

III BAROMETER

on the Climate and Outlook for
Spanish Investment in the UK

2021, NOVEMBER



Spanish Chamber
of Commerce in
the United Kingdom

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MESSAGE FROM THE PRESIDENT OF THE SPANISH CHAMBER OF COMMERCE IN THE UK

More than ever, the Spanish Chamber of Commerce in the UK is displaying its ability to play an important role by bringing together the Spanish and the British governments, Foreign Direct Investors and civil society. The Barometer is gradually becoming one of the key events in the calendar of British-Spanish relations.

In 2020, the risk of a global pandemic sadly became a reality. An acute health crisis turned into an overwhelming economic crisis, as policymakers adopted stringent containment measures to save lives. This was a necessary measure in response to an insidious invisible enemy. Governments, businesses and civil society in general still try to understand the damage inflicted over the past year. Strengthening strategic foresight is now more important than ever.

As last year's Barometer went to press in October, uncertainty still reigned: what would happen next following Brexit? Would a deal ever be reached? If so, what would it look like? Such were the questions we were asking ourselves. Eventually, Brexit came into effect on 1 January 2021 and relations between the UK and the EU are now governed by the Cooperation and Trade Agreement. Even though bilateral trade has fallen (mostly due to the effects of the pandemic-driven restrictions) Spanish companies continue regarding the UK as a priority market. Whilst trade is not as smooth as before and frictions have emerged, the fundamentals remain the same.

Spanish companies keep actively investing in the UK. The Barometer is clear. But in the medium term, issues like the current strict migration regime will need to be addressed by the British Government. How could Spanish-British trade relations evolve from here? The degree of uncertainty about the future may not be as high as a year ago, but the fog has not fully lifted. Companies are still adapting to the new requirements and a number of them, as we know, will only apply as of 1 January 2022. Next year will present new challenges as full customs declarations and controls will be introduced. This will obviously affect exports, but in principle they are unlikely to have a material impact on FDI.

The Barometer is the result of a team effort and we are ever grateful to the 14 companies that made this III Barometer possible. It is a privilege that this project relies on such a diverse group of companies covering many sectors. Of course, we worked closely with the Spanish Trade Department, the Spanish Embassy, the Department for International Trade and the British Embassy in Madrid.

Finally, it is worth noting that in a challenging year, the Spanish Chamber of Commerce in the UK has grown stronger. This growth has its roots in strategic decisions, the resolve to help our Members, our purpose and values, and our ability to adapt at pace.

We hope you find this document helpful.

Eduardo Barrachina
President of the Spanish Chamber of Commerce in the United Kingdom

CONTENTS

Executive summary **P. 6**

PART I

SPANISH INVESTMENT IN THE UK

- 1. Macroeconomic background in the UK and Spain: the impact of the health crisis** **P. 9**
- 2. The Trade and Cooperation Agreement (TCA) and Spanish investment in the UK** **P. 14**
- 3. Spanish FDI stockI by recipient country** **P. 16**
- 4. Spanish FDI stock in the UK by sector** **P. 18**
- 5. Cumulative flows to 1H21** **P. 20**
- 6. Spanish FDI flows by sector** **P. 24**
- 7. Spanish FDI flows since the Brexit referendum (June 2016) and entry into effect of the TCA (early 2021)** **P. 26**
- 8. Effects on jobs of Spanish FDI in the UK** **P. 29**

PART II

OUTLOOK FOR INVESTMENT IN THE UK

- 1. How Spanish companies with an investment presence in the UK view the British business climate** **P. 30**
- 2. Assessment of the impact of Covid-19** **P. 38**
- 3. Assessment of the impact of Brexit** **P. 41**
- 4. Outlook for activity in the UK in 2021 and 2022** **P. 44**

Appendix: methodology and characteristics of the company sample **P. 49**

Note: The results and opinions in this Barometer do not necessarily reflect the views and opinions of the sponsoring companies, the Spanish Chamber of Commerce in the United Kingdom or its members.

EXECUTIVE SUMMARY

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- **The evolution of the health crisis has largely shaped the macroeconomic environment in both the UK and Spain over the past 18 months.** Following the healthy economic momentum observed during the second quarter of 2021, growth is expected to consolidate in tandem with dissipation of the risks and uncertainties associated with the pandemic. Other risks have come to light more recently, however, related with supply chain bottlenecks and spiralling commodity prices, which could shape a slight slowdown in the second half of the year, which is nevertheless expected to close out on a generally positive note.
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- **Entry into effect of the Trade and Cooperation Agreement (TCA) between the United Kingdom and the European Union came about against the backdrop of an exceptional economic climate marked by the pandemic.** The regime governing future dealings between the EU and UK, spread out over the TCA's 1,200 pages, puts an end to the uncertainty about the possibility of a 'no-deal' Brexit. **Although the TCA does not focus on FDI, it could, indirectly, via trade relations, have an impact on investment decisions.**
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- **From a historical perspective, the UK retains its position as the most important destination for Spanish outward investment,** although the rate of growth in that investment has lost steam in recent years. In 2019, the last year for which the data is available, the UK accounted for 16% of the stock of Spanish FDI (second only to the US, which represented 19.4% of the total).
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- **Spanish FDI in the UK contributed to the generation of 161,000 jobs in 2019, which is equivalent to 0.49% of total nationwide employment.**
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- **The stock of Spanish FDI in the UK increased in the financial sector** and held steady in the telecommunications, electricity supply, insurance and pension funds and passenger air transport sectors.
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- Spain's investment appetite for the UK market waned in 2018 and 2019, which is when Brexit-related uncertainty was at its height. However, **despite the health crisis, Spanish FDI flows into the UK staged a noteworthy recovery in 2020. Entry into effect of the TCA ushers in a new regulatory framework for bilateral relations, the effects of which warrant close monitoring.**
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• **Fifty-four per cent of the Spanish companies invested in the UK rate the British business climate in the wake of Brexit as 'acceptable' or 'good'**, up 20 points from last year. However, their perception of the labour market has deteriorated and around one-quarter of the firms surveyed reported not being able to find the skills they need. The new UK-EU TCA has also had consequences for transport and energy services, which one third of the respondents rated as 'inadequate', as well as increasing perceived barriers to entry into the market.

• Although the Spanish companies doing business in the UK perceive improved institutional stability for the third year in a row, **government relations were once again the worst-rated attribute of the British business climate in 2021**. One out of every three Spanish firms perceives a certain amount of regulatory uncertainty, high fiscal pressure and would like to see more support from the British government in the form of information about the new procedures implied by the TCA. **Nevertheless, 40% of the respondents said that they thought the assistance provided by the British government during the COVID-19 pandemic has been 'good' or 'acceptable'**.

• As for the strengths of the British business climate, **the economy's high level of digitalisation continues to earn the highest scores, along with access to financing**. Spanish companies also consider that it is easy to achieve a high quality of life in the country, although half of them find the cost of living excessive.

• During the first half of 2021, around half of the Spanish firms operating in the UK had yet to see their global activity revisit **pre-COVID-19 levels, prompting 54% of them to modify their investment plans for the UK and 70% of them to introduce remote working arrangements**.

• **Spanish firms invested in the UK expect their activity levels to improve in 2022** in terms of turnover and jobs. In addition, 42% of the respondents plan to increase their investments in the UK in 2022; those investments will be spread over a broad range of sectors, albeit concentrated geographically (34%) in London and its metropolitan area.

• **Despite the pandemic and consequences of Brexit, 91% of the firms surveyed continue to view the British market as strategic**.

PART I

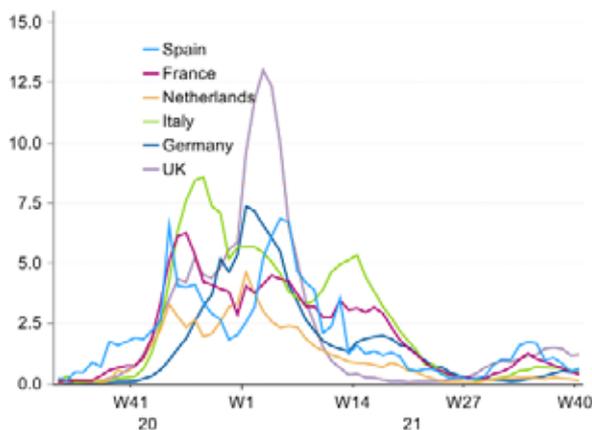
SPANISH INVESTMENT IN THE UK

1. MACROECONOMIC BACKDROP IN THE UK AND SPAIN: RAMIFICATIONS OF THE HEALTH CRISIS

The evolution of the COVID-19 health crisis has largely shaped the macroeconomic environment in both the UK and Spain over the past 18 months. Following the healthy economic momentum observed during the second quarter of 2021, growth is expected to consolidate in tandem with dissipation of the risks and uncertainties associated with the pandemic. Other risks have come to light more recently, however, related with supply chain bottlenecks and spiralling commodity prices, which could shape a slight slowdown in the second half of the year, although the forecasts for the year as a whole point to generalised growth.

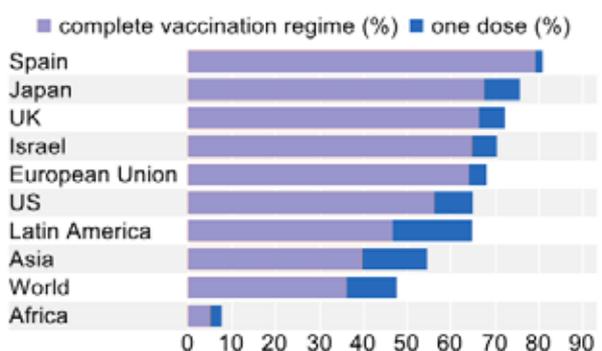
The evolution of the health crisis has largely shaped the macroeconomic environment in both the UK and Spain over the past 18 months. 2020 was marked by the impact of the successive waves of transmission of the coronavirus and national and international mobility restrictions in both countries, which translated into the largest GDP contractions in recent economic history (of 10.8% in Spain and 9.8% in the UK). The start of the vaccination rollout in early 2021 (at the end of 2020 in Britain) fuelled hopes for a strong rebound in economic activity over the course of this year. Nevertheless, those hopes were soon dashed by the ongoing waves of transmission, coupled with the production limits encountered by the pharmaceutical companies and fierce competition among the main developed economies, which combined to delay the yearned-for normalisation of economic activity.

COVID-19 DEATHS PER 100,000 INHABITANTS



Source: Afi, Macrobond

POPULATION FULLY VACCINATED AND VACCINATED WITH A SINGLE DOSE (% OF TOTAL POPULATION)



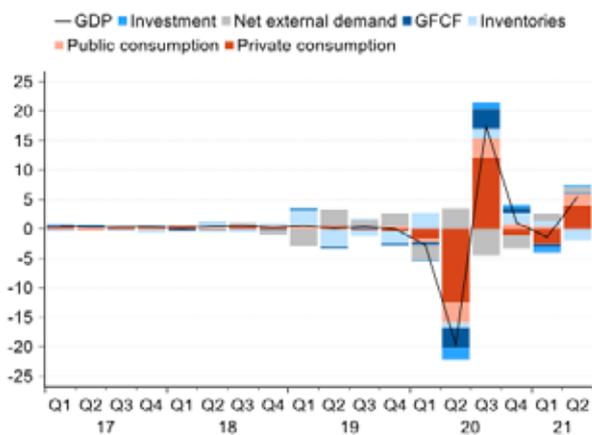
Source: Afi, Macrobond

Against that backdrop, the first quarter of 2021 was characterised by a fresh uptick in cases following the Christmas festivities which triggered a tightening of health restrictions in February and March, dragging GDP down once again in Spain (quarterly GDP contraction of 0.6%) and weighing heavily on growth in the UK (GDP: +0.9%), where the relatively faster pace of vaccination staved off greater economic contraction. It was not until March that the pharmaceutical companies overcame their production issues and the pace of vaccination took off in most European countries. In addition to increasing inoculation levels, caseloads began to trend lower in both the UK and Spain, facilitating an easing of health restrictions and so spurring the recovery of both economies.

Both countries sustained similar economic recovery patterns during the second quarter of 2021. The household savings pent up for much of 2020 and early 2021 drove a sharp rebound in private consumption between April and June, as evidenced in both countries' national accounts. In addition, the huge uncertainty that has characterised this health crisis has continued to weigh on businesses' investment decisions, as was evident in the reduction in that metric in the second quarter. Meanwhile, foreign demand has been adversely affected by two factors: (i) the growth in imports triggered by the rebound in household consumption; and (ii) pretty weak growth in exports on the back of poor business investing dynamics, coupled with a slowdown in international trade, shaped by the supply chain issues. For those reasons, external demand detracted from GDP growth in the second quarter of 2021. Against that backdrop, it was the rebound in household consumption and, to a lesser degree, support from the public sector, that explained the noteworthy growth of the UK and Spanish economies during the second quarter. The contributions of service exports (tourism) have been considerable, the impact of the health crisis has been severe, which is reflected in the negative contribution of export demand.

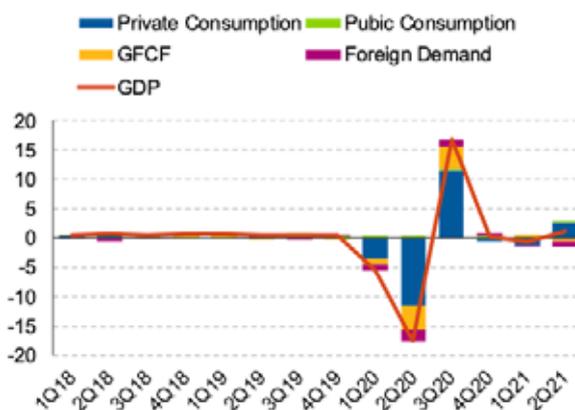
Looking to the second half of the year, it is forecast that both economies will enjoy a significant resurgence in the third quarter thanks to a relaxing of the pandemic measures and normalisation of activity, in addition to the effects of the summer months because of the tourist season in Spain and, to a lesser extent, in the UK. The expansionary monetary policy employed by both governments and support through an accommodative monetary policy will also drive the recovery in consumption and investments during the latter half of the year. The threat at the end of 2021 will come from the second wave of infections. While the recovery in Spain appears to be losing steam, economic indicators in the UK are generally encouraging. In this regard, growth in the last quarter will depend on how the health crisis unfolds and the speed with which the second wave is brought under control.

GROWTH IN UK GDP AND ITS COMPONENTS (% QOQ | DRIVERS)



Source: Afi, Macrobond

GROWTH IN SPANISH GDP AND ITS COMPONENTS (% QOQ | DRIVERS)

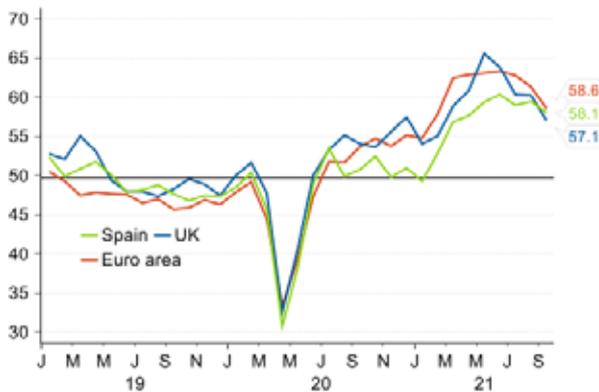


Source: Afi, Macrobond

Looking to the second quarter of the year, the high percentages of fully vaccinated people together with the reduction in caseloads are dissipating the fears and uncertainties related with the health crisis, paving the way for full normalisation of economic and social activity. However, new risks have materialised recently, related with supply chain bottlenecks and the spiralling cost of certain commodities. More specifically, the sharp growth in global demand following the months of confinement has exceeded the supply side's ability to respond, sparking an upward spiral in prices in Spain and a scarcity of certain goods and services in the UK. British supermarkets and hospitality establishments have been facing serious stocking issues over the past month as a result of the pandemic and higher transport costs, with the

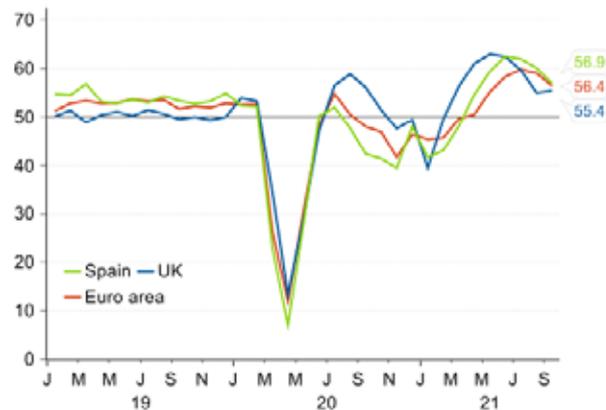
mobility restrictions imposed in the wake of the Brexit agreement significantly reducing the number of truck drivers. So far, the impact on households' propensity to consume is proving limited thanks to the savings built up during the health crisis. However, businesses are beginning to observe sustained increases in their production costs which could end up translating into more noteworthy increases in end prices should the prevailing inflationary pressure prove protracted. Overall, it is likely that these new risk factors will slow economic growth slightly. Nevertheless, current forecasts point to strong growth in both economies in 2021 as a whole.

