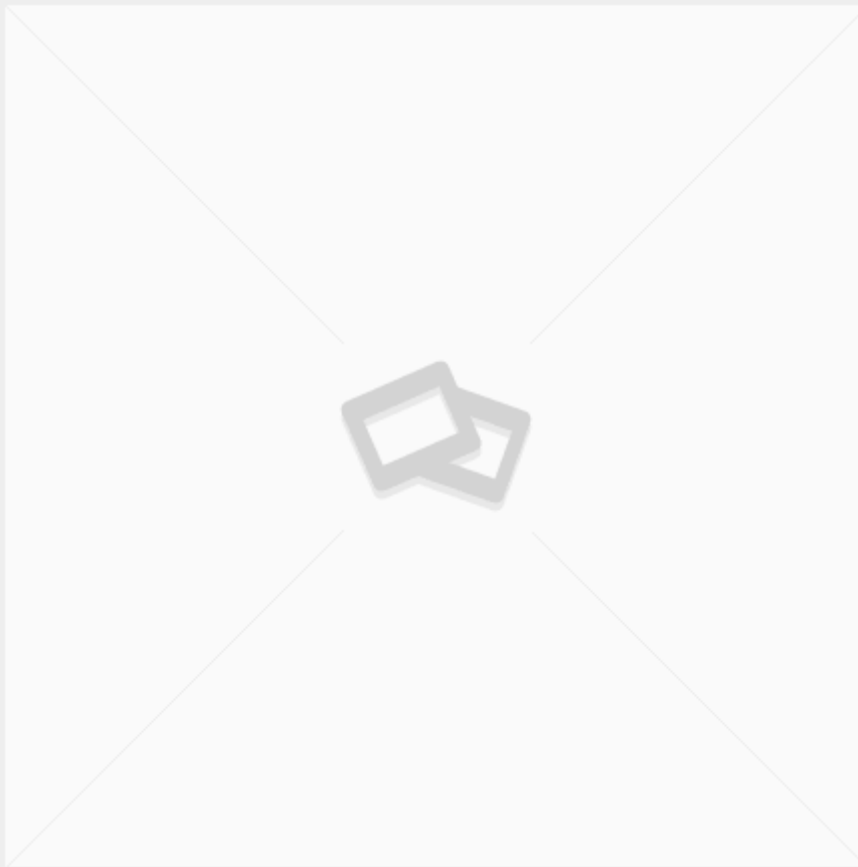
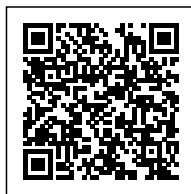


BARCELONA REPORT 2008: ADAPTING TO A NEW REALITY

Posted on 21/04/2008



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Despite its position among Europe's most glamorous and fashionable cities, Barcelona is undergoing radical economic change – with the outcome potentially affecting many within the city's legal community.

A pesar de la reputación de la que goza Barcelona en Europa como ciudad glamorosa y vanguardista, está atravesando un cambio radical -con unos resultados que van a afectar directamente a la comunidad jurídica.

Este año, el Informe Anual de Iberian Lawyer sobre el mercado jurídico en Barcelona revela que la economía y el mercado jurídico están en transición. La confianza entre los abogados de la ciudad se ve inevitablemente afectada por la desaceleración de la economía española, y además se percibe, por un lado, un cambio en el perfil de la clientela local, y por el otro, el impacto a gran escala que la situación crediticia puede tener en las empresas catalanas.

La prioridad para los despachos en Barcelona sigue siendo el saber cómo adaptarse a estos cambios.

A walk along the Passeig de Gracia will confirm that Barcelona is among Europe's most fashionable cities, where luxury outlets such as Tiffany & Co, Gucci and Prada compete for space in one of Spain's most expensive shopping districts. The city is home to some of Europe's most glamorous hotels, among them the Hotel Arts, and some of its best restaurants – Barcelona's three Michelinstarred chef Ferran Adrià is currently considered Europe's finest.

The city is rightly regarded as a model of urban regeneration, it is a favourite weekend holiday destination among north Europeans, and a leading international business conference venue.

But beyond the weekend vibrancy and shine of the city centre, this year's *Iberian Lawyer Barcelona Special Report* reveals an economy and legal market in transition.

