

## The Growing Links between Australia and Spain

*(Written by Jose Blanco, Senior Partner in the advisory firm, Blanco Partners, and former Australian Country Head of Banco Santander, and presented at a luncheon hosted in Madrid on May 22 by the Australia Spain Business Association.)*

Having been engaged in promoting and facilitating trade and investment between Australia and Spain for over thirty years, it is very satisfying to see the considerable deepening that has taken place in the bilateral relationship over the past decade. It is however ironic that much of that deepening has occurred over the past five years, a period during which Spain's economy has been in decline, if not outright recession.



Perhaps there is truth in the saying that from adversity springs opportunity.

That said, I feel that it would be wrong to attribute the stronger links between the two countries to any single event or trend. There are certainly a number of identifiable milestones that have contributed to the process, but overall I believe that much of the credit for the improved situation is due to the cumulative impact of developments and trends that occurred over a long period of time.

What is undeniable is that the relationship between the two countries has never had as many links or the depth that it has today. The exchange of trade and investment is growing, with Spain being the main protagonist, as its businesses strive to internationalise themselves to compensate for the depressed economic conditions that prevail in Spain today and that are not expected to improve for quite some time.

Both pre and post the 2007 global financial crisis, Spain has had the better of the trade exchange. Based on 2011 data, Spanish imports from Australia were around A\$907 million, including coal, zinc ores and concentrates, and nickel. In the other direction, Australian imports from Spain were about double the value, namely A\$1.8bn, with the biggest import items being medical products. Others included goods vehicles, rubber tyres, treads and tubes, and passenger motor vehicles.

In the investment arena, an Austrade report published in December 2012 states that in the post GFC period from 2009 to 2011, "Spain's outbound investment was 40% higher than Australia and it attracted 25% more inward investment than Australia during the same period". The report went on to say that "The IBEX 35, or top 35 companies on the Madrid stock exchange, is dominated by global players in infrastructure, renewables, banking and hospitality. Most of whom have over 50% of their activities abroad."

In the face of all the problems affecting the Spanish economy, it is worth keeping in mind that Spain retains this 'firepower' in the upper echelon of its corporate sector. Particularly as a growing number of these Spanish corporate champions have chosen to establish operations in Australia and are increasingly making their presence felt.

However, the enhanced relationship is not exclusively commercial in nature. Other links have been established and are thriving, helping to bring the two countries closer together than ever before in fields as diverse as the arts, defence and cuisine, to name just a few.

However, before taking a closer look at the current status of the overall relationship and speculating on where it may go from here, it is worth going back in time to put into perspective the evolution of what we might choose to label the 'modern history' between these two geographically distant, but not entirely different countries.

By my reckoning, this 'modern history' dates from 1967, the year that Australia and Spain established diplomatic relations. That they were not in place earlier is cause for some surprise, but goes a long way to explaining why it has taken until recently for the bilateral relationship to blossom.

Any analysis of the relationship from that starting date will show that relatively little of significance happened until the turn of the century. Before then, Spain had its moments in the limelight that registered on Australia's radar, such as its entry into the European Union and Barcelona's hosting of the 1992 Olympic Games, but overall it did not attract very much attention from Australia.

That is not to say that nothing was done to forge closer economic ties or to belittle the work undertaken by respective governments and by private companies and institutions over that period. It is simply that these efforts yielded only modest results, possibly because both countries had other more pressing priorities during this period.

If I had to nominate one factor that changed the dynamics of the relationship I would nominate the very strong economic growth that Spain experienced from 1997 to 2007. During this period, Spain became one of the standout economies of Europe and its companies embarked on an international expansion that saw them make significant investments in not only the expected markets of Latin America, but also in unexpected ones such as the UK and US.

On the back of this economic strength, Spain's enhanced international profile and the growing success enjoyed by its leading companies, Spain finally registered in a more meaningful way on Australia's radar and Australia on that of a small, but growing band of Spanish companies. Spanish exports to Australia grew at a steady rate and Spanish companies started to take a closer look at what Australia had to offer as an investment destination.