MANUFACTURING PMIS*



Source: Afi, Macrobond

SERVICES PMIS*



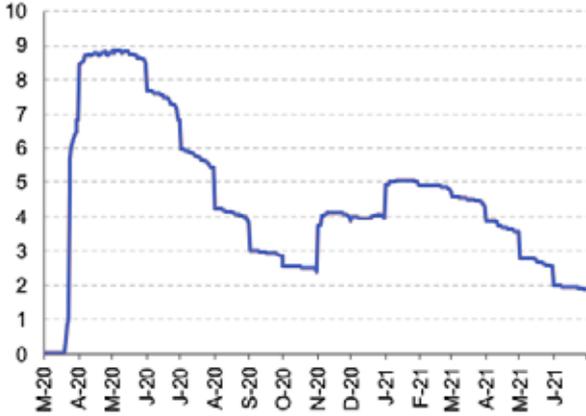
Source: Afi, Macrobond

*Readings of over 50 indicate growth and those of under 50, contraction

From a sector standpoint, although the health crisis had a significant impact on all areas of the economy in 2020, the recovery is proving uneven from one sector to the next. First of all, the more industrial or manufacturing-focused sector staged a remarkable recovery in a very short period of time, notwithstanding the intense contraction sustained during the worst months of the pandemic (March to May 2020 above all). Those sectors, more exposed to global trade and exports, benefitted from the reopening and reactivation of global demand during the months immediately following the first wave of the pandemic, as evidenced in the manufacturers' Purchasing Managers' Index (PMI). Then, in 2021, with the global economy picking up pace, those sectors reached record levels, not only clearly revisiting pre-pandemic levels, but actually topping them. On the other hand, the sectors more exposed to retailing and services have been harder hit by the successive waves of transmission. In both countries, following the recovery observed during the summer and autumn months, the spike in case numbers before and after the Christmas festivities ushered in tighter business restrictions (heavily concentrated in the retail, hospitality, transport and leisure sectors) and triggered a fresh contraction in those areas of the economy, as evidenced in the services sector PMI readings in both countries. Later, in the second quarter of 2021, progress on the vaccination front gave the services sector a breather, letting it make up for some of the ground lost.

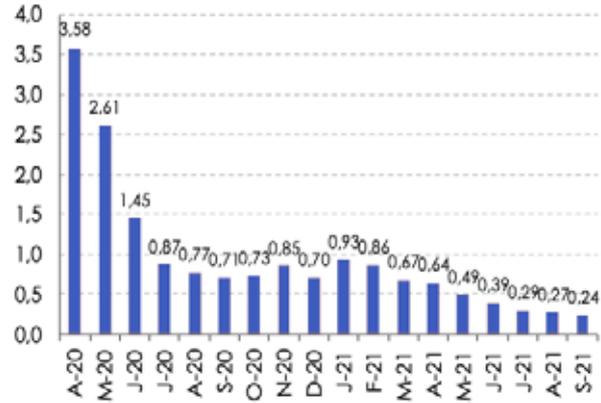
From the standpoint of the labour market, the Covid-19 health crisis has been characterised by the rollout of job protection schemes in most of Europe. Those mechanisms have kept a lid on the rise in unemployment rates in the countries in question. Since the most stringent lockdown measures have been lifted, the number of people protected by these schemes has been trending significantly lower, particularly towards the end of the second quarter of 2021, helped by the lifting of the mobility restrictions and high percentages of fully-vaccinated people. That trend is expected to continue apace for the rest of the year. In Spain, the government and social agents have agreed to extend the exceptional measures until the beginning of 2022 (specifically, February), while providing incentives for the gradual return of employees to work.

WORKERS ON FURLOUGH (JOB RETENTION SCHEME) IN THE UK (MILLIONS OF PEOPLE)



Source: Afi, British Government

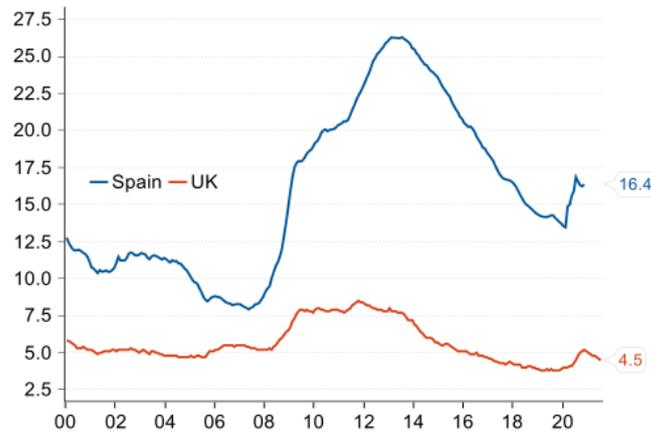
WORKERS ON FURLOUGH (ERTE) IN SPAIN (MILLIONS OF PEOPLE)



Source: Afi, Macrobond

In addition, it is worth noting that in both countries, the vast majority of employees affected by the job retention schemes work in the sectors most affected by the pandemic, such as the tourism industry in the broadest sense, highlighting the uneven sectoral impact the health crisis has had and continues to have as things return to normal.

UNEMPLOYMENT IN THE UK AND SPAIN (%)

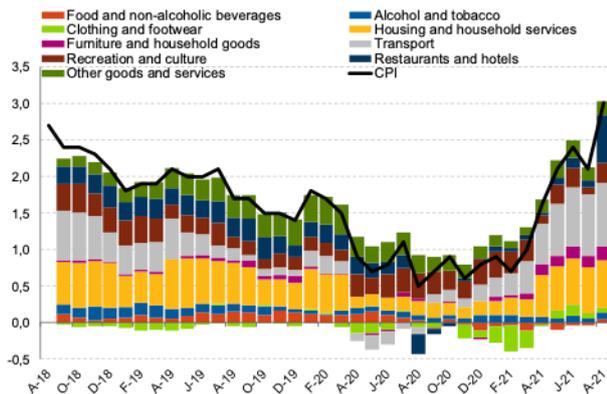


Source: Afi, Macrobond

Overall, the respective furlough schemes have managed to break with the historical correlation between unemployment and GDP, curtailing the growth in the unemployment rate during the worst months of the pandemic (in Spain, unemployment peaked at 17.5%, compared to 5% in the UK), keeping it well below the highs recorded during the great financial crisis that began in 2007. Moreover, the schemes have afforded businesses the flexibility they needed to gradually adapt to the economic recovery and bring back their employees over time, which has been of particular value in the sectors more exposed to tourism, where the summer season was not as strong as initially hoped. In Spain, the unemployment rate is expected to come in at around 15.3% in 2021, which is still well above pre-pandemic levels, while in the UK it is expected to be close to its all-time low.

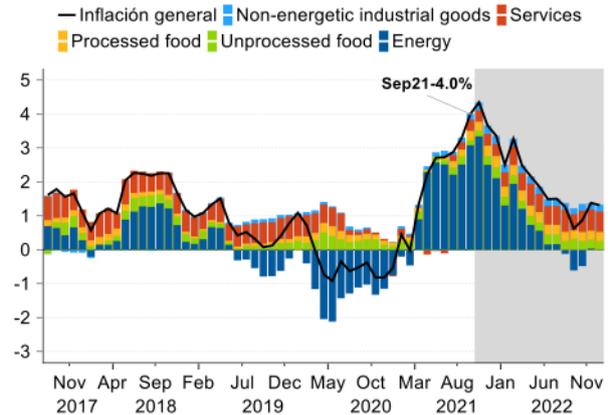
Nevertheless, the medium- and long-term outlook suggest a less certain future. After months of weak inflation, inflationary pressures may arise for several reasons: higher production costs because of ruptures in global supply chains and disruptions to manufacturing; the monetary and fiscal responses by eurozone countries and the UK; and the possible impact on the behaviour of consumers and businesses of a structural change in their consumption and investment decisions.

HEADLINE UK INFLATION AND ITS COMPONENTS (% YOY)



Source: Afi, ONS

HEADLINE SPANISH INFLATION AND ITS COMPONENTS (% YOY | DRIVERS)



Source: Afi, Macrobond

The denouement of the health crisis is having an important impact on prices. The significant mismatch between supply and demand at the global level has sparked an upward spiral that is having an impact on both countries' general consumer price indices. Among the drivers, two stand out. Firstly, the rise in oil prices in June and July (Brent prices are up 8.6% from May levels) to leave crude prices above pre-pandemic levels and fuel prices at record levels (higher even than in 2012-2013 when they topped \$100/bbl). Secondly, the continuous rise in electricity prices, a component that despite representing only a small amount of the shopping basket in both countries, is responsible for over a third of the year-on-year growth in inflation in Spain. The impact of the high cost of CO2 allowances, coupled with the wholesale market price-setting mechanisms and tariff changes in Spain, has driven electricity prices sharply higher in recent weeks.

Looking to 2022, the current dynamics are expected to reverse, with the energy component unwinding (as oil prices are not expected to top \$75 per barrel of Brent in 2022), while core inflation rises in tandem with the economic recovery. However, the possibility that the current transient inflationary pressures become chronic poses a risk to growth in 2022 in Spain and the UK alike (the latter economy being more affected by goods and service scarcities in recent weeks) via moderation of the growth in consumer spending, among other channels.

2. THE TRADE AND COOPERATION AGREEMENT (TCA) AND SPANISH INVESTMENT IN THE UK

The entry into effect of the Trade and Cooperation Agreement (TCA) between the United Kingdom and the European Union on 1 January 2021 came about against the backdrop of an exceptional economic climate marked by the pandemic. The regime governing future dealings between the EU and UK, spread out over the TCA's 1,200 pages, puts an end to the uncertainty about the possibility of a 'no-deal' Brexit. Although the TCA does not focus on foreign direct investment (FDI), it could, indirectly, via trade relations, have an impact on investment projects.

2021 has also been marked by the entry into effect of the Trade and Cooperation Agreement between the UK and EU. With the TCA, the agents now know the regime that will regulate the trade in goods and services, investments and the circulation of citizens between the UK and Spain. Note, however, that although the TCA is not focused on FDI, indirectly, via trade relations, the new regulatory framework could have a significant impact on business decision-making. Given the importance of the UK as a destination for Spanish investments, it is relevant to summarise how the new agreement affects the most significant investment sectors.

ESTIMATED TRADE BARRIERS FOR ACCESSING THE BRITISH MARKET UNDER THE TCA (BARRIERS AD VALOREM, % OF TOTAL COSTS)

Sector	Non-tariff barriers
Agricultural, forestry and fishing products	14.2
Mining and quarrying	14.2
Food, beverages and tobacco	17.8
Textiles, wearing apparel, leather and other related products	4.8
Wood and products of wood and cork (excl. furniture)	2.8
Paper and paper products	2.8
Refined petroleum products	3.4
Chemicals and chemical products	5.1
Basic pharmaceutical products and pharmaceutical preparations	5.1
Plastic and rubber products	5.1
Other non-metallic mineral products	3.0
Basic metals	3.0
Fabricated metal products (excl. machinery and equipment)	3.0
Computer, electronic and optical products	3.2
Electrical equipment	4.8
Machinery and equipment	1.5
Motor vehicles, trucks and vans	8.0
Other transport equipment	5.9
Furniture and other manufactured products	3.5

Tourist services	4.0
Transporting	2.0
Insurance and pension funding	4.7
Financial services	4.9
Telecommunications, computer programming and information service activities	2.9
Business services	6.5
Other services	1.9

Source: Based on Latorre and Yopezawa (2020).

In terms of **trade in goods**, which includes the agriculture and fishing industry, the TCA has ruled that exchanges between the two parties shall not incur tariff barriers or quotas, constituting an exception to previous trade agreements agreed between the EU and third parties. Nevertheless, as was apparent during the first weeks following the (provisional) entry into effect of the TCA, the transition from membership of the Internal Market to the new relationship is going to present obstacles for the trade in goods.

By sector, **in agriculture, fishing and the food industry**, the stipulations regarding food, plant and animal health and safety requirements and controls constitute one of the biggest barriers to trade in agricultural, fishing and agri-food products. However, the UK has delayed phases 2 and 3 of the import requirements for agricultural and food industry products (including the labelling requirements), such that the sanitary and phytosanitary certificates for most animal products, live animals and plants will not take effect until 1 January 2022, while the inspections will commence from 1 March 2022 in order to prevent interruptions in import flows.

In the **automotive industry**, the barriers will stem mainly from technical standards and relatively stringent rules of origin. The TCA includes a specific annex outlining technical barriers to trade in motor vehicles and parts. It stipulates that motor vehicles and parts will need to contain 45% of originating content. For electric vehicles, that percentage will include batteries, which account for the largest chunk of EV value according to current industry configurations.

As for **trade in services**, regulated under Title II, the TCA is less ambitious. The non-trade barriers on service activities, which account for a very significant weight of bilateral trade relations between the UK and Spain, result from the differences between the regulations for accessing the market and for carrying out the activities.

Within the services sectors, the TCA provisions for **telecommunications and data flows** are ambitious, so that the barriers they generate for these activities between the UK and EU should be limited. This is an essential area as the development of digital networks and communication services is set to be a core driver of both economies' growth and transformation in the years ahead.

Elsewhere, the regulatory approach to **financial services** set out in the TCA embraces the regulatory differences and opts for soft cooperation and an equivalence regime. In practice, the TCA implies a step backwards in the EU passport for the free provision of services and harmonisation of regulations in the areas of prudential measures and consumer protection. Therefore, the advent of non-tariff barriers following its entry into effect is inevitable and the extent of this falls towards the high end of the range for services sectors.

Another aspect of the TCA worth noting are the new regulations governing the mobility of citizens and workers. From 1st January 2021, European Union residents looking to work in the UK will have to apply for a residency or work permit, just like citizens from any other non-EU country. In addition, the UK is withdrawing from the Erasmus+ programme. This will imply significant barriers for professionals and students.

In short, while the TCA does not imply a new regulatory regime for investment decisions, the latter may be conditioned indirectly. 2021 will prove key to ascertaining whether the adverse impact of the final agreement is greater than expected or whether the Spanish companies can adapt efficiently to the TCA.

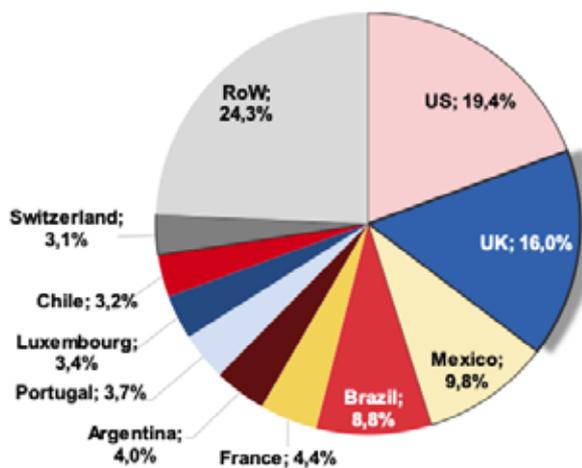
3. SPANISH FDI STOCK BY RECIPIENT COUNTRY

From a historical perspective, the UK retains its long-standing position as the most important destination for Spanish outward investment, although the rate of growth in that investment has lost steam in recent years. In 2019, the last year for which the data are available, the UK accounted for 16% of the Spanish FDI stock (second only to the US, which represented 19.4% of the total).

The UK accounted for 16.0% of the total stock of Spanish FDI in 2019 (€74.28 billion using the ultimate investing country (UIC criterion), according to data from Spanish Secretary of State for Commerce, down almost €4.7 billion from 2018 and well below the all-time high recorded in 2015 (€81.23 billion). Expressed as a percentage of the total, the UK has also lost ground in Spain’s outward FDI, representing 16% of the total in 2019, down from 17% in 2018.

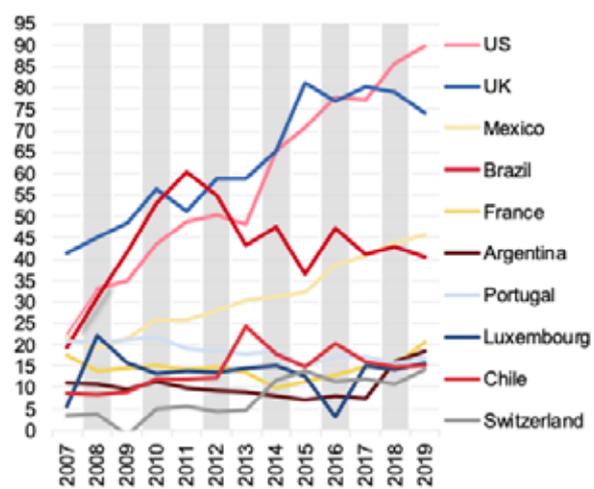
The stock of outward FDI into the UK registered constant and sustained growth between 2007 and 2015. However, since 2016 that growth has slowed down, even losing steam in recent years (2018 and 2019), ceding first place to the US. Nevertheless, Spanish investment remains significantly concentrated in the British market, taking the second spot at a considerable distance from Mexico and Brazil, which rank third and fourth, respectively. **Moreover, taking a longer-term perspective, the UK remains the most important recipient of outward FDI from Spain in the past 12 years, followed by the US.**

SPANISH FDI STOCK AS OF 2019, BY COUNTRY (PERCENTAGE BREAKDOWN)



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

LONG-TERM TREND IN THE SPANISH FDI STOCK, BY COUNTRY (€ BILLION)

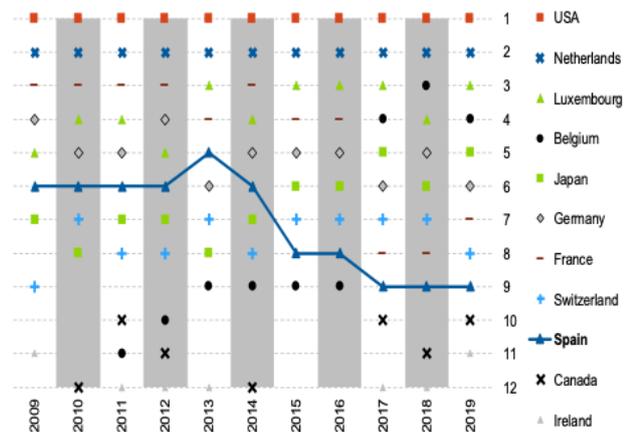


Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

From the UK's perspective, Spain has ranked among the top ten international investors since 2009, falling slightly in the rankings between 2014 and 2017, where it has since held steady in ninth position. The US continues to top this ranking, demonstrating the close and long-standing trade and investment ties between the two Anglo-Saxon nations.

