



Spanish Chamber
of Commerce in
the United Kingdom

II BAROMETER

on the Climate and Outlook
for Spanish Investment in the UK

OCTOBER
2020



BBVA

CAF

cellnex
driving telecom connectivity

CLH
PS

ferrovial

LOPEZ
LANDA
INTERIORS

ribera
SALUD RESPONSABLE

Sabadell

Santander

LIRIA
ARMENDEZ

WHITE
& CASE



Cámara
de Comercio de España

Department for
International Trade

IN COLLABORATION WITH

Bloomberg

Cámara
Valencia



Spanish Chamber
of Commerce in
the United Kingdom

II BAROMETER

on the Climate and Outlook
for Spanish Investment in the UK

OCTOBER
2020

BBVA

CAF

cellnex
driving telecom connectivity

CLH
PS

ferrovial

LOPEZ
LANDA
INTERIORS

ribera
SALUD RESPONSABLE

Sabadell

Santander

UNA
MENDOZA

WHITE
& CASE



Cámara
de Comercio de España

Department for
International Trade

IN COLLABORATION WITH

Bloomberg

Cámara
Valencia

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

I often ponder what it is that makes Spain distinctive and special. I tend to conclude it is its resilience. Even in the toughest times, Spanish society and indeed Spanish companies, push boundaries to go the extra mile. This is more so in this extraordinary year.

I am delighted that the Spanish Chamber of Commerce has been able to organise the II Barometer of Spanish Investments in the UK in what it is a most difficult year for all of us. It does say something about our ability to react positively in difficult times.

On behalf of the Board of the Chamber, I want to thank the 11 companies that have participated in the Barometer this year. They have remained committed, even in very difficult times, to British and Spanish bilateral relations. It does show that in spite of the cloudy horizon, the Chamber is able to put together a fantastic initiative. All the participating companies are clear examples of successful stories of investment in the UK. And of course, thank you to all the companies that participated in the survey. Their responses are a critical part of this Barometer and one hopes many more will join us next year.

The Barometer explores Spanish investments in the UK, provides up-to-date data, trends and analyses different business sectors. It is a unique document, rich in ideas and information. In particular, the Barometer highlights the enormous contribution that Spanish companies and Spanish talent make to the British economy and British society in general. Separately, the survey is an excellent way to sense the general sentiment of investors in a moment of huge uncertainty and constant changes. The survey was conducted after summer this year so it will be an accurate reflection of the mood.

The Covid-19 pandemic has caused major disruption to businesses and its impact will be felt for years to come. A number of business sectors will need to readjust dramatically. Some will thrive. Others may go. But the Spanish Chamber of Commerce will remain.

In a few weeks the UK will no longer be part of the EU. A new relationship between the UK and the EU will emerge. In that context, we remain genuinely committed to working hard strengthening bilateral relations between Spain and the United Kingdom. We see ourselves as an essential part of a larger team made of the UK's Department for International Trade, the Spanish Trade Department, the Spanish and British Embassies and of course the British Chamber of Commerce in Spain.

Our Members are the very essence of what we do. We provide services, create opportunities, facilitate investments and represent them before British and Spanish institutions. We do hope you find this document helpful.

And finally, on behalf of the Board, my gratitude to each of you who made this Barometer possible. This was a team effort. The Board and I, look forward to preparing the III Barometer next year.

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

CONTENTS

Executive summary	6
1. Macroeconomic backdrop in the UK and Spain: ramifications of the health crisis	7
2. Stock of Spanish FDI by destination country	13
3. Stock of Spanish FDI in the UK by sector	15
4. Total cumulative flows until H120	17
5. Spanish outward FDI flows by sector	20
6. Spanish FDI flows since the Brexit referendum (June 2016)	22
7. Effects on employment of Spanish FDI in the UK	24
8. Assessment by Spanish companies in the UK of the UK business climate	25
9. Perception of impact of Covid-19	32
10. Perception of impact of Brexit	34
11. Expectations on business in the UK for 2020 and 2021	38
Key factors shaping the assessments and expectations of Spanish companies in the UK	42
Methodological annex: characteristics of the sample of companies	43
About the Spanish Chamber of Commerce in the UK	46
Board of Directors	48

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 partners.

