

# JUAN IGNACIO PARDO: "THE OPPORTUNITIES FOR CHANGE ARE OUT THERE"

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**The tourism and hospitality sector, in general, has been one of the most affected during the state of alarm due to the confinement situation. In particular, the hotel industry has been considerably affected. How has one of the most important chains in our country experienced the stoppage? Juan Ignacio Pardo, head of the Legal and Compliance area of Meliá Hotels International, answers these and other questions**



**For the Meliá chain, what has the obligatory halt entailed and what has it meant for you personally as head of your legal team?**

The truth is that it is difficult to summarise what these last months have meant in terms of workload for the Legal and Compliance area and, specifically, for the Legal team.

I'd like to start by narrowing down the question you ask me. The current crisis is not a tourist crisis. It is a serious health crisis that has led to an unprecedented event: the total paralysis of many economic sectors. None of the previous crises had caused this effect.

In the tourism industry, every day that passes without being able to develop its activity, in our case, without selling a room, is a non-recoverable production; the room that you don't sell today, won't be able to be sold tomorrow. We are not a company that manufactures goods or materials in which we have a stock that we can then place, even if it is at reduced prices, as demand evolves. What we do not sell on a given day, is lost for the next. And this does not only affect hotel chains but the entire value chain that makes up the tourism sector, from travel agencies, tour operators, airlines,

complementary offerings (restaurants, parks and entertainment establishments, etc.). The total paralysis of our activity means the simultaneous reduction of our income to zero.

The first signs of what might come our way came from our structure in China. In fact, at the end of January, we were already working on the adaptation of the existing protocols developed for SARS in 2003 and Influenza A in 2009. This rapid adaptation, focused on protecting our employees and customers, was going to provide us with tremendously useful knowledge to address the management of the impact of the health crisis as it moved from east to west.

In February we had already established a strict Contingency Plan, which revolved around four main axes: the security of customers and employees, safeguarding jobs and talent, the group's liquidity and business continuity. This Contingency Plan included the establishment of measures to ensure the continuity of the departments that were identified as critical: the Treasury department, the call centre, the Sales department, the Credit cluster, Labour Relations and, of course, the Legal department.

From there, a whole series of lines of work were opened up for our department, which I will explain very briefly. From the mere statement of each one of them, I believe that the workload that each action has entailed can be deduced.

Before the declaration of the state of alarm and the subsequent Royal Decree establishing the closure of hotel establishments, we had already launched and implemented the operation protocols in Spain and the rest of Europe and even managed some (few) cases of infection that until that moment occurred in our collaborators, all following the precedents applied in China. Once the hotels were closed, we definitively suspended our activity by negotiating with the staff the temporary suspension of the activity (a process led by Labour Relations) while we managed the stays of our last clients and postponed or cancelled all reservations. Consultations with the Legal department regarding the position to be adopted in each specific case and the legal implications of all these issues multiplied exponentially.

At the same time, and in collaboration with the Finance department, financing agreements were closed in record time with the main banking institutions in our country, even before the government approved the ICO (Official Credit Institute) guarantee lines.

We also simultaneously proceeded to notify our establishments' lessors (70% of our portfolio is owned by third parties) of the suspension of the activity, indicating the need to open conversations in the hotels under lease that, in view of the closure decreed by the government, would allow us to renegotiate the conditions under which such relations should be developed during this unprecedented and extraordinary period. This renegotiation was also based on two differentiated lines of action: one in the short term, on the suspension or reduction, as the case may be, of the rent payment under the various government measures approved, and another in the medium term, in which we already anticipated the need to enter into a renegotiation of the amount of the rent established in view of the serious alteration of the economic base on which the corresponding rental contracts were defined. Of course, and as it could not be otherwise, but without going into details, the panorama of effective application and strength of these measures has differed significantly country by country and property by property.

The Legal team has also actively participated in the necessary adjustments to our commercial strategy, especially with regard to the treatment of reservations that were intended to be cancelled, articulations of date changes, compensation and exchanges, specific incentives in our loyalty program, etc.

Absolutely all the agreements with suppliers have been reviewed and adjusted, with significant savings. In this aspect, it is important to highlight not only the understanding of many of our suppliers

but also their collaboration and proximity, reinforced by the solidarity commitment of many of them in our medicalised hotels (with multiple contributions by food and drink, technology, maintenance and energy suppliers).

The participation of the Legal department in closing the necessary agreements to transform some of our best hotels into emergency hospitals (6 in Spain) and essential services (3 in Spain and another three in the rest of Europe and Asia) was also relevant.