In terms of the FDI stock, according to data from the British Office for National Statistics (ONS), Spain's investment position in the UK amounted to €58 billion in 2019, in line with the 2018 figure (€58.26 billion) but up significantly from previous years. All the same, Spanish investments in the UK remain below the high of €65.1 billion recorded in 2012.

RANKING OF THE FDI STOCK IN THE UK BY COUNTRY AND YEAR



Source: Afi, Office for National Statistics

LONG-TERM TREND IN THE STOCK OF SPANISH FDI IN THE UK (€ BILLION)



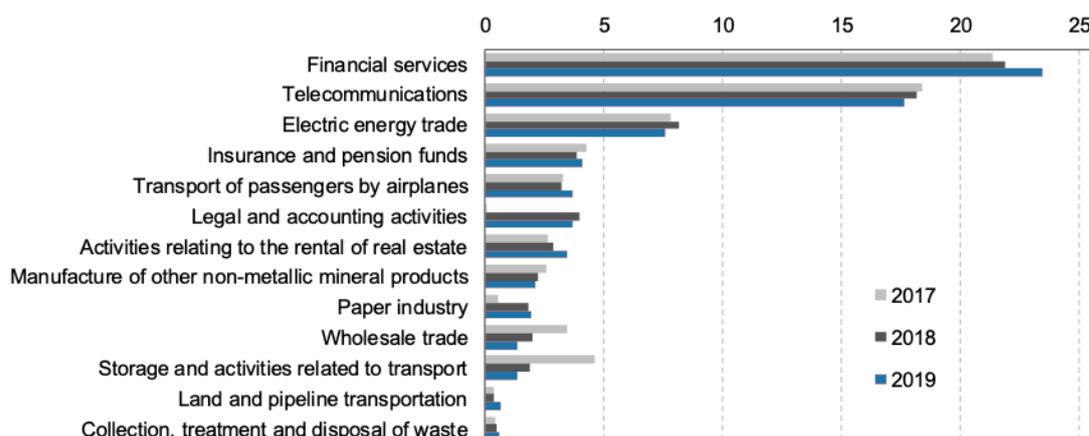
Source: Afi, Office for National Statistics

4. SPANISH FDI STOCK IN THE UK BY SECTOR

The Spanish FDI stock in the UK increased in the financial sector and held steady in the telecommunications, electricity supply, insurance and pension funds and passenger air travel sectors in 2019.

In 2019, the Spanish FDI stock in the UK was concentrated in three core sectors: financial services (€23.47 billion); telecommunications (€17.63 billion) and energy supply (€7.59 billion). In financial services, Spain's investment position has been increasing over the last three years, demonstrating the strength of the sector in the British economy, with the position topping €20 billion each year. Elsewhere, the stock of Spanish FDI in the telecommunications and energy utility sectors has been constant and sizeable.

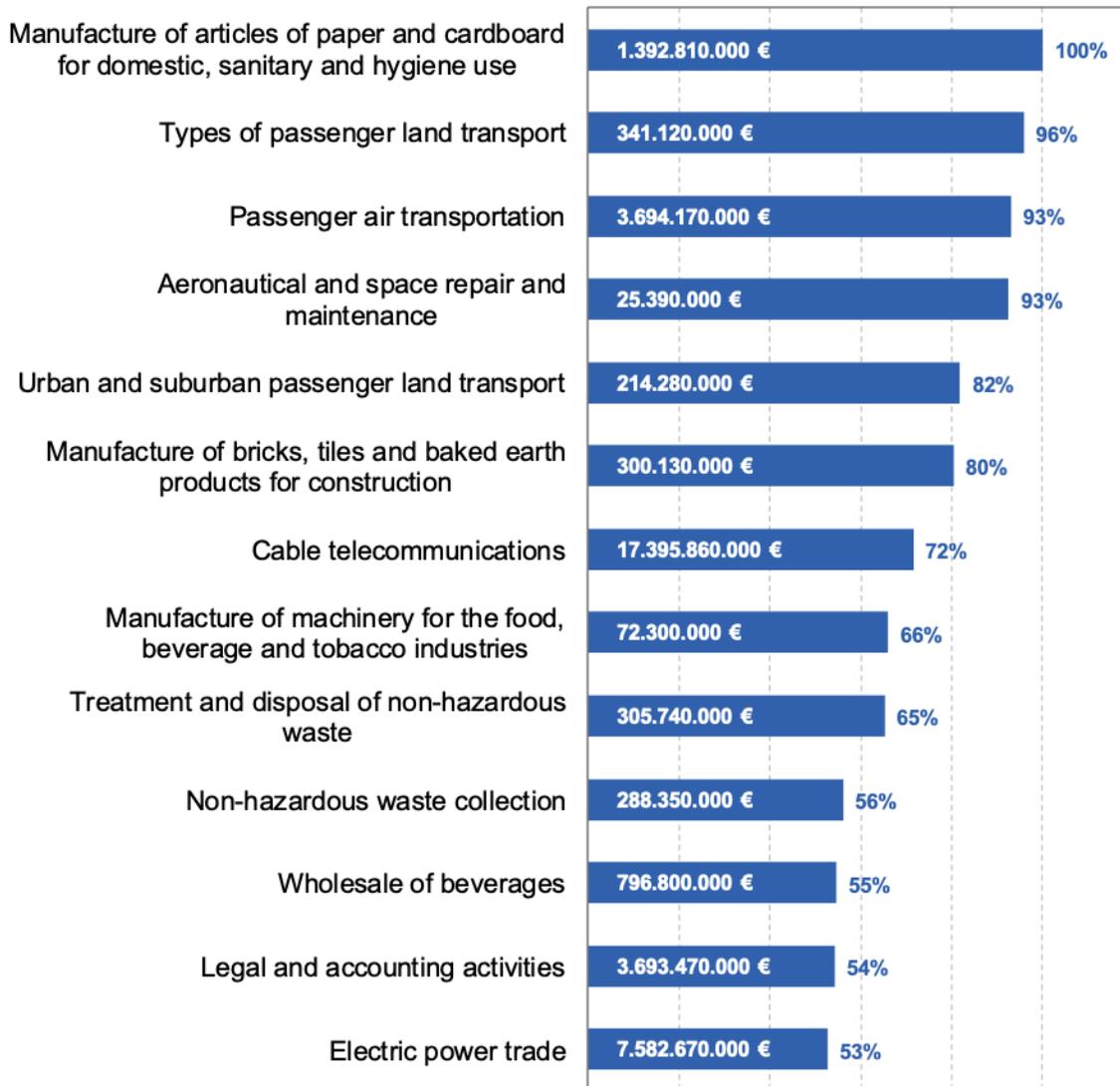
**SPANISH FDI STOCK IN THE UK BY SECTOR: 2017-2019
(EXCLUDING INVESTMENTS CHANNELLED THROUGH ETVES | € BILLION)**



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

Drilling down into the figures by sector, however, we can see that Spanish investment in the UK accounts for significant percentages of the overall stock of Spanish outward FDI in numerous sectors and subsectors. First of all, virtually all overseas Spanish investment in the “Manufacture of articles of paper and paperboard - household and sanitary goods and toilet requisites” is located in the UK. Other sectors that stand out include several related with transport, including “Passenger land transport”, Passenger air transport and Repair and maintenance of aircraft and spacecraft, in which over 90% of the stock of Spanish FDI is located in Britain. there is also significant UK investment in Wired telecommunications activities (72%), Collection of non-hazardous waste and Treatment and disposal of non-hazardous waste (56% and 65%, respectively), Wholesale of beverages (55%) and Trade of electricity (53%). This snapshot shows that in 2019, Spanish FDI remained strongly concentrated in high value-added industrial and services sectors such as the air transport, telecommunications and electricity supply and generation sectors.

SPANISH FDI IN THE UK BY KEY SECTOR: PERCENTAGE OF TOTAL SPANISH FDI IN THE VARIOUS SECTORS AND ABSOLUTE INVESTMENTS AS OF YEAR-END 2019.



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

It is worth adding that Financial services and Insurance and pension funding, which account for percentages of Spanish FDI in UK in absolute terms (€23.5 billion and €7.07 billion, respectively), represent around 20% of the total stock of outward Spanish FDI in the respective sectors: although those percentages are lower than those displayed in the chart above, they highlight the importance of both in the Spanish companies' investment decisions.

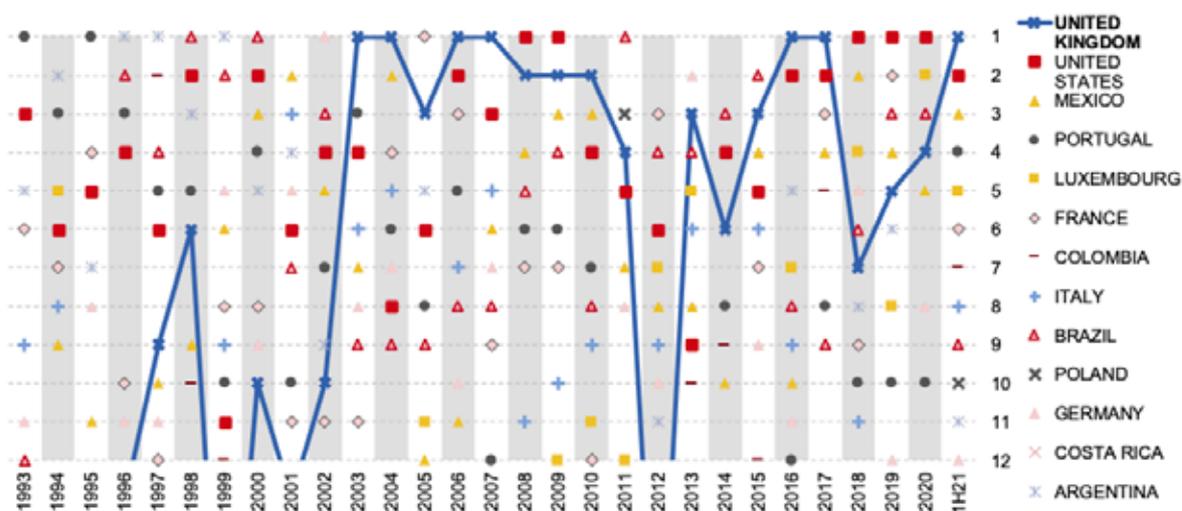
5. CUMULATIVE FLOWS TO 1H21

The UK has received the highest volume of FDI flows since the start of the data series, in 1993, €154.2 billion in total. In addition, the flow of outward Spanish investment into the UK has been rising since 2018, a year in which global investment flows suffered considerably. Despite the health crisis, in 2020, the volume of flows actually closed the year €3.3 billion higher. The first half of 2021 has also topped expectations, although those figures should be taken with caution.

On a cumulative basis, over the course of the period for which the data is available (from 1993 to the end of the first half of 2021), the UK has received over €154.2 billion of Spanish FDI (gross investment by immediate investing country and excluding transactions channelled through foreign security holding companies, or ETVEs for their acronym in Spanish), which is 18.1% of all Spanish outward investment during that timeframe. During the period of time that has elapsed since the Brexit referendum i.e., between the third quarter of 2016 and the second quarter of 2021, investment flows into the UK have totalled over €39.2 billion, which is over 21% of all Spanish FDI flows during that timeframe.

Comparing the figures with last year's Barometer (2020), when the data was only available until the first half of 2020, the health crisis does not appear to have had an adverse impact on Spanish outward investments. In the case of the UK, cumulative outward investments ended 2020 €3.3 billion higher, improving on the initial first-half figures. In the first half of 2021, despite entry into effect of the TCA, accumulated flows of Spanish investment into the UK accelerated slightly, increasing by nearly €7.5 billion with respect to the volume accumulated between 1993 and 2020 and increasing the share of total flows to 18.1% (from 17.8%). Those strong investment dynamics are, however, heavily skewed sector-wise, with the telecommunications sector accounting for nearly all of that growth.

RANKING OF SPANISH FDI FLOWS BY COUNTRY AND YEAR (EXCLUDES INVESTMENTS CHANNELLED THROUGH ETVES)

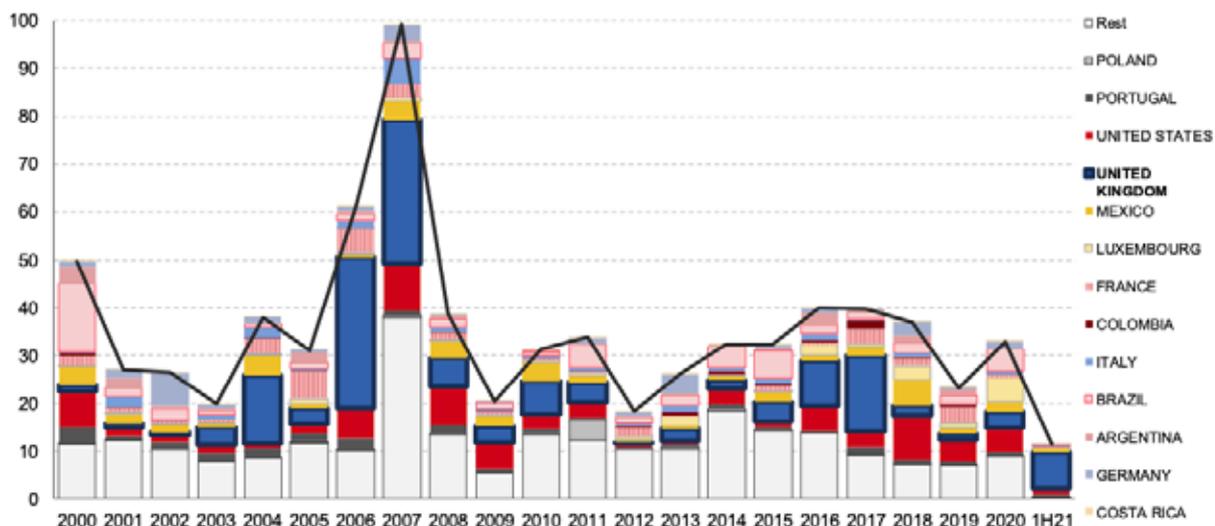


Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

Year after year, the UK has consistently ranked among the top destinations for Spanish investments (in gross terms) and since the start of the series, in 1993, it has ranked first seven out of the last 20 years (in 2003, 2004, 2006, 2007, 2016, 2017 and, so far, 1H21) and second on another three occasions. Spanish FDI flows into the UK had been rising consistently since 2014; the drop in 2018 and 2019, when flows shrank from €15.6 billion in 2017 to €1.9 billion and €1 billion in 2018 and 2019, respectively, may be attributable to the heightened uncertainty associated with Brexit. However, FDI volumes fell globally during those years. According to the United Nations Conference on Trade and Development (UNCTAD) , in 2018, global flows of FDI (gross) decreased by 19% year-on-year, falling by as much as 40% in the case of flows into Europe. This was heavily influenced by large-scale repatriations of accumulated foreign earnings by US multinational enterprises following tax reforms introduced in that country at the end of 2017. In addition, the recovery of Spanish FDI flows into the UK in 2020, despite the health crisis, and the first half of 2021 demonstrates a possible decrease in the perception of risks associated with Brexit.

Moreover, **the UK remains the country receiving the highest volume of investment flows from Spain by a wide margin** (€154.2 billion compared to the €90.6 billion of Spanish investments accumulated by the US, the €80.1 billion received by the Netherlands (clearly influenced by fiscal conditions) and the €72.8 billion captured by Mexico, these being the main recipients of Spanish FDI flows on an accumulated basis), demonstrating the Spanish companies' interest in establishing a presence in the British market with a view to generating business over the medium term. The years in which Spanish investments peaked in overall terms - 2006 and 2007 - were characterised by significant volumes of flows to the UK (€31.49 billion in 2006, which was more than Spain invested in the rest of the world that year, and €30.04 billion in 2007, the highest volumes of Spanish investments garnered by any country in a single year).

**GROSS SPANISH FDI FLOWS BY COUNTRY TO Q2 2021
(€ BILLION | UIC | EXCLUDING ETVES)**



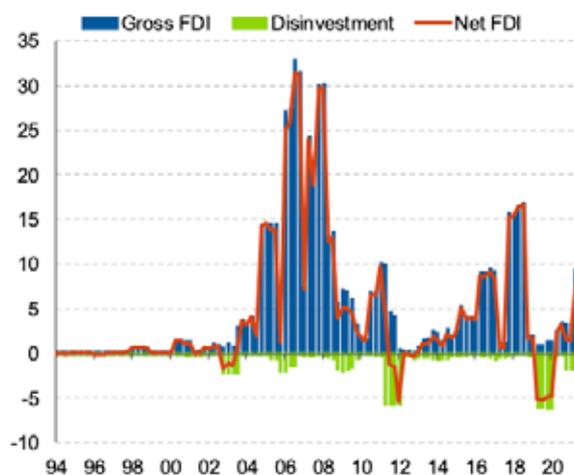
Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

¹ For further information, refer to the UNCTAD 2019 report

Elsewhere, the **nature of Spanish investments in the UK is eminently productive**, as evidenced by the fact that the vast majority are not channelled through ETVEs. Another defining trait of Spanish investment in the UK is the fact that **divestment flows have been very small** throughout the series, barring easily identifiable periods such as the great financial crisis starting in 2007, the European sovereign debt crisis of 2012 and 2013 and the periods of greatest uncertainty regarding how and when Brexit would materialise between 2019 and 2020, so that net investment flows are consistently positive, which is why the stock of Spanish FDI in the UK has been increasing steadily. In addition, the fear that the health crisis would have an adverse impact on the investment decisions of the Spanish firms operating in the UK would not appear to have materialised judging by the better than expected Spanish FDI flows to the UK in 2020.