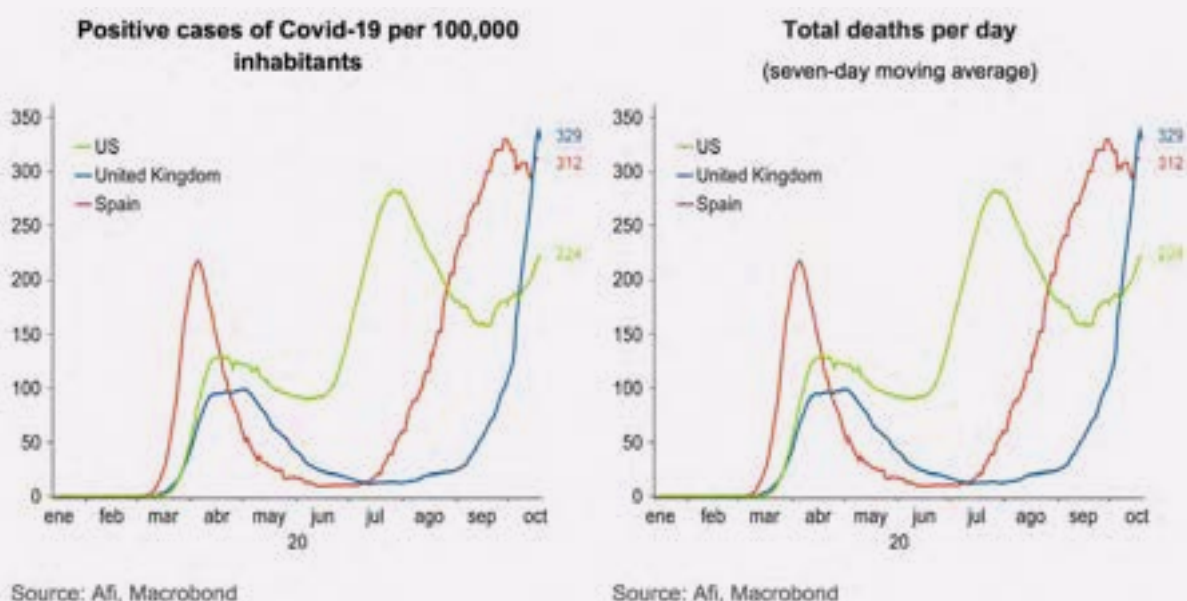
EXECUTIVE SUMMARY

- The backdrop to this second Barometer is overshadowed by a global health crisis and its very severe human and socio-economic consequences. This shock comes as a key point in the Brexit negotiations approaches regarding economic relations between the UK and the EU. Neither foreign direct investment (FDI) nor perceptions of the business climate have been unscathed by this extremely challenging moment in time. Nevertheless, both indicators continue to underline the depth of the economic relationship between the two countries, and the robustness of Spanish businesses' stance on investing in the UK.
- After a cycle of notable growth, the UK and Spanish economies have been hard hit by the health emergency this year, which will lead to GDP falling by levels not seen before in peace time. That said, thanks to the significant fiscal responses and job retention measures taken, it does appear that the worst of this crisis is over, even though the worrying pandemic continues.
- The UK is still one of the most important destinations for Spanish FDI. The investment position reached EUR 77.539 billion in 2018, equating to 16.9% of Spain's total outward investment. Spanish outward investment into the UK has reached the highest level recorded since the historical series began in 1993.
- The stock of Spanish FDI accumulated in the UK is concentrated in the financial services, telecommunications, electricity trading, legal and accounting services, insurance, air passenger transport and real estate sectors.
- Spanish investor interest in the UK waned between 2018 and 2019 as uncertainty surrounding Brexit grew. Although the investment trend remained relatively stable in the popular sectors, the flow did decrease over those two years. Investor interest does, however, appear to have picked up slightly in recent quarters, which is even more striking given the challenging times we are in.
- Spanish FDI in the UK contributed to the generation of at least 162,725 jobs in 2018, representing 0.51% of total national employment. This is 36,500 more than was recorded in the 2019 Barometer.
- Four out of five Spanish businesses perceive a deterioration in the UK business climate over the last year. That said, they generally gave a higher score than in the 2019 Barometer for the various aspects of this business climate analysed. Positives include the level of digitalisation (at both individual business level and of the economy as a whole), which is also seen as a key driver of the economic recovery.
- In the first half of 2020, the fallout from Covid-19 impacted the business of 64% of those companies responding to the survey, while close to half of them resorted to the public support programmes rolled out, such as the Coronavirus Job Retention Scheme. The pandemic has also altered the UK investment plans for 2020-2021 of 56% of survey respondents.
- While over half of them report their investment strategy for the UK market has not changed since the start of Brexit negotiations in 2016, 61% are currently concerned about regulatory divergence between the UK and the EU. In this respect, companies said they needed additional government support to obtain more information on the potential impact of Brexit on their sectors and on future trade relations with the EU. Nonetheless, the vast majority (78%) expect that an extensive trade deal will be reached by the UK and the EU.
- Business expectations for activity in the UK market over the period 2020-2021 suggest there will be a drop this year, in terms of both turnover and employment and investments, followed by an improvement in 2021. Forty-five percent of survey respondents expect their turnover in the UK to rise and 26% envisage investing more in the country over the next year. Expanding their existing operations will be the primary aim of the new investments.
- Beyond the framework that will govern future economic and trade relations between the UK and Spain, the intensity and duration of the impact of the pandemic on the UK economy – which is still unclear – will affect whether Spanish companies' investment plans in the UK for 2021 will be realised.

