

## Cutting ties?

**Calls for an independent Catalonia grew louder in the last 12 months, while the identity of the next Spanish government is unclear with an election looming. Is political risk deterring investors?**

It has been a big year for Barcelona and the wider Catalan region. Demands for Catalanian independence reached fever pitch as around two million people demonstrated their support for the notion of a Catalan state. Lawyers say it is not yet clear what the impact of the independence movement has been on Barcelona's economy, but some add that it is something that should be monitored.

Generally, the view taken on the city's economic prospects is a positive one. Lawyers cite an increase in M&A activity, along with a decline in bankruptcy and insolvency work, as evidence of recovery. Foreign investors are keen to invest in the city and the Chinese, in particular, appear to have a strong appetite for M&A deals. However, political issues are never far from the surface, with lawyers saying that investors are asking questions about the



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Cuatrecasas, Gonçalves Pereira

possible outcome of the Spanish general election later this year – the prospect of a government run by the left wing Podemos party appears to be unsettling some investors.

Jordi Casas, partner at Roca Junyent, says there has been a recovery in corporate and M&A transactions with foreign investors

“coming back”. He adds that there has been activity in the tourism, hotel and biotech sectors in this respect. Meanwhile, Casas says there has been fewer insolvencies, bankruptcies and financial restructurings. “With regard to prospects, there will be more transactional work, with interest from foreign investors in the US and Europe as well as conglomerates in China,” he adds. “There is also interest from Latin America in the banking and real estate sectors.”

Miguel Trías, managing partner of Cuatrecasas, Gonçalves Pereira's Barcelona office says activity in Barcelona “accelerated” during the year. “There is now less insolvency and labour-related work and start-ups and tech businesses are on the rise,” he says. “Foreign investors are finding Spain attractive again – we now see industrial investment from Japan for the first time in ten years.” PwC partner Joan Daura says there are lots of Chinese companies looking for opportunities in Barcelona. “Chinese investors are often not used to investing in the western

market and they have a different cultural way of doing business – there is also a different way of understanding fees for legal services,” he adds.

### Eager Chinese investors

According to Jorge Adell, partner at Baker & McKenzie, the M&A market has experienced substantial changes – not only in terms of its increased commoditisation – but also as a result of new type of investors arriving in the Spanish market, including investors from Asia and the Middle East. “Chinese



investors have a lot of liquidity and a hunger for occupying strategic positions in certain European markets and industries,” he says. “These objectives sometimes cause them to change the order of processes – for instance, sometimes they acquire businesses first and carry out the due diligence investigations and remedy contingencies after closing, with the corresponding risks.” Gabriel Nadal, managing partner of Ecija's Barcelona office, says “attention to new eastern markets which are receptive to the city and to what Catalonia might have to offer as a safe investment destination” is key to the firm's business model and, he adds, is proving to be a profitable strategy.

Pinto Ruiz & Del Valle managing partner Jordi López says a significant recent change is that now Spanish clients have overcome their fear of investing and are now doing deals. Adolf Rousaud, managing partner of Rousaud Costas Duran, says the ‘new economy’ – businesses in sectors such as IT, pharma and bio-tech – were relatively unaffected by the crisis. He adds: “Entrepreneurs do not need a lot of capital to start up a business, meanwhile real estate prices are on the rise and family offices are looking for opportunities – companies that survived the crisis are looking to expand their businesses.”

According to Pérez-Llorca partner Sergio Agüera, there has been “movement in the capital markets”. He adds: “There have been new IPOs and this trend will continue, the issuing of bonds will

also continue." Antoni Valverde, partner at Allen & Overy, says there is considerable activity in Barcelona involving investors from the Far East and Middle East, he adds that clients in general – including local clients – are becoming "sophisticated users of legal services". This point is echoed by Daura: "Legal and tax departments are more sophisticated in that they know more about the value of the company and they are more sophisticated in that they have

more industry knowledge."

**Lawyers must be transparent**

Casas says it is important that lawyers anticipate regulatory changes and then inform clients how the changes will affect their company. "Clients see you [lawyers] as a business partner – another change is that the contracting of legal services by clients is now done more often on a procurement model," he adds.

