco, who ruthlessly suppressed regionalism and the Basque and Catalan languages in favour of Spanish; Mr López, for example, has always been called Patxi, but had to be baptised Francisco Javier.

While Basques have known for years of Eta's declining influence, people in Madrid and further afield were more wary of the dangers of what was western Europe's only remaining and sustained armed conflict.

That makes what has happened all the more important for restoring confidence in a region that is both an industrial exporter and a tourist destination. Tourist numbers and exports both

hit record highs last year.

"We all know that in the Basque country possible foreign investments sometimes were not made for fear of terrorist actions, and likewise some Basque companies fled the terror and went to other parts of Spain," says Mr López.

Iñigo Urkullu, leader of the moderate Basque Nationalist party (PNV) – which is the largest single party in the regional parliament but was kept out of office after the 2009 election by an unusual left-right deal between the Socialists and the Popular party – nevertheless accuses Mr López of failing to present a proper programme or economic plan before or after the Eta declaration.

Basque public debt, Mr Urkullu says, has in three years risen from a negligible €642m to €5.5bn and will grow by a further €1bn by the end of 2012.

Mr López retorts with a list of his three main economic development programmes, named "Resist", "Compete" and "Lead".

These are aimed at helping companies to survive Spain's grave economic crisis, to invest in innovation in strong

Basque sectors, such as machine tools, electrical equipment and vehicle parts and to move into profitable markets abroad without abandoning their domestic operations.

"We call this 'multilocalisation', because what we want to avoid is 'delocalisation', the danger being that a Basque company goes somewhere else and moves there permanently. The big opportunity is that a Basque company can have subsidiaries abroad, because that allows it to do business there.

"The weight of industry in the Basque country [economy] is much higher than in the rest of Spain... Small and medium enterprises represent 85 per cent of Basque companies, and sometimes their small size makes it hard to go abroad to compete, so we've put in place programmes that encourage alliances between companies to win big contracts."

All these economic development programmes cost money, however. Can the hitherto creditworthy Basque country sustain the rapid growth of its debt?

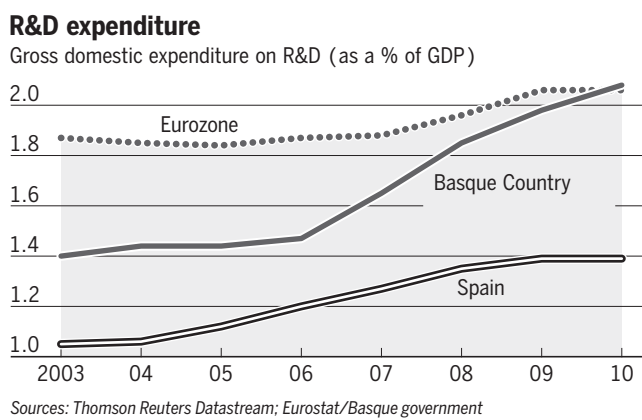
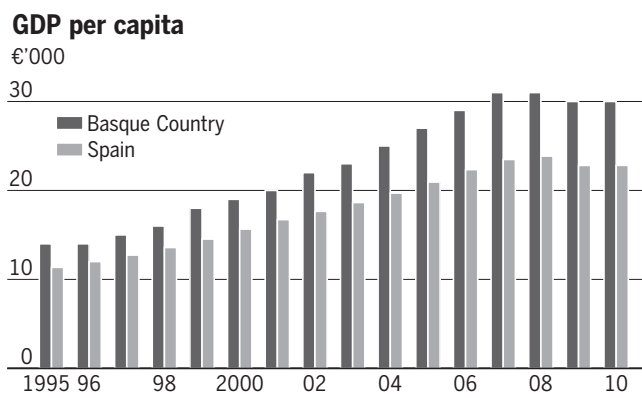
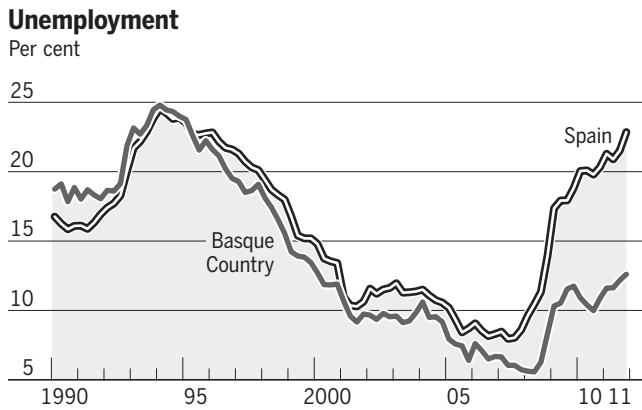
Mr López insists that the borrowing is both