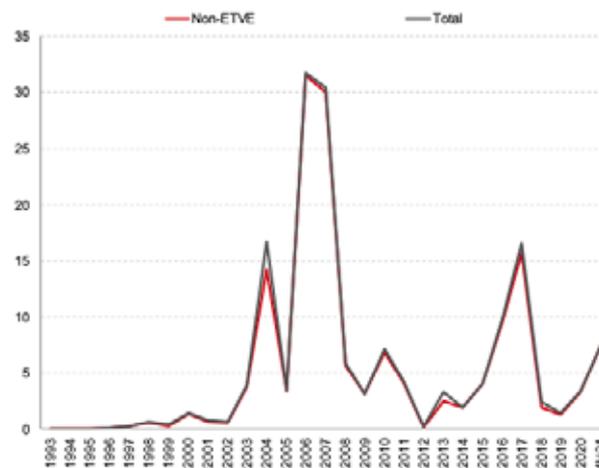
The entry into effect of the TCA in early 2021 marks the start of a new era for bilateral relations between Spain and the UK. Glancing at the data for Spanish FDI flows to the UK for the first half of 2021, in general terms it would appear that the new regime has not had a major impact; indeed 2021 volumes are higher than the 2020 figures. Note, however, as we outline further on in this report, that these figures should be taken with caution for the time being.

**SPANISH FDI FLOWS TO THE UK TO 2Q21
(€ BILLION | UIC | EXCLUDING ETVES)**



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

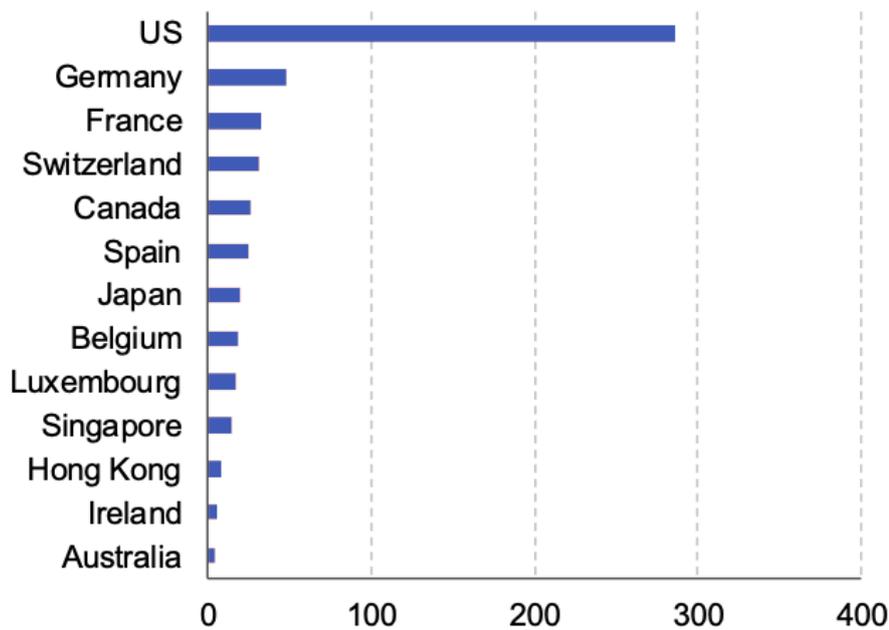
**SPANISH FDI FLOWS TO THE UK TO 2Q21 BY TYPE
OF ENTITY (€ BILLION)**



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

For the UK, on the other hand, Spain has been one of the most important countries of origin in terms of the net flows accumulated between 2009 and 2019, according to ONS data. Specifically, it is the sixth most important market in cumulative terms. Spain fell down the ranks in 2019, losing out to other countries with larger FDI flows. Over the decade in question, Spain has invested close to €25.3 billion, investing €800 million in 2019, albeit far from the volumes received from the UK's biggest investor, the US, which has invested over €250 billion (net) during the period. As for the countries just above and below Spain in the ranking, Spain has invested only €16 million less than Canada and €5.5 billion less than Switzerland, while it is ahead of Japan by €6.5 billion and of Belgium, by €7 billion.

NET FDI FLOWS TO THE UK BY COUNTRY OF ORIGIN BETWEEN 2009 AND 2019 (€ BILLION)



Source: Afi, Office for National Statistics

² Not channelled through a foreign security holding company, ETVEs for their acronym in Spanish, entities that benefit from a special tax regime that exonerates them from paying tax on the dividends or capital gains obtained from holding shares of shareholdings in foreign companies.

6. SPANISH FDI FLOWS BY SECTOR

Spanish investment in the UK remains particularly concentrated in the services sector, within which, however, it is highly diversified. Although certain industrial sectors are attractive to Spanish investors, the financial, retail, telecommunications and energy supply sectors top the rankings. However, investment in some of those sectors stagnated during the first half of 2021, when nearly all of the FDI flows went to the telecommunications sector.

Spanish investment in the UK has been notably dynamic in the financial services sector. Monetary intermediation and Credit granting have received investment flows from Spain every year since 1993. The three financial service categories included in the statistical classification of economic activities, NACE, have garnered investments totalling €29.46 billion throughout the historical series. Following a slight reduction in flows in 2018 and 2019, the sector received a fresh boost in 2020, attracting nearly €400 million of investments, evidencing the Spanish financial sector's solid investment commitment, health crisis notwithstanding. Those flows stagnated, however, in the first half of 2021. Although we will have to wait for the full-year figures for a fuller picture, that trend may be a sign of a possible impact of the TCA during the initial months following its entry into effect.

In addition to the **financial sector**, other sectors stand out for either the consistency with which they have received investments from Spain over time or the high volumes of investments received. The first category, sectors to which Spain has demonstrated a sustained commitment over the years, includes **wholesale and retail trade** (with the two accumulating €9.8 billion of investments and with the wholesale trade attracting investments all 28 years of the series), **real estate activities** (€2.6 billion) and, within technical activities, **architectural and engineering activities** (with lower volumes, at €176 million, but a recipient 19 of the 28 years comprising the series). However, replicating the broader trend, investment in those sectors stagnated during the first half of the year, showing further signs of a possible impact of the new TCA regime.

As for the British sectors attracting the highest flows of Spanish investments, besides the financial sector, it is worth singling out the telecommunications sector (€46.9 billion over the 28 years of the series); electricity and gas supply (€22.95 billion, largely concentrated in electricity); the manufacture of other non-metallic metals (mainly cement; €17.93 billion); warehousing and support activities for transportation (€5.22 billion) and air transport (€4.71 billion, mainly in passenger air transport).

It is worth noting that in the first half of 2021, most of the investment flows went to the telecommunications sector, where the merger between Telefónica and Virgin Media via the former's UK subsidiary, O2, at the end of May/early June, entailed an investment valued at €7.3 billion (total flows to all sectors during the period totalled €7.4 billion).

GROSS FLOWS OF SPANISH FDI TO THE UK BY SECTOR SINCE THE START OF THE SERIES (1993)
(€ MILLION | IMMEDIATE COUNTRY CRITERION | EXCLUDING ETVES | THE VERTICAL ORDERING CORRESPONDS TO THE NUMBER OF YEARS
RECEIVING INVESTMENT FLOWS | THE COLOUR SCALE REFLECTS THE VOLUME OF ANNUAL FDI FLOWS)

Y	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	1H21			
W	0.0	0.0	5.6	1.1	129.2	0.0	10.7	23.4	17.7	13.5	46.8	47.9	11.7	10.7	36.8	15.0	51.8	30.2	0.6	2.9	0.0	3.2	2.8	722.9	467.7	126.4	512.8	288.3	97.5			
I	0.5	0.4				9.5	0.1	0.2	0.2	0.2	0.3	0.1	5.4	7.6	3.4	2.9	11.1	3.8	1.2	5.7	0.0	0.3	0.0	11.2	1.4	28.3	2.5	0.2				
T	1.2			4.1	12.0	7.4	27.0	3.9	7.2	5.0	3.8	0.8	0.2	0.7	0.4	30.6	44.7	0.1	0.1	20.0	0.2	4.0	0.0	7.0	14.4	9.1	7.5	0.0	1.4			
H	9.0					2.6	317.7	0.0	1.156.8	2.6	1.357.4	0.6	0.0	6.4	55.9	0.0	105.3	7.3	137.1	6.2	3.3	0.2	47.2	15.041.5	22.3	3.5	0.4	802.8				
E	0.3		0.9							27.6	1.8	246.0	228.3	366.7	3.853.4	0.1	19.8	1.8	31.9	0.0	47.3	1.8	395.2									
L	0.2									0.9	3.1	0.0	0.0	0.2	52.5	0.2	17.3	0.8	1.2	0.0	0.0	0.0	0.0	0.2	0.4	1.0	0.1					
O	1.5	2.4	2.4	8.3	0.2	0.3	0.4	0.4	0.9	3.1	3.0	62.0	61.7	2.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	529.4	8.5	21.1	145.2	1.519.3	7.335.8			
N	0.1	0.5	5.0																													
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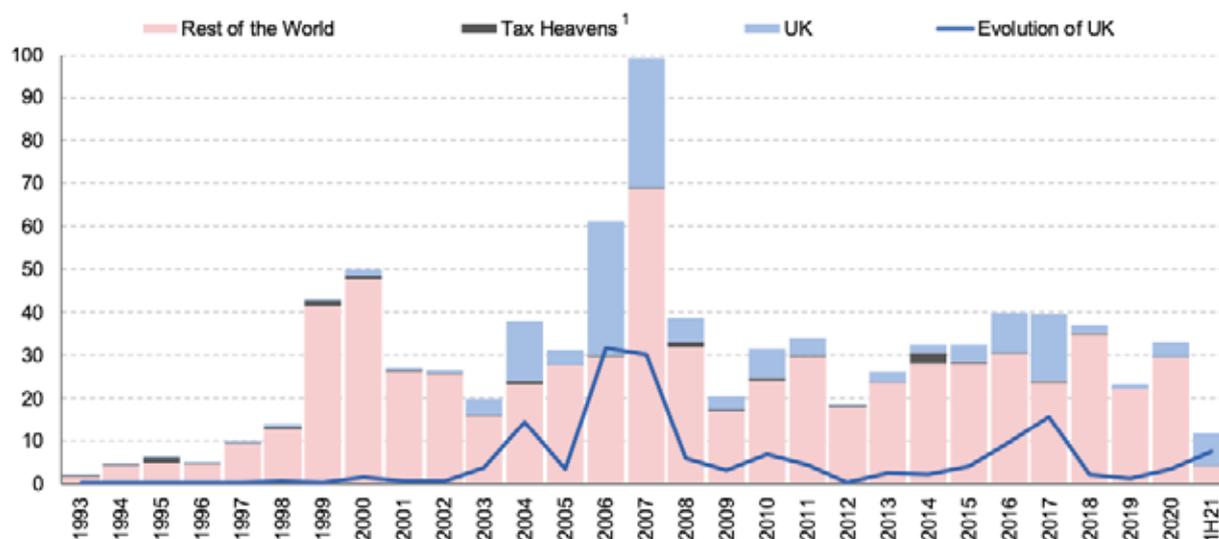
Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

7. SPANISH FDI FLOWS SINCE THE BREXIT REFERENDUM (JUNE 2016) AND ENTRY INTO EFFECT OF THE TCA (EARLY 2021)

Spain's investment appetite for the UK market waned in 2018 and 2019, which is when Brexit-related uncertainty was at its height. However, despite the health crisis, Spanish FDI flows into the UK staged a noteworthy recovery in 2020. Entry into effect of the TCA ushers in a new regulatory framework for bilateral relations, the effects of which warrant close attention.

In the first years since the Brexit referendum, Spanish investment in the UK looked to be withstanding the political uncertainty and the Spanish firms' investment commitment showed little signs of wavering. However, between 2018 and 2019, FDI flows to the UK deteriorated, revisiting levels close to those of 2012. In 2020, in spite of the health crisis, the volume of Spanish outward FDI, including to the UK market, increased with respect to 2019. **During the first half of 2021, on the other hand, total flows deteriorated, while those headed to the UK increased.**

**GROSS FLOWS OF SPANISH FDI TO THE UK AND ROW
(EXCLUDING ETVES | QUARTERLY | € BILLION)**

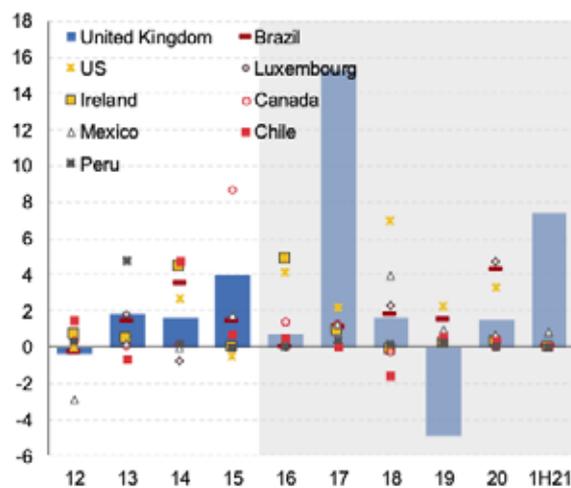


Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

¹ Tax havens as per Spanish legislation : Anguilla, Antigua and Barbuda, Bahrain, Bermudas, Brunei, Dominica, Fiji, Gibraltar, Granada, Guernsey, Isle of Man, Cayman Islands, Cook Islands, Maldives, Northern Mariana Islands, Solomon Islands, Turks and Caicos Islands, British and US Virgin Islands, Jersey, Jordan, Lebanon, Liberia, Liechtenstein, Macao, Mauritius, Monaco, Montserrat, Nauru, Saint Vincent & the Grenadines, Saint Lucia, Seychelles and Vanuatu.

Analysing the trend during the years elapsing since the referendum (from mid-2016 to 2020), we note that flows decreased between 2018 and 2019, which is when uncertainty regarding the outcome of Brexit was at its highest. Even though Spanish outward FDI flows declined across the board during that period, the reduction in flows to the UK was more pronounced. **However, in 2020, flows staged a noteworthy recovery, evidencing the robust nature of the Spanish firms' investments in the UK, the global health crisis notwithstanding.** Entry into effect of the TCA in early 2021 marks the start of a new era for trade relations between the UK and Spain, and although it does not take direct aim at FDI, it could nevertheless have an indirect impact on investment plans, via trade relations. At any rate, the new agreement dissipates the threat of a 'no-deal' Brexit and its worse consequences for bilateral trade and economic flows.

**MAIN RECIPIENTS OF NET SPANISH FDI FLOWS SINCE 2012
(ETVES EXCLUDED, € BILLION)**



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

Elsewhere, if we look at the sector trends, we can see some new patterns in the wake of the Brexit referendum that suggest that Spanish investor appetite for the UK market may have deteriorated since the UK's withdrawal from the European Union. However, the overlap between the TCA and the Covid-19 pandemic makes it hard to break the trend in FDI flows down between the two factors. Although the financial, wholesale, retail and real estate sectors have continued to attract a significant amount of Spanish investments, in all cases the amounts have been dwindling since the end of 2018, a trend that accelerated significantly in the first two quarters of 2021, following effectiveness of the new trade agreement.

**GROSS FLOWS OF SPANISH FDI TO THE UK BY SECTOR SINCE THE BREXIT REFERENDUM
(€ 000 | IMMEDIATE COUNTRY CRITERION | EXCLUDING ETVES | THE VERTICAL ORDERING CORRESPONDS TO THE NUMBER OF QUARTERS
RECEIVING INVESTMENT FLOWS | WHILE THE COLOUR SCALE REFLECTS THE VOLUME OF QUARTERLY FDI FLOWS)**



Source: Afi, Spanish Trade Department (Secretaría de Estado de Comercio)

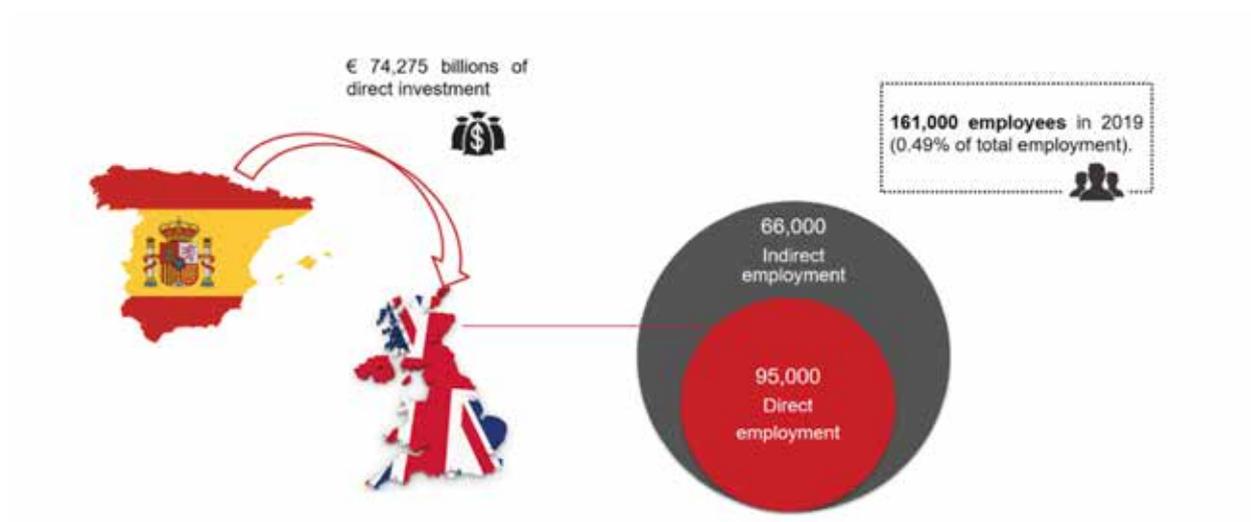
8. EFFECTS ON JOBS OF SPANISH FDI IN THE UK

Spanish FDI in the UK contributed to the generation of 161,000 jobs in 2019, which is equivalent to 0.49% of total nationwide employment.