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

The UK and Spanish positions are affected by the health crisis's impact on economic activity; both countries rank among the hardest hit developed economies. Thanks to the extraordinary fiscal responses and job protection measures taken, it is expected that both economies will pick up in the coming quarters, even though concerns about the pandemic remain high. The recovery will depend on whether the risk of the impacts on jobs, the business fabric and public coffers has a knock-on effect on the long-term growth potential. That said, 2021 will bring with it an intense recovery, although this will be accompanied by heightened risk factors.

The current situation is shaped by the impact of the health crisis on UK and Spanish economic activity. In both countries, the pandemic has been devastating with both among the hardest hit due to both the disease's virulence and because their productive structures are heavily service-sector dependent. The steps taken to tackle this new type of crisis – primarily the use of lockdowns – have also sparked a recession without precedent as private-sector consumption and investments have been dragged down and unemployment has risen, albeit less than they could have thanks to the public job protection mechanisms (temporary lay-offs – ERTEs in Spanish – in Spain and the Job Retention Scheme in the UK).



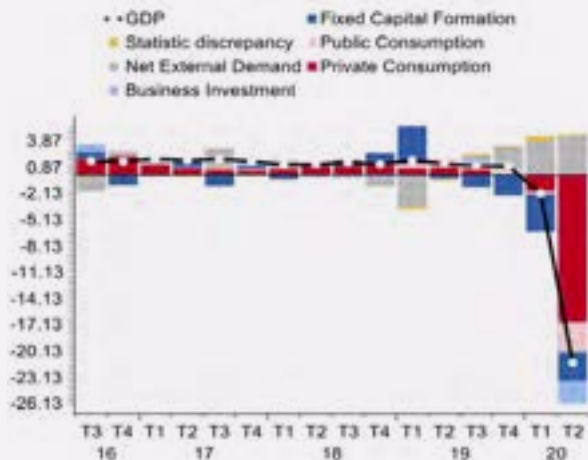
The uncertainty sparked by this new crisis is directly affecting the economic growth of both countries, which suffered record falls in the second quarter of 2020. On the one hand, Spanish GDP plunged 21.5% year-on-year (YOY) while the UK suffered an even greater fall of 21.7%. In both cases, the high weight of the service sector in both economies led to them performing among the worst of all OECD economies in Q220.

The nature of the slump in economic activity in both countries was very similar, with plunging private-sector consumption and business investments because of the measures adopted to curb the pandemic. These steps included restricting the movement of the population which had a crucial effect on the trend in both components since people were not able to consume and businesses were forced to shut down the bulk of their operations. The two economies did, however, perform differently with regard to external demand. Export demand contributed positively in the UK over recent quarters. In Spain though, where 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 2020 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.

GDP growth and components, UK

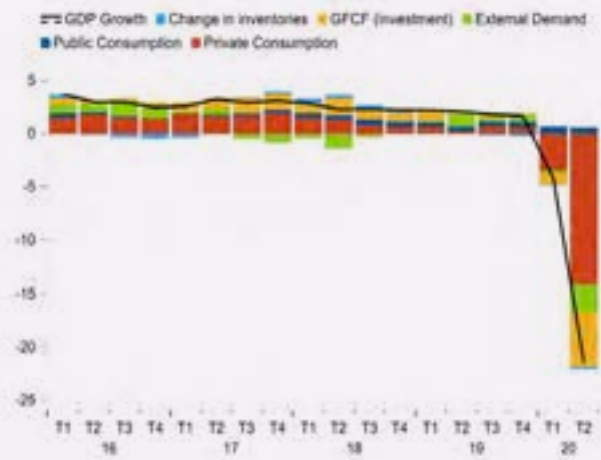
(% YOY change, contributions)



