

BARCELONA REPORT 2010: BARCELONA'S NEW ECONOMIC TOOLKIT - WHAT WORKS BEST?

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Barcelona is a city of many facets. Internationally, a growing number of investors consider it a focus for research, design and the creative industries, with Catalonia a perennial tourist favourite. From a domestic point of view, it has however struggled with the effects of the downturn with the structural changes already affecting its traditional industrial economy having been accelerated by the crisis.

The challenge for Barcelona, say its lawyers, is to develop a balanced 21st Century economy. Nonetheless they feel confident that the city can ride out the downturn, and that their own firms can adapt too.

There is no doubt that Barcelona, and Catalonia, have been affected not only by the economic downturn, but also by the wider negative effects of globalisation.

The region's manufacturing base has felt the impact of cheaper labour and competition from Central and Eastern Europe and Asia, to which many local companies have also subsequently 'de-localised'

their operations. The downturn in international consumer confidence resulting from the crisis has however now dented the production demand in the remaining industrial sectors, notably the automobile industry, which has seen large numbers of layoffs and redundancies.

In addition, Spain's real estate and construction crash has affected the city's commercial sector further depressing levels of inbound domestic and international investment, lawyers say. National confidence in the region's economy already reduced as a result of the vocal rhetoric of some of Catalonia's more separatist political parties.

"The economic situation in Barcelona remains similar to 2009. There is marked commercial weakness because businesses are suffering directly the consequences of the financial crisis or because in the current environment, strategic business decisions are being postponed," says Ariadna Cambroneró, Managing Partner of Uría Menéndez in Barcelona.

The outcome for Barcelona law firms has been a steady fall in M&A and investment-led transactions, and a rise in restructurings, insolvencies and litigation. Barcelona has been seriously affected by the crisis, says Gerard Serra, who leads Pérez-Llorca in the city. "The current economic climate seems to be speeding up the rate at which it has been losing its competitiveness in favour of Madrid since traditional industry, the former base of the Catalan economy, is being especially affected by the economic downturn,"

Barcelona siempre ha sido una ciudad con dos caras. A nivel internacional se considera un lugar vibrante con mucho interés en la investigación, el diseño y las industrias creativas, una de las regiones preferidas de los turistas. Pero desde el punto de vista interno, está claro que ha tenido que luchar contra los efectos de la recesión. Los cambios, acelerados por la crisis, se están notando en la economía tradicional de la región. A pesar de ello, los abogados siguen confiando en que la ciudad puede salir de la crisis, que sus despachos se pueden adaptar a la nueva economía del siglo XXI y que la ciudad entera saldrá ganando.

Nonetheless, others suggest that two years into the crisis businesses are now taking the necessary structural steps to limit or improve their liabilities, with an emerging optimism.

"We get a sense that there is the start of new activity. Clients are coming to us with more enquiries and in a more confident way – businesses seem ready to explore the opportunities that the economic crisis has presented," says Joan Roca, Managing Partner of Roca Junyent.

Ongoing economic challenges may in fact have helped prepare it better for the onset of a wider economic crisis than other parts of Spain, say others. Over recent years both Barcelona and Catalonia have seen a number of important developments pointing the way towards a more competitive economic model founded on science and innovation.

A local economy

Barcelona's economy is though clearly different to that seen in Madrid, emphasise lawyers. Traditionally a focus for heavy industry, the last decade has seen its manufacturing base reduced with an emerging focus on new technologies, notably media, technology and areas such as pharmaceuticals.

"The Catalan economy is already diversified and not particularly leveraged. It is fully open to European and Spain and leaning towards a research and development economy perhaps at greater speed than other economies. But there is still a long way to go," says Antoni Valverde, corporate partner and Head of the Barcelona office of Freshfields Bruckhaus Deringer.

Research and development remains a major focus of many multinationals' regional operations, notably in the life sciences, but also in areas such as automobiles – Seat's Martorell plant outside the city is now a design centre for the parent Volkswagen group.

Lawyers also point to the distinct local economic character as also holding the key to a quicker recovery. Ibex-35 companies such as La Caixa, Agbar, Abertis and Gas Natural may call Barcelona home, but small and medium size businesses (SMEs) dominate the region's economy, many with strong links also to France and across the Mediterranean.

"Madrid is undoubtedly Spain's finance centre but this means that the economy there has been much more exposed to the global downturn in financial activity. The financial services, private equity and infrastructure deals that were a dominant feature there were a much less important aspect of the Barcelona economy," says Joan Roca.

Companies in Barcelona have done their homework, tightened their belts and are prepared to endure until the economy improves. "In any event the crisis is proving to be the mother of invention," says Baker & McKenzie partner Esteban Raventos.

Consequently an upturn may be more reliant on local or regional European market sentiment than a wider global recovery. "The Catalan economy has been hit hard by the recession but it will be the first in Spain to come out from it," says Valverde. Prices are beginning to look attractive and foreign investors will start looking at the market once again.