Spanish FDI in the UK contributed to the creation of 161,000 jobs in total in 2019, which is equivalent to 0.49% of total employment in the UK and similar to the total population of British cities of the size of Oxford (171,380 inhabitants), Bournemouth (163,600) and Cambridge (158,434). The contribution of Spanish FDI to British employment in 2019 is slightly smaller than it was in 2018 (163,000 jobs), due mainly to the reduction, of around €3 billion, in the stock of investment.

Of all the jobs generated by Spanish investment in 2019, 95,000 are considered direct jobs, with the remaining 66,000 positions considered indirect jobs created via knock-on effects on supply chains.

EMPLOYMENT GENERATED BY SPANISH FDI IN THE UK



*Indirect employment was estimated using Leontief type I multiplier effects for the various productive sectors of the economy (2015 Input-Output Tables).

PART II

OUTLOOK FOR INVESTMENT IN THE UK

1. HOW SPANISH COMPANIES WITH AN INVESTMENT PRESENCE IN THE UK VIEW THE BRITISH BUSINESS CLIMATE

In this section of the Barometer, we share how the surveyed Spanish companies with a presence in the UK view the business climate in the UK (refer to the appendix for more on the methodology).

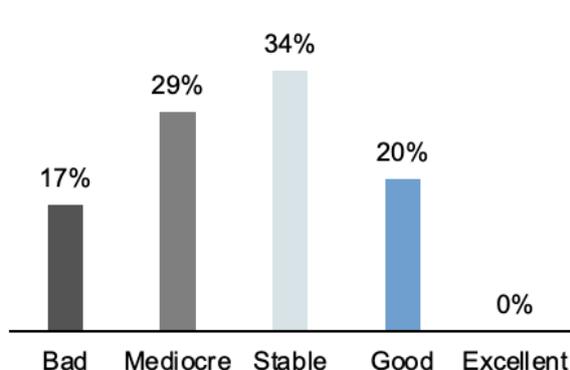
OVERALL ASSESSMENT AND RECENT TRENDS

A little over half (54%) of the Spanish companies established in the UK rate the business climate in the wake of Brexit as 'acceptable' or 'good', up 20 points from last year.

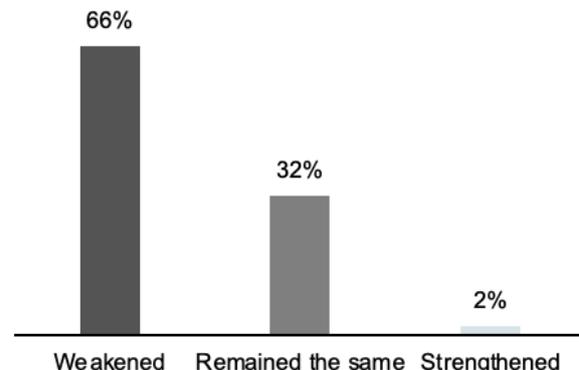
Fifty-four per cent of the respondents rate the British business climate as 'acceptable' or 'good', with the remaining 46% describing it as 'poor' or 'bad'. That marks a clear-cut improvement in perception compared to last year's Barometer, when 66% of the companies surveyed held a negative opinion of the business climate.

On a scale of 1 to 5, the Spanish firms consulted gave the business climate in the UK an overall score of 2.6 in 2021, up 0.5 points from 2020. However, 66% of the companies providing feedback still view the business climate as worse now than it was before Brexit. Nevertheless, that percentage has come down from 2020, when a wide majority of firms (83%) reported a perceived worsening of the business climate during the previous 12 months.

OVERALL ASSESSMENT OF THE BRITISH BUSINESS CLIMATE IN THE WAKE OF BREXIT (% OF RESPONSES)



PERCEIVED CHANGE IN THE BUSINESS CLIMATE IN THE UK IN THE WAKE OF BREXIT (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

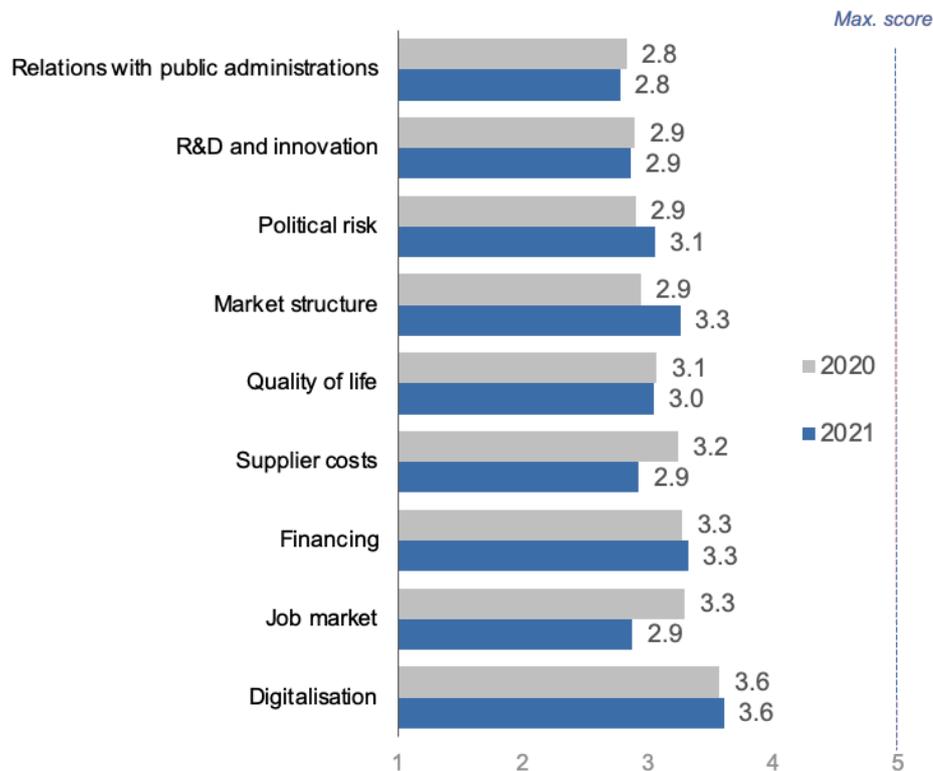
ASSESSMENT OF THE MAIN ASPECTS OF THE BUSINESS CLIMATE

The level of digitalisation remains, for the third year in a row, the aspect most highly rated by the Spanish firms (repeating a score of 3.6 out of 5), while government relations remains the worst ranked (at 2.8 points).

As was the case with the 2020 Barometer, the level of digitalisation in the UK is the aspect of the country's business climate highest rated in 2021 by the Spanish companies with a presence there, obtaining a score of 3.6 out of 5.

By comparison with last year's results, the 2021 Barometer reveals an improvement in the Spanish firms' assessments of the British market's structure (whose average score improved by 0.4 points from 2020) and of political risk (+0.2pp), but a less favourable perception of the labour market (-0.4pp) and an increase in supplier costs, with the latter two factors shaped by the first months of effectiveness of the Trade and Cooperation Agreement between the UK and EU.

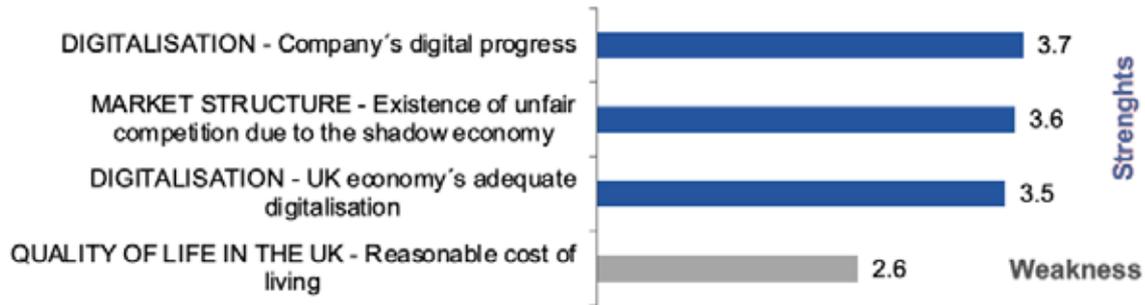
ASSESSMENT OF THE BUSINESS CLIMATE IN THE UK BY ASPECT (SCORES BASED ON % OF RESPONSES, WHERE 1 IS BAD AND 5 IS EXCELLENT)



Source: Afi, "2020 and 2021 Surveys of Spanish outward investment into the UK"

More specifically, the Spanish companies' responses indicate that the country's high level of digitalisation coupled with the low incidence of the shadow economy (unfair competition) are the key strengths of the British business climate, with the high cost of living as the biggest weakness. Those results are unchanged with respect to the conclusions gleaned from the 2020 Barometer.

**KEY STRENGTHS AND WEAKNESSES OF THE BRITISH BUSINESS CLIMATE
(SCORES BASED ON % OF RESPONSES)**



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

Below is a more detailed analysis of each of the nine identified aspects comprising the British business climate.

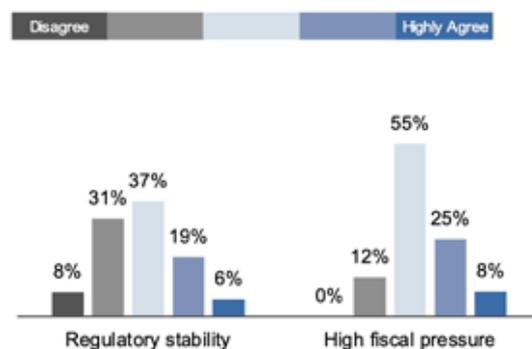
GOVERNMENT RELATIONS

Government relations emerged as the worst-rated aspect of the British business climate in 2021. One out of three Spanish firms perceived a degree of regulatory instability and high fiscal pressure.

When asked about how they perceive the public sector, 39% of the companies consulted noted a degree of regulatory instability. That aspect obtained an average score of 2.8 out of 5 (2.9 in 2020).

Meanwhile, 33% of the Spanish companies said they felt fiscal pressure in the UK was very high, with 12% maintaining the complete opposite. The average score was 2.7 out of 5 (2.8 in 2020).

ASSESSMENT OF GOVERNMENT RELATIONS (% OF RESPONSES)



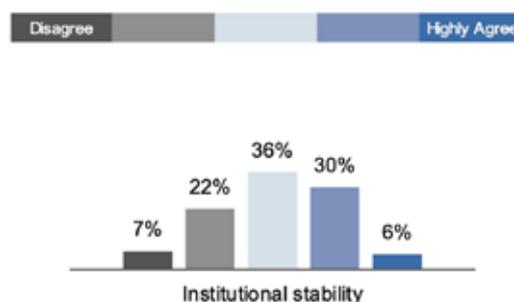
Source: Afi, "2021 Survey of Spanish outward investment into the UK"

POLITICAL RISK

The Spanish companies located in the UK reported a better perception of institutional stability for the third year running.

Thirty-six per cent of the Spanish companies doing business in the UK noted considerable institutional stability, a perception which has been improving consistently, giving this attribute a score of 3.1 out of 5 in 2021, compared to 2.9 in 2020 and, more notably, 2.2 in 2019.

ASSESSMENT OF POLITICAL RISK (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

MARKET STRUCTURE

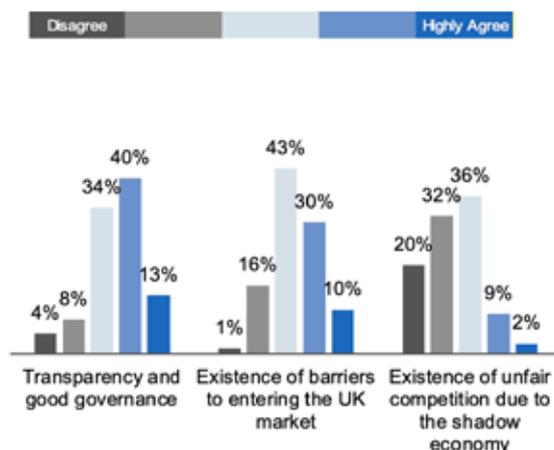
The Spanish companies' perception is that barriers to entry have increased. That is probably largely to do with new trade barriers in the wake of Brexit.

Some 53% of the firms surveyed believe that their relationship with the public institutions is governed by a framework of transparency and good governance, compared to 46% in 2020. That aspect obtained a score of 3.5 out of 5, up 0.2 points from 2020.

In contrast, the 2021 Barometer reveals an impaired perception of the level of openness of the British economy. Forty per cent of the Spanish companies interviewed reported the existence of high barriers to entry into the UK market, compared to 30% in 2020. The firms gave this aspect a score of 2.7 out of 5, down 0.3 points from 2020 and 0.5 points from 2019.

On the other hand, once established in the British market, over half of the companies consulted said they did not detect unfair competition due to the shadow economy (with just 11% of the sample observing this phenomenon), an aspect obtaining a high score: 3.6 out of 5, in line with the findings of 2019 and 2020.

ASSESSMENT OF THE MARKET STRUCTURE IN THE UK (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

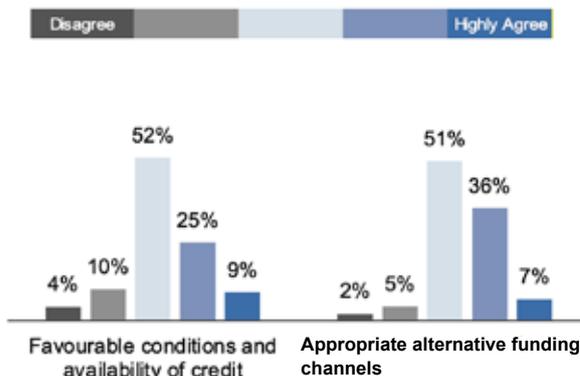
FINANCING

Access to financing is one of the aspects of the British business climate highest rated by the Spanish business community there.

With respect to the British financing system, 34% of the firms polled reported favourable financing conditions and availability of credit, an aspect that received a score of 3.2 out of 5, in line with the results obtained in the 2020 and 2019 Barometers.

Elsewhere, the perception of the existence of appropriate alternative financing channels in the UK has been improving consistently, scoring 3.4 out of 5, up 0.1 points from 2020 and 0.2 from 2019.

ASSESSMENT OF FINANCING CONDITIONS (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

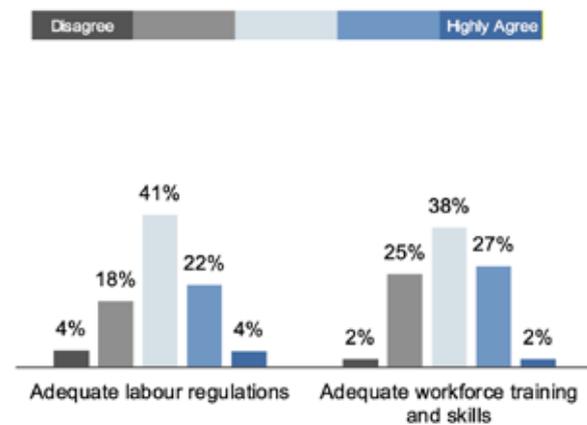
LABOUR MARKET

The perception of the British labour market has deteriorated over the past year. Twenty-two per cent of the companies surveyed believe that the current labour regulations do not meet their needs and 27% cannot find the skills they need, a situation shaped by the discontinuation of free movement of European citizens under the new trade agreement between the EU and UK.

The 2021 Barometer indicates a deteriorating perception of labour regulations by the Spanish business community in the UK, which gave this aspect a score of 2.8 out of 5, compared to 3.4 in 2020 and 3.3 in 2019. Thirty-two per cent of the companies surveyed said that current labour regulations failed to meet their needs.

By the same token, the **Spanish firms reported that they had encountered more problems during the past year in finding people with the training and skills they needed**, with 33% indicating that they could not find people with the backgrounds they were looking for. As a result, the score ascribed to this aspect decreased by 0.3 points from 2020 to 2.9 out of 5.

ASSESSMENT OF THE BRITISH LABOUR MARKET (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

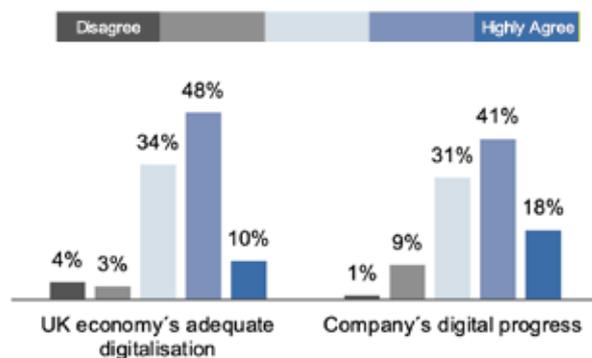
DIGITALISATION

Digitalisation remains the most highly rated aspect of the British business climate.

Progress in terms of digital transformation is the highest-scoring aspect of the 2021 Barometer. Fifty-eight per cent of the Spanish firms rated the level of digitalisation of the UK economy as high, with 10% considering it very high, which is eight points more than in 2020. In all, this aspect received a score of 3.6 out of 5, up 0.1 points from 2020.