Looking back, many commentators nominate 2007 as the starting point for the influx of Spanish companies that have ventured into the Australian market to invest rather than to trade. This was the year that Navantia, Spain's naval shipbuilder, was successful in capturing two significant contracts from the Australian navy.

One was Australia's biggest-ever naval ship-building contract, valued at A\$8 billion, and involved Navantia providing the Australian navy with its new generation air-warfare destroyers. The other was valued at A\$3 billion and was for supplying the navy with two 27,000 tonne amphibious landing ships.

Australia's decision to source these vessels from Spain rather than more traditional suppliers in the US, France, Germany or the United Kingdom, was an undeniable game changer. It captured headlines and served to confirm Spain's emergence as a relevant and important 'partner' for Australia.

However, it has to be acknowledged that there were Spanish companies operating in Australia prior to Spain entering the growth phase started in 1997 or to Navantia winning these high-profile contracts. One example was Banco Santander, which established a Representative Office in Sydney in 1990, thus joining Banesto, which had already been there for some years. Another was Spain's national airline, Iberia, which had an office in Australia for a few years in the 1980s, before abandoning plans to fly into the country. There were others such as Lladró and Agemac, but they probably numbered less than two dozen.

Even in the defence arena, we need to keep in mind that Navantia's contracts were preceded by that won in 2004 by EADS-CASA, the Spain-based division of Airbus Military, to provide the Royal Australian Air Force with five tanker transport aircraft.

It is also worth highlighting two other important corporate plays that occurred prior to the Navantia contract win and that similarly contributed to improving the business links between Spain and Australia.

The first took place in 2002, when Ferrovial was part of the Southern Cross Airports consortium that won control of several airports in Australia. This investment saw Ferrovial take a 19.8% interest in Melbourne and Launceston airports, a 15% interest in Perth airport and a 10% interest in three airports in the Northern Territory, and helped to draw attention to the growing international footprint of Spanish companies.

Also in that year, Ferrovial forged another connection with Australia when it sold a 40% interest in its subsidiary, Cintra Concesiones de Infraestructuras de Transporte, to Macquarie Infrastructure Group for a price of €816 million.

The other play occurred in 2005, when Acciona made an unsuccessful A\$709 million bid to acquire the Australian renewable energy company, Pacific Hydro.

Acciona ultimately lost out to Industry Funds Management for control of Pacific Hydro, but the attempted acquisition significantly raised Spain's profile in Australia and led to Acciona nonetheless establishing operations in Australia to pursue opportunities in the local market as well as in the wider Asia-Pacific region.

Although the initial focus was on renewable energy, Acciona has subsequently gone on to pursue and win important projects in a variety of sectors.

Leveraging off its world-class expertise, Acciona-led consortiums have gone on to build the A\$1.8bn Adelaide desalination plant and are constructing the A\$1.5bn Brisbane Northern Link tunnel. The company is also a leading player in the local renewable energy sector, having built the 192MW Waubra and 46.5MW Gunning wind farms, and is now working on additional wind farms at Mt Gellibrand and Mortlake South in Victoria.

The infrastructure focus followed by Acciona in Australia is not surprising given that Spanish construction companies manage almost 40% of the world's privately-owned transportation assets.

It is a focus shared by many of the other major construction and utilities-based Spanish companies that have chosen to set up operations in the local market. A list that today includes, Ferrovial, Tecnicas Reunidas, Dragados, OHL, Sacyr Vallehermoso, Gas Natural Union Fenosa, Fotowatio and Abengoa, to name just a few.

As an example of the impact that these companies are having in Australia, it is worth highlighting that Sacyr Vallehermoso, through its Valoriza Agua subsidiary, together with Tecnicas Reunidas and several local partners were successful in 2008 in winning a major desalination project in Western Australia, and that the job was done so successfully that the two companies were subsequently contracted to double the capacity of the original plant.

Clearly, Spanish companies have proven that they not only have the technical expertise to undertake the important infrastructure projects that Australia requires, but also that they can compete with the best of the local players on quality and price.