"Obviously, the Catalan economy is feeling the crisis. Still, the difference perhaps is that in this context the real estate sector had less economic weight than in the rest of Spain and Catalan SMEs have also been very focused on exports, and have in many cases been able to survive better," says Agustín Bou, partner with Jausás.

He is among those that note nonetheless that structural issues do continue to impact on the productivity and efficiency of SMEs, and as many remain family-owned, the successful passing of control from one generation to another also raises tensions.



"On a legal level, we have nonetheless see a dramatic increase in bankruptcy counselling and labour issues, alongside legal and tax advice related to opening in new markets," says Bou.

Catalonia

Some business lawyers suggest also that a positive outcome of the crisis has been a reduction of Catalan sensitivities about its place in the Spanish and European economies. The downturn has reduced the emphasis on regional autonomy and increased the focus on strengthening its investment potential.

"To consolidate and enhance the most promising aspects of the economy we need to ensure credit and support for SMEs, increase the flexibility of the labour laws and, above all, correct the current work ethic and culture that 'somebody else has to fix our problems'," says Carlos Valls, Managing Partner of Iuris Valls Abogados.

The local authorities have clearly begun to take on board the need to encourage investment, say some. The 2008 regional 'Catalan Agreement on Research and Innovation' has helped promote Catalonia as a R&D centre, while Spain's Draft Law on a Sustainable Economy and draft Science, Technology and Innovation Law may also help, but wider structural issues do remain.

"There is a tendency to concentrate on the innovative sectors and those which are seen as giving 'added value' – and with some visible results – but to guarantee sustained success it is important also to improve public services," says Alejandro Angulo, of Grau & Angulo. He points to a greater need for more local efficiency in some of the region's main infrastructure, including the airport, and to reduce excessive public administration intervention in the private sector.

Lawyers admit that there is no guarantee of success but the consensus is that change is needed. "What is clear is that the old economic model, based on intensive construction and massive low-

cost immigration, should be discouraged in the future by the authorities.

However, these policies depend mostly on tax and employment legislation, which rests very much in the hands of the Spanish government," says Ricard Gené, partner with Ventura Garcés & López-Ibor.

✖ José Antonio Soler, Managing Partner of Maniega & Soler agrees. "For sustained growth the first thing we must do is go back to the basic principles that governed the earlier success of the Catalan business model.

But we must also support a political project that will help spread the credibility of a logical model in economic terms. The crisis commands more realism, ingenuity and discipline than ever."

Law firm consolidation

New thinking is also required in the legal sector, say many. Law firms have to adapt to both a changing regional economy and increasing demand for scale and national coverage.

This past month, Barcelona-based Viallegis announced a merger with Madrid's Dutilh creating a new national 90-lawyer firm that will be among top 20 by size in Spain. Rousaud Costas Durán is another firm placing greater emphasis on Madrid, where it opened in 2008. The focus in the capital, in part driven by the increasing corporate and finance needs of its existing technology client base.

"Start-up companies based on innovation now want to take advantage of the newly created Mercado Alternativo Bursatil – our own Spanish Alternative Investment Market – that will allow them to be raise funds with more flexibility and lower costs than regular markets," says partner Ignasi Costas. The firm having recently advised Abbot on its MAB listing.

Late last year also saw Gómez-Acebo & Pombo absorb the Barcelona office of corporate firm Rodes & Sala, almost doubling its size in the city, and building on the earlier integration of 18-lawyer tax boutique Padrol Munté.

"We have a long-term view in which our prospects about increased business in the Barcelona area are good. Generally, our moves are not driven by the economic situation but by strategic considerations," says the firm's Barcelona Managing Partner, Iñigo Igartua.

For some firms, geography is less important, while the crisis has even increased demand for their services. "The activity of our clients is not merely local and nor does our firm limit itself in such a way. From our own specific viewpoint as an intellectual property boutique firm, we cannot speak of a 'Barcelona economy'," says Angulo of Grau & Angulo.

Economic balance

Barcelona's law firms do though increasingly have to balance two different styles of practice. To strengthen areas such as litigation, insolvency, restructuring and refinancing, and labour in response to established company demands, and to win new market share by investing in areas like intellectual property, telecoms, media and technology in order to align with a new, albeit developing, economy.

✖ The city's geographic position also lends itself to a natural prominence within the Mediterranean, the decision of the Secretariat for the Union of the Mediterranean to locate its seat in the city clearly reinforcing such a view.

But as elsewhere across Spain, firms in Barcelona report pricing pressures and issues with recovery rates for work in progress. Likewise start-up and smaller technology companies demand new and alternative billing approaches. "The balance has to be met between the firm's needs and empathy

with our clients' economic situation," says Fernando Rey, Managing partner of Garrigues' Barcelona office.

Cambronero at Uría Menéndez agrees. "To adapt to the current situation you have to be flexible and to adapt quickly to the new problems that affect clients. That means putting even more emphasis on the efficiency of our work and finding imaginative ways of collaboration."