Casas says it is important for law firms to be transparent with clients.

"Law firms have to distinguish their services – they have to be aware if the service is a commodity or whether it adds value – clients do appreciate that law firms have to be sustainable, and they appreciate having a law firm as a business partner provides stability. Trías says in-house legal teams are becoming more professionalised and the work that tends to be outsourced now is competition, litigation and M&A matters (largely because external law firms can provide big teams of lawyers). Rousaud says law firms now have to provide both commoditised and specialised services. "You have to be close to the client and you have to understand their business," he adds.

According to Agüera, while fees are low for commoditised services, there has been a "recovery in fees" for high value-added services.

López says clients now often want their lawyers to provide them – in relation to certain services – with an indication of the "maximum cost", so that they can "plan the cost schedule" of their projects. Antonio Herrera, partner at Uría Menéndez, says that convincing a client that you add value is not something that comes naturally to lawyers. "We are not natural sellers but we need to embrace this," he adds. "We are having conversations about this with key clients."

PwC's Daura says: "When we finish a job, we try to get an appraisal from the client – we want to find out if the client is happy and this is a good way to get a conversation going about fees, we find procurement departments have different ways of appraising the work done by their legal advisers."

**Brand awareness**

Valverde says that although relationships continue to be crucial, brand is becoming a factor in clients'



decisions about which law firms they use. Rousaud says brand is a factor in clients' choice of legal advisers, but he adds:

"It's more important to form a relationship based on trust with them, while price is also a consideration." Herrera argues sophisticated clients don't look at a law firm's brand, they look at the record of the lawyer.

López believes lawyers should make the effort to explain the value of their services. He says the "onus is on us to follow-up with clients – we need to show them that what they got was something successful relative to the cost". One partner adds that clients often fail to understand the added value lawyers provide. "Clients tend to minimise what you do," he says.

Rousaud says that retroactive changes in regulations – such as those affecting the energy sector – creates "economic harm". One

**'Competition between Barcelona and Madrid benefits Spanish economy'**

Speaking at the *Iberian Lawyer Barcelona Annual Report Roundtable*, Uría Menéndez partner Antonio Herrera said there is always a tension between the Madrid and Barcelona markets. "Madrid is at the front of the minds of investors in Iberia, but we also have very important clients in Barcelona – at the end of the day, what we want is lawyers with an international practice irrespective of where they are based," he said. Adolf Rousaud, managing partner of Rousaud Costas Duran said there is a significant difference between the two markets. "Energy, insurance, finance and banking work is mainly in Madrid," he said. "But there is a lot of biotechnology and pharmaceuticals-related work in Barcelona and this defines the different legal needs of the two cities – for example, there are a lot of regulatory bodies in Madrid." Jordi Casas, partner at Roca Junyent, which hosted the roundtable, said foreign investment has come back to Madrid and Barcelona. He added: "The competition between the two cities is beneficial for the economy as a whole." Rousaud said one of the challenges for Barcelona-based law firms is to "make their brand more powerful in Madrid". Antoni Valverde, partner at Allen & Overy, argued that there is not really a distinction between the Madrid and Barcelona markets: "We're operating in a single market – the amount of Madrid lawyers that come to Barcelona to work is remarkable and the other way around is also true – besides, there are Catalan clients that buy legal services in Madrid."

partner says that clients are often left frustrated by the Spanish court system and the time it takes for decisions to be made. "The independence of our judiciary is ranked low," he adds.

Trías says that the administration of justice in Spain is independent and "basically honest" – he adds that the problems with the judicial system are a "matter of efficiency". Trias says: "I've never found a corrupt judge. The administration of justice is slow, but it is not corrupt." One partner says the perception of corruption in the judicial system is an issue in that it may harm Spain's international reputation.

Agüera says the problem is that there is not enough people working in the judicial system.