Cintra, rated as one of the world's leading toll road operators and once again wholly-owned by Ferrovial, is also present in Australia and has teamed up with one of Australia's largest superannuation funds, REST Industry Super, to make toll road investments in Australia and in time perhaps even overseas.

However, undoubtedly the most visible and contentious investment made by a Spanish company in Australia so far is the indirect one that Grupo ACS made to secure a controlling interest in the market-leading construction group, Leighton, by buying its German majority owner, Hochtief.

This investment is very significant because of the leading position that Leighton and its various operating entities occupy in Australia's construction sector.

The capabilities that Leighton provides to ACS in Australia and in several Asian markets are something highly coveted by the other Spanish construction companies that are striving to make their mark in the Australian market, but finding it difficult to compete with the well-entrenched local competitors that have the advantage of a successful track record, a large and experienced workforce, and also of strong personal relationships with key clients and decision makers.

However, not all Spanish activity in Australia is related to the construction sector. There is a growing diversity that augurs well for the long term future of the bilateral relationship.

By way of example, it is worth noting that Spanish technology company Indra, which is Europe's second highest R&D investor, has been active in Australia for many years, committed A\$10m to its Australian R&D program in 2008 and 2009, and has key contracts with Air Services Australia and the Australian Air Force. Most Australians would be surprised to learn that one in three aircraft that takes off or lands anywhere in the world relies on Indra's technology.

In the healthcare sector, Spain's Grifols has a negligible profile in Australia but is a worthy competitor for Australia's CSL, ranking as the world's third-largest producer of blood products and the European leader in the industry. It manufactures Australian Design Mark award winning products via its subsidiary Lateral Grifols in Victoria.

With almost 1 billion transactions per year, Spain's Amadeus is the developer of the world's major travel ticketing and payment technologies and operates data centres in Australia employing about 150 people.

The diversity of examples is quite impressive and is growing constantly.

Insurance company, Mapfre, set up a subsidiary in Australia in 2011 to undertake the online distribution of travel insurance. The world's leading producer of sanitary equipment, ROCA, has had a successful presence in the market for several years. Little-known Spanish contract miner, EPSA, has commenced work on its first Australian contract at Macarthur River in the Northern Territory and aims to expand its operations in years to come.

In early 2012, Applus+ purchased John Davidson & Associates, thereby expanding its inspection services to the oil and gas sectors in Australia. In final quarter of 2012, FRV Fotowatio won the contract to build the largest photovoltaic plant in Australia in the ACT; Banco Santander purchased 90% of the Taralga Wind Farm for A\$250m; and the Basque company, Aerovision, entered the Australian market through the sale of an unmanned aircraft known as 'Fulmar', which is used to send video and infrared images in real time. It will be used to monitor the hunting of seals and whales in the Antarctic.

This list is by no means comprehensive and many more examples could be cited.

In fact, the footprint of Spanish companies in Australia could have been expanded and diversified even further had Ebro Puleva's A\$610 million bid for the SunRice Group in 2011 been successful.

Although the bid was unsuccessful, there are strong grounds for believing that other Spanish companies will make their way to Australia in search of opportunities in the local agricultural sector.

Spanish companies have been pushed into realising the importance of going global and the nature of Australia's domestic market and the growing interaction that the Australian market will have with the Asian markets are compelling reasons why Spanish companies will increasingly want to take a look at what they could be doing in the local market.

Beyond the infrastructure and utilities space, and the other examples already cited, undoubtedly the biggest splash made by a Spanish company in Australia has been made by the global retailing phenomenon that is Zara, the signature brand of the Galicia-headquartered Inditex Group. In the face of relatively weak results from many of Australia's leading retailers, Zara has in the space of 18 months opened 6 stores in Australia, employs some 600 persons and has firmly established itself as a market leader in its field.

The strength of the Australian economy in recent years and the relatively high disposable income of its 23 million consumers (which stands at some A\$40,800 GDP per capita) have attracted a growing number of international fashion retailers, amongst them some of the Spanish players.

Camper, one of the world's leading footwear design companies, now has 5 stores in Australia. Women's fashion brand Mango is re-launching in Australia after agreeing to an alliance with David Jones that will see its products sold in David Jones stores in capital cities from August and in all stores by the end of next year.

