

Catalonia
Investment
Agency



Generalitat de Catalunya
Government of Catalonia

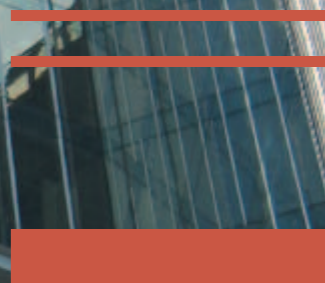
www.catalonia.com



Ajuntament de Barcelona

Economic Promotion

www.bcn.cat/barcelonabusiness



FOREIGN INVESTMENT IN THE AREA OF BARCELONA



Ajuntament de Barcelona

Economic Promotion

Catalonia
Investment
Agency



Generalitat de Catalunya
Government of Catalonia



FOREIGN INVESTMENT IN THE AREA OF BARCELONA



Barcelona has been and continues to be an open city that welcomes foreign investment. There is a long tradition of multinationals with a direct presence here that dates back to the start of the 20th century, when the first foreign-owned companies set up in the area of Barcelona. These companies represented an important driver of our industrialisation and economic development. But the structure of the city has been evolving towards the service sector, which today represents 80% of its activity. So too has new investment, which is mainly concentrated in the new tertiary sector. Some activities with a long tradition in the area of Barcelona have been evolving and concentrating around higher added value processes. For example, the textile sector is betting on the fashion business, the chemicals-pharmaceuticals sector on biotechnology, while the car industry is setting up its design and R&D centres in Barcelona. Other sectors like the telecommunications sector, computing-related activities and services for companies are experiencing very strong growth and have a lot of capacity of attraction.

Today, we have about 2,700 foreign companies in the area of Barcelona which display a high degree of loyalty and are also consolidated, and this means they re-invest in our area as is shown by the high levels of satisfaction and re-investment of companies already established here. On the other hand, our city has a clear proactive role to boost and promote talent and creativity, and the offer for new economic activities and the quality of life of citizens.

According to European business people, Barcelona -after London, Paris, and Frankfurt- is considered the fourth-best city in Europe for doing business, as shown by a comparative study published annually by British consultants Cushman & Wakefield.

Foreign investment in the area of Barcelona, which we are presenting today and which is now in its fourth edition, is a clear strategic move by public administrations to generate loyalty and raise the levels of foreign investment flows. The consolidated commercial relationships already established with Europe, America and Asia as well as our immediate interest in re-inforcing a stronger ties with North Africa should be the highlight of the our future strategies.

This study, which has been carried out by the Sector of Economic Promotion of Barcelona City Council and the Centre for Innovation and Business Development (CIDEM) of the Generalitat de Catalunya, allows an understanding of opinions, a global vision of trends, and establishment of priorities in those aspects which need improvement. Barcelona continues to be worthy of being considered one of the best destinations for foreign companies.

Jordi William Carnes

Deputy Mayor



Barcelona has been defined as the synthesis of what is Mediterranean warmth and the efficiency of the North, and I believe this is a good definition. Any traveller would vouch for the open and cosmopolitan nature of this city, moreover sheltered by a wonderful climate that allows you to spend lots of time doing things outside in the open air. Nowadays any company executive that has connections with Barcelona would back up the idea that the capacity and imagination of our people is a guarantee for success. So this is Mediterranean quality of life, but with the talent needed to bring a project to a successful end: in short, this is Barcelona. Chosen, once again, as the fourth best city in Europe to do business.

Throughout history, the city has been able to reinvent itself and adapt itself to the world. From the Industrial Revolution of the 20th Century to the Knowledge revolution of today, Barcelona has met the challenges that the world's changes have brought, without ever being watered down by the anomie of cities that have no soul. Rather, it has added new layers of activity on top of previous ones, and today it is a city of innovation and creativity, without losing a foothold in conventional markets. This bet on the knowledge economy has not erased traditional production, and the technology district 22@ lives together with industrial swathes of the Zona Franca, the doorway to the Metropolitan Area. All this comes at a time when the city is growing in advanced services, logistics infrastructure, science investigation, and in centres of excellence at the world level.

To this strategic geographical location -we are the biggest urban nucleus in the South of Europe - we have to add another positive factor: the ability to live in harmony. Barcelona is brimming with social capital, where the ability to live in harmony, neighbourhood by neighbourhood, is something that is being built up on a daily basis. And this is important because in the multicultural and complex societies of our times, living in harmony is the primordial value in the quality of life. These are healthy, civic and humanised societies that display cohesion and that can develop ambitious projects, the sort that can open up new horizons and that can best play host to new initiatives from around the world. Barcelona has made this quality of life, understood in an integral way, the key to its international success.

Jordi Hereu

Mayor of Barcelona





Foreign direct investment has some associated aspects that make it an essential factor for the economic development of a country. And while this means a net inflow of capital from abroad, often of high tech content, foreign direct investment has a direct effect on the renovation of the existing industrial base, on the generation of net job creation, on the continued improvement of competitiveness and on the management of local suppliers, due to the need of suppliers to adapt themselves to the operative, technological and quality requirements of foreign companies.

Receiving direct foreign investment also means improving the foreign trade balance, because of the export effect of multinationals, and a boost for re-investment from companies already established in Catalonia and that carry out their new investments in this area.

In Catalonia there are more than 3,000 foreign companies, many of which have been here for more than 30 years. The presence of already-consolidated foreign companies has brought about benefits for the country and for these companies themselves. For them, choosing Catalonia was not just a chance decision. Catalonia boasts a series of competitive advantages that have not gone unnoticed to companies: an ideal strategic geographical situation for the environment and market, qualified human resources and competitive costs.

However, we have to consolidate our present strengths and think about the future. We need to continue to attract foreign investment in the context that the world economy is experiencing more and more liberalisation and integration of markets for factors of production, goods, services, technology and capital. We have to continue to find creative solutions that develop the competitiveness of Catalonia and boost -in an exceptional way- its strategic values.

And on this road, we will continue to work together with foreign business people, without whom we would not be able to move forward and reach the objective of strengthening the determining factors that make Catalonia a top destination for foreign investment.

Antoni Soy

Secretary for Industry and Enterprise of the Department of Innovation, Universities and Enterprise



As the Minister of Innovation, Universities and Enterprise of the Government of Catalonia, but especially as a citizen that loves, lives and works in Catalonia, the analysis of the foreign investment in our country and the opinion of business people, who after all are the main witnesses of the day-to-day evolution of our business network, is a subject that I find very exciting.

Catalonia is a dynamic, innovative, and enterprising; country a powertrain within Spain and at the same time a national community with its own language, deep-rooted traditions and model of welfare for citizens.

One of the key strategies of the Government of Catalonia in terms of economic policy refers to the attraction of investment, giving priority to high value and high tech content to help diversification and complementary production.

I would like to stay that foreign investment is a fundamental contribution to the development of the Catalan economy. Not just because it represents 11% of the business community jobs and 20% of the turnover of companies in Catalonia, but also because it enriches with the spread of technology throughout our autochthonous companies, or with the influence of corporate cultures, while also strengthening the work ethic and satisfaction with the quality of products.

In Catalonia we have endeavoured to make foreign business people comfortable so they can develop their work, contributing to the economic growth of country, and I believe we have achieved this.

This is possible thanks to a well-developed, dynamic and diversified industrial structure, Catalonia's privileged geographical position and a increasingly qualified labour force. However, this reality should not make us complacent. The Catalan economy has important challenges to deal with, especially globalisation and technological change.

We have to work through a global strategy to prepare the way for the new economy, improving those policies addressed to innovation, research, development, and the acceleration of structural reforms that will allow us to gain in competitiveness and investment in human capital.

I would invite you, then, to continue to bet on Catalonia. The Government of Catalonia is highly committed to develop an even more favourable environment so as to maintain and improve its potential, which so far has made Catalonia a prosperous country.

Josep Huguet

Minister for Innovation, Universities and Enterprise

1.	Introduction to the study	8	5.	The dynamic nature of Catalonia in the capture of FDI	36
2.	Principal conclusions of the study (10)	10	5.1.	Context: FDI in the world	37
3.	Foreign companies in the area of Barcelona	12	5.2.	Catalonia's power of attraction for FDI	39
4.	The perspective of foreign business people on the area of Barcelona	20	6.	The area of Barcelona and foreign investment in the near future	42
4.1.	Principal conclusions	21	6.1.	A satisfied business base that is betting on Barcelona	43
4.2.	The main issues that determine investment and the level of satisfaction of foreign business people	22	6.2.	The potential of the area of Barcelona to become a best-practice benchmark	44
4.2.1.	Environment and market and the perception of Barcelona	26	6.2.1.	Opportunities to attract more direct foreign investment from large investing countries	45
4.2.2.	Costs and expenses	27	6.2.2.	Opportunities in the industrial and services areas for Catalonia	46
4.2.3.	Human resources	28	7.	Annex: the methodology of the study	50
4.2.4.	Logistics infrastructure for goods	29	7.1.	Analysis of the position of Catalonia regarding FDI	51
4.2.5.	Socio-political situation	30	7.2.	Survey on foreign business people about the area of Barcelona	52
4.2.6.	Real estate infrastructure	31	7.3.	Sources used	53
4.2.7.	Passenger communications	32	8.	Glossary	54
4.2.8.	Telecommunications infrastructure	33			
4.2.9.	Services offer	33			
4.3.	Cities competing with Barcelona to attract foreign investment	33			
4.3.1.	Competing cities in Spain	34			
4.3.2.	Competing cities at the international level	34			



Introduction to the study

The Area of Economic Promotion at Barcelona City Council and the Catalonia Investment Agency (ACI) of the Ministry of Innovation, Universities and Enterprise of the Generalitat de Catalunya have carried out this fourth "Foreign Investment in the area of Barcelona" study in collaboration with The Boston Consulting Group (BCG).

Foreign Direct Investment (FDI) is essential for the progress of any developed economy. The area of Barcelona has the largest and most consolidated base of foreign companies in the country. This is a business community that is satisfied with its presence in the area of Barcelona, which has shown itself to be highly attractive for foreign investment in the past. The challenge over the coming years is to continue to show this context and even improve it, competing on skills, talent, infrastructure and communications. The reason is, just as the study proves, cities competing with Barcelona to attract FDI are no longer emerging cities, but rather the leading cities in Europe.

The study refers to the city of Barcelona and the seven boroughs that surround it (el Barcelonès, el Maresme, el Garraf, el Baix Llobregat, el Vallès Oriental, el Vallès Occidental and l'Alt Penedès) and offers a rigorous quantification of the capacity of the area of Barcelona to attract FDI and where opportunities can be found to increase

its competitiveness in order to meet new challenges. Great effort has been put into the methodology of the study to isolate FDI Greenfield in comparisons within Spain. This refers to those investments made in the constitution of a new production activity, which is what contributes to the growth of Gross Domestic Product (GDP).

The study incorporates a qualitative vision of the area of Barcelona thanks to a survey on the perception of foreign business people in the area of Barcelona and of foreign companies outside Catalonia, complementing the conclusions of the quantitative data on the capacity to attract FDI and FDI Greenfield.

Based on the current FDI situation and on the opinions of foreign companies, the final objective of the study is to allow administrations and institutions to work towards the improvement of the competitiveness of the area of Barcelona in order to attract more FDI and of a higher quality.

The Catalonia Investment Agency (ACI), Barcelona City Council, and The Boston Consulting Group would like to thank all those people, companies, and institutions that have collaborated in this study for their work and opinions. This document constitutes a very valuable tool for improving the competitiveness and ability of the area of Barcelona to attract FDI and even to raise the level of satisfaction of foreign business people already established here.

Principal conclusions of the study (10)

10

1 Catalonia has the highest number of foreign companies in Spain and the most consolidated:

Nearly 34% of foreign companies have their headquarters or main activity in Catalonia. In fact, more than half of all the Japanese, French, German, Italian, Dutch, American enterprises, among others, located in Spain concentrate themselves in Catalonia. 80% of these companies have been here for more than 10 years. The area of Barcelona brings together 90% of all foreign companies in Catalonia.

2 Foreign companies set up in the area of Barcelona are satisfied and continue to re-invest here in a significant way:

97% of foreign companies declare that they are very satisfied, satisfied or consider their decision to set up in the area of Barcelona to be adequate. 86% reinvest more or as much in their Catalan operations as other branches or operations in the Group with headquarters outside Catalonia. 56% of corporate headquarters are considering carrying out new investment projects in Europe in the next two years and 33% of these consider that there is a high or average probability that these will be carried out in the area of Barcelona.

3 More and more decisions about other Group operations and branches in Europe and Latin America are being taken from centres in Barcelona:

A large part of foreign companies use their operations in the area of Barcelona as a platform to enter the Spanish market and in some cases to enter the Iberian Peninsular. Even so, their exports are significant, representing 24% of their turnover. Branches located in the area of Barcelona are starting to become relevant from a qualitative point of view within the Group. In this sense, decisions are taken from the area of Barcelona about other branches or operations outside Spain in more than 20% of cases, often including decisions affecting all the branches in important geographical areas (South Europe, Europe, or Latin America).

4 Catalonia attracts 22% of Spain's FDI Greenfield, a figure that far outweighs its relative weight in the Spanish GDP:

Catalonia manages to attract more Foreign Direct Investment Greenfield (FDI Greenfield) than would strictly correspond to it according to its GDP. Catalonia's GDP is 19% of the total and its FDI Greenfield is 22% of the total (period 2003-2006). The quota of FDI Greenfield captured by Catalonia has been increasing since 2003. In 2006 Catalonia captured 30% of FDI Greenfield in Spain.

11

5 The area of Barcelona's most valued factors regarding its ability to attract FDI are its geographical situation, qualified human resources at reasonable costs, a city with a high quality of life, and a powerful productive business base.

6 Knowledge of foreign languages, freight costs, and the costs of industrial units and premises and air transport are factors that need continued improvement.

7 Paris, Milan or London, amongst other leading European cities, are Barcelona's competitors for FDI.

In Spain, the city that is considered an alternative is Madrid.

8 The area of Barcelona would increase its FDI by 50% with respect to its current situation if it reached the ratios of Europe's best-practice countries.

Regarding this, we need to continue to work towards making Barcelona a benchmark for attracting foreign investment.

9 Barcelona is a leader regarding its FDI from countries like the US, France and Germany.

FDI growth opportunities come from a number of countries which are relevant for their foreign investment and with relatively less presence in Barcelona. **FDI would increase by 25% if it captured the investment corresponding to its weight from investing countries like the United Kingdom, Belgium, Switzerland, and Sweden.** The United Kingdom is the most important because it is the second-biggest foreign investor in the world.

10 Raising the FDI Greenfield capacity of the Services sector to that of the Industrial sector, where Barcelona has a notable strength, would increase total FDI Greenfield by around 30%.

Barcelona has the potential to continue to raise its level of foreign investment attractiveness for the Services sector. And in the industrial sector there are also a series of sub-sectors where Barcelona has always been a leader, and where we should continue to maintain this leadership in FDI Greenfield attraction, like the chemicals, transport and machinery sub-sectors.



Foreign companies in the area of Barcelona

The area of Barcelona brings together a highly-relevant foreign business base that is very integrated in the community. **In Catalonia there are more than 3,000 foreign companies, approximately 34% of all the foreign companies in Spain. Foreign companies generate 11% of jobs and account for 20% of the total of the turnover of all companies set up in Catalonia.** Approximately 90% of foreign companies in Catalonia are located in the area of Barcelona.

