

# Investing in Catalonia: bricks, bolts and highways

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## Abstract

*The recently announced departure of several multinational companies from Catalonia has opened a frank debate about our ability to compete and where our competitive advantages and future potential might lie. Historical and cultural factors make Catalonia and Spain difficult markets to invest in, in terms of legal security, educational levels – especially in science – and commercial structure, in which a high level of protectionism is in place because of banks' industrial holdings and political clientelism. Poor telecommunications infrastructure is the most obvious example of these failings and a strong disincentive for technology companies to invest here.*

## Resum

*La recent notícia sobre la deslocalització de diverses empreses multinacionals catalanes cap a altres països ha obert un fort debat sobre l'habilitat per competir i sobre on es troben el nostre avantatge competitiu i el nostre potencial futur. Factors històrics i culturals generen dificultats per invertir a Catalunya i Espanya en termes de seguretat legal, nivells educatius —especialment en ciència— i estructura comercial, en què hi ha alts nivells de proteccionisme a causa de les societats de cartera i el clientelisme polític dels bancs. Una mala infraestructura de telecomunicacions és l'exemple més obvi d'aquests defectes i un factor desmotivador perquè les empreses tecnològiques hi inverteixin.*

Spain 2014. The eyes of retired president of Extremadura Rodríguez Ibarra flit between his blood pressure monitor and the Samsung-Sony LCD screening images of spent nuclear waste rods from all Europe stashed a half-kilometre deep into his hills. The University of Salamanca launches its Worldwide Master's Degree course in Prison Studies (partners: CopPrivat and Cajas Unidas Españolas) with internships available at Europe's newest, biggest detention centre in nearby Sierra de la Peña de Francia. On the coast, RussoDei Leisure Industries signs the death warrant of the embattled trade unions CCOO-UGT by successfully deunionising nursing services for the conglomerate's 325,000 Age d'Or cardholders. Barcelona City Hall secures its long-sought school funding accord with Serveis d'Escorts i Xofers SA, whose bodyguards and multiethnic masseuses guarantee their international clients a safe and sensuous visit to the "Paris of the Mediterranean".

Nothing particularly fanciful, considering the present state of affairs. On Onda Cero radio last week, Francesc Sanuy blamed the Spanish government for failing to invest in Catalonia, leaving this region with high transport costs and utility supplies that are more expensive than in the rest of Spain. If investment doesn't come in, future prosperity will be "based on the three Ps: *purines, peajes y prostitución* (pig slurry, tolls and prostitution)". Or take Pujol's celebrated comment that Catalonia will become a bunch of pensioners waited on by immigrants who pay the social security to keep them in clover.

## **Just how bad is it?**

When Michael Porter visited Barcelona four years ago to promote his cluster theories, the talk was all about growth. But as Britain saw in the stop-go economy of the 60s and 70s, whole sectors, entire industrial clusters can disappear almost overnight. Textiles and the car industry are already collapsing here. A year after the Lear layoffs, only 40 % of the workers have found a new job.

In my view, Samsung has behaved perfectly reasonably: it hasn't attempted to extract more grants from the authorities as a condition for staying or entered into conflict with the unions. One point to note is that the increase in land value of the Samsung site is an incentive in itself for the company to uproot and take the land sales profits with it.

The problem is not just the departure of the multinationals but the host of suppliers floundering in their wake, some of which will adapt and survive, while others won't. In this respect, Samsung's pull-out, for instance, means local suppliers such as Herms, which makes cases for back-projector screens (50 workers, plus another 15 taken on by the firm to meet its Samsung contracts); Cibu, a maintenance provider; Detersa's plastic injection mouldings; and packaging from Cartonajes Petit. Any stand-alones?

## **What the experts say**

As commentator Manel Pérez observes, "In Barcelona the authorities, unions and people in general have reacted with indignation to the kind of corporate conduct that is considered an inherent part of capitalism in the US." Tell that to America's General Motors workers. But he has a point: here we expect companies to be paternalistic, partly because of our protectionist habits. Management association Foment del Treball's Joan Rosell says not to worry, that these departures don't upset the apple cart and that we should continue to focus on industry... And compete on the basis of low wages? The high-value, high-tech grail is out of reach because of one big shortcoming – education.