**Weak euro helping exports**

Trías believes that after a number

of years of stagnation, 2015 will be a year of growth. Agüera says that he has not seen a client not invest because of "political risk". Another partner remarks: "Two years ago, there was talk of Spain exiting the euro – now the euro is going down, but this is helping exports – we [Spain] are part of the EU, so part of our budget is already decided. We're not exporting oil. We're not relying on one particular resource. We're not going to turn into Venezuela. Nothing will happen in the next year. People talk about the real economy, and, yes, the unemployment rate in Spain is a disaster, but I don't make money out of the real economy, I make money out of the capital markets." With regard to fees, Rousaud says that, at the beginning of the crisis, refinancing work was well paid, but over time this has

become a commoditised service. Daura says litigation and tax work is increasing and that "the last semester of the year [2014] was good" – he adds that capital

“ Chinese investors have a lot of liquidity and a hunger for occupying strategic positions in certain European markets and industries.”

Jorge Adell  
Baker & McKenzie



markets activity is increasing." With the US Treasury Department and US Commerce Department having recently eased relations with Cuba by amending regulations relating to Cuban exports, clients are now looking at how they can capitalise on opportunities in Cuba before competition from US companies stiffens. One partner says: "We have clients we advise on Cuba – they want to understand how they can be in Cuba before their competitors from the US."

**What have been the major developments in the Barcelona market over the last 12 months?**

"The market is picking up, which means that asset and share prices are increasing and the purchase processes are more competitive. Tenders are the rule of the game. Premium real estate has been desirable for some time, and prices have already increased. The news is that there is movement in all types of real estate, and interest in land and development. Funds have become major players in many sectors and their investment is growing. For many of them, a big challenge is obtaining the human resources required to manage and service the assets they are acquiring." **Daniel Marín, managing partner of Gómez-Acebo & Pombo's Barcelona office**

"With regard to foreign investment, we would highlight the acquisitions by foreign funds of real estate asset management businesses related to office buildings, logistics premises, hotels and even land for future residential development. There has also been significant development projects involving retail and shopping centres. Regarding financing, we advised on the Barcelona transport system's €472 million refinancing. In relation to corporate M&A, we have acted for Abertis on several transformational deals and on the acquisition of telecommunications towers from major operators." **Miquel Montañá, Managing partner of Clifford Chance**

"Over the last year, there has been a significant increase in the number of foreign companies interested in investing in Barcelona. Meanwhile, local companies have adopted international expansion strategies to search for new markets. As a consequence, this new environment and the growing economic activity is means law firms have to rethink their organisational structures. This new situation requires adaptation to a new type of legal services with innovative, pragmatic and high value-added solutions. **Eugenia Jover, senior associate, Deloitte Abogados**

"The major developments relate to the return of capital investment both in real estate deals and M&A projects. While the real estate market has been focused on property holdings and commercial investments, M&A transactions have included a wide range of industries, and have involved businesses ranging from start-ups to leading companies. Most of these investments have had a foreign element but the internal market has also shown signs of capital capacity as well as the intention to invest." **José María Rojí, Barcelona managing partner, CMS Albiñana & Suárez de Lezo**

"After a long standstill period, international mergers and acquisitions involving Spanish companies with registered offices in Barcelona, have started to increase in the last year. Moreover, events held in Barcelona related to the technological industry, like the Mobile World Congress, are currently contributing to the creation of a business breeding ground which will be, with absolutely certainty, very advantageous for start-up companies in Spain." **Adolfo Soria Puig, partner, BDO Abogados**





However, other firms are taking a more cautious approach, with one partner reporting that his firm's policy is not to advise clients on investment in Cuba due to its activities in the US.

With regard to Africa, Casas says: "Having the right contacts in these areas is very important as you have to anticipate the administrative processes." In the case of Latin America, Herrera says that the countries in the Pacific Rim currently have a more promising economic outlook than the traditional heavyweights in the region, namely Argentina and Brazil. Regarding Uría's recent involvement in the merger of law firms in Chile and Colombia to create Philippi, Prietocarrizosa & Uría – which began operations on 1 January 2015 – he says the respective economies are "very integrated". He adds: "For example, the Chilean, Colombian and Peruvian stock exchanges have merged – Philippi, Prietocarrizosa & Uría is a huge development for us."