And while we were working in the shortest term, we did not miss an opportunity through institutions such as Exceltur or the Chamber of Spain or directly through the representatives of the Administration to articulate, review and promote all kinds of proposals that were either aimed at minimising the impact that the closure of the activity has on the sector, or served for more agile and effective implementation of the activity. In this regard, I must say that the active participation and contribution of experience of our company through the Compliance and Occupational Health and Safety departments in the protocols for tourism establishments prepared by the ICTE (Spanish Tourism Quality Institute) or the World Tourism and Travel Council, has been very positively valued.

All this, from the absolute confinement; with dispersed teams and having no other way of communication and work than telematic and digital ways. It would have been completely impossible to effectively face all these fronts without a prepared, committed, enthusiastic team and also, of course, without the support of our network of lawyers and external firms. Our company's "legal chimneys" have been kept smoking day and night until reaching the desired level in the achievement of the objectives set.

### **What are, in your opinion, the consequences of the current crisis for the hotel sector?**

I think that from what we have talked about so far it is clear that this health crisis, and the economic (and social) crisis that immediately follows, is not comparable to any of those we have experienced to date. In our particular case, we are aware that the travel sector will take longer to recover, especially in the international travel component, due to the impact of the economic recession and the reluctance to travel by shared transportation that could remain for a few months after confinement.

We are undoubtedly facing the disappearance of a large part of the tourism industry: we are talking not only about hotels but also about transport, hospitality, leisure activities, suppliers of goods and services to tourism, car rental, consultancy, construction, etc. With potential destruction in our country of up to 2.8 million jobs.

In addition, two elements also make a big difference: their globality (since all destination countries and all issuing markets are affected, to a greater or lesser extent, and also handle different rates and recovery times) and the high level of uncertainty. Neither in the 2008 crisis nor after September 11 had we had as little - or no - visibility as we do now. It is extremely complex to establish reliable scenarios for developing a recovery strategy. Agility in decision-making, flexibility in adjusting the drawn up plans, assuming that we are undoubtedly going to make a mistake, but taking care to minimise the negative impacts, will be the constants of management in the months (or years) to come.

### **The announcement by the Spanish government allowing the entry of foreign tourists has reactivated the activity of the hotel sector, which has activated campaigns to encourage reservations. What has taken away most of your sleep in these months, and what phases has your department gone through?**

There are many things that have kept us awake at night during these months... among others, the lack of foresight in the measures adopted by our Administrations and a certain lack of sensitivity towards the necessary organisation of companies. Almost at the same time as you ask me this

question, the government announced that our borders will be opened ten days earlier than those same sources stated a few days ago, and a week later than the date recommended by the European Union, in which major competing tourist destinations have already been opened up. A company like ours may have the muscle to accelerate these efforts and adjust to the changes in pace, but what about the small and medium-sized ones?

The action phases in my area have followed the four centres of activity that I mentioned before.

A first phase of health preservation among collaborators and clients, reviewing and implementing the adopted protocols. In this phase, the Compliance area was very directly involved, among others.

Simultaneously, a reduction in activity, with the closure of establishments and offices, until total shutdown, avoiding or minimising the appearance of collateral contingencies. With ERTes (temporary layoffs) invoked in practically all of the group's staff (I will get into this later) and apart from the negotiations already mentioned with our establishments' owners, suppliers or reservations with clients, you must take into account the necessary halt in investments, the remodelling works taking place at establishments, closures of points of sale and premises leased to third parties... the Legal department's job was to ensure a "soft landing" in this emergency situation.

It has been an intense and prolonged phase of active collaboration in ensuring the company's liquidity, participation in financing operations, and in negotiations with owners and suppliers.

During this phase, there have been many meetings with all kinds of institutions, associations and administrations to draw up, review and structure proposals in the most diverse areas (regulation of ERTes in tourism, proposals for measures to alleviate liquidity in companies in the sector, positivization of the *rebus sic stantibus* principle...).

I cannot either forget the necessary participation by Corporate Governance in the permanent information to the members of the Board of Directors. The Board and its delegate committees' meetings have multiplied during this period, increasing their frequency and, therefore, increasing the information preparation and reporting work to be submitted for their consideration.

This last phase overlaps with the review and incorporation of the necessary requirements that are integrated into the *Stay safe with Meliá* programme, which will be reviewed and certified by Bureau Veritas. There are all kinds of legal implications when a business operation that is based on proximity treatment must be redesigned on the basis of minimising contact (how are we going to complete the welcome and check-in formalities or the police record in the hotels? What access system are we going to have for the rooms?) or affect the private sphere of our clients and collaborators (preventive temperature measurement systems). We are forced to learn every day as we go. There is no manual we can follow.

