

Spain

As Spain celebrates its 20th year as an EU member, we investigate this historic country's potential to be "Everything Under The Sun."



SPAIN

In 1986, the Kingdom of Spain marked another important chapter in its history when it became a full member of what was then the European Community. This formal incorporation of Spain into a larger European context was heralded as the beginning of an era.

Now the country is seen as something of a role model for newer European Union (EU) members, having managed to successfully integrate into a democratic, single-currency union of 300 million citizens. Today's Spain, led by President José Luis Rodríguez Zapatero since 2004, is barely



recognizable from the timid country that emerged from the Franco regime 30 years ago.

Spain's European vocation has been steadfast, with the recent European Constitution approved by popular vote last year. The growing weight of Spanish key-sector companies within the EU

David Vergara, Secretary of State for the Economy

shows just how comfortable modern Spain feels in Europe. This may be because "it is the Europeans who have allowed Spain to build the foundations of a modern economy," as Secretary of State for the Economy David Vergara notes.

After a period of EU-entry reforms, the Spanish economy began revving up its engines for a growth run that has been on track now for 10 years and counting. Last year marked new milestones in economic growth, with Spain outperforming most other EU members despite an inflation hike brought on by rising oil prices. According to the IMF, Spain's GDP growth reached 3.4% in 2005 and is expected

to be a sustainable 3.25% in 2006—more than twice the EU-25 average.

At the same time, the average income in Spain rose to a 98% parity with the EU-25, while the country's unemployment rate reached a 26-year low at 8.7%. In fact, Spain generated six out of every 10 new jobs in the entire

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EU last year and became one of only a few countries in the world to run a budget surplus of 1% GDP.

Nevertheless, Vergara knows these laurels cannot be rested on. Other economic markers show Spain's external current account deficit widening, due mainly to the erosion of export market shares and rising foreign investment. The country's competitive position has also fallen, with growth focused on construction and services rather than tradables. To counteract these tendencies, the government is now focusing on education and research and development (R&D) as part of a far-reaching reform program.

"We cannot compete with new EU members in terms of production," says Vergara, "so we must attract investment based on producing higher added value."

A budget of €8 billion has been earmarked for the reforms, much of which is being channeled through the Official Credit Institute (Instituto de Crédito Oficial—ICO), a public department that provides loans to the private sector. "We have a growth plan designed to improve the productivity and competitiveness of Spanish companies," explains ICO

The place to go with your bright ideas

As an international authority, the Spanish Patent and Trademark Office (OEPM) provides access to international patents (PCTs) in the Spanish language and projects Spanish and Latin American enterprises and researchers into the global arena. The OEPM disseminates patent information and provides technological reports specifically tailored to meet the needs of Small and Medium Enterprises.



The Spanish Patent and Trademark Office www.oepm.es





Spain's state-of-the-art Parque Tecnológico de Andalucía SA

president Aurelio Martínez. The path is set to be long-term and fraught with difficulties, but as Martínez points out, if, in the past 10 years the budget deficit has been able to reduce from 66 to 40% of the GDP, the Spanish economy is definitely up to the challenge.

Making innovation a priority

The onus now being put on R&D indicates that the Spanish government has taken a long hard look ahead and seen the need for something other than back-patting. Martínez says: "Productivity is down because our sectors are very labor-intensive, which results in a current account deficit. We have to begin to change this model little-by-little."

The financial commitment to R&D is at an all-time high, with the government spending a remarkable 27.4% more on higher education and R&D this year. Its longer-term objective is to devote a full 3% of the country's GDP to R&D, in line with guidelines set down by the European Union's Lisbon Agenda in 2000, which aims to make the Euro zone "the most competitive and dynamic knowledge-driven economy by 2010."

While there are growing concerns that this objective may not be moving ahead quickly enough, the innovation gap between Europe and countries such as Japan and the U.S. has been reduced. Spain's "Ingenio 2010"—a plan designed to help companies become more productive and competitive—is an example of how individual EU members can take the lead in international initiatives.

According to Carlos Alejandre, the government's General Director of Technological Policy, gone are the days when 19th century Spanish humanist Miguel de Unamuno wrote that: "Our country produced the harmful phrase that says 'let others invent', telling a whole generation we didn't need the world of technology."

Unamuno would surely be pleased to see Spanish innovation gearing up to compete on its own merits. It has the support of the Spanish Patent and Trademark Office (Oficina Española de Patentes y Marcas—OEPM), which is linked to the European Patent Cooperation Treaty and as such has access to the largest technological database in the world.

"We have to compete based on our advantages, such as quality, branding and innovation, and that requires an important change in business culture," says María Teresa Mogin, the OEPM's general director. Although the OEPM's main function is to register trademarks and innovations for Spanish and Latin American companies, the government's drive to promote R&D investment has brought new responsibilities, most notably a push to share its knowledge of technological possibilities with companies interested in applying innovation.