Source: Afi, Macrobond

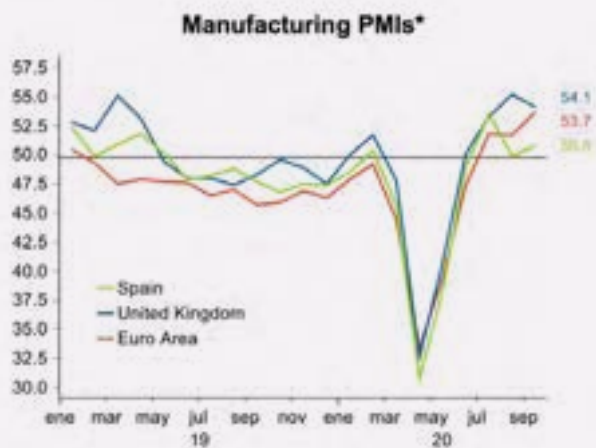
GDP growth and components, Spain

(% YOY change, contributions)

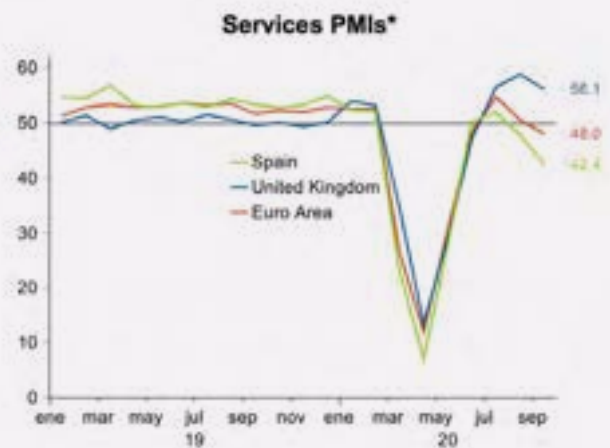


Source: Afi, Macrobond

However, one of the remarkable aspects of this never-before-seen crisis is the striking impact uncertainty is having on confidence and therefore activity. In this sense, following the months of March and April when the major economies had to lock down all or part of their populations, confidence has slowly risen as activity restarted. In recent months though, the number of cases has started to climb again relatively quickly, accompanied by a heightening of uncertainty. This is reflected in the indicators of the Purchasing Managers' Index (PMI) for both the service and manufacturing sectors, which aim to paint a picture of a country's economy through a monthly survey of the most representative companies in that economy. Whatever the case, this second wave is affecting the UK and Spain differently, although the trend is starting to impact most European countries. In the UK, the pandemic has more or less been kept under control, which has resulted in the country's PMIs performing well. The new restrictions imposed in Spain, however, have rocked confidence yet again, pushing the services PMI into the contractionary zone, while the manufacturing PMI remains in expansionary territory.



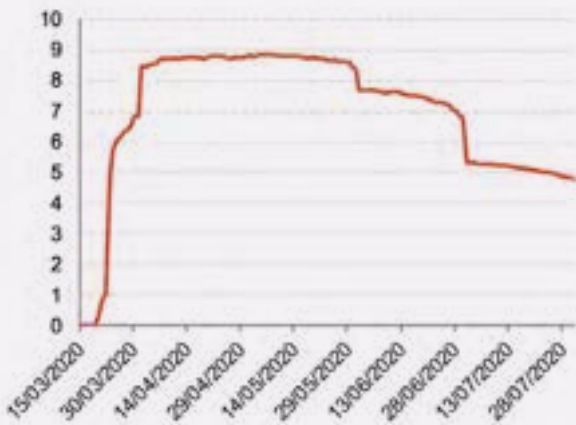
Source: Afi, Macrobond * Above 50 = expansion, below 50 = contraction



Source: Afi, Macrobond

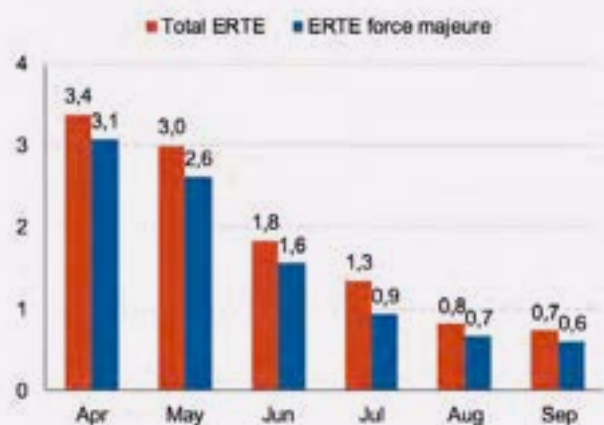
Turning to the labour market, the health crisis has led to a turning point in the correlation between GDP and the unemployment rate, as a result of the new job protection mechanisms introduced. As the economies recently started to return to normal, the number of furloughed workers has fallen month on month from the April highs. The outlook is that the number of workers coming off furlough will continue to rise as activity picks up, albeit at a slower rate than during the early summer months.