### **How has been your relationship with Tour Operators and Online Travel Agencies regarding the contracts you have in place with them?**

In principle, contracts with TOOs (Tour Operators) have not been cancelled and the relationship with OTAs (Online Travel Agencies) has not been negatively affected. Another thing is that the execution of the signed contracts or the programmed reservations has become impossible, basically because there have not been means to transport the tourists and the hotels remained closed or that, at the beginning of the crisis, the nerves and the fear to diminish their cash position, have led TTOO and OTA's to adopt positions that with time have been tempered.

The traditional tour operation had already been suffering these last years. The last blow to this market sector with the bankruptcy of Thomas Cook was only a few months ago and its operation was already partially absorbed at the end of January this year.

However, I must emphasise their absolute alignment with the other members of the value chain as

soon as the crisis broke out, and I would also like to stress that the collaboration of the Tour Operators in the repatriation of customers was decisive (and exemplary) at the time of the crisis outbreak.

The tourism industry as a whole is facing a scenario of *zero income* for an indeterminate period of time, even though a certain reactivation is already in sight. The impact of the COVID-19 could represent losses up to €125 billion and a 32.4% drop in tourism GDP. This hammer blow affects the entire tourism value chain, not just hotel chains. Therefore, the talks that have been opened with TTOO and OTAs are far from being aggressive from a commercial point of view. Have we renegotiated? Yes, of course. We all agreed to do so because we are all aware that this brutal standstill is not attributable to any of the participants. There has been no negligent or wilful default by anyone that has led us to the current situation. And it is only by counting on each and every link in this value chain that we will be able to move forward.

**In a "normal" situation when you need to hire external lawyers you turn to your trusted firms or open up to other possibilities. Now that the situation has made us tighten our belts again, are you thinking about changing your "legal providers" or at least make their services more flexible on a project basis?**

I'm almost tempted to ask you to define for me what we should understand by "normal"... In a business counsel with expansive cycles, which make team members go out into the open to help build activity and business, there are periods of contraction following, and they must be grouped together in the trenches to defend it.

The most intense moments in a company's legal department are precisely in the changes of a cycle. When both phases overlap, the size of our resources does not allow us to divide into sections or specialities (although we do have in-house professionals with recognised specialities); there are times when everyone must do everything: attack, defend and defend by attacking. They say that you can't blow and sip at the same time, but I assure you that we in-house lawyers are capable of doing it!

Why am I telling you all this? Because, although we think we know quite a lot about our business and we handle ourselves with ease in our daily advisory work, we are aware of our limitations. The hotel sector is an absolutely transversal activity from the law perspective (Real Estate law, the law applicable to New Technologies, Data Protection, Competition law, Administrative law with concessions, licenses, permits and town planning, Commercial and Corporate law, Intellectual Property and a long list of other areas) and in our case, moreover, in a listed company. The truth is that going into precise detail would almost require another interview...

Well, with our activity being absolutely transversal, there are specialists in the market in matters in which we barely scratch the surface, and it is here where we sound out, ask, evaluate and incorporate external lawyers. This is what we do in the Legal functions in the Global and Centralised area (which covers the whole group regardless of presence) and in the national area. Abroad, we do have one or two trusted firms per country (depending on our presence and the subject matter).

We have worked, and continue to work, with many firms and professionals and have detected those who we believe are the best in the areas we need and, above all, those who best understand our business and our way of doing things. It is in the relationship that is born from working and moving forward on issues as a team where trust with the external professional arises; and that trust is what makes you return to that same lawyer when you find yourself in a situation similar to the one that caused the first call.

Are we open to other possibilities? Of course, we are obliged to value other possibilities, but we have long since changed our way of relating to external firms or professionals. It is difficult for us to

enter into firms' presentations, where all will agree that they have the best teams. Our approach is quite different, and without wanting to sound overbearing: do you have an original, unique and concrete product/opportunity/service/idea/project that you think might interest us? Show us! You will then have our full attention and exclusivity in its development... if we understand each other in the fees. Our internal team of lawyers guarantees the coherence and continuity in the achievement of the objective.

And finally, with regard to tightening our belts, the Legal department is used to managing austerity and develops its approach and relationship with external advisers with that key; however, saving by breaking the necessary balance that must exist between the external professional's added value and his or her fair remuneration, does not operate in the company's interest and it would be a misunderstood saving. External lawyers' fees should be seen as an investment in the interests of the company, not exclusively from the perspective of expenditure. The "inexpensive" can be very expensive in the long run.

Interview by désiré vidal

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