Mango's decision to enter into the alliance highlights the fact that competing in the Australian market is not all plain sailing. In this instance, Mango first launched in Australia in 2004 under the name of MNG and came to have stores at Westfield Doncaster in Melbourne, Westfield in Bondi Junction and The Galleries in Sydney. However, the brand was unable to build market share and was in the end left with only one store in the Melbourne CBD.

On the other side of the ledger, Australia's presence and investment in Spain is not insignificant, but the roll call of Australian companies in Spain is not as extensive as in the other direction.

As at 2011, Australian investment in Spain was valued at A\$3.2bn. The Australian geothermal company Petratherm is involved in the Madrid Geothermal District Heating project. Worley Parsons is partnering Spanish companies in solar projects in the Iberian Peninsula and North Africa, and Lend Lease has managed major projects in Spain in partnership with local infrastructure players, including construction of a new airport terminal in Barcelona, redevelopment of Barcelona's bullring, and oil company Repsol's new headquarters in Madrid. Macquarie Bank has a number of varied investments in Spain and maintains an office in Madrid, to promote both its investment and advisory functions.

CoxGomy, an Australian company formed through the merger of EW Cox from Australia, Cradle Runways from the UK and Spain's Gomy, in September 2012 decided to establish its global production in Alovera (Guadalajara), thereby closing its plant in Melbourne.

Other companies with a presence in the Spanish market include Orica, Amcor, Brambles, QBE and Computershare.

Highlighting that the Australia-Spain relationship can have applications beyond the two countries, Spanish businessman, Enrique Bañuelos, recently purchased 19.3% of Australian junior explorer, Gladiator Resources, which has an iron ore project in Uruguay.

Beyond business, the contact points between the two countries are multiplying at a healthy rate, with the arts sector becoming increasingly prominent.

The annual Spanish Film Festival has been held in Australia for many years and from very humble beginnings continues to grow in popularity each year. Another boost for Spain's artistic profile took place in 2008 when the Sydney Dance Company appointed Barcelona-born Rafael Bonachela as its Artistic Director. He has since gone on to win many accolades for the quality of his work.

At the same time, a regular flow of Spanish performers have made their way to Australia. One of the most recent was the participation of the Fura dels Baus company in the 2013 Sydney Festival. Before that, Flamenco artist, Diego Guerrero, toured Australia and New Zealand in March 2012 with 'El Sol de Artistas', a selection of talented artists.

In 2009 the National Gallery of Victoria International hosted a four-month exhibition of Salvador Dali works titled 'Liquid Desire' that proved a resounding success. From June to November of last year the Queensland Art Gallery hosted an exhibition of 'Masterpieces from the Prado' which was the largest and most significant international loan ever made by Madrid's Museo del Prado.

The success of these initiatives is no doubt one of the reasons why planning is currently under way for a more substantial macro-exhibition from the Museo del Prado to be held in Melbourne in 2014.

Lest we conclude that the flow has been all one way, it is worth noting that the Instituto Valenciano de Arte Moderno hosted an exhibition of Australian indigenous art from 58 different artists from January to April 2012.

Another important contribution to forging closer bilateral ties took place in 2009, when the Cervantes Institute opened in Sydney. This prestigious institution will contribute to expanding awareness in Australia about modern Spain, its language and its culture.

On the culinary front, Spanish cuisine and the tapas concept have grown in popularity and visibility throughout Australia. Ferran Adrià, Jordi Roca, Andoni Luis Aduriz and other world-rated Spanish chefs have visited Australia and Spanish-born Frank Camorra is leading the charge in Australia in promoting Spanish cuisine through his Movida restaurants and series of successful cookbooks.

Chorizo, jamon serrano and ibérico, pimientos del padrón and other Spanish staples are now common ingredients found in restaurant menus throughout Australia. At the same time, more and more Spanish wines are finding their way to Australia and being incorporated into restaurant wine lists.