The companies surveyed similarly rate their firm-level of digitalisation as high (59% said so), awarding themselves an average score of 3.7 out of 5, in line with their self-assessment in 2020.

ASSESSMENT OF DIGITALISATION IN THE UK (% OF RESPONSES)



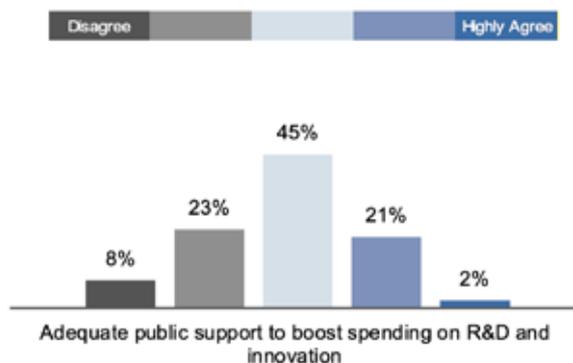
Source: Afi, "2021 Survey of Spanish outward investment into the UK"

R+D+i

Public support for R+D+i activities continues to present room for improvement; the related scores barely moved in 2021

Just 23% of the Spanish companies established in the UK believe there is enough public support aimed at boosting their R+D+i expenses, an aspect that obtained a score of 2.9 out of 5, which is flat year-on-year.

ASSESSMENT OF PUBLIC SUPPORT FOR R+D+i IN THE UK (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

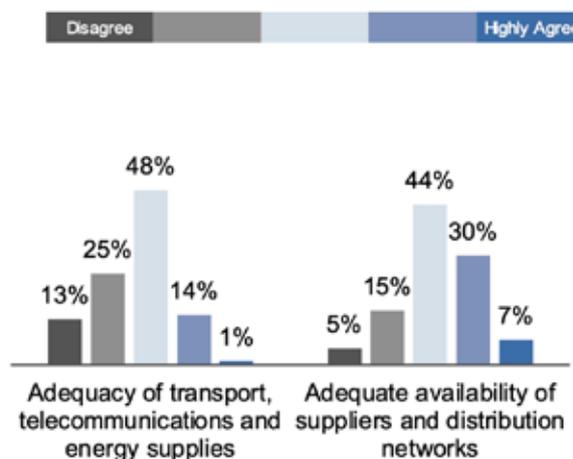
SUPPLIER COSTS

One-third of Spanish companies in the UK rate the availability, quality and cost of transport, telecommunications and energy supplies as inadequate, this aspect being one of the most affected by the UK's exit from the Single Market.

Thirty-eight per cent of the Spanish companies surveyed said they found the availability, quality and cost of transport, telecommunications and energy supplies inadequate, compared to 22% in 2020. The impairment of the perception of the adequacy of those services between 2020 and 2021 is evident in the score obtained by this aspect: 2.7 out of 5, down 0.7 points from 2020.

In contrast, 37% described the availability of suppliers and distribution networks as adequate, an aspect obtaining a score of 3.2 out of 5, in line with the 2020 figure.

ASSESSMENT OF SUPPLIER COSTS IN THE UK (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

QUALITY OF LIFE IN THE UK

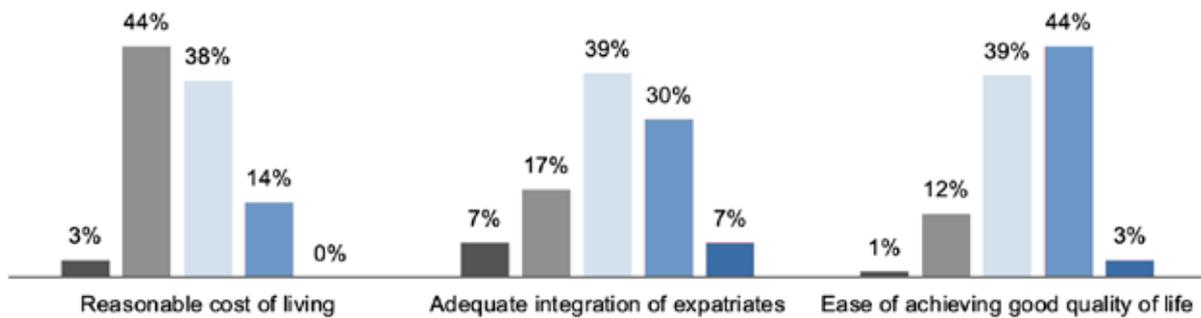
Nearly half of the Spanish companies view the cost of living in the UK as excessive, although they also believe it is easy to achieve good quality of life.

Forty-seven per cent of the firms surveyed described the cost of living in the UK as excessive, a percentage that is, nevertheless, lower than that of 2020 (56%). The result is that the cost of living is the worst-rated aspect of the British business climate, at a score of 2.6 out of 5.

On the other hand, 37% of the firms polled view the conditions for expatriate integration as adequate, although that is down 6 points from 2020.

In general, 47% of the firms surveyed believe it is easy to achieve good quality of life in the UK (up 3 points from 2020), as an aspect that obtained a score of 3.4 out of 5.

ASSESSMENT OF QUALITY OF LIFE IN THE UK (% OF RESPONSES) ⁷



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

⁷ Unlike in 2020, the 2021 Barometer does not include questions about how security is perceived in the UK.

2. ASSESSMENT OF THE IMPACT OF COVID-19⁸

The uncertainty associated with the fate of the Covid-19 pandemic has had a unique effect on the expectations of Spanish companies in the UK, weighing particularly on their short- and medium-term investment decisions. The goal of this section is to assess the impact of the pandemic on the investment intentions of the Spanish firms operating in the UK.

Half of the Spanish companies in the UK registered business volumes that were below pre-pandemic levels during the first half of 2021.

Fifty-four per cent of the firms have modified their investment plans in the UK and 70% have rolled out remote working arrangements within their organisations.

Forty per cent of the companies believe that the assistance provided by the British government has been ‘good’ or ‘acceptable’.

Fifty-four per cent of the Spanish companies surveyed reported that the Covid-19 pandemic had shaped an overall reduction in their business volumes during the first half of 2021, compared to a restriction-free scenario. Nevertheless, the results of the 2021 Barometer reveal an improvement year-on-year: 24% of the businesses reported growth in business activity during the first six months of 2021, compared to just 4% in the first half of 2020.

IMPACT OF COVID-19 ON THE GLOBAL ACTIVITY OF SPANISH COMPANIES WITH INVESTMENTS IN THE UK DURING THE FIRST HALF OF 2021 (% OF FIRMS SURVEYED)

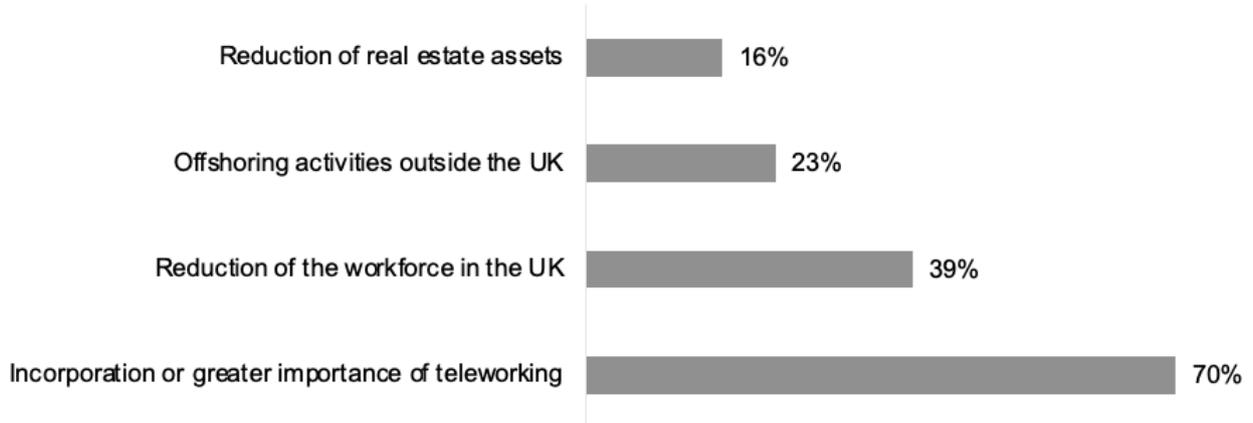


Source: Afi, “2021 Survey of Spanish outward investment into the UK”

Covid-19 has led to organisational changes. Specifically, 70% of the Spanish companies with a presence in the British market have introduced or expanded their remote working arrangements, while 39% have been obliged to let employees in the UK operations go.

⁸ Note that the survey was conducted primarily between the end of August and middle of September 2021.

**CHANGES IN THE SPANISH FIRMS' ACTIVITIES AS A RESULT OF COVID-19
(% OF FIRMS SURVEYED)**

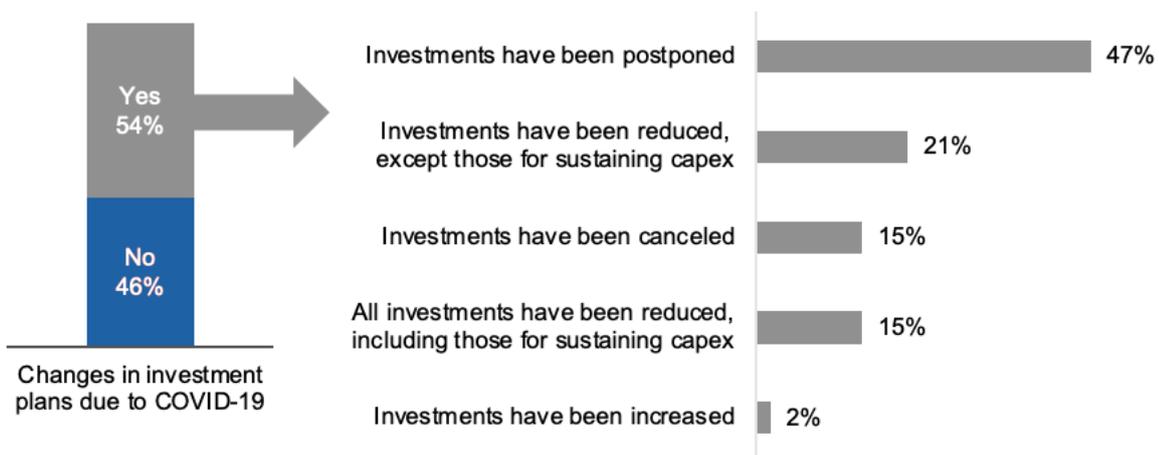


Note: a given company may have experienced changes within more than one category.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

Fifty-four per cent of the firms surveyed reported having changed their investment plans for the UK market in 2021 as a result of Covid-19 (56% in 2020). Among the firms that have modified their plans, around half have decided to postpone their investments (34% in 2020), with 15% cancelling them altogether (6% in 2020).

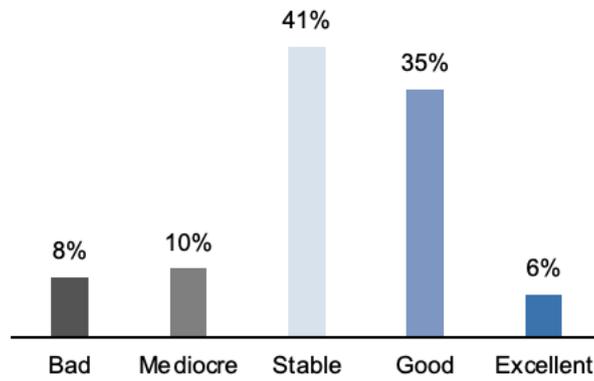
**ASSESSMENT OF THE IMPACT OF COVID-19 ON INVESTMENT PLANS FOR THE UK IN
2021 AND 2022 (% OF FIRMS SURVEYED)**



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

In general terms, the Spanish firms with investments in the UK said they were satisfied with the assistance provided by the British government: 41% described it as 'acceptable' and another 41% as 'good' or 'excellent'.

ASSESSMENT OF THE BUSINESS SUPPORT PROVIDED BY THE BRITISH GOVERNMENT



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

3. ASSESSMENT OF THE IMPACT OF BREXIT

The British people voted in favour of leaving the European Union by referendum on 23 June 2016. Britain officially exited the European Union on 31 January 2020. After more than a year of negotiations, the new Trade and Cooperation Agreement between the European Union and United Kingdom (TCA) took effect on 1 January 2021. The TCA introduces preferential regimes in areas including trade, intellectual property, road transportation, energy and fishing.

The effectiveness of the TCA marked the end of complex negotiations between the British government and the European institutions. The difficulties initially centred on drawing up the roadmap for an unprecedented exit from the European Union by a member state and later focused on laying the ground rules for future relations between the UK and the rest of the EU member states. Aspects such as immigration, trade and, most importantly, the status of Northern Ireland, provided the negotiators on both sides of the table with real challenges.

The entire process was also shaped by events of a (British) political nature, starting with the resignation of David Cameron a scant 20 days after the referendum, and later that of his successor, Theresa May, three years on, having proved incapable of agreeing an exit plan with the rest of the members of her government. Since the second general elections following the Brexit referendum, held in 2019, Boris Johnson has been spearheading the exit process, specifically the creation of a new framework for relations with the European Union.

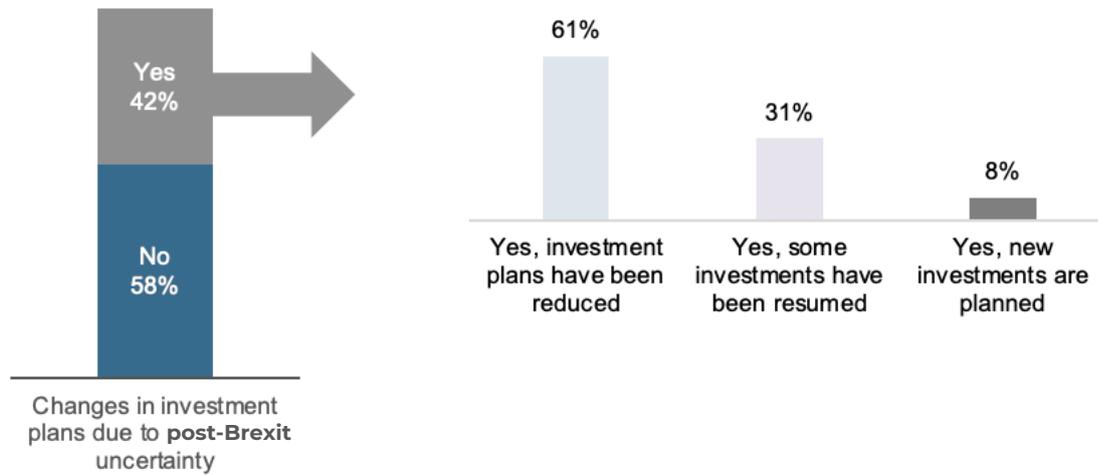
Against that backdrop, below is a snapshot of how the Spanish companies doing business in the UK feel Brexit has impacted their investment decisions in that market.

IMPACT ON BUSINESS INVESTMENT PLANS IN THE UK

Fifty-eight per cent of the firms surveyed report that they have not changed their investment strategies in the UK significantly since the start of the Brexit process. Although half of the respondents say their costs have increased since effectiveness of the UK-EU TCA, 91% say the British market will remain strategic for them.

Forty-two per cent of the Spanish firms surveyed said they had changed their investment plans in 2021 as a result of the change of regime post-Brexit and the terms of the new trade agreement between the UK and European Union. Specifically, two out of every three companies have pared back their UK investment plans, while the remaining third have decided to resume their projects following effectiveness of the new agreement.

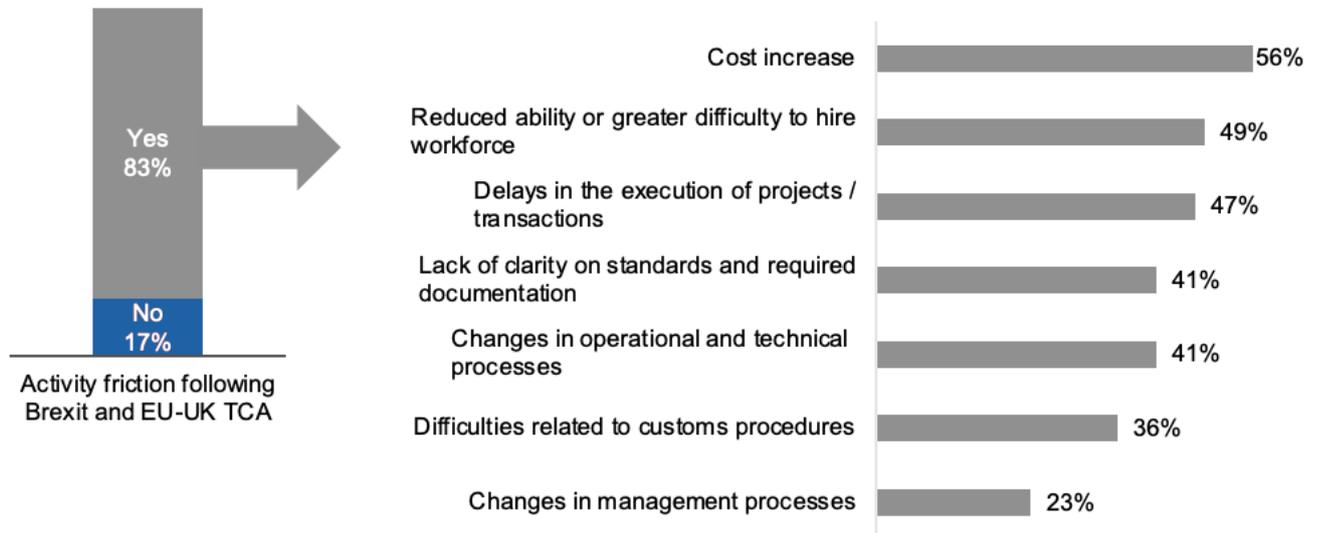
IMPACT ON BUSINESS INVESTMENT PLANS OF HEIGHTENED UNCERTAINTY REGARDING TRADE RELATIONS BETWEEN THE UK AND EUROPEAN UNION (% OF RESPONSES)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

Eighty-three per cent of the firms reported encountering business friction as a result of effectiveness of the new UK-EU Trade and Cooperation Agreement. Among those firms, over half have seen their costs increase and nearly one-half have also experienced project execution delays.