80% of these companies have a

long tradition here, having set up more than 10 years ago. 75% of foreign companies in Barcelona have set up via new investments while 27% set up by buying an existing company. The majority of companies choose the area of Barcelona because it offers adequate conditions for carrying out a particular activity and firms are not conditioned by the location of the company they want to buy. In the rest of Spain, investments have come conditioned by acquisitions, where 48% of foreign companies set up via the purchase of another existing company.

Chart 1

75% of foreign companies have set up in the area of Barcelona via new projects

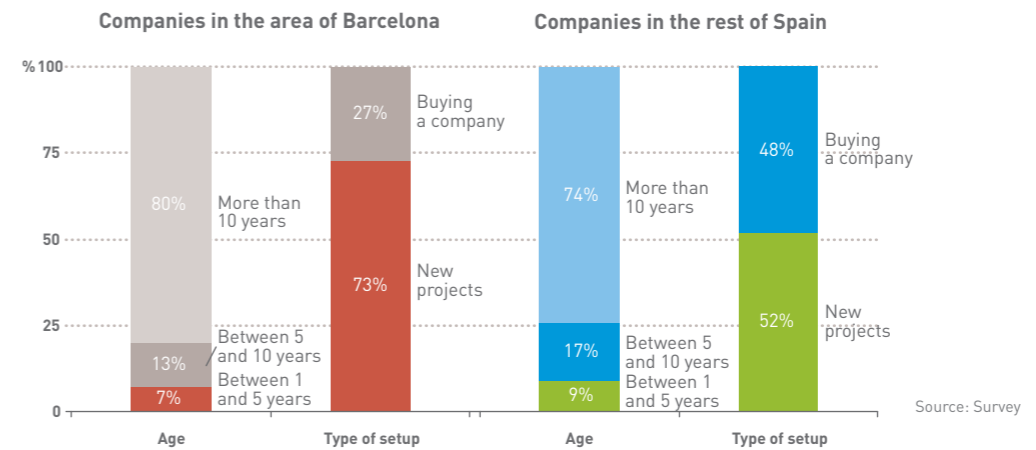


Table 1

Number of foreign companies set up in Catalonia and Spain according to the main countries of origin

Country of origin	Catalonia	Spain	Catalonia/Spain
France	705	1,142	61.7%
Germany	519	853	60.8%
United States	399	664	60.1%
Italy	356	650	54.8%
Holland	198	390	50.8%
Japan	148	210	70.5%
United Kingdom	140	300	46.7%
Switzerland	111	163	67.5%
Belgium – Luxembourg	87	160	54.4%
Denmark	67	144	46.5%
Sweden	62	280	22.5%
Portugal	46	250	18.4%
Austria	44	88	50.0%
Canada	28	38	73.7%
Finland	20	60	33.3%
Norway	15	67	22.4%

Source: ACI, Chambers of Commerce and/or Commercial offices in diverse countries, 2006

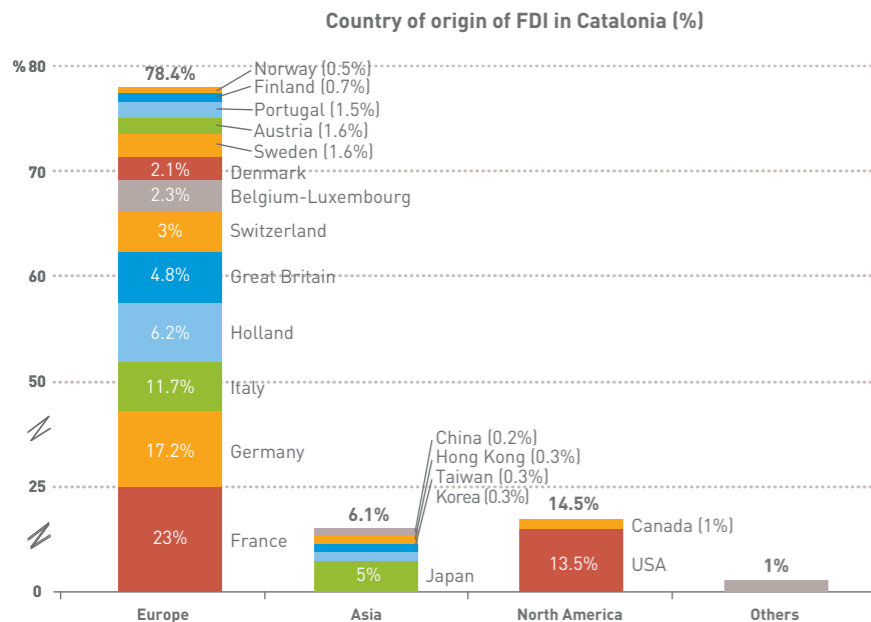
In Spain, the most important investing countries mainly choose Barcelona for their investments. Regarding this, **Catalonia accounts for 71%**

of Japanese companies in Spain, 62% of French companies, 61% of German companies, 60% of US companies and 55% of Italian companies. The

US, Germany, France, and Italy account for 65% of foreign companies in Catalonia.

Chart 2

An important number of businesses from large foreign investor countries are located in the area of Barcelona



Source: Secretary of State for Tourism and Trade; Exterior Trade Area, Ministry of Industry, Tourism and Trade

The area of Barcelona boasts foreign businesses spread across a wide variety of sub-sectors. The sub-sectors with most weight regarding Foreign Investment are

the chemicals, metal work, electrical-electronics and automobile sub-sectors. These are the traditional sectors of the area of Barcelona, which it also leads.

These four sub-sectors account for 50% of the Direct Foreign Investment in the area of Barcelona.

Chart 3

Foreign investment in four sub-sectors represents 50% of FDI in the area of Barcelona

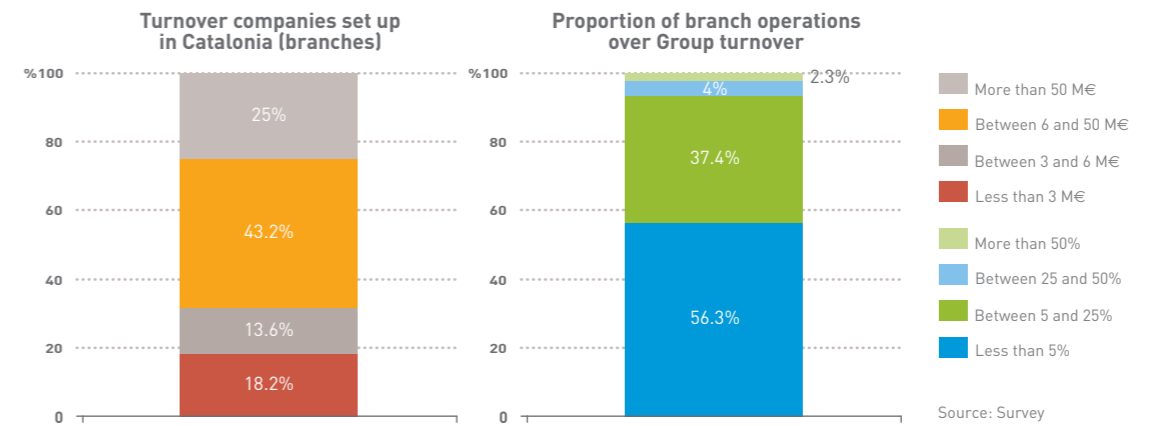
70% of the branches and operations of foreign companies in the area of Barcelona have turnovers of more than 6M€ and they are owned by important multinational groups (in 56% of cases, these

Barcelona operations represent less than 5% of the total incomes of the group). The presence of companies of significant size is very positive because they usually have higher qualified personnel,

re-invest more, attract more flows of new foreign investment and have a greater capacity to invest in added value activities like Research and Development (R&D).

Chart 4

Foreign companies in Catalonia are large and usually belong to important multinational groups



Source: Survey

Foreign multinationals with operations in the area of Barcelona all have other centres in Europe and more than half have centres in countries outside the European Union. This is generally the case of powerful Groups that are highly internationalised.

Chart 5

Foreign companies with a presence in the area of Barcelona that are very internationalised

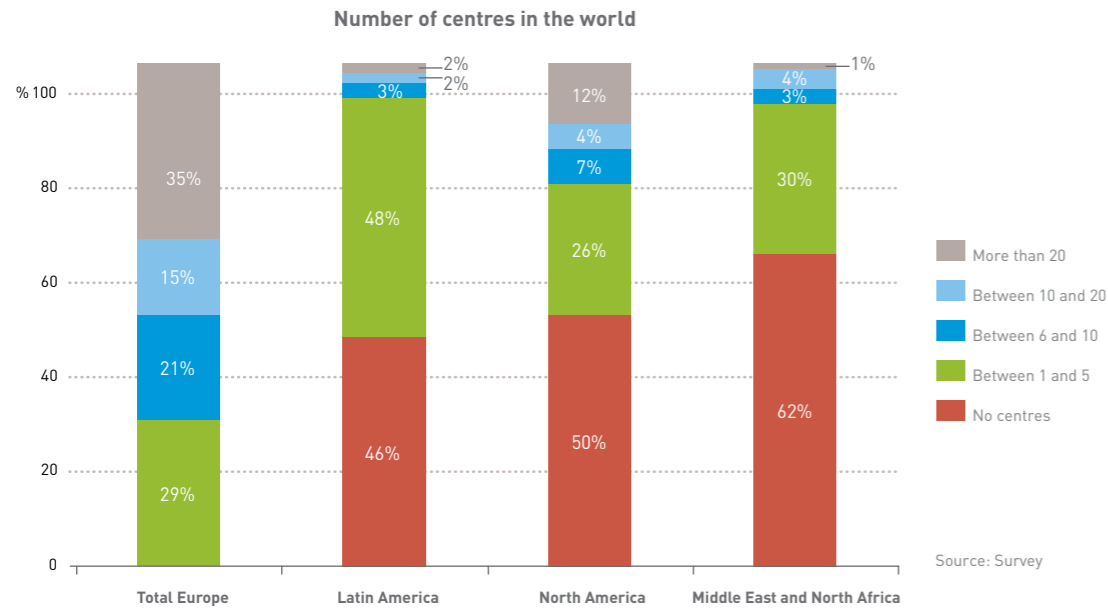
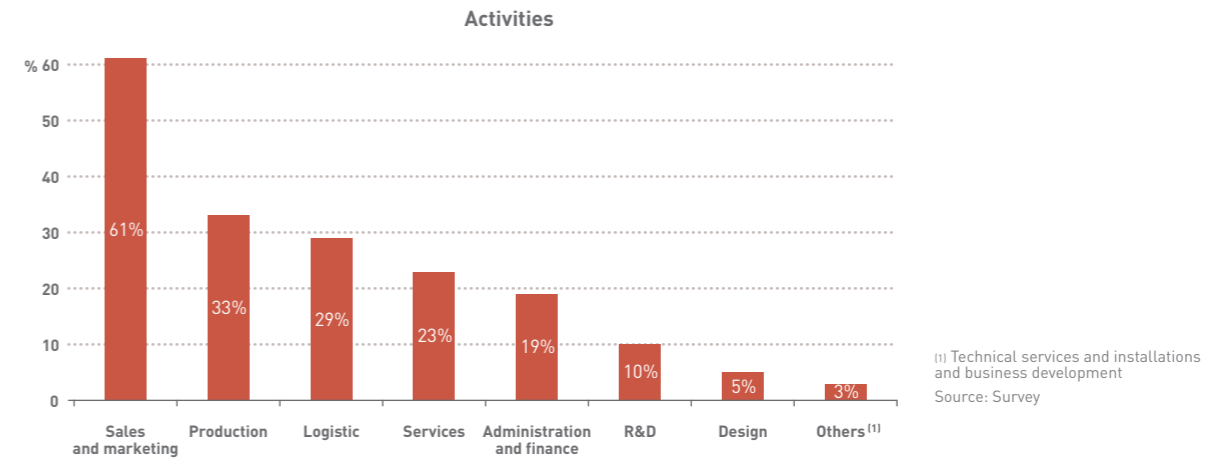


Chart 6

The majority of companies in the area of Barcelona have commercial activities. These are starting to have high value added activities like R&D and Design



The majority of companies use a branch operation in the area of Barcelona as a platform to enter the Spanish market and, in some cases, the Iberian Peninsula. That's why 61% of companies carry out Commercial and Marketing activities and 29%

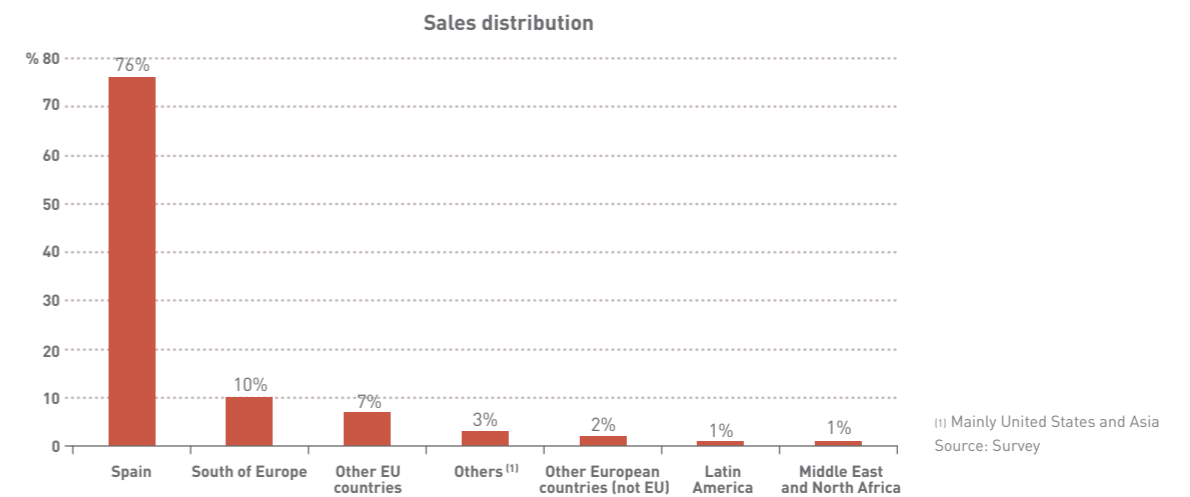
logistics. 33% carry out manufacturing activities, which indicates that there is still a manufacturing tradition here. 23% of companies offer service-related activities. High value added activities in the area of Barcelona are beginning to gain a certain weight with

15% carrying out Research and Development activities and Design.

The main market for foreign companies in Barcelona is Spain. Despite this, one very positive point is that 24% of their incomes come from exports.

Chart 7

Spain is the main market for foreign companies in the area of Barcelona, but exports account for 24% of their turnover



The strategic importance of centres set up in the area of Barcelona is highly relevant. 49% provide services to other Group-owned centres located outside Spain and, most importantly, **21% are decision-making centres for other centres also located outside Spain.** The main decisions that are taken from Barcelona are on Group branches or operations in

Europe and/or Latin America. Those centres with decision-making power are often more active at attracting talent, new investment flows, or making acquisitions. And from this point of view, we can see that more and more decisions are taken from Barcelona about other operations and branches in the Group in other countries and geographical areas.