"'Ingenio 2010' wants to shift the weight of R&D from the public to the private sector," Mogin explains. "We are looking to strengthen the bridge between public investigation and the business environment."

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Mogin points to several Spanish sectors of great potential that are already emerging, such as biotechnology, renewable energies and the chemical sector. Meanwhile, putting to use the old maxim of "leading by example", the OEPM is itself undergoing a transformation to become a "paperless" entity, an effort that will require the digitalization of some 25 miles' worth of paper files.

There is much more than theoretical economic models behind the implementation of programs like "Ingenio 2010". A huge number of Spanish enterprises have made R&D the secret of their success, companies whose growth proves that innovation can be even more competitive than price.

Tecnatom SA is one such example. The engineering firm was founded in 1957 to provide training and management support for Spain's first nuclear reactor. Almost 50 years on, the company has widened its nuclear operations to include the aeronautic, railway and petrochemical sectors.

Tecnatom's general director Antonio Alonso briefly recounts how the company developed its innovative technological capacity: "During the 1970s, we were buying technology and by the 1990s we had developed our own

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which allowed us to diversify. Since 2000, we have followed a business strategy to sell our technology, our services and our products," he says.

In 1973, Tecnatom changed its capital structure with the participation of Spain's big energy companies, which has continued to the present day. During the 1980s, the company developed the technology to deliver tailor-made parts and services to nuclear and industrial plants. After diversifying its product during the 1990s, the company entered the new millennium in expansion mode, buying two small but strategic French companies to gain access to the strongly protectionist nuclear sector in that country. High environmental and quality standards have become the hallmarks of this company that has managed to turn innovation into a consolidated business value.

The healthcare sector has also proven to be fertile in innovative approaches. Spanish hospital chain USP Hospitals focuses on client needs and cutting-edge technology as the basis of its business model. With revenues of €200 million, USP has hospitals in many Spanish towns and cities, amounting to 23 large medical centers, and employs more than 2,200. Musing on the group's spectacular growth, USP Hospitals president Gabriel Masfurroll says: "We are a young, innovative company with an exclusive, efficient project. We began 7 years ago with just three people in a small office in Madrid."

The company's flagship is the prestigious Barcelona-based Dexeus medical center, a reference point for patients

all over Spain and Europe, which is set to inaugurate a new center next year. A €100 million investment will make this the most advanced hospital in the region and will provide an area of research as part of its R&D commitment.

The California of Europe?

While Spain is often referred to as "The Florida of Europe" because of its unique tourism market, there are a growing number of people who would like to see it follow the California model too. Success in science and technology-related fields can be financially beneficial to business and the entire country. "Only as the perception of science and technology changes does R&D become of interest to the private sector," explains Carlos Martínez, president of Spain's Scientific Investigation Upper Council, adding that "A more business-oriented attitude by researchers would instigate the creation of spin-offs."

The synergy between science and business is at the heart of the matter, proving the need for business models that favor entrepreneurship. This has had a ripple effect in the higher education sector, giving rise to specialized business schools that are already rapidly changing Spain's business culture. Among the leading educators is the Instituto de Empresa Business School (IE), which teaches business studies with a highly-rated entrepreneurial focus that has accounted for very successful start-ups.

Publications such as the *Financial Times* and *The Economist* have cited IE's executive education program as

New USP Dexeus University Institute

The private hospital USP Dexeus University Institute will open Barcelona's most modern hospital in Spring 2007.



The new **USP Hospital** features:

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one of the best in the world. Speaking of the school's defining traits, IE dean Santiago Iñiguez says: "IE was founded by a group of entrepreneurs and this spirit is present in the way it is governed, the structure, the



processes and the fact that entrepreneurship is a core subject in several of its masters programs."

Entrepreneurial courses at the IE are divided into five differentiated tracks: Start-Ups, Family Businesses, Corporate Entrepreneurship, Social Entrepreneurship and Public

Santiago Iñiguez, Dean, Instituto de Empresa

Entrepreneurship. The school also offers a pioneering e-learning "Global Community MBA."

Says Iñiguez: "IE is perhaps the only leading business school in Europe that runs an online MBA with some face-to-face interaction. We have discovered that the e-learning programs generate more student satisfaction with the learning process." The demand for such courses is expected to grow exponentially in the wake of this innovative program, consolidating IE's leading position among European business schools.

Nuclear know-how in a global context

In the midst of worldwide concern over oil prices and energy supplies, Spain is already ahead in the race for sustainability in renewable energies. Turbine windmills dot

the country's landscape while solar energy is increasingly used in new buildings. The main non-fossil thrust comes from atomic energy, the worldwide resurgence of which has fanned the ongoing debate on safety issues, despite other sources being years away from making a significant contribution to the planet's energy needs.