FRICION SUSTAINED IN BUSINESS ACTIVITY AS A RESULT OF BREXIT AND EFFECTIVENESS OF THE UK-EU TRADE AND COOPERATION AGREEMENT (% OF FIRMS SURVEYED)



Note: a given firm may provide multiple affirmative responses.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

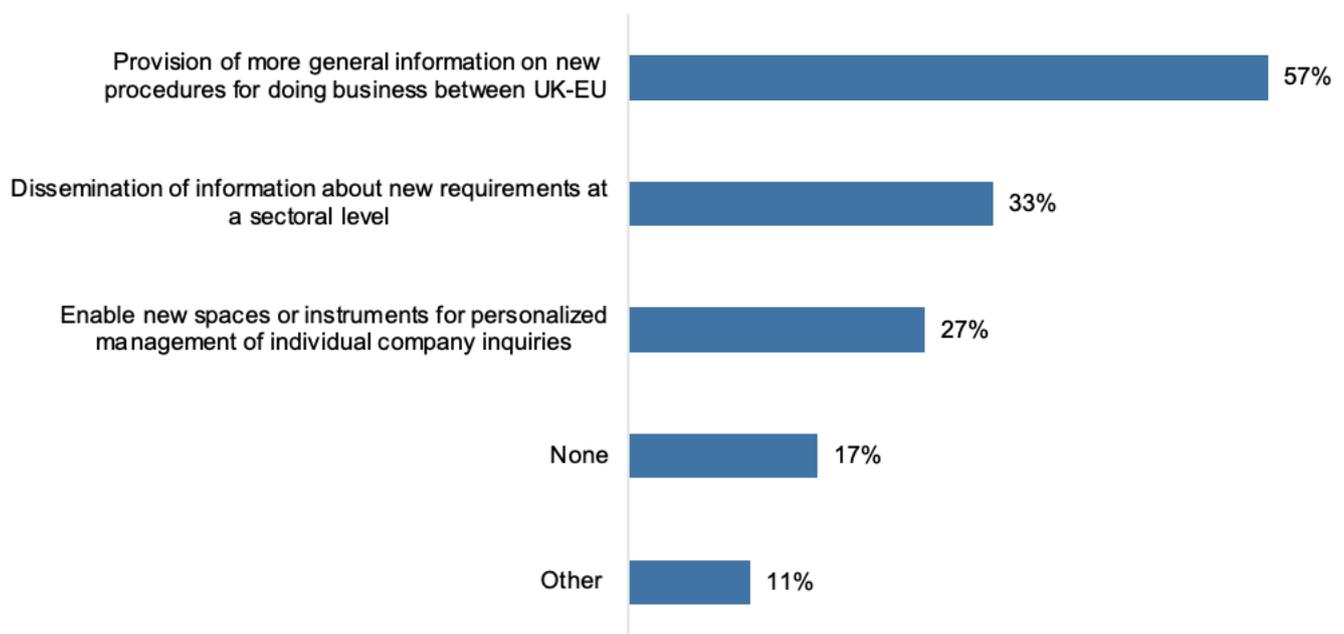
Despite the difficulties caused by the pandemic and the uncertainty associated with Brexit and the new trade agreement, 91% of the Spanish firms with investments in the UK continue to view the Britain as a strategic market.

FEEDBACK ABOUT GOVERNMENT INITIATIVES

The Spanish companies surveyed would like to see more support from the British government in terms of the provision of general information about the new procedures for doing business between the UK and the European Union.

Fifty-seven per cent of the firms polled would like to receive greater support from the British government in the form of information about the new arrangements for doing business between the UK and EU. Although that is the area in which there is greatest demand for additional support, 33% of the respondents also see the need for more sector-specific information about TCA-related requirements.

KEY AREAS IN WHICH THE SPANISH FIRMS FEEL THE NEED FOR GREATER SUPPORT FROM THE BRITISH GOVERNMENT (% OF FIRMS SURVEYED)



Note: each company can signal more than one key area.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

4. OUTLOOK FOR ACTIVITY IN THE UK IN 2021 AND 2022

The plans of the Spanish companies based in the UK for the rest of 2021 and 2022 are largely shaped by the impact of the two factors analysed in the previous section: the pace of economic recovery in the wake of Covid-19; and the impact of the new UK-EU Trade and Cooperation Agreement.

The goal of this section is to set down the Spanish companies' expectations about their performance (in terms of jobs, turnover and investments) in the British market in the months to come.

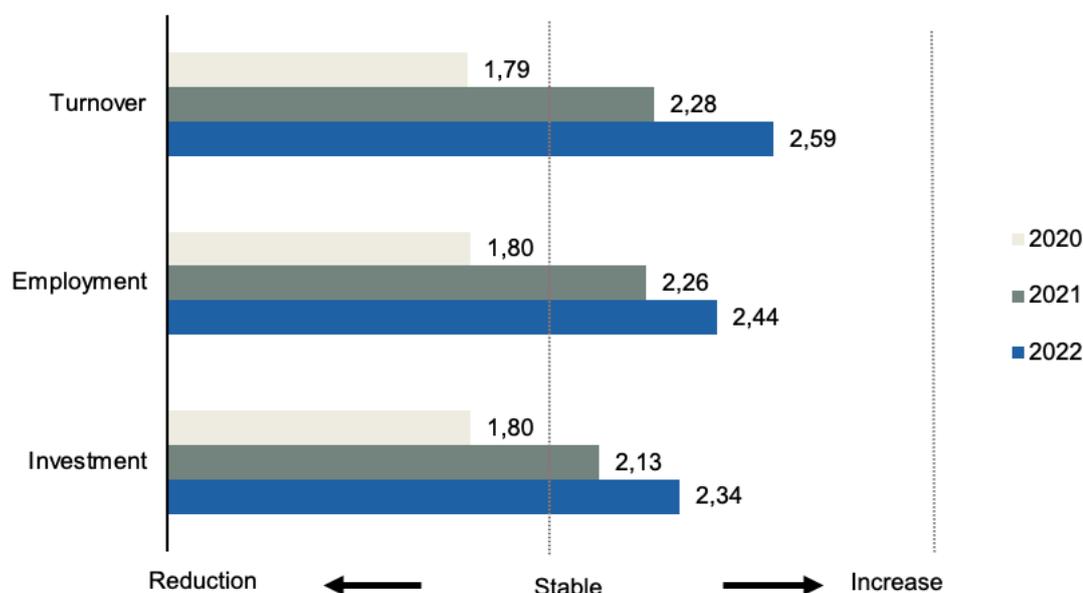
EXPECTED BUSINESS PERFORMANCE

The Spanish firms invested in the UK expect their activity levels to improve in 2022 in terms of turnover, jobs and investing.

The responses provided in the 2021 Barometer point to a brighter outlook on the part of the Spanish companies in the UK compared to the previous year. More specifically, 66% of the firms surveyed expect their revenue to increase next year, compared to just 48% in 2020. The assessment of this aspect increased by over 0.3 points year-on-year.

In terms of jobs, 43% of the respondents expect to increase their UK workforces in 2022 (up 8 points from last year). A similar percentage (42%) of firms expect to step up their investments in the country in 2022 (26% in 2021).

SPANISH COMPANIES' OUTLOOK FOR GROWTH IN ACTIVITY (SCORES BASED ON % OF RESPONSES, WHERE 1 MEANS REDUCED ACTIVITY AND 3 MEANS INCREASED ACTIVITY)



Note: the 2020 scores correspond to the business expectations expressed during the first quarter of 2020.

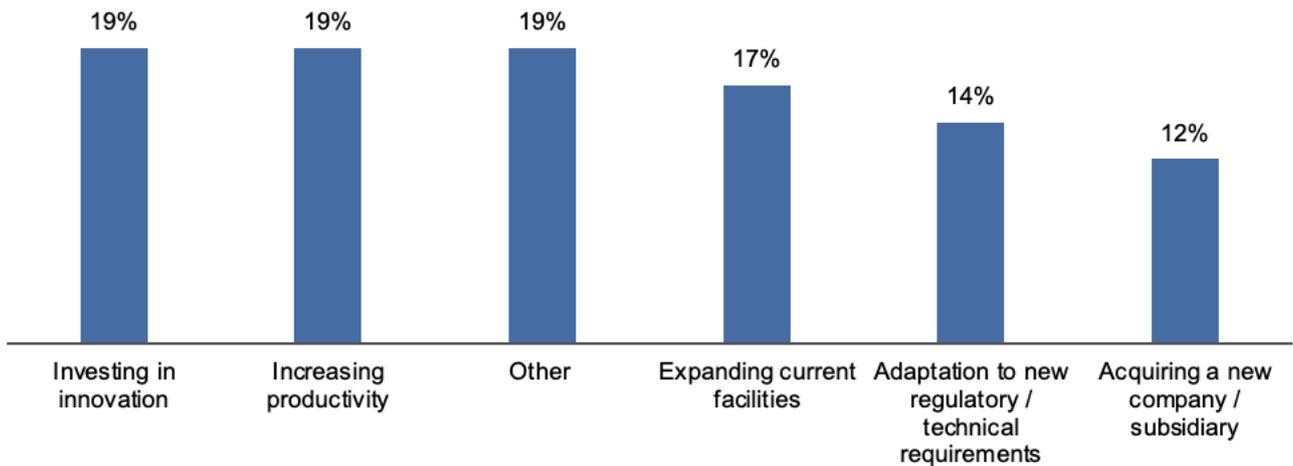
Source: Afi, "2021 Survey of Spanish outward investment into the UK"

EXPECTED BUSINESS INVESTMENTS

Forty-two per cent of the Spanish companies invested in the UK plan to increase their investments in the British market in 2022, most notably to invest in innovation and increase their productivity. A scant 8% plan to reduce their investments, the main channel for so doing being workforce reductions. As for the sector and geographic profiles of the new investments, the companies' business plans suggest a broad distribution at the sector level, albeit concentrated (34%) in London and its metropolitan area.

As noted, 42% of the companies surveyed plan to increase their investments in the UK in 2022. Among them, one in five plans to invest in innovation, with another fifth of them aspiring to increase their productivity.

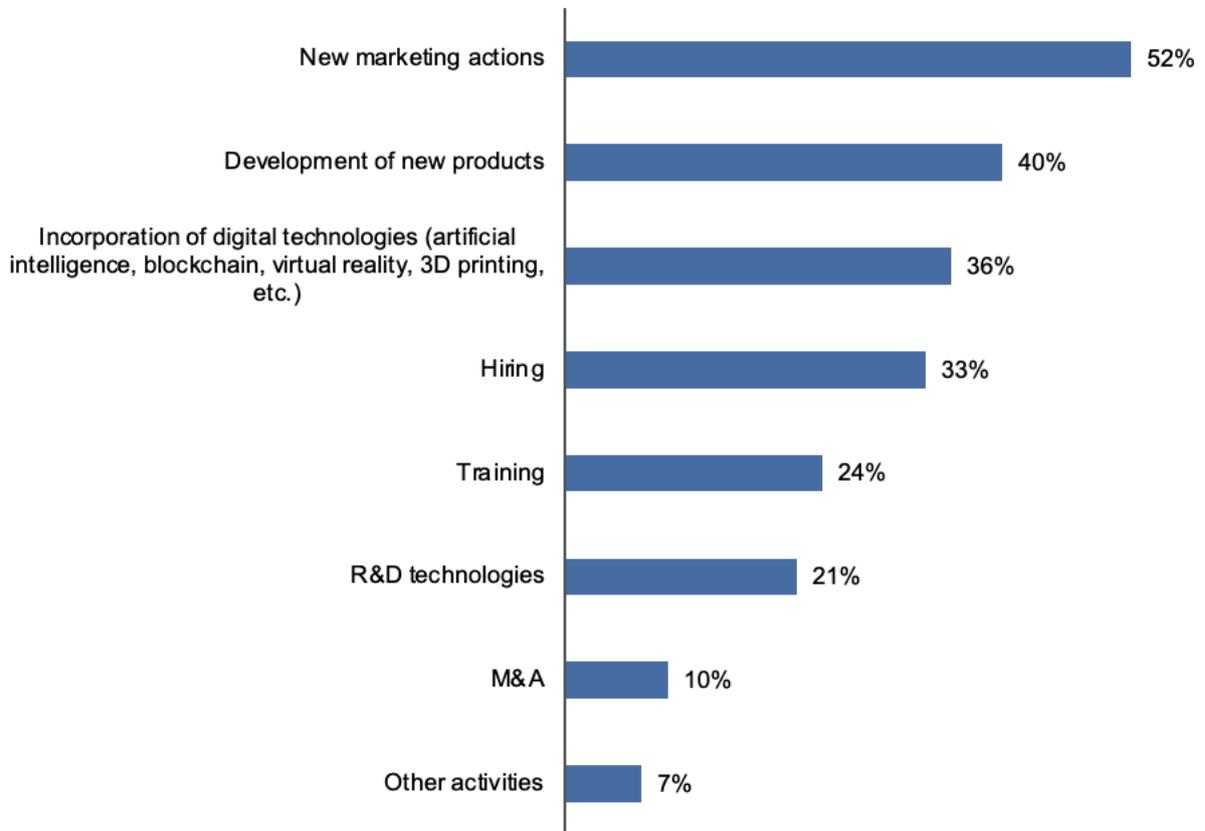
MAIN OBJECTIVES PURSUED BY THE GROWTH IN INVESTMENTS BY SPANISH FIRMS IN THE UK IN 2021-2022 (% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS DURING THAT TIMEFRAME)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

Among the companies that plan to increase their investments in the UK in 2022, roughly half plan to earmark those investments to marketing initiatives; 40% to new product development; 36% to investments in digital technology; and 33% to new hires.

AREAS TO WHICH THE SPANISH FIRMS IN THE UK PLAN TO EARMARK THEIR ADDITIONAL INVESTMENTS IN 2021-2022 (% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS DURING THAT TIMEFRAME)

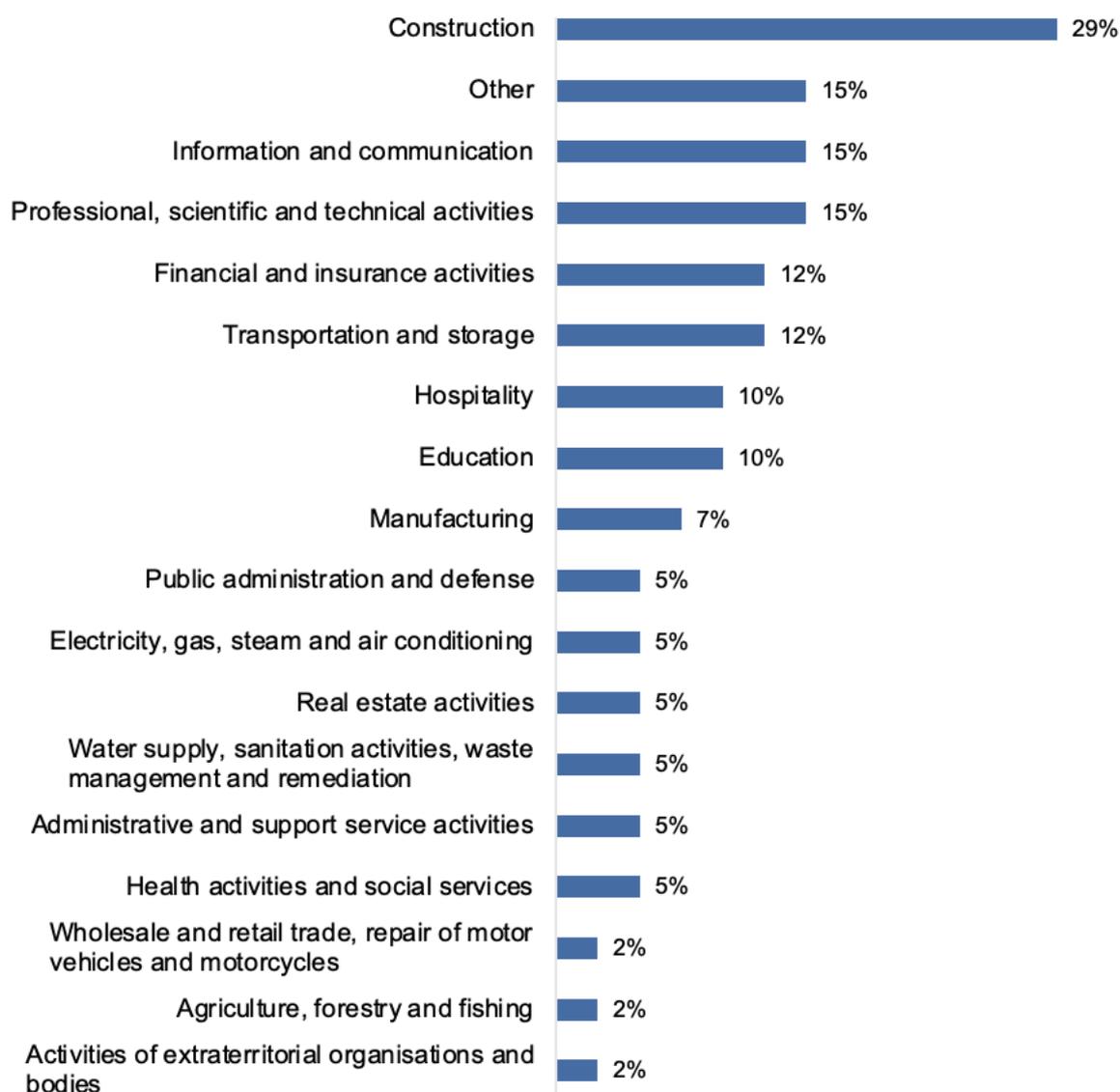


Note: a given company may be planning to invest in more than one area.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

The results of the Barometer further show that the investments being planned by the Spanish firms for the UK market in 2022 are broadly distributed sector-wise. Specifically, construction is expected to garner 29% of the new investments by Spanish firms, with the telecommunications and professional services sectors receiving 15% apiece. That being said, the Spanish business community is planning to increase its investments in many other sectors of the British economy, including the education, property, manufacturing, transport and energy sectors.