## **Education**

Dresden is no longer low-cost but chip maker AMD is locating there, creating 1,000 direct jobs and another thousand indirect jobs. Why? For two reasons. Firstly, a 500m euro grant and 700m soft credit arranged by the regional government. This has been a major point of debate in the Samsung withdrawal, that is, the fact that the Catalan government had given it over 3 million euros in aid. But this is just a drop in the ocean: Tony Blair gave 100 million to Samsung to locate in the UK and the tax holiday for Volkswagen in Slovakia until 2007 will amount to many millions as well – an interesting point in EU law.

Secondly, however, AMD executives mention education levels, especially at the local universities. We had a golden opportunity to invest in training and science over the past decade, with

tens of millions in EU grants from Europe, squandered here by the public administration which either pocketed the spoils or offered low-grade computing classes no more useful than the Microsoft 'Help' features. When I see Catalan industry minister Josep Maria Rañé these days, I want to weep: this man who had sat in an opposition parliamentary seat recording all the cases of training fund abuse, is now in power and he is the one who has to answer for the vacuum in technical skills.

The schools have little idea of hard science. The execution of president Lluís Companys is a notorious episode for sure, but hardly anyone knows about the execution of Francesc Ferrer i Guàrdia, held as a scapegoat for the Tragic Week events but in truth a visionary educationalist who saw the value of science for a rapidly industrialising people. His execution sent a message across Spain which still echoes today: education is the remit of the Church, and beware anyone who wishes to instil a dialectical, rationalist system. In my experience as a history teacher in a supposedly secular Barcelona secondary school, I was advised to avoid Darwin, Luther and the Reformation. At least these ideological battles are fought in the open in the USA; here, there is a tacit understanding that children should not ask awkward questions or be disabused of their comfortable myths.

Most Catalan teenagers have never heated a test tube or seen a tickertape machine, and the school system remains fixated with language policy. Visit the political party ERC's web page on education policy, and language issues dominate while science and mathematics barely merit a mention. As an investor, I don't care what language physics is taught in so long as it's taught. Laws of motion are linguistically impartial.

In Britain, trainee teachers are often given a book called 'Why Children Fail', warning them of how pupils turn off when they get bad marks. This book is absolutely unnecessary in the Mediterranean, where children are not allowed to fail. They are not externally assessed until their school-leaving year, by which time they have all kinds of misconceptions about their abilities. This distorts the whole job market and leads to mediocrity.

Streaming in maths and science is essential, otherwise the pupils who are able to grasp calculus will be held back by long-division stragglers. This lack of selection and mediocrity filters into the university system, where teachers complain that half their first-year pharmacists, for instance, have little grasp of organic chemistry.

Aside from a few exceptional departments, the universities themselves are lamentable. "Endogamy" is the euphemism and there's no will or leadership to do anything about it. An Ivy League or an Oxbridge has the calibre to attract companies needing talent, but Spain as a whole keeps its academia at the civil servant level.

Class and status enter into the educational equation too, where 'degree-itis' – the obsession with gaining a supposedly prestigious qualification – means that young people who have the time and money amass third-rate master's degrees while those with talent but scant resources are passed over in the job market. Professions outweigh trades by an alarming degree. Spain is a country with too many lawyers and too few electricians.

## What's left?

Can Catalonia thrive on tourism? Can we become a Florida? Tourism is notoriously volatile. Lower priced holiday destinations in Bulgaria, Croatia, Egypt, Greece, Turkey and Tunisia are already drawing tourism away from Catalonia. Stuck at 14.4m tourists a year, the losses are being replaced by tourists from elsewhere in Spain, but this source also has its ceiling. Hotels are down 7 % on bed-nights since 2002, and last-minute booking trends mean lower-value tourism. Conference-hosting is an obvious growth area but it's a cyclical market and produces chaos in hotel booking. Meeting peak demands means low hotel occupancy in lean weeks and high overheads.