Chart 8

21% of foreign companies in the area of Barcelona are decision-making centres with respect to other geographical areas outside Spain

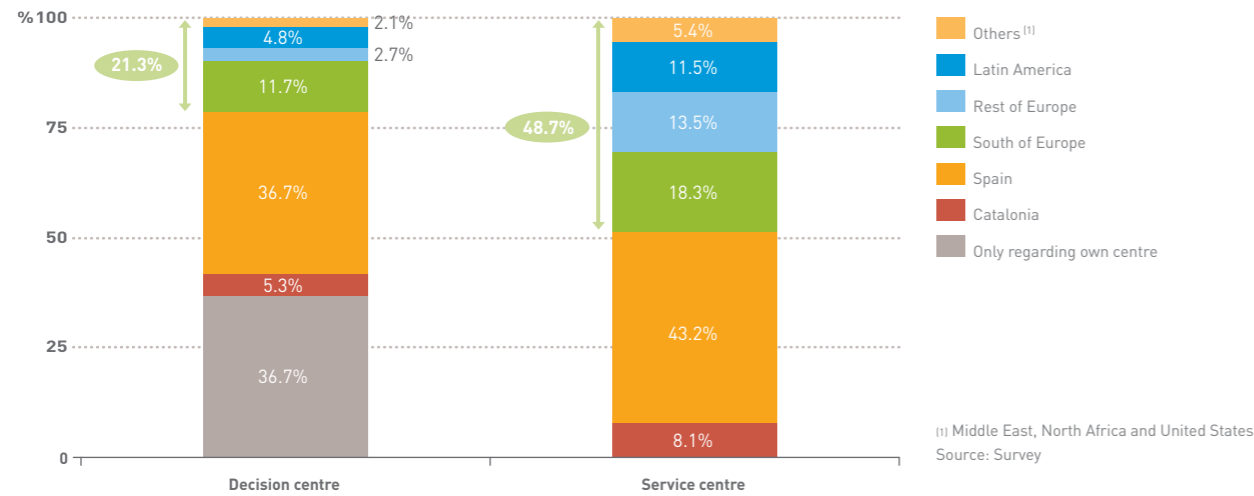
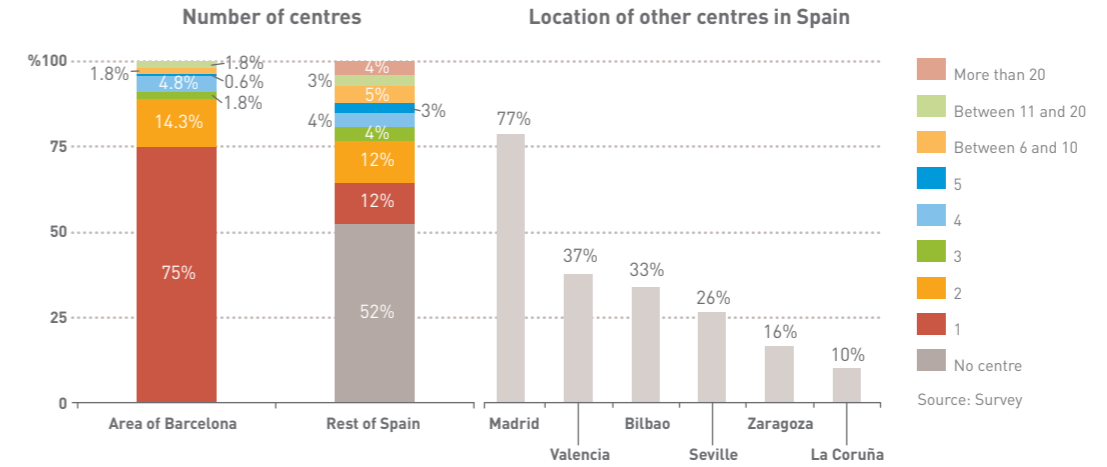


Chart 9

Half of all foreign companies in the area of Barcelona have other centres in the rest of Spain



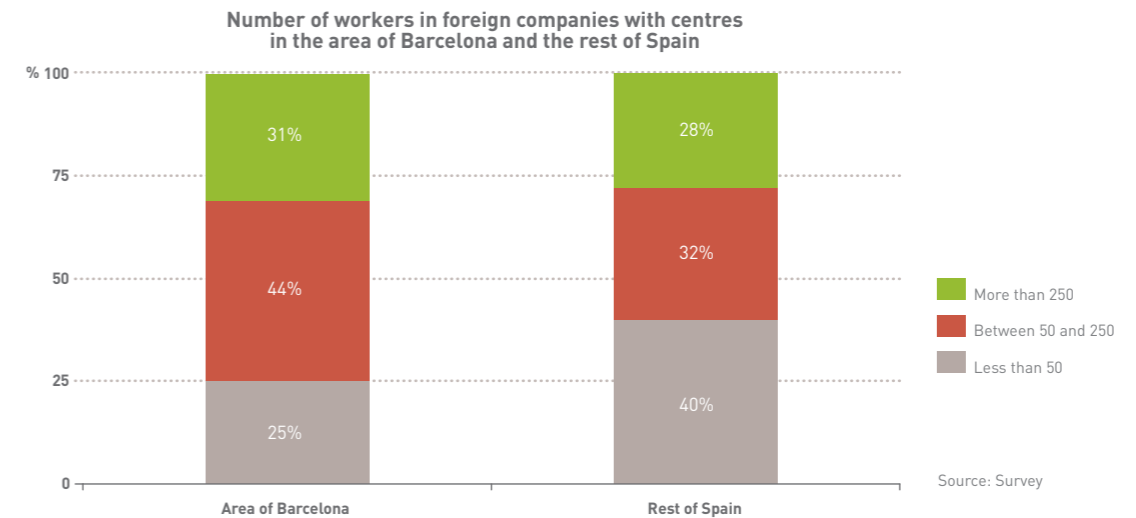
25% of the surveyed companies have more than one work centre in the area of Barcelona, whether for commercial reasons or because of the size of the company. As such, 48% have other centres in Spain distributed

amongst more than 40 Spanish cities. Finally, 75% of foreign companies have centres in the area of Barcelona with more than 50 workers. Barcelona boasts work centres owned by foreign compa-

nies with more workers than those in the rest of centres found in Spain. And in this sense, those work centres with less than 50 workers in the area of Barcelona represent 25% of the total and in the rest of Spain it is 40%.

Chart 10

Foreign companies in the area of Barcelona have more workers than foreign companies in the rest of Spain





The perspective of foreign business people on the area of Barcelona

The perspective of business people on the area of Barcelona has been taken from an in-depth questionnaire including both the opinions of foreign business people based here and of those with headquarters outside Catalonia. Here we outline the main conclusions.

4.1. Principal conclusions

- 1 97% of companies say they are very satisfied, satisfied or consider their decision to set up in the area of Barcelona as adequate.
- 2 The three main relevant factors that have a direct affect on the decision where to set up, in order of importance, are the environment and the market, costs and expenses, and human resources.
- 3 These determining factors are the ones that foreign business people have given highest marks to in the evaluation of the level of satisfaction with the area of Barcelona:
 - environment and market: especially Barcelona's high quality of life, its excellent geographical situation and its closeness to clients
 - costs and expenses: the costs of labour and production are very competitive
 - human resources: good technical preparation of human resources and a good labour environment
- 4 None of the relevant factors were awarded a "not satisfactory", although the area of Barcelona would become more competitive if it improved in those criteria that recorded lower levels of satisfaction:
 - knowledge of foreign languages
 - freight and goods transport costs
 - costs of industrial premises and units
 - improved air and train links
- 5 Foreign business people working in the area of Barcelona are committed to their projects and their companies are re-investing here more than what their groups are doing in other places.

4.2. The main issues that determine investment and the level of satisfaction of foreign business people

74% of companies declare they are very satisfied or satisfied with their decision to set up in the area of Barcelona. This figure rises to 97% when we include those who have obtained adequate results from their decision to investment in the area of Barcelona. The reason for this high level of satisfaction is because the area of Barcelona offers them a satisfactory set of

factors which are most relevant and necessary when starting up a business activity or personal activity.

One of the objectives of the study was to understand what the main factors or criteria were that determine why foreign business people choose one geographical area or another. And what their level of satisfaction is with

Barcelona for each of these factors. In order to evaluate the different criteria that companies value when deciding where to set up, the questionnaire suggests nine wider issues or themed blocks. Within each, different criteria were shown which were also evaluated individually, according to the level of importance and the level of satisfaction.

Chart 11

The survey included evaluations of those factors that are most important for foreign investment and the level of satisfaction with the area of Barcelona

	Themed block for importance	Sections / criteria evaluated for satisfaction level		
		Very satisfactory	Satisfactory	Improvable
Highly important	1. Environment and market	<ul style="list-style-type: none"> Quality of life Geographical situation of the area of Barcelona Closeness to customers and potential markets Concentration of related companies 	<ul style="list-style-type: none"> Availability and quality of suppliers Perception of the area of Barcelona Opportunities to buy a company 	
	2. Costs and expenses	<ul style="list-style-type: none"> Costs of qualified labour Costs of production Costs of non-qualified labour 	<ul style="list-style-type: none"> Cost of transport Costs of offices and industrial units 	
	3. Human resources	<ul style="list-style-type: none"> Technical and university preparation Labour environment Availability and productivity/ Efficiency of labour 	<ul style="list-style-type: none"> Knowledge of languages 	
Average importance	4. Logistics infrastructure and freight	<ul style="list-style-type: none"> Sea ports Road network 	<ul style="list-style-type: none"> Air transport Railway network 	
	5. Socio-political situation	<ul style="list-style-type: none"> Labour environment Fiscal environment Legislative environment 	<ul style="list-style-type: none"> Political environment Public policies to support investment and companies 	
	6. Real estate infrastructure	<ul style="list-style-type: none"> Availability and quality of offices Availability and quality of business centres 	<ul style="list-style-type: none"> Quality of industrial zones Availability and quality of industrial units 	<ul style="list-style-type: none"> Availability of land
	7. Passenger communication	<ul style="list-style-type: none"> Road network Air travel 	<ul style="list-style-type: none"> Public transport system 	<ul style="list-style-type: none"> Railway travel
Less importance	8. Telecommunications infrastructure	<ul style="list-style-type: none"> Quality of fixed lines Quality of mobile network 	<ul style="list-style-type: none"> Broadband networks: cable, DSL... Telecommunications costs 	
	9. Services offer	<ul style="list-style-type: none"> Cultural and leisure offer Quality of university and business school offer 	<ul style="list-style-type: none"> Medical and health cover Supply of colleges Availability and accessibility of housing 	

Note: Those criteria considered of little importance have been eliminated
Source: Survey; analysis BCG

The 9 blocks that were suggested to those surveyed for their relative evaluation were:

- 1 The environment and the market and the perception of Barcelona:** closeness to suppliers and clients, quality of life and other elements that identify the city
- 2 Costs and expenses:** the relative costs of the area of Barcelona in terms of the costs of labour, production, transport, offices, and industrial premises compared to other relevant metropolis
- 3 Human resources:** the technical training of Human Resources and its productivity and flexibility
- 4 Logistics Infrastructure and the transport of freight**
- 5 Socio-political situation:** political, labour, fiscal environment and support and help with investments
- 6 Real estate infrastructure:** availability and the quality and supply of business real estate
- 7 Passenger communications:** infrastructures and the ease of transport for passengers
- 8 Telecommunications infrastructure:** quality of networks and their relative cost
- 9 Supply of services:** educational, cultural, housing, and leisure offer

In the chart we can see the different criteria that have been evaluated in each of the themed blocks according to the level of satisfaction of foreign business people with each. Those surveyed were asked to evaluate each of the nine blocks according to their importance and within each block they were asked for the most important three variables according to their ranking and level of satisfaction. The different blocks were ordered according to their importance for all foreign companies. The three top themes - Environment and market, Costs and Expenses, and Human Resources- were quoted in first

place as the main ones when deciding where to carry out an investment in 83% of the surveys. **47% of business people believe the Environment and market is the most important criterion when deciding where to carry out a new investment project, and 27% say it is Costs and expenses, while 9% cite Human Resources as the most important¹.**

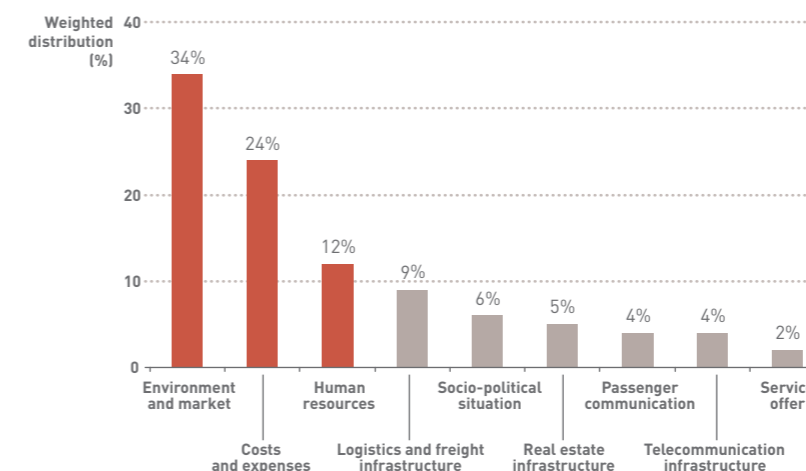
The following shows the weighted distribution of blocks if we assign 3 points to the most important, 2 points to the second-most important and 1 to the third-most

important. The result is similar to the previous one although some of the themes like logistics infrastructures, the socio-political situation, real estate infrastructure, and passenger communications all gain in importance.

¹ In the survey on companies outside Catalonia, the results coincide with these three big issues being most relevant. This high concentration can be explained if we remember that there are lots of times when foreign investments are justified because they provide access to a relevant internal market like the Spanish one.

Chart 12

The environment and market, costs, and human resources are the issues that are most valued when taking a decision on where to invest



Note: To find the weighted distribution we have assigned three points to the element cited first, two points to that placed in second spot and one point to that ranked in third place

The majority of the sectors located in the area of Barcelona look for an equilibrium between the conditions of the environment and the market, and the costs and expenses of the area. This is the case of the chemicals, electrical-electronics, metal work and pharmaceuticals sectors, for example. On the other hand, those sectors whose cost structure has a less important effect on profit & loss accounts attach much more importance to being close to clients and the potential of the market, and financial and

business services. On the other hand, sectors that are much more sensitive to costs, like the automobile industry, look for low cost operations when making investments.