### The innovation challenge

Casas says 2015 will mark a recovery for cyclical legal practices such as corporate and

M&A, and real estate. "We are seeing less restructurings and insolvency," he adds. Trías says the challenge for law firms is innovation and technology, as well as creating a work-life balance for lawyers. López says the biggest opportunities for law firms are to be found in M&A and real estate, while the outlook for IT companies, start-ups, and sports-related work is promising.

Adell says that tax is one of the practice areas that has experienced high growth in recent months and he expects it will continue to grow. He adds: "Another important area of growth is support and advice to Spanish multinational groups making investments abroad, not only for exporting, where the advice they require is limited, but mainly on the acquisition of local businesses and on 'green field' investments." Adell adds that, at an "office management level", one of the key challenges for Spanish firms is to ensure the implementation of diversity and inclusion policies that help to retain talent and offer lawyers a balance between work and personal life.

Herrera says the last five or six years have served as an education

for law firms and their clients.

"We have all benefitted, we are now better firms and we are better focused on clients," he adds. Valverde says the downturn has "streamlined" the legal sector and now there will be a greater fight among firms for talent. Agüera says: "This is the end of the crisis, we will have confirmation in 2015 of a new phase of expansion. There will be a few new foreign investors – additionally, we have confidence in Spanish investors and family-owned companies." Daura says there is potential for law firm growth if firms innovate and become business consultants as well as good lawyers, as well as becoming global.

There are the early indications of the possible re-emergence of "feel good factor" in Barcelona as M&A activity picks up, foreign investors inject new money, and the city's reputation as a centre for the "new economy" grows. While, some clients are expressing concerns about the possible "political risk" associated with a change of government in Spain later this year, there is considerable confidence that, by and large, investors' interest in Barcelona will continue to grow.

### How have developments in the Barcelona market impacted on the business of law firms?

"Restructuring work has kept us very busy, while we have also experienced an increase in work in other areas like labour, tax, litigation and healthcare. This has resulted in growth of around 11 per cent, which is significantly above the market average." **Agustín Bou, partner, Jausas**

"The strength of the markets seem to be outside Spain. Companies that have managed to develop their activities in Asia or Latin America, for example, are experiencing a stability that the companies concentrated in our local market miss – it is no coincidence that Banco Sabadell has acquired TSB in UK. With this in mind, we also need to consider the impact of the independence claims from a number of Catalan politicians and from an important part, albeit not the majority, of the Catalan people. I do not think it yet possible to measure whether this political factor is influencing the Catalan economy, but it is a matter to watch. Within the political analysis, it is equally interesting to see if the traditional parties, affected by numerous cases of corruption, are going to be surpassed or caught up by new parties that are capitalising on the discontent of the people, such as Podemos and Ciudadanos. Aside from the day to day problems of the economy and politics, an area that seems to thrive in Barcelona is the innovation sector,

particularly internet start-ups, 'incubadoras', and 'aceleradoras', for example. And we must not forget the success of Barcelona as a tourist destination, which provides opportunities for hotels, restaurant chains, conference organisers, and other businesses linked to tourism." **Carlos Valls, Partner, Fornesa Abogados**

"The Barcelona market is calling out for multidisciplinary law firms with a high degree of specialisation in rendering services – this requires in-depth technical knowledge of legal matters and knowledge of the sector concerned. Rendering advisory services to a financial institution, for example, is not the same as those that would be provided to an energy company. Lawyers who want to render quality services with high added value must be familiar with the sector in question. As a result, providers of general legal services are struggling to grow." **Montserrat Trape, senior partner, KPMG Abogados**

"In view of developments in the Barcelona market, the law firms will adapt to the new business inclinations. This involves an understanding of different investors as well as an appreciation of Barcelona's favourable geolocation and time zone between that of America and Asia. In that regard, to achieve their business goals, law firms must increase their intercontinental connectivity." **Enrique Marinel-Io Jordan, founding partner, Monereo Meyer Marinel-Io Abogados**

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