

# BARCELONA REPORT 2013: KEEPING ITS ENGINES RUNNING

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**Barcelona has not taken its foot off the gas pedal. While market conditions may be tough, there are sectors that are proving very resilient, and lawyers are finding themselves somewhere between optimism and pessimism when it comes to the year ahead.**

If any lesson has been learned from this drawn-out crisis, it is that no one has, as yet, found the right formula to revive the battered Spanish economy. Catalonia itself continues to suffer from the deficit, scarce liquidity and a lack of international investor confidence – and the region's difficult political situation is not currently helping.

In amongst a continued dark economic forecast, however, while optimism may be too strong a word, there is definitely a scent of hope in the air. Many sectors are showing a great deal more movement than last year, proving robust and resilient in the face of the crisis, and companies are continuing to capitalise on the 'Barcelona' Brand. And exports, in particular, are performing well, representing around 25 percent of Spain's total.

But while suffering from the same symptoms as other European economies and, given the little scope for manoeuvre under the deficit reduction measures, there is only one driving force to get the Catalan engine running – work, says Miguel Triás, Managing Partner of Cuatrecasas, Gonçalves Pereira in Barcelona. "And although it is not the best time to boast, the engines of the Catalan

economy are slowly starting to rumble.”

## Current drivers

Leading the way in fuelling these engines are tourism, automotive, pharma and life sciences, exports and entertainment, while information technology is also playing a relevant role in particular in relation to mobile business. Activities with an important innovation component, such as biotech, are picking up the pace, as are the industrial and manufacturing sectors, and the textile industry is enjoying a thriving period of growth.

“Catalan business culture has traditionally been driven by a curiosity in foreign markets and constant research and development for innovative products, services and business methods,” says Thaïs Tarragó van Wijk, Head of the Barcelona Office at Lener.

“It’s in our DNA.” This has made it possible for Catalan companies and entrepreneurs to get a head start in the quest for business opportunities abroad, as well as attracting foreign investment. Barcelona is also a favourite tourist destination, according to Enrique Marinello Jordan, Founding Partner of Monereo Meyer Marinello Abogados, and the Global Entrepreneurship Monitor places the city as the second preferred urban area for international tourist shopping, second only to London in shopping and retail. Foreign investment in tourism and leisure is a definite trend, say lawyers, as is helping to provide these sectors with financial support and liquidity where domestic investors and subsidies have all but disappeared.

The Catalan export sector in particular, has been showing extremely promising results, say lawyers. “Most of our clients are also exporting products and services abroad,” says Luis Marimón, Partner at Marimón Abogados, “and showing a willingness to introduce their products and services into new markets”. And the industrial sector has recently turned to exports to continue to be competitive, and, according to statistics published by the Spanish Ministry for Economy, Catalonia is the leader in Spain in this field. The biggest consumers of Catalan exports are currently Algeria, Austria, Belgium, Brazil, China, Estonia, Germany, Japan, Russia, and Switzerland.

The city having been crowned ‘Mobile World Capital’ has meant that areas relating to mobile technologies, mobile apps, data protection issues and cloud computing trends are experiencing remarkable growth. Which is a very important step in the right direction for Barcelona, not just due to the congress but also because the city is capitalising so well on the back of it, says Fernando Rey, Partner in charge of Cataluña, Aragón and the Balearic Islands at Garrigues. “And the Government is doing well in fighting to attract companies to use Barcelona as a centre for other congresses.” “The TMT sector is consequently evolving rapidly, and Barcelona is now a point on the world map for digital, which wasn’t the case a year ago. The question is whether we can develop this into a real industry,” says Joan Roca, Managing Partner of Roca Junyent, “and consolidate the city on the map.” Ultimately, lawyers agree, tourism, technology and automotive are the leading sectors in Catalonia. That’s among the reasons why many multinationals, such as Nissan, Seat, Sony or HP, for example, have increased their presence in the region of recent, says Agustín Bou, Managing Partner at Jausas.

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Enrique Marinello Jordan, Founding Partner,  
Monereo Meyer Marinello Abogados



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Barcelona office, Ramón y Cajal Abogados



## Mechanical issues

Debt restructurings and company downsizing have replaced large M&A transactions, and the market is still working on transactions derived from the restructuring of the banking sector and financial reforms. But what is driving the demand for services are those areas most

strongly affected by the crisis, including an increase in litigation and arbitration proceedings, insolvencies and refinancing, and other key areas such as distressed assets, taxation, labour and, importantly, internationalisation.