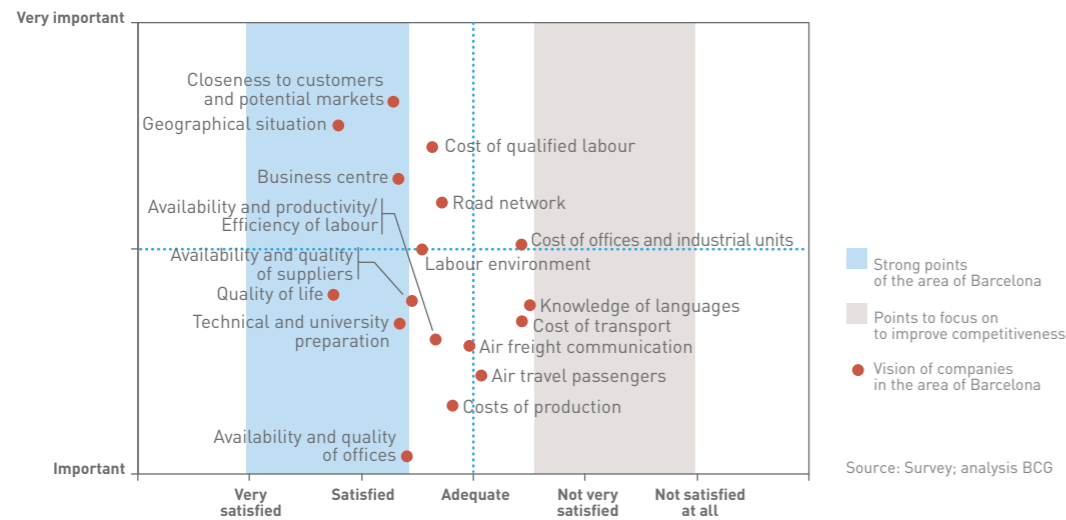
Foreign companies questioned in the survey were asked which factors or criteria in each theme or block were most important when choosing a destination for investment and, for each of the factors, what the level of satisfaction assigned to the area of Barcelona was.

Foreign business people believe that **the factors or criteria that were most relevant** for making decisions on where to carry out an investment are:

- **The geographical location and closeness to clients**
- **The technical preparation of Human Resources, their knowledge of languages, and their cost**
- **Transport networks**
- **The availability and quality of suppliers in the area (the existence of a Cluster)**
- **Different factors in the cost structure**
- **Passenger communications, especially air transport**

Chart 13

The area of Barcelona's strong points and areas to improve for those companies in the area of Barcelona



The main strengths of the area of Barcelona, i.e. those which were valued very highly by foreign business people, are:

- **the geographical situation of Barcelona**
- **closeness to clients**
- **the quality of life in the city**
- **labour which is both prepared and at reasonable costs**
- **and the availability of quality suppliers in the Area**

Foreign business people in Barcelona didn't say they were "not satisfied" with any of the relevant areas. Those points showing relatively less satisfaction that represent opportunities to continue to raise Barcelona's competitiveness are:

- professionals' knowledge of foreign languages, especially English
- the costs of freight transport
- the costs of industrial units²
- and the air transport

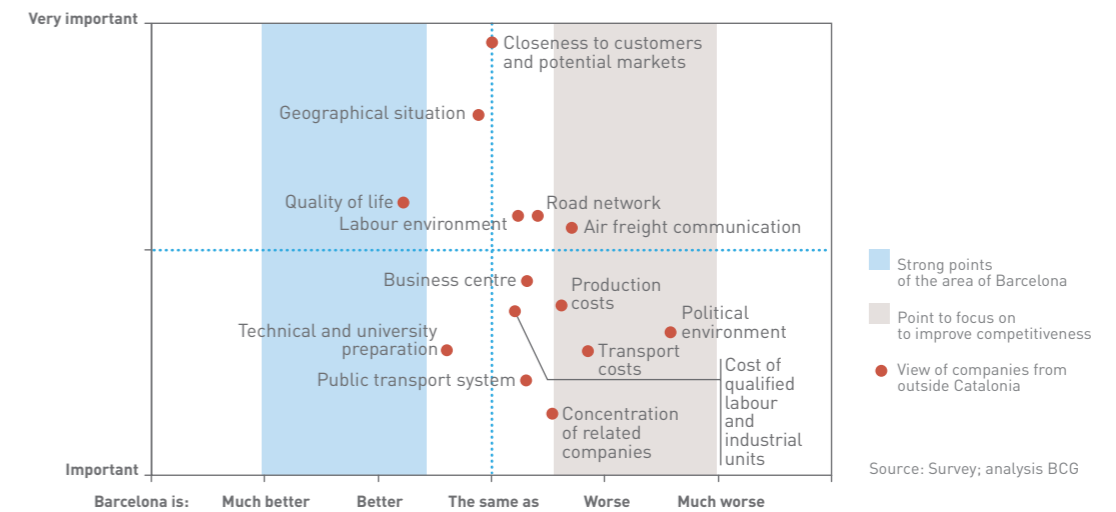
² It is worth pointing out that the costs of offices and industrial units figured as a unitary factor on the survey. In the qualitative comments of business people it became clear that the low adequacy of costs was about the specific case of industrial units.

Following on we can see what factors are relevant for foreign business people located outside Catalonia when deciding on investments and their opinion about these factors where they carried out investments with respect to Barcelona. The conclusions from their opinions are:

- 1 Those factors considered relevant are quite similar to those of business people that have set up in the area of Barcelona.
- 2 In the majority of factors, Barcelona gets a very similar mark to the area where they are currently located. The most noteworthy point about Barcelona is its quality of life and the technical preparation of employees. Those factors which they believe need improving are the political situation and air transport for goods.

Chart 14

Foreign companies without a presence in Barcelona are more critical about infrastructure and political environment



4.2.1. Environment and market and the perception of Barcelona

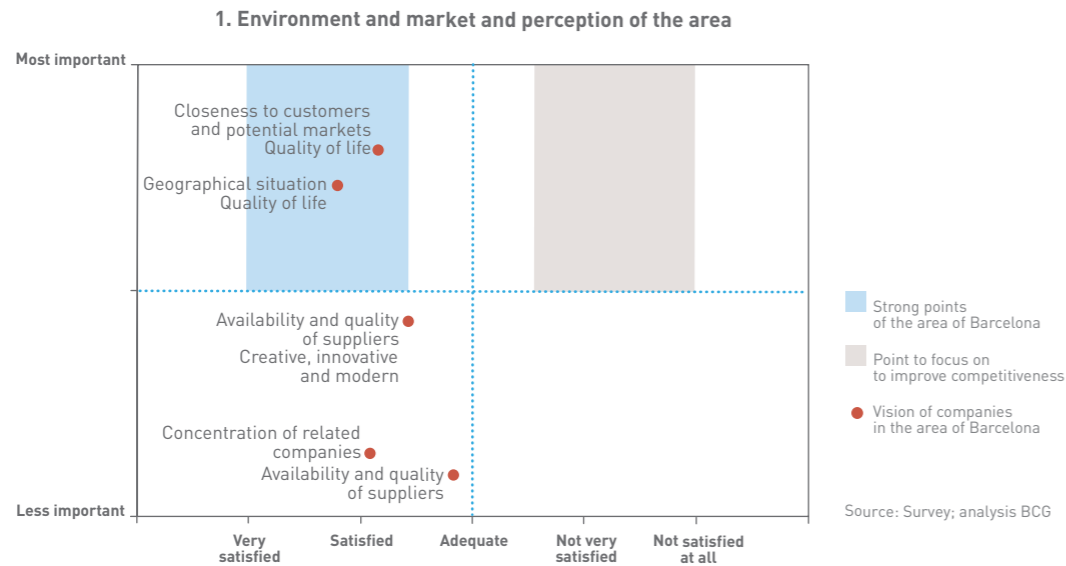
The Environment and the market is the most relevant factor for business people when deciding where to invest. The majority of foreign businesses that invest in Barcelona do so in order to supply the Spanish market. The geographical situation of the area of Barcelona is privileged and allows companies to supply the Iberian Peninsula market and the South and East European markets.

ness to clients and potential markets with their branch/regional operations, and also quality of life, availability and quality of suppliers. The extensive business base in the area of Barcelona is an important factor that attracts foreign investment. As in previous studies, business people consider that the area of Barcelona is an optimal geo-strategic environment for investment and a factor which companies are very satisfied with in all its guises.

Companies are looking for close-

Chart 15

Being close to clients and the geographical situation are those aspects considered most important and are scored highly



One of the main attractions of the environment around the area of Barcelona is its **quality of life**. This is recognised both within and outside Catalonia. More and more, companies want their employees to have a nice local environment to enjoy. The quality

of life found in the area of Barcelona is a key factor to attract and retain highly-qualified professionals. The perception of companies is very positive regarding the welcoming nature of the local population, ease of integration and cosmopolitanism.

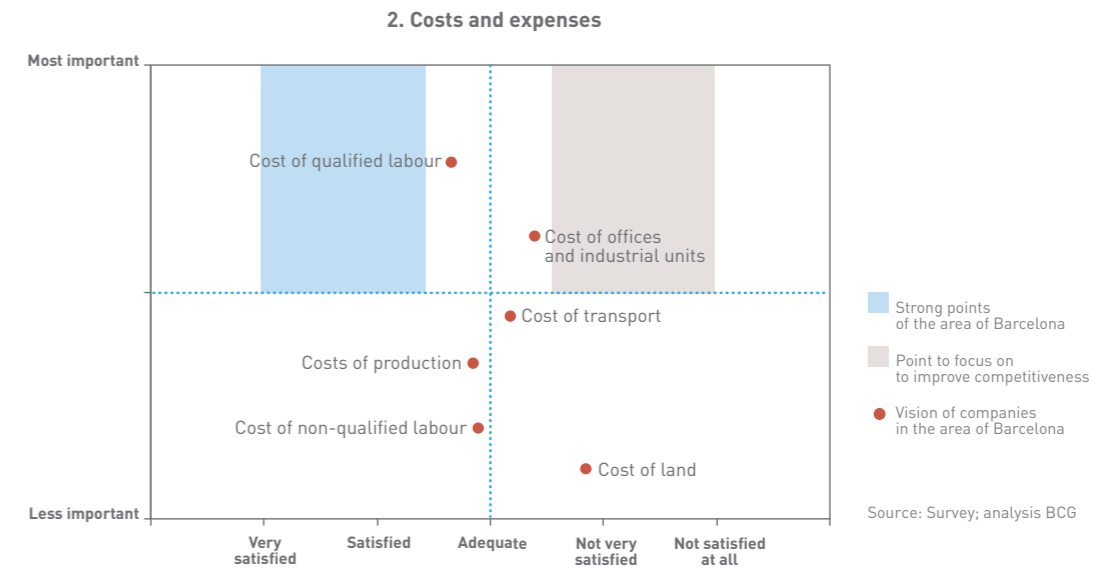
4.2.2. Costs and expenses

Costs and expenses is the second-most important issue for companies. The costs of qualified labour in the area of Barcelona is a strong point that needs to be taken advantage of in order to attract value-added activities. Companies find that this is the most important criterion within the range of costs and expenses, and companies are satisfied with the offer in area of Barcelona. Along the same lines, they are also satisfied with the costs of production.

Foreign companies consider that, although being satisfied with the main aspects of costs and expenses, there is an opportunity to improve the costs of freight transport, industrial units and land, even though this last point is qualified as of little importance.

Chart 16

The cost of labour is scored highly and the cost of industrial units is an aspect to be improved



4.2.3. Human Resources

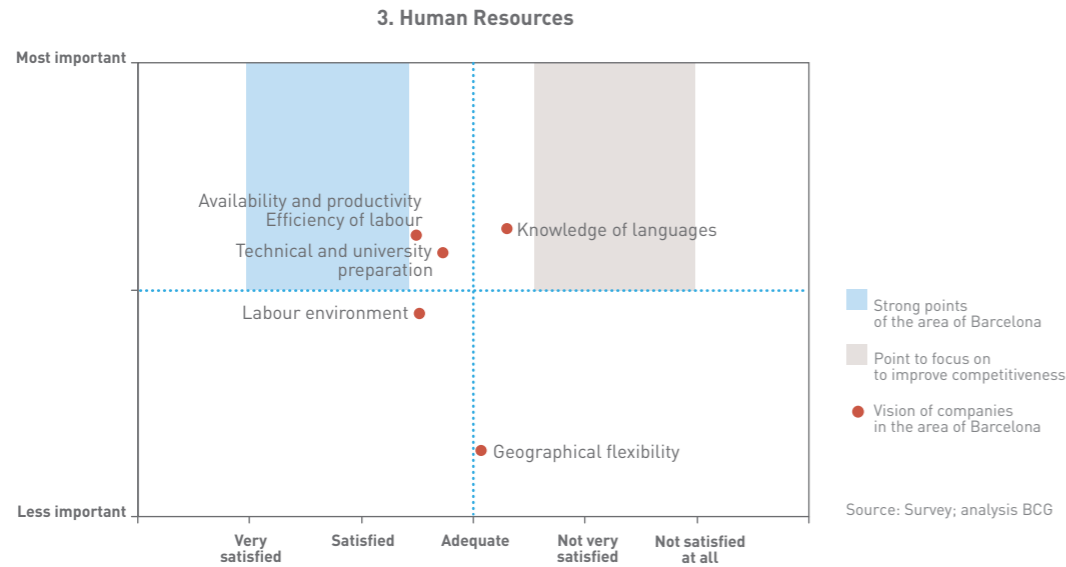
As in the last point, foreign companies say that the technical preparation, availability and the productivity of the qualified labour force is very relevant and they declare that they are satisfied with the offer found in the area of Barcelona. The technical and university preparation is very competitive. This is one of the differentiating points for Barcelona regarding its attractiveness for foreign inward investment.

languages could be improved further. Of the list of foreign languages, English is given a special mention as is the importance of making Catalonia trilingual.

Even though it is considered very close to the adequate required level, knowledge of foreign

Chart 17

The technical preparation of employees is an aspect that differentiates Barcelona



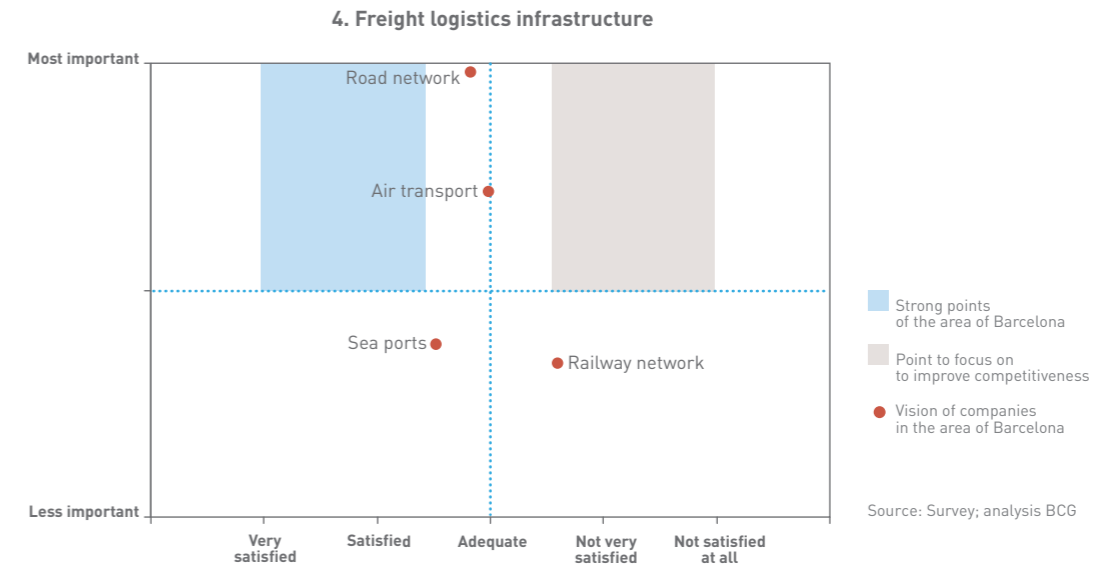
4.2.4. Logistics infrastructure for goods

Adequate infrastructure is fundamental for attracting foreign investment and economic development. The area of Barcelona enjoys a privileged and strategic situation on the Mediterranean Rim in order to supply the Spanish market and the South and East of Europe. Logistics infrastructure for goods is fundamental so that lots of foreign companies can stock Spanish markets with their products and in order to export. The road and air communication networks are the most important factors.