✖ But bigger structural changes are impacting on the market. "We are going to see the end of the big law firms as we know it. We do not think they are going to disappear but the model has to change. No fat salaries, no offices as a museum with artwork that hangs on the wall, the most important goal will be to provide value to the client," says Francisco Lacasa, CEO of AGM Abogados.

Medium size firms such as his own are more adaptable, she believes, as clients' demand higher level partner input and firms have to better balance their services, revenues and fixed costs.

The lawyers at Leymar Abogados and Leysters Abogados clearly agree. The two firms recently merged to form 18-lawyer Leymar & Leysters. "We think that we have a great opportunity in the middle market as many clients are now willing to work with firms like ours offering the same quality as a big law firm but with lower fees and more personal advice," says partner Juan Amigó Muller.

Some among the largest national firms agree that it clearly helps to have a Barcelona face to a firm's regional practice, to capitalise on Catalonia's cultural, linguistic and networking nuances, but there must also be a focus on promoting their national abilities. A geographic 'hedge' clearly helps balance localised downturns even in the current poor national economic scenario. ✖

✖ Further consolidation is therefore inevitable say some, but so also may be the emergence of new boutiques as practice areas within larger firms are deemed non-core to broader strategic aims.

Notable management changes have already taken place at some of the city's largest firms, that some suggest may lead to subtle changes of direction. Tax partner Luis Briones has taken over as Managing Partner at Baker & McKenzie, Luis Fernando Guerra has replaced Luis Crespo at Deloitte Abogados, while Landwell has seen real estate specialist Santiago Barrenechea take over from Juan Ramón Ramos.

The ultimate challenge for the city's law firms is though to adapt to both a changing client base and practice focus over the coming years, but lawyers acknowledge that what is good for Barcelona is ultimately good for them.

"The key factor for the continuing success of Barcelona's law firms is to determine what are the key areas of continuing activity, and where can we leverage our expertise nationally. The city's international attraction remains, so the challenge is to embrace what is happening and again look to the future," says Miguel Trias, Barcelona Managing partner of Cuatrecasas Gonçalves Pereira. ✖

The new economy

The last few years have though seen a considerable effort on the part of the Barcelona and regional government to reinvigorate and direct a new path for Barcelona's economy.

The city's 22@ district is a major focus for start-up and technology businesses, while considerable investment has also been made in the region's scientific infrastructure. The Barcelona Supercomputing Center (BSC), which since 2005 has managed the IBM's Mare Nostrum supercomputer, the Barcelona Biomedical Research Park, one of the largest biomedical research clusters in Southern Europe, and entities such as the Yahoo! Research Lab.

Nonetheless, further incentives are needed to encourage consistent investment, believe many. "In

order to accelerate this process and to create the necessary market conditions, some important changes need to be made in the environmental factors, including an in-depth review of the current regulatory framework for research and innovation, including the tax incentives available for these activities," says Rey at Garrigues.

One project that is undoubtedly raising international awareness of the city's technological positioning is the €200m Alba particle accelerator, described as the largest and most complex scientific installation ever created in Spain. The ring-shaped structure, through which electrons are fired, is intended to enable scientists to make chemical, medical and other observations on a super microscopic scale.

The accelerator clearly helps reinforce the growing importance to the region of the life sciences sectors, say lawyers. Many of the major global players are already present in and around Barcelona, among which there is a growing focus on R&D. In tandem, the region's universities are also emerging as a vibrant centre for research 'spin-outs' including for biotechnology.

"Barcelona in particular, and Catalonia in general, have always created a more favourable environment for entrepreneurship than any other location, and where R&D-based start-ups are no exception," says Ignasi Costas, partner with Rousaud Costas Durán (RCD).

Others point to the potential for international expansion of the region's medical expertise and perhaps international growth of clinics establishing strong brands.

"We are seeing the potential for significant growth in the health sector, including real estate, services, management and technology," says Baker & McKenzie partner Esteban Raventos.

Technology as a whole is a sector in which many of the city's law firms are now making a strategic bet. The services companies offer are inherently international in nature and with little regard for national or jurisdictional borders.

"Internet, technology and R&D companies often have a disproportionate need for advice in areas such as intellectual property, licensing and often regulatory advice, and these are clearly areas of focus for us. The challenge is however that the advice you offer has to fit with market practice not only in Spain but across the world," says Martin at Osborne Clarke in Barcelona.

The success of the city's law firms future depends therefore on aligning practices towards the new needs. "Only a new economy focus allows us to be confident about the future. And everything around the "new economy" is the answer," says Antonio Valverde, Director of Corporate Finance at AGM Abogados.

Others emphasise that despite such attractions, an economic balance has to be maintained. "In the last few years, there have been important investments towards research and development, design and IT. These kinds of investments are necessary in order to face the end of the current crisis successfully, although some help to the traditional economy would also be desirable," says Serra at Pérez-Llorca.