Ever since Spain's first reactor opened 50 years ago, nuclear power has helped fuel the country's growth while providing the first-hand experience that some Spanish companies have been able to translate into innovation. The Spanish nuclear sector has undergone a recent boom, thanks to the performance of companies like Nuclear Equipments and Services SA (Equipos Nucleares, SA—ENSA), a government-owned reactor builder that has seen revenues rise 43% in two years, boosted by a 40% rise in exports.

This spectacular surge in exports is due in part to the renewed international interest in nuclear power sources and also to the 30-year R&D development phase made by ENSA under state ownership. Although the company was founded as a private entity, continued losses led it to be taken over as a strategic sector by the government, which has allowed ENSA to consolidate its research commitment into its current record-breaking results.

ENSA now has a presence in the U.S., Japan, China and, most recently, South Africa. Company president and CEO Francisco Ballesteros says: "In January, we won the contract to build the pressure barrier for Pebble Bed Modular Reactor in South Africa." Pebble Bed is considered to be the world's leading



Francisco Ballesteros, President and CEO, ENSA

new-generation reactor project, a high temperature reactor with a closed-cycle, gas turbine power conversion system—and therefore an impressive win for the company.

Ballesteros believes ENSA's success is built on three basic tenets: applied R&D; quality and cutting-edge technology; and agile client response. "We compete against industry giants offering things in which the facility of cooperation and response quickness are highly valued," he says.

ENSA's participation in the prestigious Pebble Bed project, alongside many other international companies, has set a new standard for 2006. The company is now looking even further ahead to the International Reactor Innovative & Secure (IRIS) project, which seeks to design Generation IV reactors that are more efficient and safe.

As Ballesteros points out, the applied R&D of companies like ENSA can help make nuclear energy a more secure power source for an energy-hungry world.

Rebuilding the Economy

The ongoing growth of Spain's economy over the past ten years has been fueled by two strategic sectors: construction and tourism.

The country's powerful construction sector accounts for 9% of GDP and a full 13% of total employment figures. While this is generally considered positive in macroeconomic terms, there is rising concern regarding real estate inflation and the sustainability of such concentrated development.

Growing numbers of citizens, many of them young adults, can no longer afford to buy homes, despite the fact that the right to adequate housing is guaranteed by the Spanish Constitution. After many years of

"SEPES is a public company which operates by private company criteria."

passivity by successive administrations, President Zapatero ordered the creation of the new Ministry of Housing when he came to power. It is headed by María Antonia Trujillo. "This Ministry was created to face the undesired consequences of the real estate boom," she explains, adding that, so far, policy efforts have reduced sector inflation by six points. The governmental objective is to have three in every 10 new housing units "officially protected" or price-capped.

The Ministry is focusing on sustainable development covering four dimensions: social and environmental on one side and institutional and economic on the



The Orfila Hotel—Five-star luxury in the heart of Madrid

other, while it is SEPES's task to manage the government's real estate interventions.

Created in 1954 under the auspices of the Ministry of Development, SEPES was transferred to the Ministry of Housing when it was formed. This relocation led to a change in its mission focus. Where in the past it had been dedicated almost exclusively to industrial projects, the agency now works to fulfill the objective of making adequate housing available to all.

"SEPES is a public company which operates by private company criteria," says general director Félix Herrera. "We have our own funds and we even make a profit." The objective of building 20,000 officially-protected homes throughout Spain is moving ahead slowly but surely, while industrial-use land reached an historic high in 2005, with 35 million square feet being put on the market following a €411 million investment.

New laws regulating land usage mean all projects are now openly tendered out among Spanish and international companies in search of the most competitive offer, which is good news for the citizens of Spain.

Ever since the first high-rises began to line the Costas in the 1960s, Spain has been a market-leader in tourism and ranked 7th in the world by the World Travel and Tourism Council.

Now, however, the "sun & sand" vacation model is giving way to a new brand of weekend cultural tourism, as visitors to Spanish cities choose to stay at luxurious world-class hotels, like the five-star Orfila Hotel in Madrid.

Part of the Relais & Chateaux group, the Orfila is centrally located in a 19th century mansion and offers a comfortable home-away-from-home. General manager Ricardo García says: "Ninety percent of our guests have stayed with us before."

For Secretary of State for Commerce and Tourism Pedro Mejía, the growth of this "weekend break" market, fueled by low-cost carriers and zero-hassle Internet reservations, is an indication of how Spain is now being perceived. "We must strive to be leaders in the price/quality ratio to attract increasingly independent and well-informed visitors, whether business or leisure," says Mejía.

With its maturing, strengthening economy then, it seems modern Spain, like many twenty-year-olds, has a bright future to look forward to.