Business people find the logistics infrastructure for goods to be adequate in general. Even though qualified as "adequate", the perception is that this area needs further progress in the future. The railway network, on the other hand, doesn't reach the qualification of "adequate". Foreign business people with headquarters outside Catalonia give more importance to improvements regarding this point.

Chart 18

Logistics infrastructure is adequate even though it can be further improved



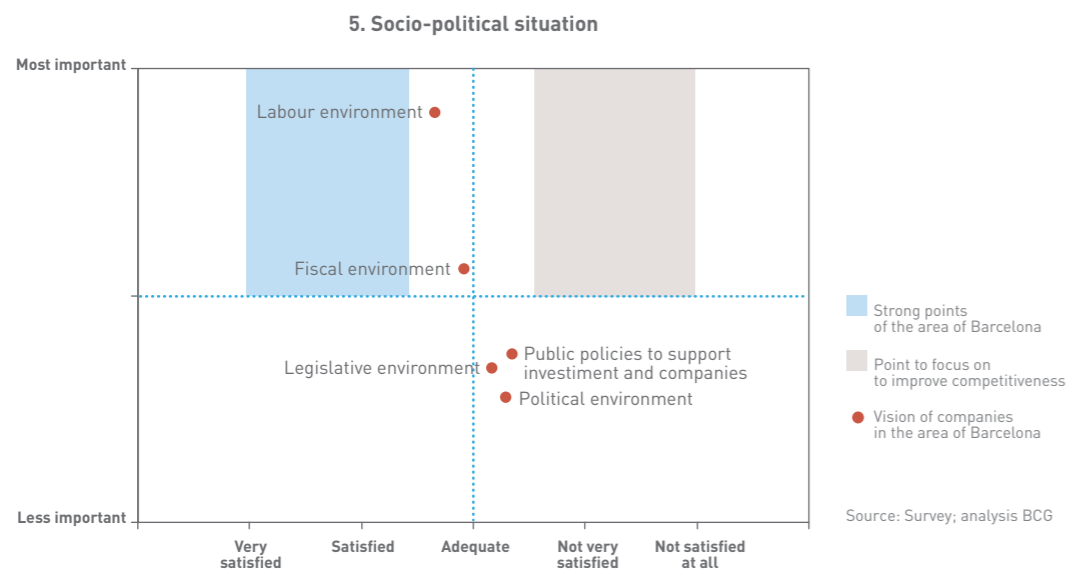
4.2.5. Socio-political situation

The block on the socio-political situation deals with the labour, fiscal and legal environment and public sector support for investments and companies. The situation in the area of Barcelona regarding all these points is positive.

Foreign business people that have corporate headquarters outside Catalonia give more importance to the political situation than do those that are located here. As well, they consider the political situation is less positive than in the area where they are currently located.

Chart 19

The socio-political situation is positive



4.2.6. Real estate infrastructure

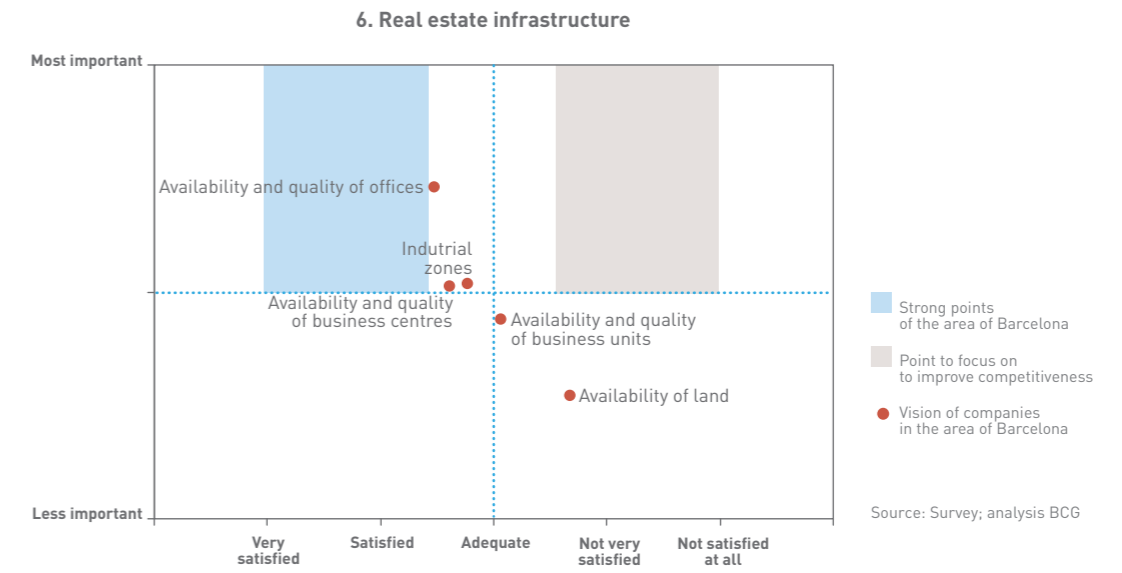
Foreign companies consider the supply of real estate infrastructure to be satisfactory, especially the availability and quality of offices, business centres, and also the quality of industrial zones. Foreign companies from outside Catalonia have an almost identical opinion about Barcelona

to that of the area where they are located.

Even though the majority of companies don't rate the availability of land as "very important", this is an area where improvement could be made.

Chart 20

Real estate infrastructure is valued highly



4.2.7. Passenger communications

In general foreign companies show that they are satisfied with passenger communications and travel possibilities while at the same time indicating that it is a factor that can be further improved in the area of Barcelona. Business people believe that strengthening the air transport and public transport networks necessary for their activity is positive. 44% of those that gave their opinion on the airport are not satisfied with the service received and demand more regular flights, more low-cost routes, and more direct transoceanic flights. 27% of those that gave their opinion on the airport said there was a need to move towards an airport management system that implicated autonomous regional administra-

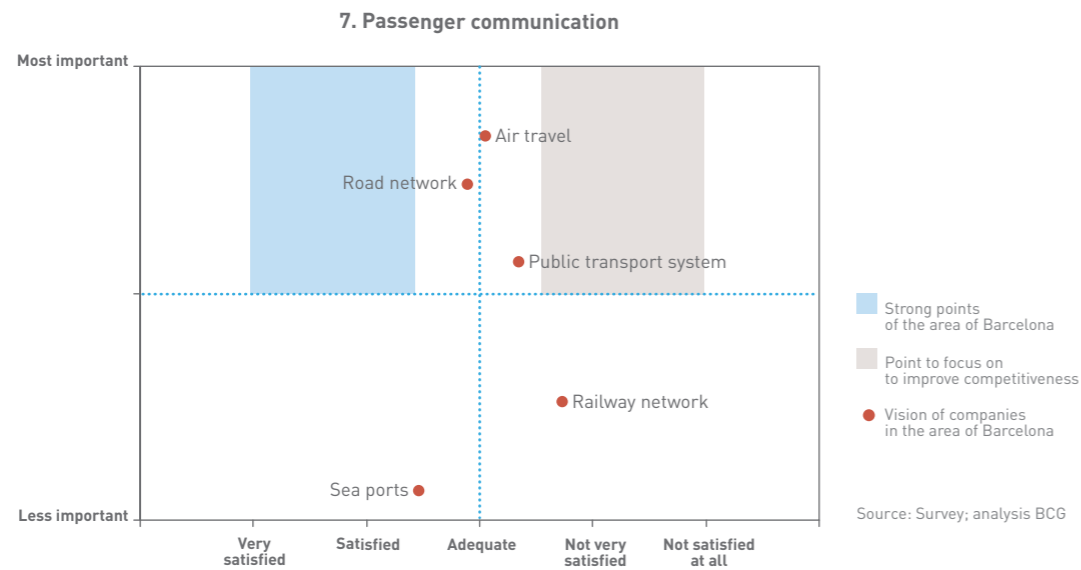
tions and local ones too and that this system should solve the challenges of passenger air travel to/from Barcelona.

Sea ports and the train networks do not play an important role in the activities of the survey sample, who declared themselves to be satisfied with the level of service provided by sea ports, but not satisfied with the passenger train network.

It is important to note that foreign business people with corporate headquarters outside Catalonia see the quality of public transport to be an important element when taking a decision on investment. In this sense, just as in the case of foreign business people based in Barcelona, they note that this is an aspect that needs further improvement.

Chart 21

Passenger communication is satisfactory



4.2.8. Telecommunications infrastructure

Foreign companies from both within and outside Catalonia have similar opinions about this point. Both say that access to broadband is very important as are the costs of telecommunications, and they claim to be satisfied regarding this last point. Even so, this depends on the telecommu-

nications operators that offer their services to the national market and therefore it isn't a differentiating point within Spain.

Foreign companies in the area of Barcelona are satisfied with the quality of their mobile and fixed lines.

4.2.9. Services offer

Foreign companies located in the area of Barcelona are very satisfied with the services offered in this area. Those strong points that are most important include the level of medical and health cover, the offer of universities, business schools, and top quality colleges, as well as the wide variety of cultural and enter-

tainment possibilities. But, on the other hand, business people are demanding more availability and access to housing.

Some business people outside Catalonia believe a wider offer of colleges in the area of Barcelona is desirable in order to attract foreign professionals.



4.3. Cities competing with Barcelona to attract foreign investment

The objective of the majority of foreign investments in the area of Barcelona is to reach the important Spanish domestic market. Therefore, those alternative cities to Barcelona for investments are often Spanish ones.

4.3.1. Competing cities in Spain

When a company decides to set up in Spain, the main alternative to the area of Barcelona is Madrid. 74% of business people believe that Madrid competes with Barcelona at the Spanish level. Other cities that were cited were: Valencia (24%), Zaragoza (16%) and Bilbao (12%)³.

In the opinion of foreign business people, the area of Barcelona has the advantage of having a better geographical location and quality

of life than Madrid, with a slightly better availability in terms of suppliers. They say that Madrid's strong points are its passenger communications, the availability of real estate, and public policy to support investment. The average of the different factors gives the two areas the exact same mark. This means that the two cities offer a very similar value proposition for those considering making an investment.

³ The sum of both cities is superior to 100, since some of those surveyed have replied for more than one city.

4.3.2. Competing cities at the international level

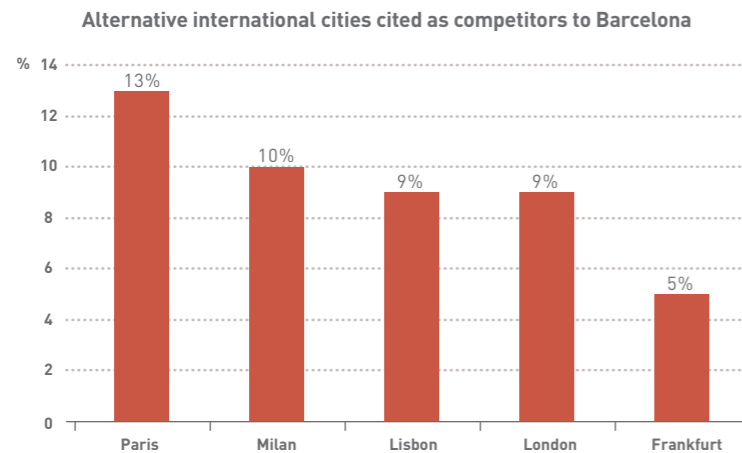
Some foreign investment objectives aren't so much about reaching the domestic market, but rather setting up a centralised activity that offers services to other countries. These activities (Design, R&D, service centres) in Barcelona are usually activities with a medium-high level of value added.

At the international level, the area of Barcelona is competing

with leading European cities. The 5 cities identified as most relevant are **Paris, Milan, Lisbon, London and Frankfurt**. These five represent almost half of those cities most cited as being competitors. But we should draw attention to the fact that business people have identified more than 40 alternative international cities to the area of Barcelona.

Chart 22

Barcelona competes with European cities for foreign investment



Source: Survey

The main competitor at the international level is Paris, which offers a similar value proposal to that of the area of Barcelona, although Paris has better infrastructure. Business people highlight the fact that Milan's closeness to customers and potential markets, and its availability of qualified personnel. Lisbon comes up as an alternative with a value proposal that is very much centred on the cost issue.

London is positioned fourth as an alternative to the area of Barcelona, but those that cite it believe it offers a very complete and competitive value proposition. London is considered the best city to set up a business at the European level because of its concentration of related businesses and international headquarters and also because of its highly-qualified and cosmopolitan work force (approximately 27% of the population was born outside Great Britain and these come

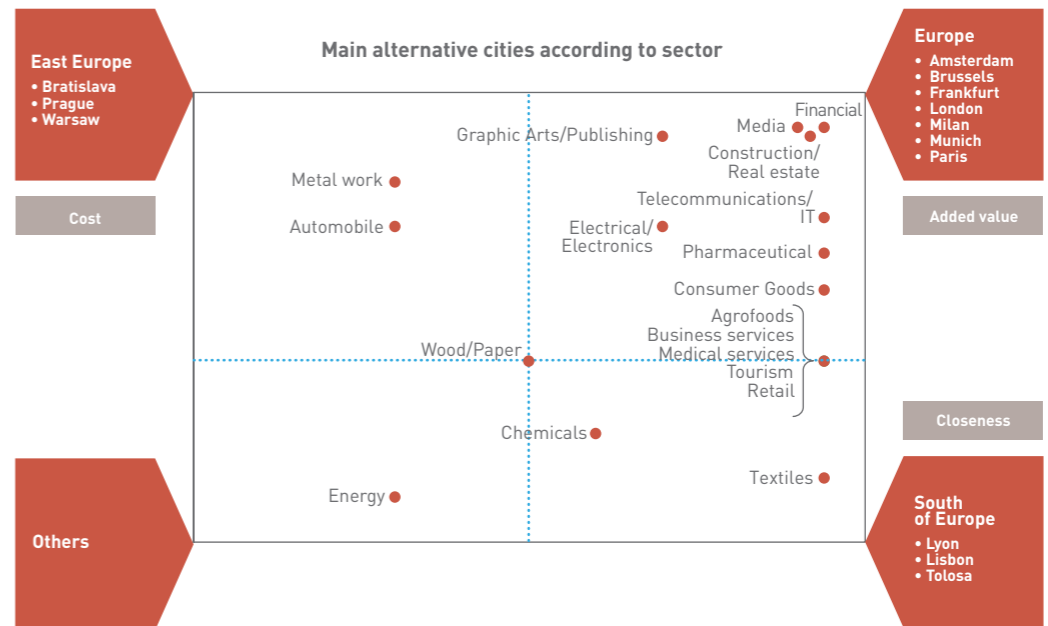
from more than 160 countries).

London has a concentration of relatively few sectors but of high value added: financial services, health services, and services for business, transport, communications, eateries and restaurants and in technology component industrial sectors.