Too much emphasis has been placed on regional identity and the city's global profile, some local lawyers suggest, than the long-term health of its economy.

Confidence among the city's lawyers is inevitably affected by the slowdown in the Spanish economy, but also the changing profile of their local client base, and the wider impact of the credit difficulties being faced by some of Catalonia's biggest companies – most notably the collapse of Inmobiliaria Colonial, with estimated debts of €7bn.

The issue for Barcelona law firms remains how to manage their response to such developments, to capitalise on the opportunities presented by their clients' changing needs, and the strengthening knowledge-based economy.

Expansion

Given its location, climate and ambience, it is little surprise to note that leisure and tourism continue to play a major role in the economic health of Barcelona, and of Catalonia. The hotel and tourism sector is identified by lawyers as the sector of greatest potential growth over the coming year (see chart: Predicted business sector growth – 2008).

"The city has the potential to become one of the best resorts in the Mediterranean," believes Gonzalo Rodés at Rodés & Sala. "The offer in terms of sports, museums, hotels or restaurants is endless."

But the impact of globalisation has not benefited the entire Catalan economy, or all of Barcelona's legal community. Catalonia remains Spain's primary industrial centre but manufacturing and heavy industry companies have suffered in the face of global competition – with many delocalising operations to North Africa, Eastern Europe, and Asia.

Nonetheless, a new knowledge-based economy is beginning to fill the gap, literally in some respects.

Barcelona is already a major European centre for pharmaceutical operations – March saw the announcement that Japanese manufacturer Takeda is now looking to commence operations locally – but the city is seeing the continuing arrival of companies' design and research and development (R&D) operations, an emerging biotechnology cluster, and the growing international profile of its universities and business schools.

✘ Much emphasis is being placed on the creation of new technology centres, among them el Parque Tecnológico del Valles – where Hewlett-Packard has refocused its operations towards R&D – el distrito tecnologico 22@ within the city, and the proposed Centro de Investigacion Biomedica Esther Koplowitz (Cibek).

"Our economy has a 'last chance' to develop the immensity of possibilities around three global areas of economy: health, education and leisure. Barcelona has already extraordinary examples of each of them, such as the MSKCC as a top oncological centre in Europe; the IESE or ESADE as best rated business schools worldwide; as the second most visited city in the Continent last year (8 million tourists)," adds Gonzalo Rodés.

Differentiators

But despite the clear potential, many lawyers continue to see barriers and differences in business attitude between those in Barcelona and elsewhere in Spain, notably the capital. "Madrid has a tradition of being more relationship-focused and Barcelona more conservative, especially when it comes to risk-taking," says one Barcelona partner.

Catalan businessmen are perceived to be hard working, well organised and careful, but few are ready to take the opportunities to expand their businesses, or to embrace the global economy, say some lawyers. "In Barcelona you have lunch to celebrate a business deal, whereas in Madrid you negotiate a deal while having lunch," observes Ignasi Costas at Rousaud Costas Duran.

"There are a number of strong business groups, which recognise the need to become more competitive, but they seem to be concentrated on retaining a Catalan membership which of course presents barriers to businesses in the rest of Spain – Catalonia's biggest, and closest market," adds one Barcelona law firm partner.

The traditional tier of family-owned Barcelona businesses may continue to find comfort using local Barcelona law firms, but this is the most vulnerable sector to a regional economic downturn, suggest some.

"Local Catalan companies are often afraid of losing a personalised service and the longlasting relationship of confidence they have established with their local firms," suggests Enrique Marinello Jordan, partner in the Barcelona office of mmmm. "The last few years have seen a number of international law firms open in Barcelona, but they have focused more towards multinational clients or the acquisition of local operations."

Among the most notable arrivals includes Latham & Watkins, which opened last January in both Madrid and Barcelona, under the lead of former Cuatrecasas Head of Corporate José Luis Blanco.

Infrastructure

Many suggest that the much delayed opening in February of the Madrid – Barcelona highspeed (AVE) rail link will have a significant impact on the region, further opening up Barcelona and helping to connect local businesses nationally. Train travel time to the capital is down to less than three hours, with 17 trains running a day.

The quality of Catalonia's infrastructure is a key business development issue, say many lawyers, with the lack of central state investment resulting in businesses feeling isolated from the rest of the country.