The difficult financial situation that many companies are experiencing has led to an increase in the number of distressed M&A and debt restructurings. And while there was interest in such operations in 2012, there has since been a distinct change in investor attitude. "Last year, distressed asset transactions were being done on a 'take it or leave it' basis," says Rafael Jiménez-Gusi, Corporate Compliance Partner at Baker & McKenzie in Barcelona. "Now investors are far more willing to negotiate and adjust deals and prices. Whether they close the deal, however, is another matter." Lawyers are also seeing a certain amount of activity in M&A, both on domestic and international, in particular from venture capital and private equity funds, and industrial investors. According to Trias at Cuatrecasas, there was little M&A activity in 2012, but there seems to be an appetite returning in 2013, although it is too early to say if it's a trend. "The investors that are coming, however, are not the big private equity houses but entities with a different profile. There is the general sense that prices are down in Spain and clever investors know the time to strike is soon."

And recent Labour Reforms and the abundance of redundancy plans have seen an increase in the need for labour advice, as well as companies adjusting their working conditions and introducing new levels of flexibility.

But the main concerns of clients are now focused on the future of the Spanish market and taxation, says Mireia Blanch Olive, Managing Partner at Bufete B. Buigas, as well as their capacity to access credit. The Government's recent tax reforms have added an increased tax pressure on businesses and individuals alike, and Catalonia has become one of the regions with the highest tax burden in Europe – currently at 56 percent.

Personal income tax, as well as wealth tax, is killing the attraction and retention of talent in Barcelona, which is a serious issue that is not being taken seriously by the Government, says Jiménez-Gusi at Baker & McKenzie. "Talent is mobile, our economy is based on talent, and with our taxes we are punishing people for working here. It's both unbearable and untenable."

Any potential for growth in Barcelona, and there is that potential, may in the long run be affected by the brain drain, as the young and ambitious are heading abroad, says Richard Silberstein, Partner at Gómez-Acebo & Pombo in Barcelona. The prospect of better salaries and much lower tax burdens abroad are proving very tempting to juniors, say lawyers, but they are hopeful that some of that talent will return in the long-term.

### **Adding horsepower**

A big chunk of the work that lawyers do is still related to the crisis, however, including deleveraging, refinancing and offloading of portfolios. Antonio Herrera, Managing Partner of Uría Menéndez in Barcelona, is seeing much more M&A interest in sectors such as ecommerce, biotech, automotive, chemical industry and pharma – "which are some of the industries that are going to be taking us through the next 10 years".

Lawyers say that there are market niches unique to Catalan businesses with serious potential for the development of legal practices. Examples are the automotive, distribution, logistics and transport, renewable energies and TMT sectors. Also design and new technologies, adds Alejandro Angulo, Managing Partner at Grau & Angulo, and some very specific areas of research. Many companies and authorities are indeed undertaking interesting research and development projects with the potential to really open up the sectors, say lawyers.

Health is a growing industry in Barcelona, according to Trias at Cuatrecasas, and the city is a world player in terms of research and development in diseases and bio tech investigations. In fact there are already a cluster of firms specialising in this, say lawyers. And there is an area of growth for specialised legal services in the 'smart cities' projects, adds Xavier Muñoz, IT & Telecoms Partner at Ecija in Barcelona, which is a growing sector in Barcelona requiring bespoke legal services.

Certain practices still have room for development, both in terms of speciality and by industrial

sector. Practices that deal with advising entrepreneurs are going to experience significant growth in the coming years, says Javier Menor, Co-Managing Partner at Deloitte Abogados in Catalonia, Aragón, Baleares y La Rioja. As will international corporate and tax law practices, as companies are internationalising more and more because of the crisis and forcing suppliers to go out into foreign markets.

The potential for new practice growth in advising start-ups and entrepreneurs is huge, say lawyers. In fact Barcelona is the best place for innovation and entrepreneurship in the Southern Europe and, therefore, the levels of activity are very high, says Carlos Martínez Lizán, Head of M&A-Private Equity at AGM Abogados especially in sectors like e-commerce and biotech. "And it is great to see how enthusiasm defeats general and media pessimism."

Innovation, such as social media, is taking off, and Barcelona has an interesting pool of young companies that focus on internet and mobile technologies like social media, which is a growing practice area. As there are no precedents, lawyers have to start from scratch using legal development and concepts developed by other jurisdictions, says Jiménez-Gusi at Baker & McKenzie. And companies are increasingly using social media as an important part of their business strategies, so law firms need to prepare themselves to respond to the need of specialised advise on this area, he adds.