Patxi López: hoping for a peace dividend

possible and necessary. "This government knows that you have to have recourse to debt when it's necessary to implement public policies and income is insufficient," he says. "Thanks to this, in the Basque country we've managed to sustain all public services and social policies, and give a boost to the economy and stop job destruction. And we have a more than reasonable level of debt. In the past, in previous crises, we had much higher debts." Meanwhile, the Basque government continues to seek a definitive end to Eta. It wants the sufferings

Key economic statistics



Sources: Thomson Reuters Datastream; Eurostat/Basque government

Doing Business in the Basque Country

Cluster effect drives sector's competitiveness

Motor industry

Business and research hub boosts integration of supply chain, writes Miles Johnson

No part of the Basque country's rich industrial heritage can rival its €10bn annual turnover car industry as the driving force of the region's economy.

Generating 18 per cent of the region's total gross domestic product, the sector and its associated companies employ more than 76,000 people globally, and account for almost 40 per cent of all car parts exported from Spain.

The Basque car sector has grown over several decades to such an extent that a region of less than 7,800 square kilometres is home to every part of the car production process, from steel factories to engineering companies and technical universities.

More than 30 multinational companies connected to the automotive industry have factories and offices in the region. They include Michelin, the tyre manufacturer, Valeo, the components manufacturer, and Daimler, which has a production plant in Vitoria.

Other companies involved in different stages of the car production chain include Arcelor-Mittal, the steelmaker, which has six production sites and a research centre in the Basque country, and Saint-Gobain, the French construction materials company.

Exemplifying this integrated approach is the Automotive Intelligence Center, a business and development hub for the sector located outside Bilbao. The wavy-roofed steel and glass building opened just over three years ago and contains numerous companies, both Basque and foreign, that have operations in the region.

Serving as a research and development centre, industry infrastructure hub and training site, among other functions, the AIC is aimed at forging collaboration between the numerous companies related to the



A worker at Daimler's plant in Vitoria puts the finishing touches to the millionth Vito light van to be produced there

tegic objectives of companies, using a global view," he says.

This collection of companies, a mix of foreign multinationals and indigenous manufacturers, allows the different parts of the production process to be in proximity to each other, and reduces the risk of one part suffering if a large component maker were to close down.

"The mix we have here is quite unique. Other regions may have a vehicle manufacturer, then foreign parts manufacturers. But if the big brand decides to close, the others will then move. We are not as dependent, as we export 80 per cent of production," says Mr Saperas.

The steps taken by the Basque car industry to internationalise in recent years have produced impressive results.

Now, 80 per cent of total sales are to outside Spain, with a rising proportion derived from countries beyond Europe, and this is expected to result in record total sales for this year.

Sales outside the EU more than doubled between 2006 and 2009 from 14.6 per cent of the total to 32.5 per cent, while sales within the EU, excluding Spain, fell over the same period from 56.6 per cent to 46.2 per cent.

"In the past, we used to talk about exporting by selling to France or Germany. Now, you have to prove you can sell parts to many parts of the world to be able to survive. We have done that, and that is why some of our members have not only survived but have grown," says Mr Saperas.

During the economic crisis sales fell in 2010 to €10bn, compared with the €11bn generated in 2009, but the AIC expects an increase in international sales to help total revenues for 2011 come in above, or at least match, the 2009 figure once final numbers are calculated.

"This structure has enabled us to grow together at all levels," says Ms Anitua. "We have achieved something unique here that will keep the sector strong."