And many see the rise in Catalan autonomy as having contributed significantly to the wealth and health of Barcelona. "The last 30 years of autonomy have coincided with enormous economic growth. But the problem is not autonomy (rather the contrary) but the lack of state investment in Catalan key infrastructures, fast roads, railways, power and airports, which remain a competence of Spain," believes Ricard Gené of Ventura Garcés & López-Ibor.

The long-awaited expansion of Barcelona airport, and the notable lack of transatlantic, flight connections from the city remains an issue, adds Juan Ramón Ramos, managing partner at

Landwell, but he nonetheless remains optimistic – his firm has expanded significantly in the city over the past year.

To promote the region economically requires political support and this means politicians more focused on these matters, than on other local concerns which are not generally at the top of the mind of citizens, believes Gonzalo Rodés. "However I don't see Catalan autonomy increasing at a level that can put in jeopardy foreign investments."

Antoni Valverde at the Barcelona office of Freshfields agrees. "With regard to Catalan autonomy, probably the reverse is true: in Barcelona, autonomy means efficiency and a focus on infrastructure."

Others however take a contrary view, and question the need for further regional bureaucracy. "Catalan industrialists see increasing difficulties in developing their activities regionally, due to an excess of administrative and bureaucratic demand, as well as employee absenteeism – for which Catalonia is the European leader.

These factors are stopping existing companies expanding, as much as hampering the arrival of new operators," says Jose Antonio Soler of Maniega & Soler.

Specialisation

The general consensus is that the major emerging opportunity for Barcelona-based law firms is to capitalise on the city's continuing evolution as a centre for R&D – and the related investment, real estate, licensing, labour and intellectual property issues that arise.

"The Catalan economy must aim for growth in economic activities with added value and for this to occur investment in R&D is essential," suggests Ariadna Cambroneró, managing partner at Uría Menéndez in Barcelona. "This type of growth demands very specialised legal advice on areas such as pharmaceutical and industrial property law."

Indicative of Catalonia's desire to better promote itself as investment and R&D-friendly was the recent merger of the Centro de Información y Desarrollo Empresarial (CIDEM) and El Consorcio de Promoción Comercial de Cataluña (COPCA) – to create the combined development agency ACC10.

The agencies have also strongly supported the promotion of the Barcelona Bar Council, with joint delegations visiting London, Brussels, Shanghai and Miami, to develop "legal bridges" by expanding the Bar's referral and exchange networks. But as well as inbound referral opportunities, there are clear opportunity in the expansion of world-beating Catalan businesses nationally, and internationally.

"I do not think that commercial awareness or international outlook has ever been a problem for our lawyers," says Josep Balcells, Treasurer of the Bar and partner at Baker & McKenzie. "But Catalan lawyers have been requested to improve their language skills to assist their clients' moves abroad, and this is a development area in which we have been very active."

Among the region's IBEX-35 listed companies, La Caixa is now Spain's third largest financial institution, Banco Sabadell is the fourth largest bank – and last year acquired Florida-based Transatlantic Bank – while Agbar and Abertis are currently active in markets as diverse as Chile and the US.

Such success has clearly already profited a number of local law firms. Cuatrecasas is now Spain's second-largest law firm with 14 domestic offices, and seven internationally – plus an expected further office in Shanghai later this year. Roca Junyent, another of the region's largest firms, currently counts five offices across Spain and a six-lawyer practice in Shanghai.

"I see the internationalisation of the major Catalan businesses, which are now expanding across

Europe, into the US and Asia with confidence," says Jordi Casas at Roca Junyent. "The need to consider other countries is a question of survival for many businesses so they have no choice but to look elsewhere."

"Our work originating from Catalan clients focuses increasingly on transactions abroad," says Gené of Ventura Garcés & López-Ibor. "We have to be active in providing sound legal contacts abroad and coordinating their legal needs with foreign colleagues."

The issue for the small and medium-sized firms is clearly how to capitalise on such developments, and to avoid losing clients to the national and international firms also with a Barcelona presence.

Garrigues and Uría Menéndez have both strengthened their Barcelona offices in recent months with partner hires. "We see companies now leaving their know-how in Barcelona and delocalising elsewhere. Catalan businesses are prudent but not scared to take the necessary measures to be competitive in the market," says Fernando Rey at Garrigues.