Distinguished Spanish business leaders are also making the journey to Australia, with the most recent being Rodrigo Rato, who was invited to be a keynote speaker at the 2012 Diggers and Dealers mining conference in Kalgoorlie. Former Governor of the Bank of Spain, Jaime Caruana, in his role as general manager of the Bank for International Settlements, visited Australia in February 2010.

Having already mentioned the appointment of Rafael Bonachela as artistic director of the Sydney Dance Company, it is also worth noting that Manuel Blanco, a previous director of the department of thermal solar energy at Spain's CENER (the National Centre of Renewable Energy), was this year appointed executive director of the CSIRO-led Australian Solar Thermal Research Initiative.

Overlapping all of these exchanges, have been a regular and growing number of political visits, culminating with their Majesties King Juan Carlos and Queen Sofia making an official state visit to Australia in June 2009. Before then, King Juan Carlos visited Australia in 1988 for the Brisbane Expo and Queen Sofia in 2000 for the Sydney Olympic Games.

The list of ministerial visits in both directions is extensive and grows at a rapid pace, but it is worth highlighting that from the Australian end, the Governor General, Quentin Bryce, visited Spain in June 2011 and that Premier Mike Rann of South Australia did so in 2004 and Premier Steve Bracks of Victoria in 2005.

The institutional relationship was further cemented earlier this year in Australia with the official presentation in Melbourne of the Fundación Consejo España-Australia, during an event hosted by the President of the Fundación Consejo, Juan-Miguel Villar Mir, and Spain's Minister of Defence, Pedro Morenés.

That Spain has chosen to establish a "Fundación Consejo" for Australia and that it involves the participation of some of Spain's most prominent business leaders is testimony to the growing commercial links and augurs well for the future strengthening of the bilateral relationship.

Looking to the future of the relationship, in the foreseeable future much will depend on the direction taken by the Spanish economy, as it grapples with a severe recession and some structural issues that are likely to have long-term effects on the behaviour of Spanish companies.

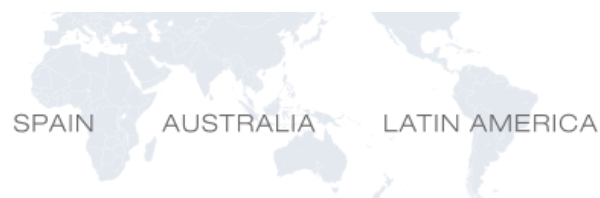
It remains to be seen if all of the major Spanish companies that have set up operations in Australia will secure the volume of business that they are seeking so as to cement their presence in the market. Particularly as the Australian economy shows signs of weakening from its decade-long resources-led boom.

However, as the two countries put more emphasis on understanding one another, I am confident that there are opportunities for ongoing cross investment.

Spanish companies are increasingly being compelled to look offshore for growth opportunities and for some of them, Australia would be a very suitable destination. Beyond the top echelon of Spanish companies there are many others that have world-class technology and other competitive advantages that would enable them to successfully operate in Australia. The challenge is to get them looking at Australia in preference to other markets that are available to them.

Likewise, Australian companies should not discount the merit of investing in Spain. The depth of the Spanish economic crisis may seem daunting, but it is that very crisis that is generating some very good opportunities. Some of the best ones do not involve supplying the Spanish domestic market, but rather using a Spanish base as the platform for expansion into other European and global markets.

Spain's strong presence in markets as diverse as Latin America and North Africa, make it an ideal partner for some Australian companies to enter or grow their business in these markets. Spain also has world-class technology and production capabilities that are today available at very good prices, as Spanish companies suffer the adverse



impact of lack of funding. Many of these businesses would be extremely competitive if they could secure finance and this is where Australian companies could make inroads.

Just as there should be ample scope for Australian business to expand into the Latin American markets off the back of the expertise and networks of Spanish companies, Spanish companies to benefit from whatever comes Australia's way in the Asian century.

The challenge is to maintain the commitment to deepening the bilateral relationship and to ensure that all of the negative economic news coming out of Spain does not result in Australian business concluding that Spain has nothing to offer. Within the doom and gloom, there are nuggets of gold ready to be acquired if you are prepared to do the necessary research and make the required commitment. Fortune will favour the brave.

End.