



Brexit Ambition Project

Spanish Roundtable - REPORT

Spanish Economic Overview

The economic news coming out of Spain is good after undergoing trying years following the crisis which started in 2008. The latest GDP figures for 2016 put the Spanish GDP over €1.113 trillion, with a population of 46.6 million people.

According to the Ministry of Economy's forecast, the GDP could grow up to 3.2% in 2017 as long as consumption, investments and exports keep up their current pace. The European Commission has also published that the Spanish Economy will grow 2.8% in 2017 (in February the forecast was 2.3%). The Commissioner for Economic Affairs has stated that Spain will leave the oversight program of Spanish public finances in 2018.

However, although the growth trend is positive, unemployment is still considerably high at 18.75% (2017 Q1), down from the maximum, 26.94%, reached in the 2013 Q1. The Government predicts it will reduce that rate to 11.9% by 2020. The public debt/GDP ratio, at €1.106 trillion, is near 100% and the government's general budget deficit closed 2016 over 4.3% GDP.

In terms of international trade, 2016 was a record year for exports, which reached €254 billion, growing over 1.7% from 2015. Despite these figures, the Spanish commercial balance is running a deficit of €19 billion. The weight of goods and services exports as a percentage of GDP has increased from 21.9% in 2009Q1 to 35.3% by 2017Q1.

Exports to the European Union (EU) accounted for 66.3% of total exports in 2016 (up from 64.8% in 2015). Spain's leading exporting sectors in 2016 were capital goods (representing 20.3% of total exports, expanding by 2.5% year-on-year), vehicles (17.7% of total, increasing by 5.9%), food, beverages and tobacco (16.9% of total, growing by 6.2%) and chemical products (14.1% of total, advancing by 0.1%).

The main countries where Spain exported goods and services to last year were Germany, France, Italy and UK.

Bilateral trade Spain-UK

In 2014, bilateral trade reached £40 Billion. The United Kingdom was Spain's fourth largest trade partner in 2016; 7% (€18 Billion) of all Spanish exports last year went to the UK.

Additionally, UK exported goods and services valued at £14.6 billion were centred on pharmacy, chemical products, vehicles, foods, drinks and consumer goods.

In terms of investment, the UK is the third most important investor in Spain, with €63 billion, in sectors such as tobacco, banking, telecommunications and retail. That makes up more than 160,000 jobs and 700 companies. In Catalonia alone, British investments have created 33,000 jobs.

The UK is the top destination for Spanish investments, which makes it the UK's seventh largest investor: £45 billion and 400 companies (18.9% of all investments made by our country).

Based on official figures, there are 300,000 British citizens living in Spain, though other estimations put that number near a million. For our part, the Spanish community living in the UK is over 100,000 people.

Roundtable Discussion

The Brexit Ambition Project roundtable discussion in the Spanish market took place at Ketchum's offices in Madrid on 14th June 2017.

The discussion was chaired by José Ramón Caso, CEO of Ketchum Public Affairs. There were eight participants in total that represented a wide spectrum of the sectors and their associated professional services. Among them: banks, services, transport, trade, ~~THE~~ ICT, real estate, tourism.

For ease of reference and clarity in the report, each question is addressed separately below.

1. What web of relationships do you currently rely on?

Most companies are involved in sector associations and are very active in networking activities. Nevertheless, for Brexit related issues, at the moment, they rely more on their own internal network and information from their key markets. Most of them have an international operations base and they have global contacts.

Due to the current uncertainty, they believe they are not going to get clear or enough information from any normal source. There was also a kind of "companies' policy" of not promoting speculation on this issue that has been detected.

Only representatives of technological and real state sectors showed a wide enough network of clients, sector associations, bilateral investors or even specialized media to secure information.

Although in other issues they rely on a complete network of high level contacts, they are very cautious regarding Brexit.

2. Where would you like your business to be in five years' time, and what relationships do you hope to rely on in order to get there?

All companies present said they hope to see their business growing over the next five years although they can see differences depending on the nature of the business.

In some sectors, five-year forecasts are difficult to make.

For companies with big business on both sides, Brexit can be a great opportunity in five years, though the future regulation after Brexit will be key in making this true. If the regulatory uncertainty could somehow be minimized during this period in every EU market that would help to be more optimistic about a long-term success for economy.

Many companies expressed their wish that the digital and technological transformation continue and not be affected by Brexit. The future regulation about these issues and the digital agenda should not be delayed because of Brexit negotiations, as this would lead to a delay in critical developments for Europe and its companies. Regulation is very slow whereas technology is faster and faster every day. So in five years' time, it will depend a lot on the capacity of adaptation of markets and regulators.