Finally there are signs pointing to the revitalisation of the real estate market, with lawyers seeing a growing number of international clients looking mainly at portfolios and premises in Barcelona. Even some national investors are showing interest as the market prices adjust, they say.

And companies are manoeuvring into the project finance sector, which had previously been abandoned by the banks due to harsh levels of financial regulations they suffered. "Surprisingly we believe that we might be on the edge of seeing that some services normally provided by banks now starting to be provided by companies that used to be devoted to other support services," says Ignacio Legido, Managing Partner at BDO Abogados. They are seeing that there is a way to work in the project finance field by offering additional services, such as lease back in industrial investments, which used to be provided by the banks.

### **Oil change**

There is still, therefore, a great amount of room for potential growth in rendering legal services in Barcelona, as long as the model of law firm is the right one, says Pedro Pablo Rodés, Managing Partner of KPMG in Catalonia, Baleares and Andorra. The key lies

in team work, allowing veteran lawyers to make their hourly fees more rational by collaborating with junior lawyers with lower ones, and being able to invoice a better adjusted average hourly rate. "This is the model of law firm used by the Big Four, which has allowed them to continue growing profitably each year, including during these times of crisis."

And more and more, clients are demanding senior level advice, which has prompted an important change in the structure of the law firms. "The model of a few partners and senior lawyers supported by a large number of junior staff apparently does not satisfy the market expectations," explains José María Rojí Buqueras, Managing Partner of CMS Albiñana & Suárez de Lezo in Barcelona. Law firms are therefore having to professionalise their internal management, most importantly in the services they offer to clients, including quality of advice and fees, say lawyers.

According to Fernando Mier, Corporate Partner at Iuristax, clients want a firm with a strong knowledge of the relevant matter, while also being proactive and result orientated and having the capacity to establish medium and long-term relationships. Ultimately, they want business-minded lawyers, with specific industry knowledge who are very aware of the economic reality their clients are facing. The type of lawyer that sits in his office waiting for the clients to arrive no longer exists. Law firms have also had to adapt in relation to the technology systems they use, how they

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communicate with clients (email, videoconference, intranet, SMS, for example), having to record all their time incurred with clients, better analytics in their accountancy and a more open relationship between partners, fee-earners and junior lawyers. Firms with international clients have had to integrate all international standards of quality, responsiveness and reporting in order to keep working for those clients, who are demanding advice in a particular way. "However, I believe the biggest change is the speed at which matters have to be turned around nowadays," says Xavier Muñoz, IT & Telecoms Partner at Ecija in Barcelona. "This has changed dramatically and clients perceive speed as an important part of the overall quality of service they are receiving."

For the last two years, law firms have also been involved in a price war at incredible discounts, says Ángel Valdés, Head of the Barcelona Office of Lupicinio Abogados International Attorneys.

"Obviously this is a huge challenge because competition is harsher." Unfortunately for some law firms, lowering costs while trying to improve efficiency has unfortunately been their only means of survival, say lawyers.

## Different models

Small law firms have taken to specialising themselves into specific niche areas of practice, whereas larger law firms have chosen to take the multidisciplinary approach, say lawyers. "The hourly rate has practically disappeared, closed budgets have taken over and 'beauty contests' are widespread," says Marinel-lo Jordan at Monereo Meyer Marinel-Lo Abogados, "even among those clients with a long standing relationship with the same firm." Law firms say they have had to adapt and innovate along with their clients in order to find new business opportunities and ensure to build on those they already have.

The Barcelona law firm is no doubt still suffering the last waves of the crisis. Firms have had to adapt more than ever to client needs in terms of the fees and services provided, but they see that clients are now far more concrete in their demands and there is less space to move in terms of the types of service provided, according to Ignacio Legido, Managing Partner at BDO Abogados. Firms also strongly feel that hourly billing is beginning to be a thing of the past, and clients are increasingly demanding alternative fee arrangements.

Lawyers note the emergence of new small-sized firms, arising out of the widespread downsizing and redundancies occurring in the market. "We strongly believe that relatively small, boutique firms and market niches may be leading the way compared to larger structures," says Anna Mestre, Managing Partner and Founder of Mestre Abogados, a shipping, international trade and insurance boutique.