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Javier Velazquez at Clifford Chance states that the firm is also benefiting from the expansion of local companies. "It is a strong market with huge growth potential, and is reinventing itself from family-owned to international businesses. We have seen instructions from clients with an increasing interest, not only in the local market, but also in the USA, China, India and Eastern Europe," he says.

National coverage - a capital idea

"It seems that most firms are starting to feel the economic slowdown. Law firms expanding out of Barcelona is the main observation that we can make of the legal market over the past year," says Francisco Lacasa Lobera, partner at AGM Abogados.

The majority of firms that have expanded have chosen Madrid, yet the debate remains whether such a presence there is a necessity for the continued health of Barcelona-based law firms.

Carlos Valls Martínez of two-partner boutique Iuris Valls Abogados believes that firms can maintain a domestic profile without a Madrid office. But for others, such a luxury is afforded only to those firms able to offer very niche expertise.

"Medium-sized firms and boutique firms can survive without offices in Madrid if they concentrate their practice on specific areas and/or on local clients," says Ariadna Cambrónero at Uría Menéndez. "Having said this, any law firm that wishes to become a point of reference for business law in the Spanish market must have a presence in Madrid."

"There are many serious firms who already survive with offices in only one of the two cities. But it depends on your area of practice and overall strategy. From the beginning we thought that having a competitive Madrid office was of paramount importance to our corporate strategy," says Gabriel Nadal at Jausas.

The first step to becoming a global firm is to be where the decision makers are and within Spain Barcelona is one of those places, adds Gonzalo Rodés at Rodés & Sala. "I don't know a single full service firm which does not have an office in Barcelona and is giving advice to global clients. However I do believe that you can survive being only in Madrid – it remains a key market."

Fernando Rey of Garrigues agrees: "A law firm only based in Madrid can offer national coverage provided that it is focused on certain type of transactions – for example, banking and finance – but a presence in Barcelona is a key factor if the firm wants to provide a full-range service."

A Madrid-only law firm can certainly service Barcelona clients but with only a poor service, suggests

José Ángel Cano at Gómez-Acebo & Pombo.

But for non-Catalan firms to find success in Barcelona the local office must present a Catalan face to local clients, suggests Tomás Dagá at UKbased Osborne Clark. "The largest Madrid law firms (and a number of International firms, like ourselves) are all in Barcelona. I believe in reality it is important for firms to have a local presence, but they obviously need local lawyers that are used to and able to operate in Catalan."

Sophistication

Some lawyers suggest that there is now a discernible difference between the profile and prospects of Barcelona's law firms.

With greater uncertainty among those firms with a very local emphasis, and more confidence among those capitalising on niche expertise, or looking beyond Catalonia.

"There is an increased demand for specialisation, clients are looking for lawyers with a strong commercial knowledge," says Alejandro Angulo at Grau & Angulo. Jose Antonio Soler at Maniega & Soler takes an equally pragmatic view. "The market is what it is. The complicated thing is to contribute a differentiating fact to the client: proximity."

Nonetheless the belief is that the local business community continues to develop, and that the demand for legal services is increasingly sophisticated among many companies. "Panels, beauty parades and auctions, along with flat-rate fees are becoming a day-to-day reality," says Emilio Coco at Cuatrecasas.

The Barcelona legal market has matured significantly in recent years, with the emergence of firms with a wider practice spread, as well as the arrival of non-Catalan (Spanish, UK and US) firms, suggests Gerard Serra at Pérez-Llorca. "To my mind, this has resulted in a greater sophistication of local clients. It is now more feasible for them to consider different alternatives when it comes to carrying out transactions or deals.

Barcelona will always be an extraordinary city, and one that remains full of opportunities. The hope of many within the legal community is however that it continues to be much more than a "nice city in the Mediterranean".

"From our modest perspective, we feel Barcelona is a competitive location to locate any kind of business activity aimed at the Iberian or at the global market," says Gabriel Nadal at Jausas.

Barriers clearly remain in the city's efforts to continue to adapt to the challenges of the global economy, but confidence is high that there will continue to be much more to Barcelona than its glamorous façade.