Looking at the sectors themselves, the area of Barcelona competes for investments in the service sector with the main cities in the most developed EU-15 countries, while in industrial sectors which are most sensitive to production costs, like the metal working industry or automobile business, they compete with Eastern Europe. For sub-sectors where the costs and closeness to customers are both important (some sub-sectors in the textile business, for example) some medium-sized European cities (Lisbon, Lyon or Tolosa) are alternatives to Barcelona.

Chart 23

Competing European cities depend on the type of sector



Source: Survey; analysis BCG



The dynamic nature of Catalonia in the capture of FDI

5.1. Context: FDI in the world

Foreign Investment at the world level has increased in a significant way over the last few years, seeing a rise of 29% in 2005 to stand at 916,000 M\$. The causes of this rise have been the strong growth experienced in the world's main economies, which has boosted investment, mergers and acquisitions of companies, and also favourable conditions in the financial markets: a strong generation of companies' cash flow, low interest rates and the

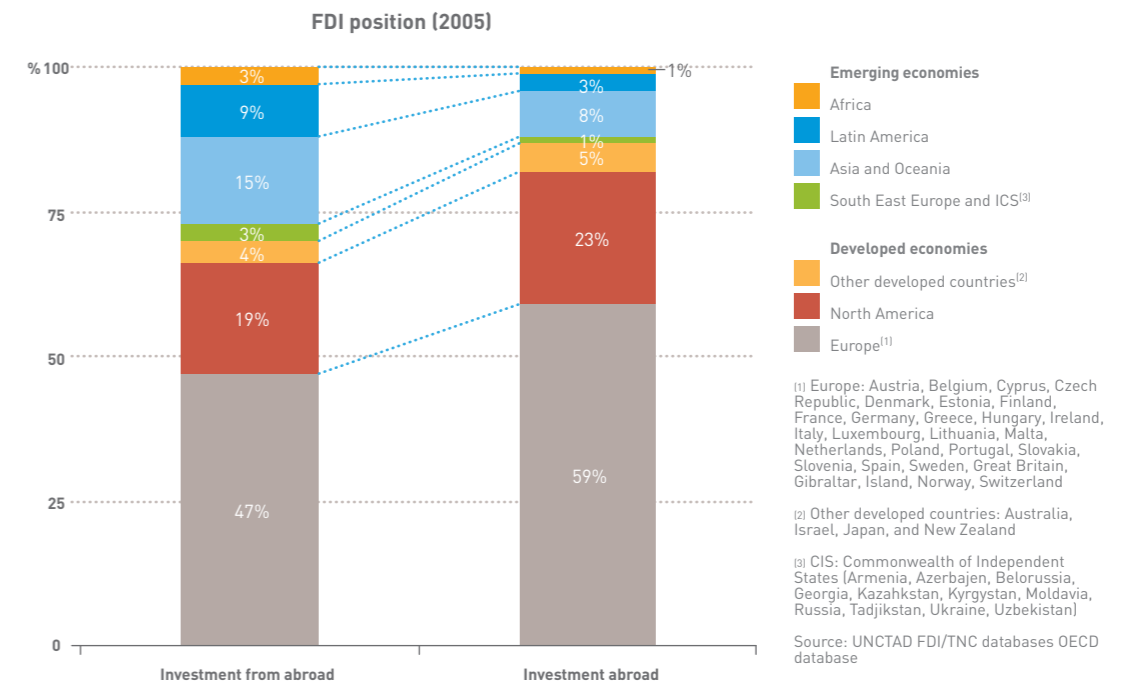
maintenance of confidence in the main financial centres.

Developed Europe and the United States have both traditionally been the main investors and recipients of investment at the world level. Europe continues to occupy the first place in outward accumulated investment (60% of the world total), but as well it is the principal recipient (almost half the world's total) thanks to

multinational companies that mainly set up in Great Britain, Holland and France. The United States is both the world's top recipient country for investments from third countries and that which historically makes most investments. Until 2005, Europe and North America accounted for 80% of accumulated investments to third countries and almost 70% of inward investments at the world level.

Chart 24

Europe continues to be the principal investor and recipient of Foreign Direct Investment



Large investing countries at the world level are the United States (19% of the world total), Great Britain (12%), Germany (9%) and France (8%); they are also the top recipients. Spain is in a good

equilibrium position between what it receives from abroad and what it invests in third countries. In the last few years, outward investment has grown far more than inward investment.

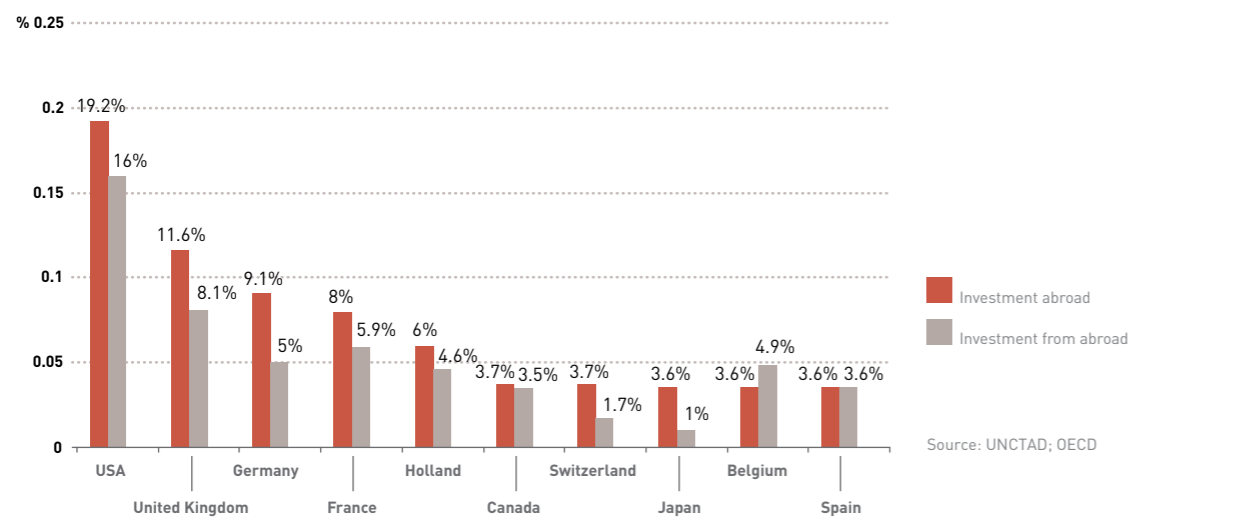
In terms of new FDI investments during 2005, Europe continues to capture 50% of all world FDI (more than twice as much as Asia). In 2005,

Spain stood in the 10th position of the ranking of countries that received most Direct Foreign Investment in the world.

Chart 25

USA, Great Britain, Germany, and France have been the most important investors abroad at the worldwide level

Investment abroad and from abroad (2000-2005)



5.2. Catalonia's power of attraction for FDI

Catalonia –especially the area of Barcelona- has long been an attractive destination for Foreign Direct Investment (FDI) and this is why it has the largest foreign business base in Spain. But, given that the market is getting more and more global, Catalonia has to continue to create a favourable environment for attracting higher added-value investment.

After the process of GDP-per-capita convergence experienced by the EU-15, the area of Barcelona has to compete with the main European cities. Low costs, especially in terms of labour costs, stop being the principal advantage, and multinational companies set up in the Area according to certain criteria that this particular area offers: the education of labour forces, closeness to clients and potential markets, economic dynamism, the concentration of related companies and activities, and the quality of life. Thanks to these and other factors, Catalonia enjoys a very competitive position and is positioned amongst the main regions at the European level regarding the capture of new investment projects.

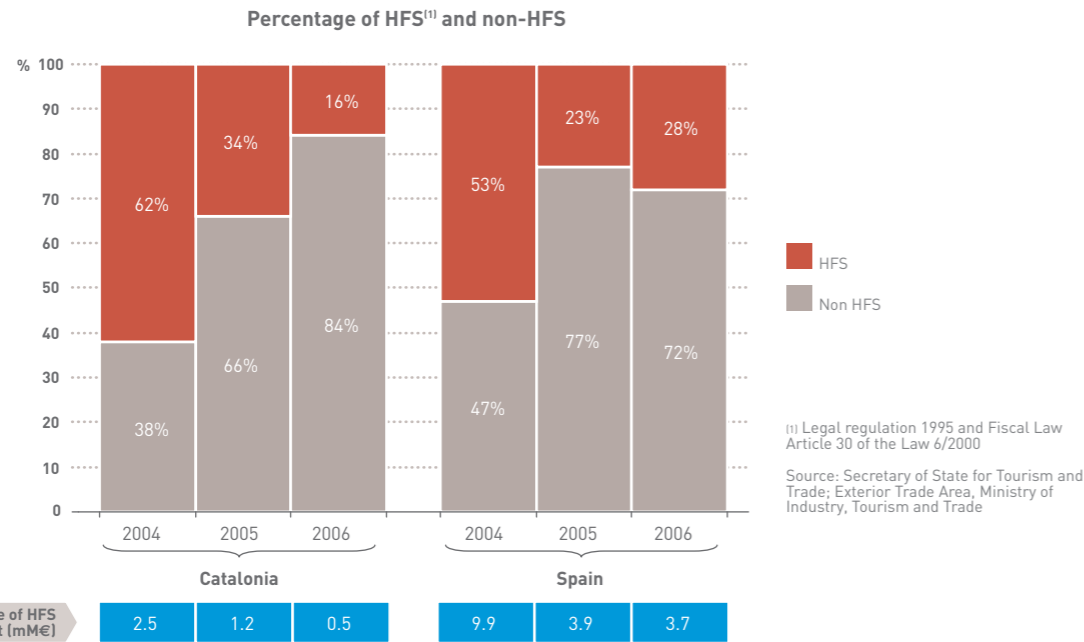
In order to analyse foreign investment in Catalonia we have based the study on a comparative of Foreign Direct Investment Greenfield (FDI Greenfield), which is

foreign direct investment applied to the creation of new companies or new business activities and the most trustworthy indicator of the effects on GDP. When counting the flows of foreign investment, the majority of European countries follow the recommendation of the OECD ("Benchmark Definition of Foreign Direct Investment", Third edition) and they count the re-investments of foreign companies already set-up in their countries. In the case of Spain, this country also follows the OECD recommendations but doesn't count the re-investments, which can constitute important amounts, and which according to our estimations can be almost as important as those new investment flows with a direct effect on the GDP. Foreign investments in (Holding of Foreign Stock), even though they have a significant weight in the overall levels of foreign investment in Catalonia, shouldn't be taken into account. What these assets bring to the producing economy is minimum, since they do not generate a significant number of jobs nor investments in fixed assets. Other entries that shouldn't be included are mergers, acquisitions nor changes in shareholder title when the buyer is a non-resident.

¹ FDI Greenfield is the difference between FDI (Gross or Direct Foreign Investment) in which the latter also includes acquisitions of companies or existing business activities and those assets deposited in the investment vehicles called HFS (Holding of Foreign Stock), that don't generate GDP growth on their own since they are holding companies without trading activities. Neither does HFS include restructuring of foreign business groups, nor the transmission between non-residents, nor changes in ownership, which are also aspects which don't generate GDP for the region or country receiving the foreign investment according to these concepts.

² HFS operations signify a transfer within the same foreign investment holding group, which usually just obey to improvements in the organisation of the holding, tax, or finance situation.

HFS investment accounts for an important part of FDI

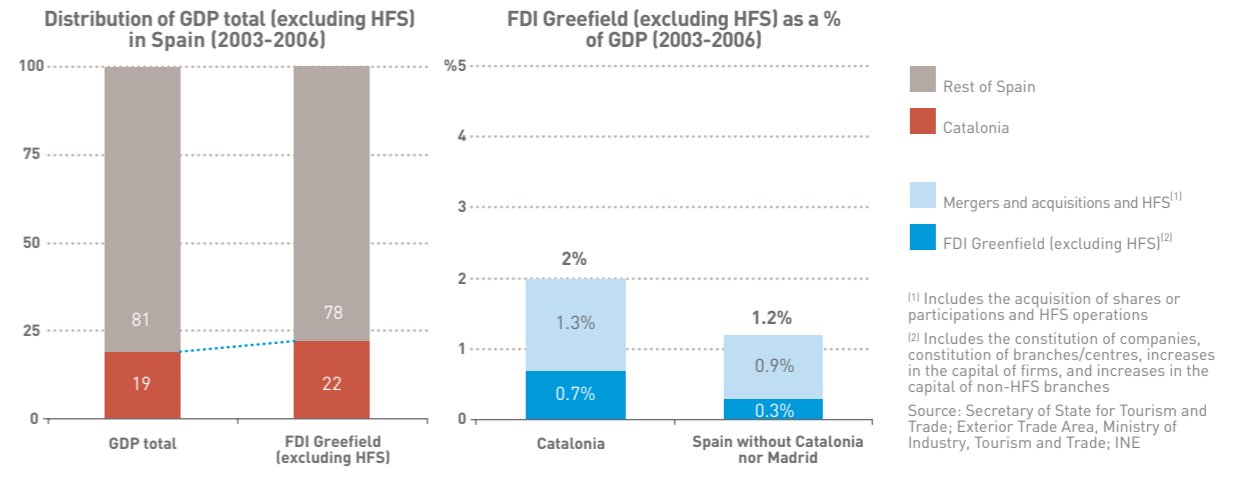


Catalonia attracts more Foreign Direct Investment Greenfield (FDI Greenfield) than it would correspond according to its weight in Spain's GDP (once the FDI Greenfield effect and ownership changes are accounted for) (Charts 27 and 28). So, while the weight of the GDP of Catalonia divided by the Spanish total is 19%, the percentage of FDI Greenfield captured during the period 2003-2006 is 22%. **Catalonia's share of FDI Greenfield has been rising**

from 19% in 2003 to 30% in 2006.

We should remark on the significant share of FDI Greenfield that Catalonia and the Community of Madrid enjoy in Spain. The rest of Spain (without including Catalonia or Madrid) only managed to attract 18% of Spanish FDI Greenfield in 2006. And the weight of FDI Greenfield over GDP for the rest of Spain (without including Catalonia or Madrid) represented 40% of that of Catalonia during the 2003-2006 period.