Basque automotive sector to increase their international competitiveness.

"We felt the industry was very vertically oriented, from the final clients downwards," says Inés Anitua, managing director of the AIC and of ACICAE, the Basque country's automotive industry cluster.

"We wanted to start working more horizontally, to think differently. In Europe we have a strong knowledge [base] and the car industry was born here, so it is important we can sustain that knowledge."

Originally thought up in 2006, the AIC was funded at first by the local administration and the European Union, but is now sustained by contributions from its industry members.

The industry in the region is very close-knit, with an interesting mix of companies, says Ms Anitua. More than 30 foreign groups have invested in the region, which has its "own global players", she adds.

Mondragon Automoción, part of the Mondragon co-operative group, supplies parts to Honda, Ford and Renault-Nissan,

The mix of companies reduces the risk of one part of the production process suffering if a large component maker were to close

among others, and is one example of a local company with a wide international footprint, with production plants in Brazil, Mexico and China.

Another is CIE Automotive, which is one of the companies with a base in the AIC and is quoted on the Madrid and São Paulo stock exchanges.

"We have many [opportunities] to work with other companies in our sector on different projects," says Iñigo Loizaga, a technical operator with CIE Automotive at the AIC. "We can also work together on certain

commercial needs, demonstrate what we do together to clients and look at international expansion more efficiently. There are many synergies," he says.

Oriel Saperas, director of the AIC's competitive intelligence department, produces sweeping opinion pieces on important developments in the sector, as well as confidential intelligence reports commissioned by members and companies outside the cluster.

"People receive a lot of information. We can organise this into something to suit the stra-



Peace shifts the focus to investment

Continued from Page 1

Another advantage in the eurozone sovereign debt crisis is that the region – unlike Catalonia – enjoys fiscal independence under the Spanish constitution, so is not obliged to make large annual transfers of its wealth to poorer parts of Spain such as Andalusia.

That does not protect it entirely from recession in the rest of the country or the economic troubles elsewhere in the eurozone.

Mr Urkullu, of the opposition PNV, accuses Mr López, the Socialist *lehendakari*, of financial irresponsibility for expanding the region's public sector debt from just €642m to €5.5bn in less than three years.

Mr López retorts that "one takes on debt when times are bad" and boasts of the plans the government has promoted to help businesses extract themselves

from the effects of the economic crisis.

Basque companies, and the government, are taking a twin-track approach to survive and expand, betting where possible on innovation through research and development, and investing abroad to take advantage of dynamic markets from China to Brazil.

Mondragon, for example, is moving into healthcare for the elderly as a promising business area in countries with ageing populations. "Internationalisation is very important for Basque companies," says Ms Oleaga of Naider.

Many suppliers in niche industries, too small to venture abroad on their own, have ridden on the coattails of larger enterprises such as Gamesa and Mondragon. They have both expanded in China and India.

"We are asking our supplier base in the Basque

country to follow us abroad," says Jorge Calvet, chairman of Gamesa, "to give them opportunities to follow us in our globalisation... Asia is booming and to us Asia has been absolutely critical."

With peace in the Basque country all but assured, local politicians and business leaders face an awk-



Mercedes Oleaga: international drive is important for companies

ward reality. While foreign and domestic investors relish the absence of violence, they are less happy about the re-entry into conventional politics of Eta's radical allies.

Founded in opposition to the dictator Franco, the groups' ideology has Marxist-Leninist as well as

nationalist strands, prompting elected officials from the *izquierda abertzale* to regard capitalists and capitalism with deep suspicion.

In practice, this has meant supporting the idea of a wealth tax in Guipúzcoa province and opposing infrastructure projects such as expansion of the port at Pasajes and the building of the high-speed rail lines that will link the region to the rest of Spain.

As one Basque peace negotiator puts it, the region's moderate political parties now fear that what used to be a controllable policing problem when Eta was active could become an uncontrollable political problem, as its sympathisers continue to win office in regional and local elections.

If Eta keeps its word, however, the two sides will at least conduct their arguments with speeches and policies, rather than bombs or bullets.