Each law firm, however, sees the situation from their own vantage point. "We tend to think, for example, that in Barcelona small and medium-sized firms are in a much better position than those in Madrid," says Herrera, Uría Menéndez, "as they have significant clients with strong long-term sustainable relationships."

Others see multi-disciplinary organisations are the ones experiencing significant growth, due to having a global presence, and full service and more businesslike approach. But all law firms are going to have to adapt to the current situation swiftly and smartly, incorporating flexible billing, explains Menor at Deloitte Abogados, given that client needs have gradually been evolving and their budgets and problems are substantially different to those in times gone by.

Of course there are many different models in town. The local home-grown firms – both big and not so big – have proven remarkably resilient, says Antoni Valverde, Corporate Partner at Freshfields Bruckhaus Deringer, and the international firms that were here before the crisis

continue to operate at a very good level. "It's been tough, we have seen streamlining and we have



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learnt to be more efficient and sophisticated." The overall view, say lawyers, is that Barcelona law firms are far better now than they were before the downturn.

## Driving forward

Although the Catalan economy continues to shrink as a whole due to the effects of the ongoing crisis, there are some driving forces behind it that are showing positive signs of evolution, says Sergio Agüera, Corporate Partner at Pérez-Llorca in Barcelona – namely exports and tourism. And as a city, lawyers say, Barcelona is determined to show the world that its existing capacities can suit any future investors.

The private sector is much better than five years ago and it has learned from its mistakes, adds Rojí Buqueras at CMS Albiñana & Suárez de Lezo. But the public sector remains the main challenge that urgently needs to be corrected as it is directly impacting on the economy. While the Government is making major spending cuts, it has not been addressing the problems in the public sector, and unless there is strong pressure from society then nothing will change and the economy will not be able to move forwards at the necessary rate, say lawyers.

But compare the current situation in Barcelona to two years ago, and the city is much better off and there are positive signs, despite credit not flowing. "And the last few years leave behind, in my view, better lawyers, that have seen ups and downs, are closer to their clients and more able to understand their needs," says Herrera at Uría Menéndez, "and also more efficient and resilient firms". And there has been a noticeable change in work levels from last year, says Roca at Roca Junyent. "At the moment I don't have the time to be pessimistic or optimistic as the firm is too busy, and when I talk to colleagues at other law firms they are in similar situations." And most lawyers agree that they find themselves 'somewhere in-between optimism and pessimism' when it comes to the prospects of the year ahead.

The overall climate, therefore, is a very slow going road of deficits, and a lack of liquidity and movement in the domestic market. But neither Barcelona nor its lawyers have switched off their motors. They are very much keeping their engines running on full power waiting for the moment that the economic road ahead finally clears.

Si hemos aprendido alguna lección de esta situación tan difícil, es que aún nadie parece haber encontrado la fórmula mágica para reactivar una economía tan dañada. Cataluña sigue sufriendo la crisis, la poca liquidez en el mercado y la falta de confianza de los inversores internacionales, sin mencionar las tensiones políticas surgidas por el debate de autodeterminación, crean un entorno complejo. Pero entre la oscuridad, se percibe un enorme deseo de esperanza. Quizás es pronto para identificar oportunidades reales, pero los motores de la economía catalana empiezan a sonar con fuerza.

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## International models

Currently lawyers are seeing two types of clients and companies in the region's markets. "Those that have an international strategy and are thriving, and those that have a strong percentage of revenue in domestic companies," says Rey at Garrigues, "and these are the ones that are suffering." This has resulted in many having lost a great deal of market position and others having to leave the market altogether.

Internationalisation has become a key factor for the survival of many companies, and lawyers are witnessing an increase in the number setting up abroad, as well as attracting foreign capital investment. "We notice that Spanish and Catalan markets are seen as an opportunity among foreign venture capital and investment funds," says José Ignacio Parellada, Head of the Barcelona office at Ramón y Cajal Abogados, "and we expect an increase of foreign investment".

Multinational clients are moving to adjust to the new post crisis economics by modifying their distribution channels, getting closer to clients, increasing market share and access to markets through acquisitions, says Silberstein at Gómez-Acebo y Pombo. "This may not be new business strategy and tactics from a bird's eye view, but it is certainly positive and better than merely churning."

It is no longer just curiosity or sheer natural entrepreneurship, but necessity that drives companies to target businesses, partners and investors abroad, says van Wijk at Lener. And there is a tendency amongst internationalised Catalan companies to keep their central business and management headquarters in Catalonia, rather than displacing them abroad.