**SECTORS IN WHICH THE SPANISH FIRMS IN THE UK PLAN INVEST IN 2021-2022
(% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS
DURING THAT TIMEFRAME)**

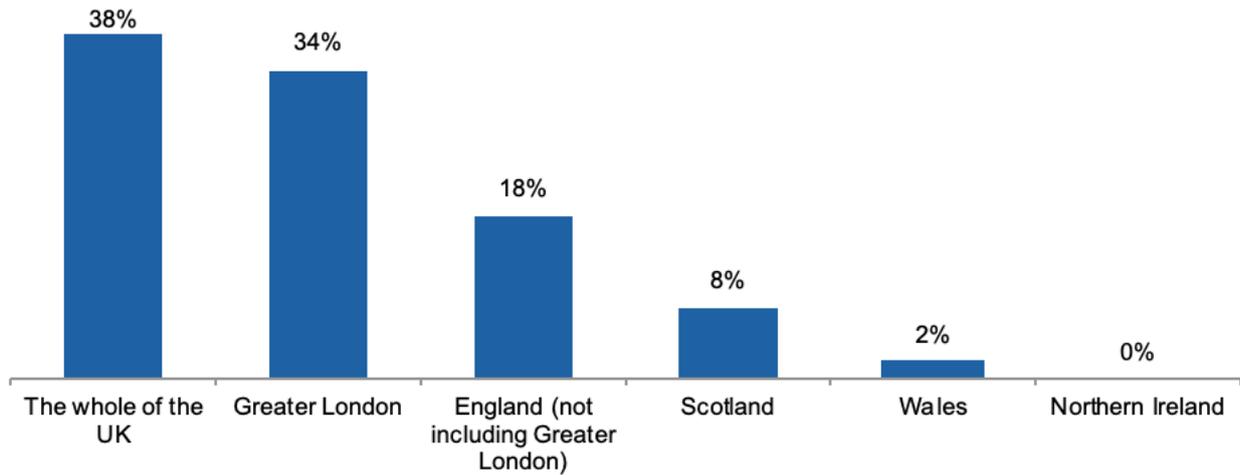


Note: a given company may be planning to invest in more than one sector. Sectors classified using the single-digit 2009 CNAE classification.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

Region-wise, of the companies planning to add to their investments in the UK in 2022, 38% expect to do so 'nationwide', while 34% plan to concentrate their investments in London and its metropolitan area and 18% plan to invest in other places in England.

**REGIONAL BREAKDOWN OF THE SPANISH INVESTMENTS PLANNED FOR THE UK IN 2021-2022
(% OF COMPANIES POLLED THAT PLAN TO INCREASE THEIR INVESTMENTS DURING THAT TIMEFRAME)**

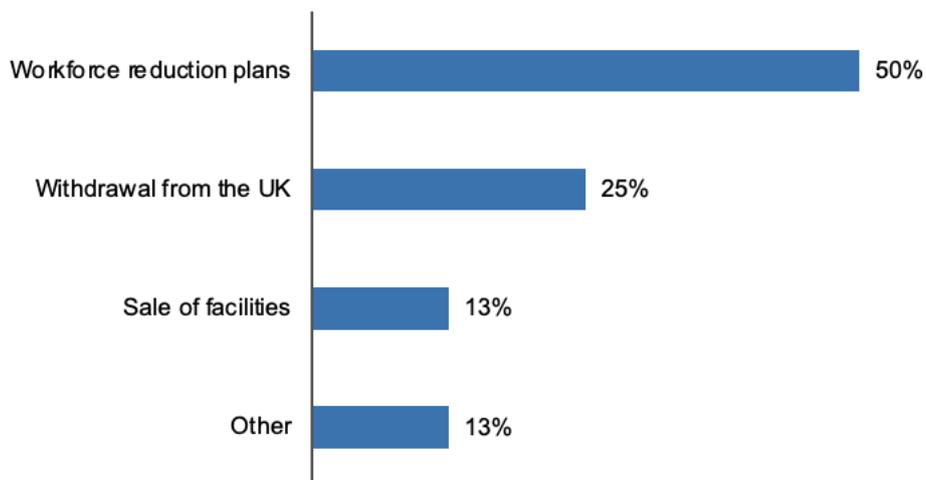


Notes: (i) a given company may be planning to invest in more than one region; (ii) the investment plans that encompass all regions are accounted for as 'nationwide'.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

The results of the 2021 Barometer suggest that around 8% of the Spanish companies with investments in the UK plan to reduce their investments on the ground in 2022. Of those, one half plan to cut their workforces in the UK, while a quarter of them have decided to withdraw from the British market altogether.

CHANNELS FOR REDUCING INVESTMENT IN THE UK IN 2021-2022 (% OF COMPANIES POLLED THAT PLAN TO REDUCE THEIR INVESTMENTS DURING THAT TIMEFRAME)



Note: a given company may be planning to avail of more than one channel.

Source: Afi, "2021 Survey of Spanish outward investment into the UK"

APPENDIX: METHODOLOGY AND CHARACTERISTICS OF THE COMPANY SAMPLE

The analysis underpinning this third edition of the Barometer on Spanish investment in the UK was built from the assessments and opinions shared by a total of 102 Spanish companies with direct investments in Britain.

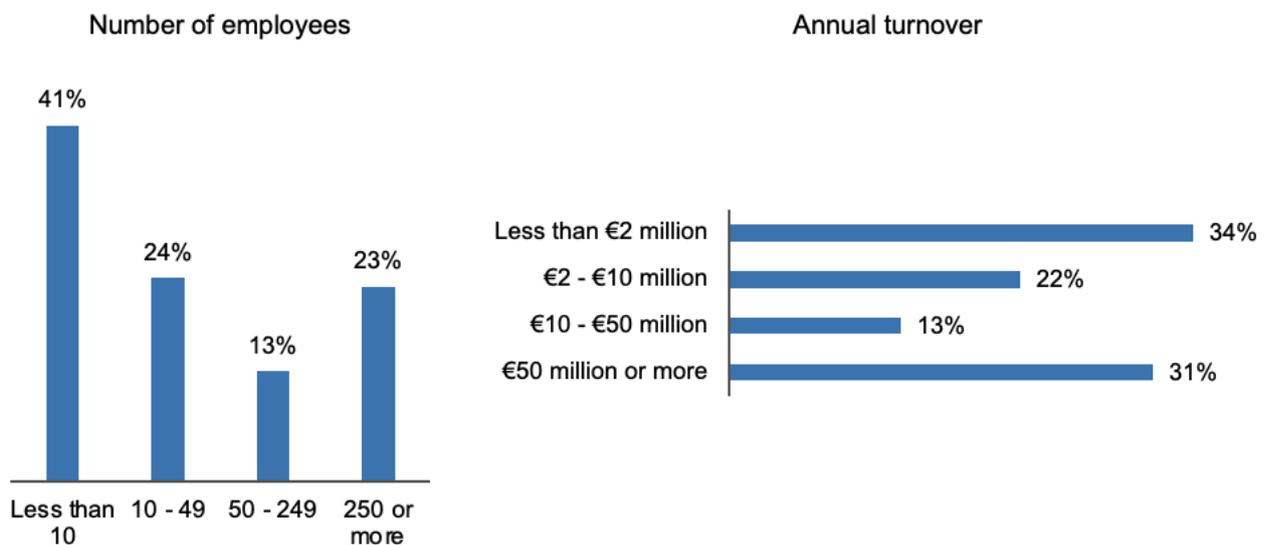
The Spanish companies invested in the UK market were surveyed by means of an online questionnaire. That questionnaire featured a combination of questions related with the companies' own profiles, their assessments of the business climate in Britain and their expectations for their activity levels and investments in the UK market.

In addition, it was decided to address two matters of significance for the outlook for Spanish direct investment in the UK: (i) the impact of Covid-19; and (ii) the impact of Brexit and the new Trade and Cooperation Agreement between the European Union and the UK.

The survey was conducted between 24 August and 17 September 2021.

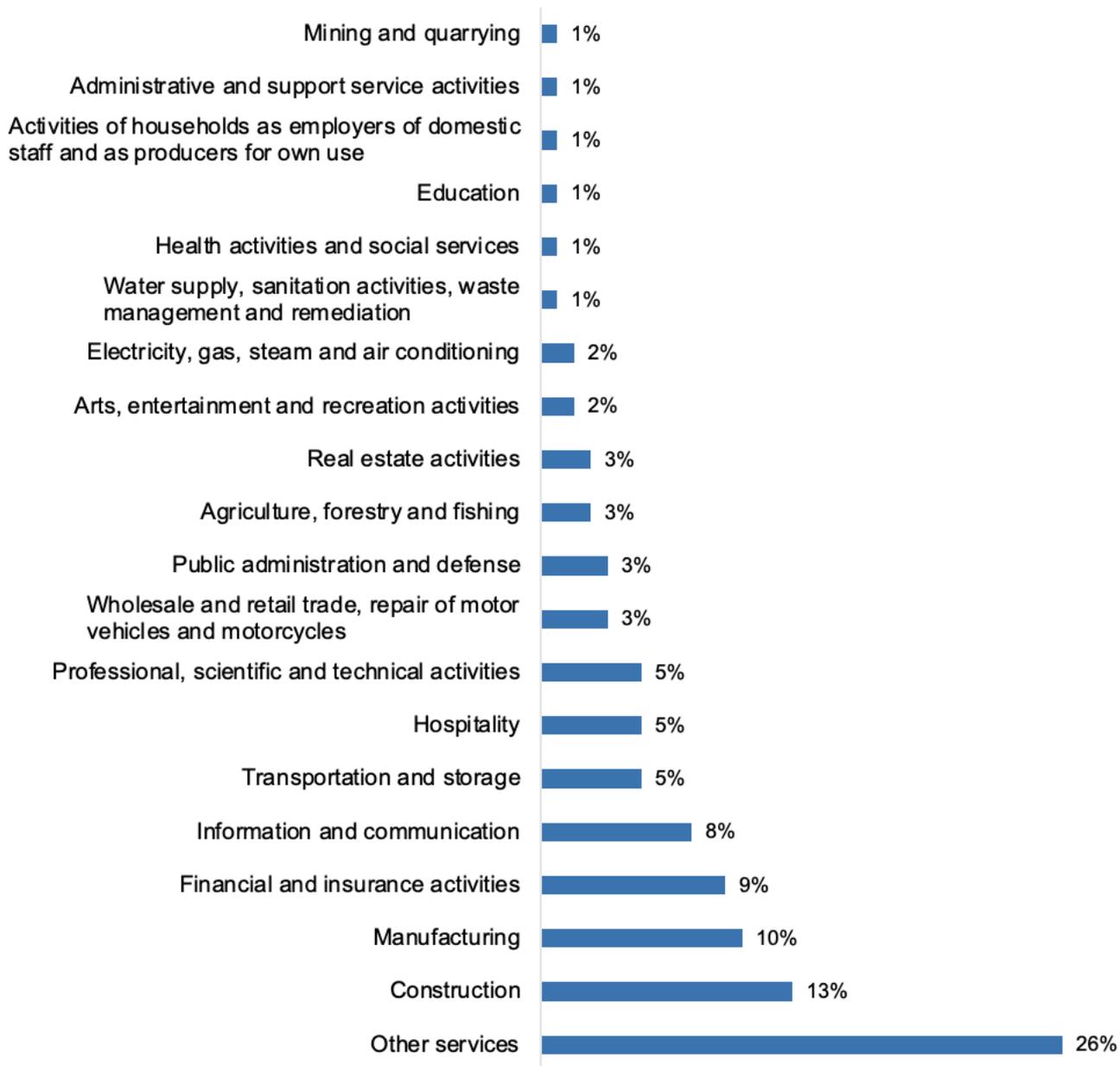
The respondents come from a wide range of sectors and are of differing sizes.

BREAKDOWN BY COMPANY SIZE (% OF ALL FIRMS SURVEYED)



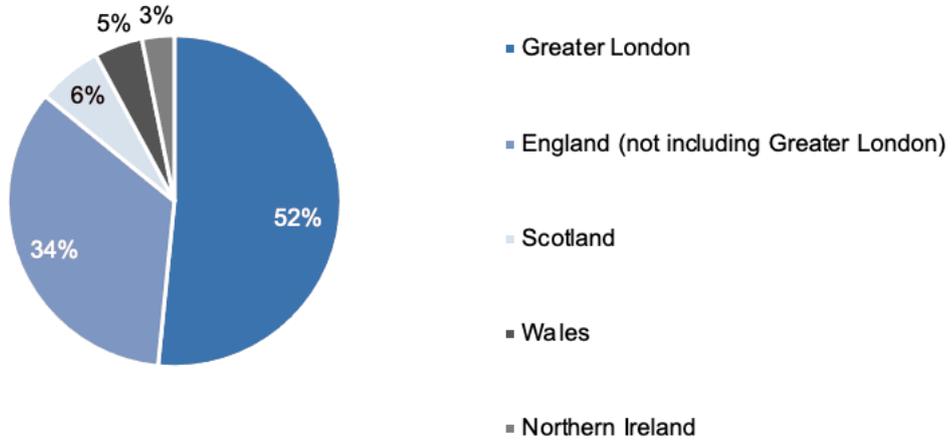
Source: Afi, "2021 Survey of Spanish outward investment into the UK"

SECTOR BREAKDOWN (% OF ALL FIRMS SURVEYED)



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

**REGIONAL BREAKDOWN OF THE PRESENCE OF SPANISH FDI IN THE UK
(% OF ALL FIRMS SURVEYED)**



Source: Afi, "2021 Survey of Spanish outward investment into the UK"

ABOUT THE SPANISH CHAMBER OF COMMERCE IN THE UK

In 1886 a group of Spanish and British merchants, industrialists and professionals founded the Chamber with the main objective of promoting the economic and commercial relationships between both countries.

Today, our **main goal** is to facilitate the **development and promotion of trade and investment** between Spain and the United Kingdom, playing a fundamental role in the commercial and economic relations between the two countries.

Our mission:

- To provide an optimal platform for **facilitating business opportunities** within the British-Spanish business community.
- To provide support and advice to our members, offering **tailor-made solutions** for the particular requirements of each company that we work with.



SERVICES OF THE CHAMBER

Events:

The Chamber organises more than 50 events each year to which we welcome senior representatives from an expansive variety of Spanish, British and other international companies, as well as government representatives and other influential figures from both countries. Each event provides a **profitable networking opportunity** for representatives from companies of all industries and sizes.



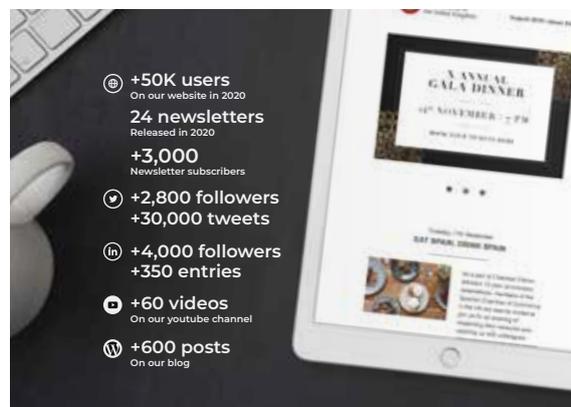
Bilateral Trade:

From making new commercial contacts to introducing your company to new markets: both member and non-member companies can benefit from the variety of services that we offer with the aim of **improving bilateral trade relations** between Spain and the UK.

Communications:

The Spanish Chamber of Commerce in the UK offers a variety of tools to help you reach your target audience.

If you are an organisation **looking to increase your brand or product visibility**, we can provide the perfect advertising package for your products and services.



WHAT CAN THE CHAMBER DO FOR YOUR COMPANY?

EXPAND YOUR NETWORK:

participate in our networking events, which provide an optimal opportunity for companies to meet new business partners

INCREASE YOUR VISIBILITY:

benefit from the Chamber's communication channels (social media, webpage, newsletter).

CONNECT AND INTERACT with our wide member network.

EXPLORE NEW OPPORTUNITIES:

benefit from one of our frequent sponsorship opportunities.

DEVELOP YOUR BRAND:

organise a seminar in collaboration with the Chamber.

BENEFIT FROM OUR WIDER INSTITUTIONAL NETWORK:

which we have acquired through promoting bilateral commercial relationships between the two countries for over 130 years.

YOUR PARTNER AFTER BREXIT

Over the course of recent years our institution has continuously supported a stable UK exit from the EU. Our aim is to continue to strengthen our links with both the British and Spanish Governments, in order to support all Spanish companies with interests in the UK.

The Chamber has doubled its efforts to support its members during the transition period by providing first-hand information from HM's government. Senior representatives from different departments such as the DIT, FCO and BEIS have regularly participated in our events, sharing their insight with our members and answering any questions that they may have.



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