Catalonia attracts more FDI than its GDP weighting

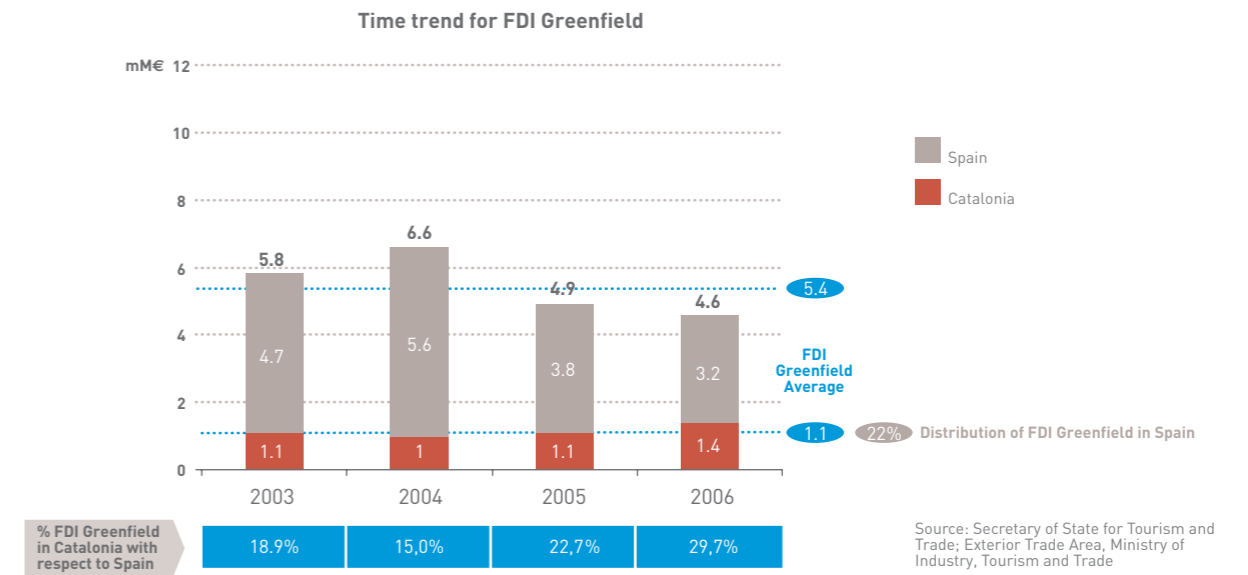


The capture of FDI Greenfield in Catalonia has remained stable over the period (2003-2005), at 1,000 - 1,100 million Euro per

annum, even though last year this amount rose to 1,400 million Euro. Catalonia received 29.7% of all Spanish FDI Greenfield in

2006, a percentage that is far higher than its corresponding GDP weight.

Catalonia has increased its quota of FDI Greenfield



In overall terms we can conclude that **Catalonia is doing a good job at attracting FDI Greenfield**: this is higher than its

weight in the Spanish GDP (even capturing 30% of the total in 2006).



The area of Barcelona and foreign investment in the near future

This study aims to continue to contribute to the strategic priority of the Government of Catalonia, Barcelona City Council and other Catalan institutions' objective of attracting more and better quality foreign investment to the area of Barcelona. Ideal conditions needed to move forward in this direction are in place: a satisfied business community that wants and continues to bet on the Area, and a potential for growth in foreign investment that remains notable.

6.1. Satisfied business base that is betting on Barcelona

Foreign companies in the area of Barcelona are very satisfied with their decision to set up here and the proof of this is that, according to the results of the survey, 86% of companies re-invest in Barcelona, a percentage which is as high or higher than other operations in the Groups and 24% re-invest more than 50% of profits. The majority of companies regard the Spanish market to be dynamic with significant development. This is why they consider there are future business opportunities and why they expect to see growth in their branches/operations in the area of Barcelona.

From the point of view of new investment projects, 56% of companies are considering new investment projects in Europe over the next two years, and 33% of these believe that the probability of carrying them out in Barcelona is high or average. 53% of these are 6M€ plus projects. The main objectives of these new projects are the development of new projects and services (49%), an increase in capacity (47%) and the modernisation of installations (24%). These new projects, with a high or average chance of being carried out in the area of

Barcelona, will be mainly in the chemical, metal working, automobile industry, real estate and business services sector. Investing countries will mainly be France, Germany, the US, Holland and Italy.

Regarding these new investments, foreign businesses believe that the Public Administration plays a key role. A proactive and open Administration, one that promotes dialogue and has a range of adequate services, could be the determining factor that pushes a decision one way or another in favour of certain areas. Foreign business people want to have contact and dialogue with the Administration, which has to firstly offer advice about subsidies and financing, as well as support during the set-up operation; they also consider that advice about tax, legal, and the labour situation are important, as is help in the search process for premises, strategic information about the sector, help when dealing with other departments and making contacts.

6.2. The potential of the area of Barcelona to become a best-practice benchmark

44

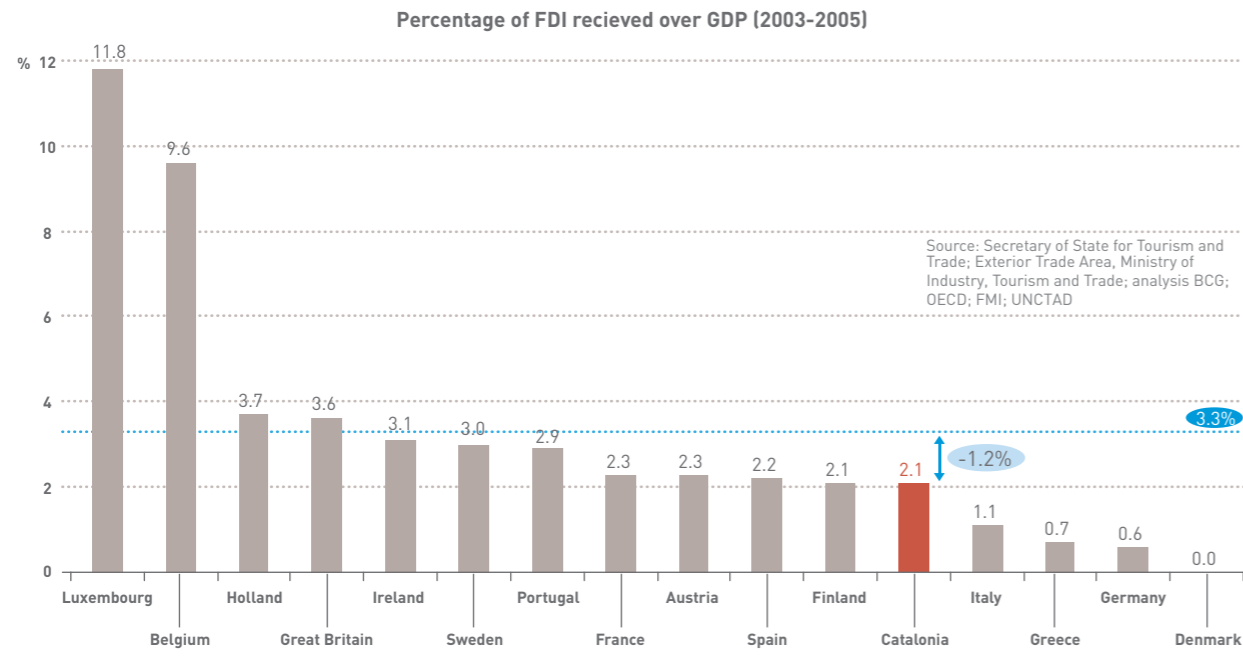
The area of Barcelona currently has an extensive offer of services for companies and their employees and this makes it highly attractive for Foreign Direct Investment. Even so, it still has a lot of potential to raise its attractiveness for FDI in the future.

The countries that are best-practice benchmarks for their ability to attract Foreign Direct Investment (like Belgium, Great Britain, Sweden) have about 3% of FDI as

a percentage of their GDP. This rate is above the Catalan level. **Catalonia would increase its foreign investment by almost 50% if it obtained the same results as countries with a longer tradition in attracting investment.** It is worth noting that Luxembourg, Holland and Ireland are not directly comparable since they have investment instruments that offer more efficient fiscal conditions to investors from third party countries.

Chart 29

Catalonia has the potential to raise its level of FDI by 50%



The area of Barcelona has the opportunity to continue to increase its Direct Foreign Investment from two sources:

- 1 Making the most of the foreign investment capacity of very important investing countries
- 2 Raising the level of investment in the service sector to that of the industrial sector

6.2.1. Opportunities to attract more direct foreign investment from large investing countries

In many cases, when a company decides to carry out an investment project abroad it usually determines what country it wants to invest in at the primary stage because these are investments designed to reach the domestic market of the country. Therefore, the competition for the location site is established between the large metropolitan areas in the country in question. For some – especially high value added activities- this competition happens at the European or world level.

Of the countries investing in Spain, Catalonia attracts the majority of investments from relevant countries like the United States, Germany, France, Canada, or Italy. Catalonia has a strong brand name that allows it to capture 50% of its foreign investments from these countries.

At the same time, Catalonia has the opportunity to increase its foreign investments from other countries where it has less tradition like Great Britain, Switzerland, and Sweden. Holland is a

country which looks more relevant than it really is, since the Ministry has over the last few years given figures that aren't broken down by autonomous community for investments from this country and so its potential would drop or even probably disappear if its proportional part were assigned to Catalonia

The case of Great Britain is a significant opportunity to attract more investment. And while Catalonia receives 2% of its foreign investments from this country, Spain gets 8%. The potential of Catalonia is far superior when you consider that this country's investments abroad represent 12% of the world's total. This means Catalonia could capture almost 10% more FDI if it maximised its potential investments from this country. Catalonia also has the opportunity to attract more FDI from Sweden and Switzerland, as Catalonia is under-represented with 3% less than the average for Spain.

It is worth considering the investments from Japan and Belgium at the world level. Japan accounts for approximately 4% of the world's FDI and Catalonia has traditionally attracted a significant part of the investments from this country. Nevertheless, over the last few years, Japanese investments in Spain represent 1% and this has also been of very little significance in the case of Catalonia. Belgium is a similar case to Japan. Its weight in the foreign investment total is very similar to Japan's, close to 4% at the worldwide level. Belgium investment in Catalonia and Spain is less than 1% of the total in recent times.

If Catalonia managed to attract the amount of foreign investment that was proportional to its weighting from some of the largest investing countries (Great Britain, Switzerland, Sweden, Japan and Belgium), it would increase its foreign investment by almost 25%.

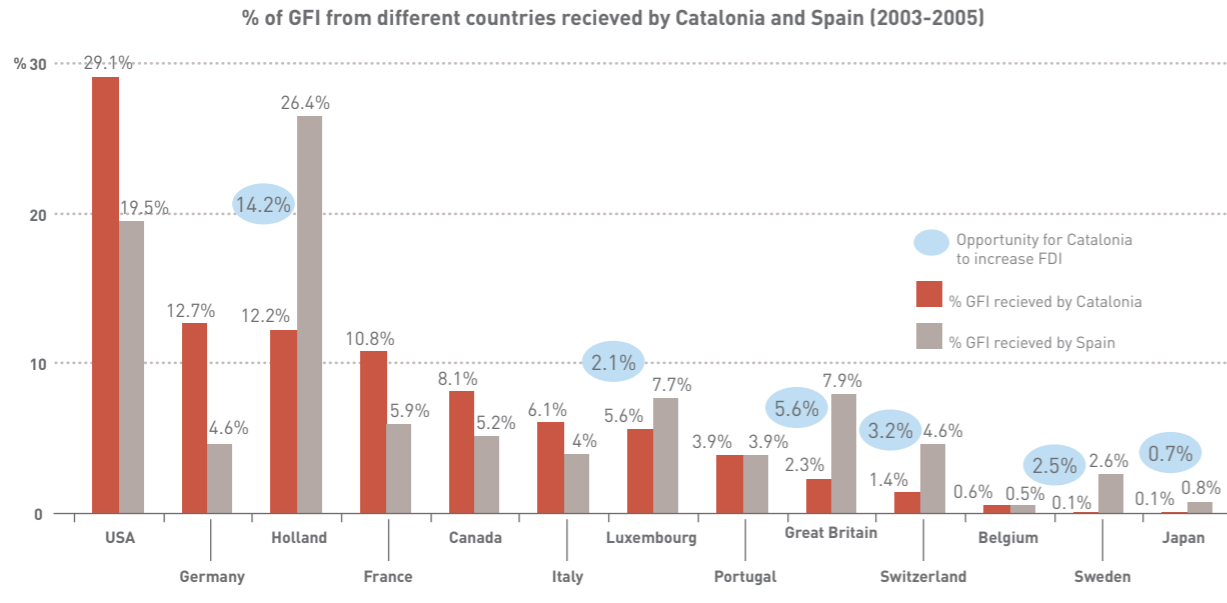


45

Chart 30

Catalonia has an opportunity to capture more FDI from countries like Great Britain

46



6.2.2. Opportunities in the industrial and service ambits in Catalonia

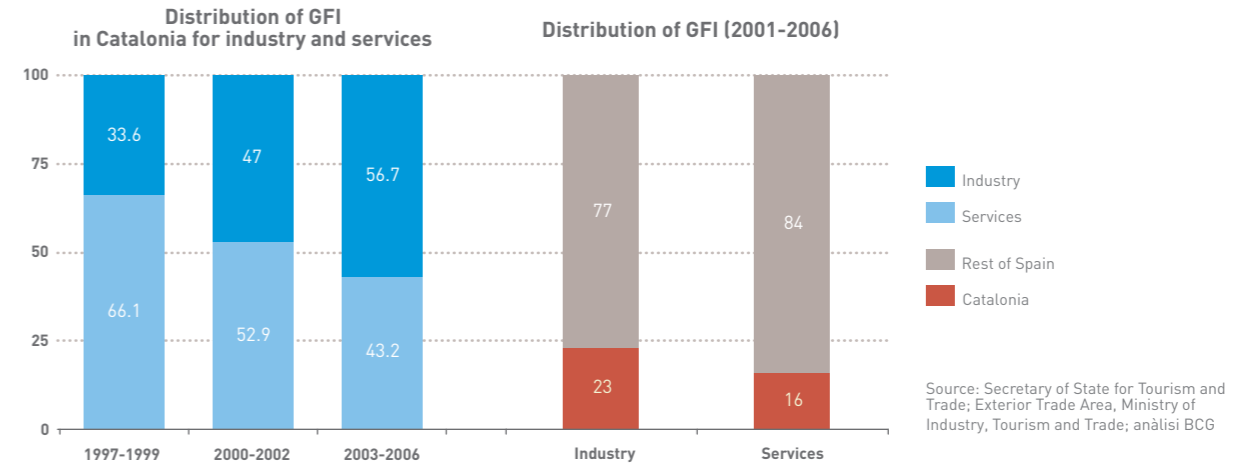
Over the last few years Spain has seen a general fall in foreign investment in the services sector. Catalonia has taken 13% of this investment while it has captured 24% of investments in the industrial sector. The evolution over time of the sector mix in Catalonia has resulted in a fall in the service sector, which

now represents approximately one third of new foreign investment flows. **If Catalonia attracts the same proportion of foreign investment from the service sector as it currently does from the industrial sector, then Foreign Direct Investment would be 30% higher.**

Chart 31

Catalonia has the potential to improve its FDI in the service sector

47

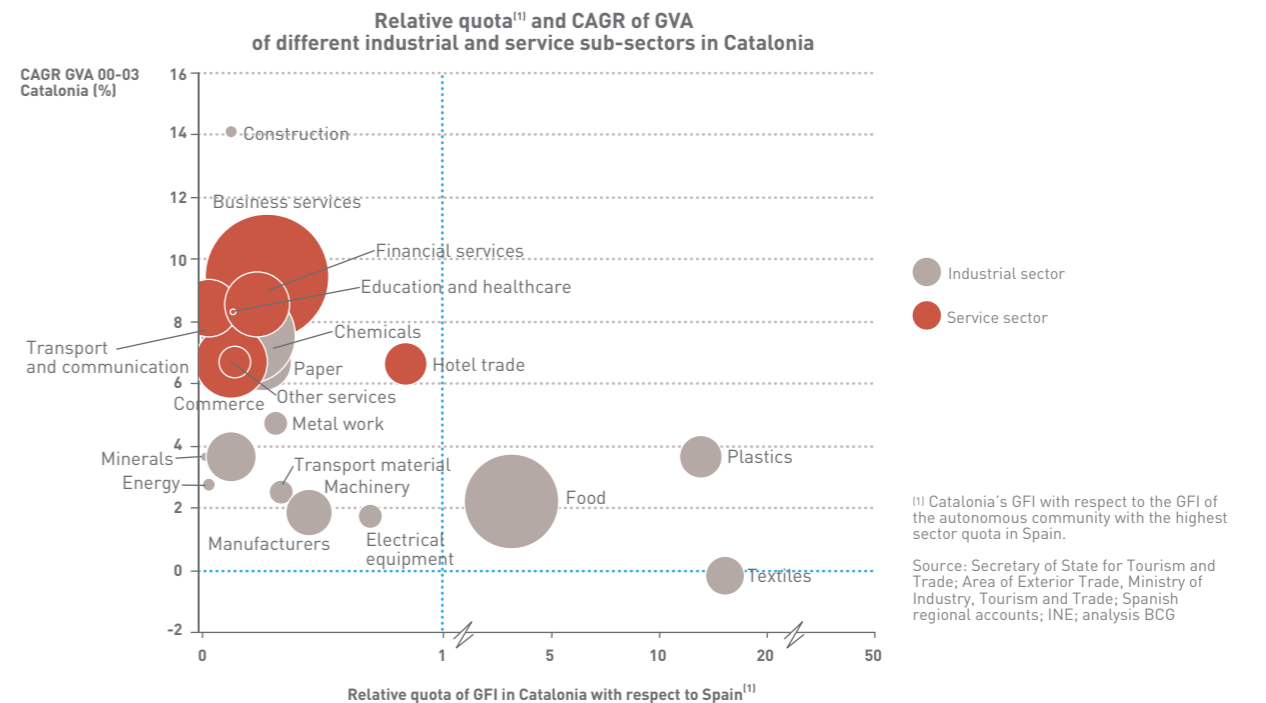


Sub-sectors of the service sector are growing at around 7%, more than twice the rate of the industrial sector. More Foreign Investment in the service sector wouldn't just be relevant to raise the overall level of foreign investment. As this is

about sub-sectors with high growth rates, the recipient area is guaranteed important re-investments in the future in order to deal with the growth of the sub-sector and higher GDP growth than it would have achieved.