The biggest question mark over a tourism model is the environmental cost, where taxpayers carry the can for pollution and degradation. An interesting example is Cambrils, where the Town Council has initially rejected a 180 million euro development project proposed by George Soros' Medgroup to build 520 homes around a golf course. The local taxes to be obtained from them would not be enough to service the amenities.

## Wild West ethics

Legal uncertainty is another reason for not investing in Catalonia. Soros was at the point of bidding for the Tibidabo amusement park four years ago but withdrew when he discovered that the City Council could claim the site after auction at the hammer price, which is exactly what happened. One has to accept that many foreign firms cannot operate in a Spanish judicial climate. A Dutch company that wanted to locate in Barcelona withdrew because it could not avoid making an under-the-table deal on an office purchase, since the agent said that this is the way things work. Its company statutes expressly forbid such deals, so the company moved elsewhere.

Portugal is similar in many ways. Here's a report from the McKinsey Global Institute for the Portuguese government, forming part of Lisbon's effort to overcome barriers to productivity. It says that tax evasion by Portuguese companies is the greatest obstacle to productivity and restricts market entry by competitive companies and foreign investors. The Portugal 2010 strategy programme aims to increase the Portuguese GDP to the EU average by 2010 and make the country one of the most attractive investment centres in the Community. The first part of the McKinsey report states that "irresponsibility, that is, the failure by companies to comply with tax, social and environmental obligations, is responsible for 28 % of the productivity differential between domestic companies and their counterparts in five benchmark European countries." McKinsey says "irresponsibility" enables less productive companies to stay in the market because they gain advantages over the rest in this way: "Local companies are more productive than foreign companies but, considered after taxes, they are less competitive. This makes it impossible for more productive companies to win market share from less productive ones." In other words, a downhill race through poor governance.

## **Protectionism**

The biggest disincentive for foreign investors is obviously the lack of opportunities. The best indicator of this in Spain is the outrageous profit levels attained by inefficient, low-risk banks on the back of oligopolistic industrial holdings. Banks here have more power than some governments. An example: I am a skilled mechanic and want to set up a vehicle inspection centre. Regulations – 22 pages of them – mean that the level of investment required is only attainable by a large company, preferably with in-house lawyers and an insurance division. That's why annual Ministry of Transport car testing is dominated by AGBAR and its banking partners, and they employ poorly motivated, ill-trained staff to run a concession that only big operators can handle.

The banking sector here is not just risk-averse, it's actively hostile to a liberal economy, with far too many industrial holdings to allow open, competitive markets. Protectionism is ingrained. Instead of high-speed capital we have judicial uncertainty and inertia.

## **Junk telecoms**

Another reason why I'd hesitate to invest here is the telecoms network, an opportunity wasted through Telefónica's adventurism in Latin America while the infrastructure at home rots. Where's the cable in Barcelona? Two years ago, when I asked Menta, they couldn't even show me a city map. We're left with unreliable, false-broadband ADSL.

## **Consumer spending, an unknown**

In Barcelona, home-owning takes up 65 % of household income. Spaniards have built up debts of half a billion euros – the highest rise ever, says the Bank of Spain. Indebtedness rose by 15 % to September last year. So if you're going for the consumer market, the tip is to build big brands for a major market share. Levi's succeeded in this here ten years ago, aided by what the advertising industry acknowledges to be a remarkably homogenous, conformist market in Spain.

## **Tips for punters**

Maragall says biotechnology. I'd say selective, low-impact rural tourism. Design, say others. Bunkum. Design is a commodity and talent is universal. Better to consolidate a technical area like audiovisuals, my best bet for 2014. But unless the fundamentals are there – secure legal rights protecting my property, intellectual or material, good education and higher-trust management, we'll be digging in those fuel rods and patrolling those prisons as Europe's junkyard.