There is also a wish list of policies favouring free trade agreements, limiting bureaucracy and promoting talent development.

In some sectors, they hope that UK companies can continue participating in EU public tenders without any trouble.

3. What, if any, impact has Brexit already had on your business?

The decline of the Sterling pound has had a positive impact in many companies, in some cases because of internal adjustments and in other cases because this has favoured Spanish companies.

For most companies, the uncertainty created has a negative impact on investments as many have been delayed as well as some key decisions postponed.

Some companies of transport and finance sectors already have contingency plans in place and they have even moved some operations outside the UK.

There has also been an increase in e-commerce initiatives and investments, as many companies feel they must look for new markets or improve their presence in the existing ones to compensate for Brexit's possible effects.

Many clients are more open to changing processes or business models in an attempt to adapt to new times, which is a positive factor in many service companies.

Moreover, it has been seen as a positive leading to more promotion of Spanish cities to attract British investment.

4. What, if any, impact do you expect Brexit will have on your business in the next year?

Business as usual is the most used comment.

It is expected that the impacts that are currently being felt will continue until more certainty is given on the UK's position post-Brexit.

Uncertainty sometimes is translated into volatility which can create big opportunities for business. In many companies, they are forecasting using more human resources to make contingency plans, or manage uncertainties. Many resources would be diverted to these tasks.

5. What impact do you expect Brexit to have on your business once the UK has completed its withdrawal from the European Union (assuming that no agreement is reached between the UK and the EU)?

Half of the companies consider this scenario would be a disaster for them as the rules of the game would change too much for their business.

Also, regulatory divergence is a major concern of all participants. They assume that, in some highly-regulated sectors, there would not be big regulatory changes as it would require many years. In other sectors, they are worried about the impact of tariff and non-tariff barriers in the context of the trade of goods, supply chains, the flow of products from UK warehouses to other EU countries' facilities,...

Companies focused on trade could see a change even in the organizational structure of the company. There is one company in the banking sector that has already established a contingency plan to look for another EU country to host its operational base.

Additionally, the economic impact would affect consumers' behaviours and they can be directly affected. Although they can make plans to counteract these tendencies and look for new opportunities in other markets or activities, they will suffer.

All participants highlighted the need for EU labour for their companies in the UK in order to continue their operations, and many of them have UK workers in Spain.

6. What steps do you need policymakers to take now (i.e. before the conclusion, or possibly start, or withdrawal negotiations) to ensure that your business can continue to grow and invest during the negotiation period?

Companies have quite a clear idea about what they need from policymakers.

1. For Spain to capitalise on this situation. To attract new investments for our country as well as some EU agencies to Spanish cities.
2. Keep as great a distance away as they can, certainty in economic and regulatory aspects in Spain during the process and not looking to add more uncertainty during next 2 years.
3. They should listen to companies, including SMEs that usually are forgotten even though they are a very important part of economic scenario.
4. Negotiate first about citizens, and once that agreement is closed, to continue with trade related issues thereby preventing citizens from becoming “bargaining chips” in the negotiations.
5. Include transitional periods for key matters.
6. Protect the City as it is an ecosystem that cannot be moved.
7. Clarity and good information to citizens during negotiations. Assure the flow of information to key stakeholders.
8. Keep calm during negotiations. Change the tone of the declarations.
9. They also express their concerns about external factors that could try to influence the situation such as the US or China, if they think a divided Europe can be good for their interests.

7. What steps do you need government to take/negotiate during the negotiations so that the UK’s withdrawal agreement is implemented with minimum disruption to your business?

There were clear steps as to what Spanish-based companies need to happen to ensure the smoothest possible transition for their businesses.

Spain has strong relations with the UK from an economic point of view as well as from a human point of view due to the high number of both countries’ citizens living as foreign residents in the UK and Spain. That’s why the Spanish Government must work for a soft Brexit. Although it was acknowledged that Spain will also work for a united European position, they must try to find a balance between both objectives, unified EU positions and Spanish interests.

Spain must have some prominence in the negotiation and must be fully aware of what is going on to clearly identify all the future/possible impacts in Spain. They cannot let Germany /France lead the whole process alone.

It was also felt that Spain should work to find agreement on the same regulatory framework in sectors where impact can be bigger.

In the meantime, legal certainty inside Spain, and a stable labour and finance framework are needed to help companies to maintain their investments and jobs.

Participants also wanted to see a strategy to identify future lines of bilateral agreements to be adopted after the UK's exit, if there is a hard Brexit.