Chart 32

The degree of foreign investment in Catalonia is most concentrated around mature sectors



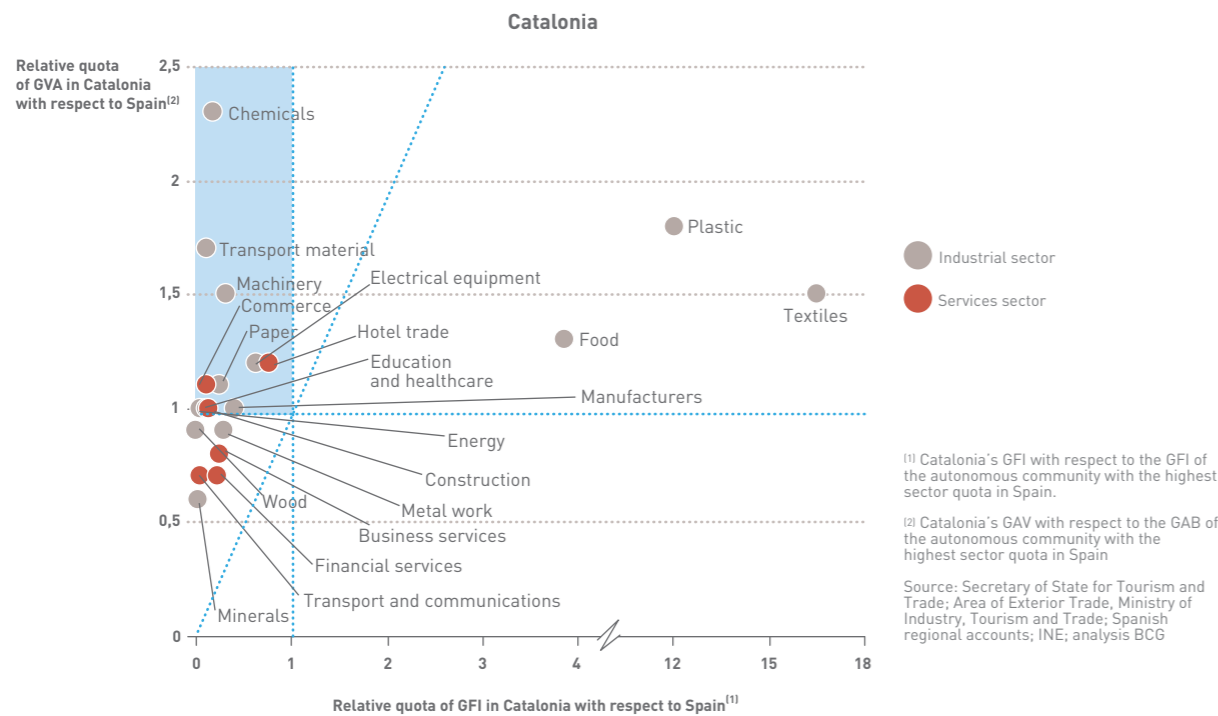
On the other hand, **it is important for Catalonia to continue to capture its corresponding quota of foreign investment in some of the sub-sectors markets that it leads³ today.** Catalonia shows significant leadership in the following sub-sectors: textiles, plastics, and foods, where it is capturing the majority of foreign investments carried out in Spain. In the case of

textiles, for example, it receives more than 15 times more foreign investment than the second-biggest Spanish recipient. On the other hand there are sectors where Catalonia is the clear leader and yet lately does not receive the biggest share of foreign investment in Spain. Sub-sectors like the chemicals business, materials transport, and machinery are also in this situation.

³ On the Y axis we have the relative quota for Catalonia in different sub-sectors regarding GAV. Just as in the previous graph a quota higher than 1 means that Catalonia leads at the Spanish level in terms of GDP contributions in this sub-sector. The X-Axis shows the relative quota in foreign investment.

Chart 33

Catalonia has to continue to capture foreign investment in those sectors in which it is leader



The area of Barcelona has an advanced economy that manages to attract quality foreign investment and therefore competes with leading European cities. Barcelona's position regarding attracting foreign investment is very good, but various areas need to be further improved to move towards best practice.

Capturing foreign investment is of extreme importance for Catalonia. If Catalonia were at the best-practice level regarding attracting foreign investment then the Catalan economy would grow up to 25%.

Those Administrations responsible for the Promotion of the area of Barcelona have a very important role to play. In this sense, the study is useful because it prioritises five strategic policy lines to increase the level of foreign investment and raise the level of satisfaction of foreign business people based here:

- **L1. Prioritise target companies, sectors and countries to attract FDI.** This line of work means ensuring that there are representation offices in the target countries with qualified personnel. The area of Barcelona needs to focus on those sectors that are of special interest for its economy and those high growth sectors that can also drive the economy. None of the analysed countries managed to attract the same intensity of foreign investment across all sectors. Best-practices identify target sectors and afterwards they prioritise target companies to capture foreign investment.
- **L2. Strengthen dialogue between the main decision-makers in these companies via a unique contact ("Relationship Manager") in the Administration.**
- **L3. Promote and widen the range of complete and quality services for foreign business people that are considering investing in the area of Barcelona,** just as is demanded by business people. Regarding this, business people are asking for services that help the operational set-up of their branch, like support services to locate industrial units, offices and personnel. More promotion is needed for services currently offered. And the range of services should be widened.
- **L4. Improve connectivity and infrastructure** areas where Barcelona can be further improved, a challenge that all the Administrations responsible for this area face.
 - Improve logistics, especially the road network and railway transport in order to make them comparable to best practices.
 - Improve passenger communication, especially air transport with increases in the number of transoceanic flights and regular flights to the main investing countries.
- **L5. Continue improving the qualifications and capacity of human resources.**
 - Move towards a trilingual Catalonia, including the knowledge of foreign languages, especially English.
 - Increase the percentage of youngsters having completed secondary education with a boost to professional training programmes, a demand that foreign companies are making more and more.

Jordi Comas
Senior Partner & Managing Director

Ricard Tubau
Partner & Managing Director



Annex: methodology of the study

In this study, the area of Barcelona is referring to the metropolitan city of Barcelona plus its seven surrounding boroughs: el Barcelonès, el Maresme, el Garraf, el Baix Llobregat, el Vallès Oriental, el Vallès Occidental and l'Alt Penedès.

To carry this study out, two important methodological sources have been used:

- An analytical study of the position of Catalonia regarding its ability to attract Foreign Direct Investment (FDI) and Foreign Direct Investment Greenfield (FDI Greenfield)
- A qualitative study on the perception of foreign business people outside Catalonia on the strong and weak points of the area of Barcelona and a comparative with competing cities (areas that include the reference city and surrounding boroughs)

7.1. Analysis of the position of Catalonia regarding FDI

Foreign Direct Investment (FDI) is essential for the progress of any developed country. Therefore, an exhaustive study has been carried out with in-depth diagnosis in order to know the relative position of Catalonia (understood that there are no isolated data for just the area of Barcelona) in which comparable data sources have been used and that these follow the same norms for investment both within and outside Spain: the database of Foreign Direct Investment of the OECD and the database of Companies Registration at the Ministry of Industry, Tourism and Trade.

The denominated generic form "Foreign Direct Investment" is known technically as GFI or "Gross Foreign Investment" and includes the following entries:

- The flows of investment from business that are not publicly listed on the stock exchange
- The flows of listed companies in which the foreign investor acquires at least 10% of the

capital of the company (which conventionally is considered a permanent relationship regarding the management of the company)

- The constitution of new companies with a trading activity and an increase in the capital of these companies (meaning Foreign Direct Investment Greenfield or FDI Greenfield)

Loans between the corporate headquarters and branch operations are not considered, nor are investments in real estate.

Foreign Direct Investment Greenfield (FDI Greenfield) is the most reliable indicator when considering the impact of foreign investment on the GDP of a country or recipient region. The reason is that mergers, acquisitions or a mere change in ownership title does not generate GDP alone. However, a new production activity does increase the GDP of a particular region that receives the investment.

Comparatives between Catalonia and other regions and countries across the world are made at the FDI level (since FDI Greenfield isn't available), while comparatives within Spain are made at the FDI Greenfield level.

It is convenient to point out that the OECD periodically reviews its recommendations for counting foreign investment. In its next edition, it is studying the possibility of offering data on Foreign Direct Investment Greenfield (FDI Greenfield). If this new move comes about it will allow a more precise comparison of foreign investment at the world level.

In addition, data on Spain has been cleaned up from the asset deposits recorded in the so-called HFS investment vehicles (Holding of Foreign Stocks), since these don't generate GDP in the community where they are regis-

tered. Holdings of Foreign Stocks are very relevant in terms of their volume (they can be as big as the volume of FDI Greenfield in certain years) and so here lies the importance of isolating this effect.

It is important to point out the so-called "corporate headquarters effect", meaning those companies registered in an Autonomous Community that carry out the majority of their trading activity in another. The first foreign investments carried out by a company don't include this effect (because they already come cleaned of this effect from the Ministry) but, in re-investment estimations, the effect is not isolated. According to our estimations, taking into account the headquarters effect, foreign reinvestment figures in companies with production activity in Catalonia are underestimated by some 30%.

7.2. Survey on foreign business people's opinion of the area of Barcelona

As in previous studies, our research on the businesses in the area of Barcelona has consisted in a survey sent by mail to 2,600 companies with foreign capital located in the area of Barcelona, and another sent to 1,400 foreign companies located outside Catalonia. Interviews have also been conducted with experts and opinion leaders on foreign investment both in and outside Catalonia.

A total of 206 replies were received, 23 of which are from outside Catalonia. The survey has been completed by the

Managing Director or the Finance Director in 91% of cases. In 85% of cases survey replies were sent by letter and 15% via the web. The replies received offer a statistical confidence of 95%.

These results have been included in the study on the current situation of foreign businesses. The novelty in this study, however, was that it doesn't just include the opinion of this group of foreign companies located in the area of Barcelona, but also the perception of foreign companies located outside Catalonia.

7.3. Sources used

Source	Publication / Database	Content
Chamber of Commerce and/or Commercial Offices	Database companies from country of origin	Companies set up in Catalonia and Spain according to country of origin
Survey ACI-Barcelona City Council	Survey carried out on foreign companies in the area of Barcelona and outside Catalonia	Perception of the area of Barcelona and its competitiveness
National Statistics Institute (INE)	Spain's Regional Accounting	Gross Domestic Product (GDP) Gross added value (GAV) • Autonomous community • Sector
Ministry of Industry, Tourism and Trade	Investment records	Gross and net foreign investment flows: • Autonomous communities • Type of operation • Sector • Country of origin • HFS and non-HFS
OECD	International Direct Investment Statistics Data Base	Flows of foreign investment from OECD countries. Inward Investments and outward investments to/from OECD countries
SABI	Database of accounts held at Companies House of firms with their headquarters in Spain	Turnover of foreign companies Re-investments of foreign companies



Glossary

Term	Definition
Area of Barcelona	Area comprising of the city of Barcelona and adjacent areas: el Barcelonès, el Maresme, el Garraf, el Baix Llobregat, el Vallès Oriental, el Vallès Occidental and l'Alt Penedès.
Cluster	Geographical concentration limited by similar, related or complementary companies, that have active Channels to carry out commercial transactions, communicate, and dialogue between themselves. These companies also share, in the ambit of the cluster, specialised infrastructure, the same work and services market, and face similar opportunities and threats.
Foreign company	Company with at least 25% of capital held by non-residents.
HFS	HFS (Holding of Foreign Stocks) is investment vehicles, which are holdings without trading activities.
FDI or GFI	Foreign Direct Investment also called Gross Foreign Investment. This is different to two other types: <ul style="list-style-type: none"> • FDI Greenfield • Mergers and acquisitions
GDP	Gross Domestic Product. Monetary value of assets and final services produced for an economy over a set time frame. Product means the aggregate value; Domestic is the production within the border of an economy, and Gross is that that doesn't account for variations in inventory, nor depreciation nor capital amortisation.
Relative Quota	Calculation of the ratio of Gross Added Value for Catalonia generated by companies in a particular sector against the Gross Added Value generated by companies in this sector in the autonomous community with the largest quotas or concentration (or the second largest in the case that Catalonia has the largest). In the case that Catalonia is the leading community, its relative quota will necessarily be superior to the unit value. If Catalonia has a GVA that is half that of the leading community, its relative quota would be 0.5.
CAGR	Compound annual growth rate for the corresponding period.
GVA	Gross Value Added. Difference between the production value at base prices and intermediate consumption at purchase prices. This is accounted for regionally in the territory where it is produced.
R&D	Research and Development. Spend on research and development activities.

Credits

Edition

Barcelona City Council
Economic Promotion Sector
www.bcn.cat/barcelonabusiness
Tel. +34 93 402 74 78

Government of Catalonia
Catalonia Investment Agency
www.catalonia.com
Tel. +34 93 476 72 00

Coordination

Xavier Borrell,
Barcelona City Council
Fina Sancho,
Catalonia Investment Agency

Design

Imasdecomunicació, S.C.P.

Print

Impremta Municipal

Legal deposit: B-35238-2007
Barcelona, June 2007