Workers registered on the Job Retention Scheme in the UK (million)



Source: Afi, UK government

Workers subject to temporary lay-offs in Spain (million)

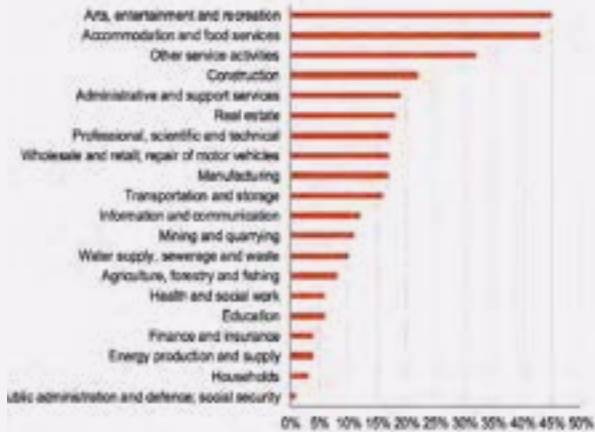


Source: Afi, Macrobond

Moreover, given the size and particular nature of the shock, the effect on employment has varied considerably across sectors. The service sector has been worst affected; de facto the obligatory lockdown slammed the breaks on food and drink and accommodation services, sports activities, arts and entertainment, and the entire retail sector. The direct consequence of this is more workers from these sectors being included in the aforementioned job retention schemes.

Percentage of workers registered on the Job Retention Scheme in the UK by sector

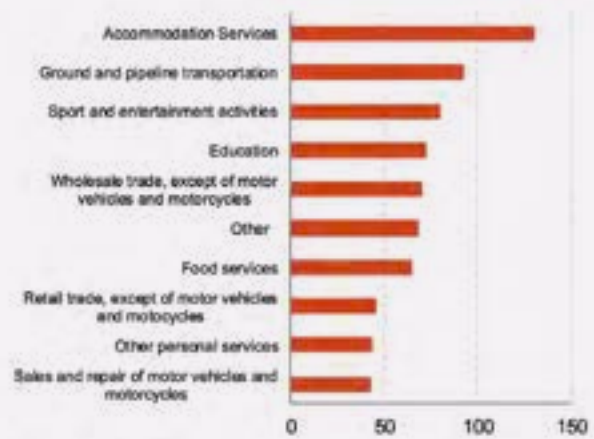
(% of total)



Source: Afi, UK government

Change in temporary lay-offs* in Spain by sector at 30 June versus April average

(April = 100)



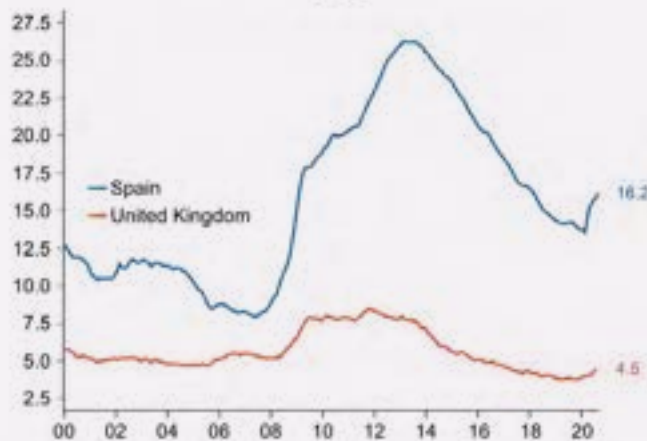
Source: Afi, Spanish Ministry for Employment, Migration and Social Security

* Temporary lay-offs due to force majeure

Consequently, and thanks to these new mechanisms being rolled out and kept in place, at least until year end, the unemployment rate in both countries is not shooting up, as would have been the case if these measures had not been adopted. It is expected that the unemployment rate will remain at between 4% and 5% in the UK, albeit with some small spikes. On the other hand, the average annual unemployment rate in Spain is expected to reach 17.5% in 2020.

Unemployment rate in the UK and Spain

(%)

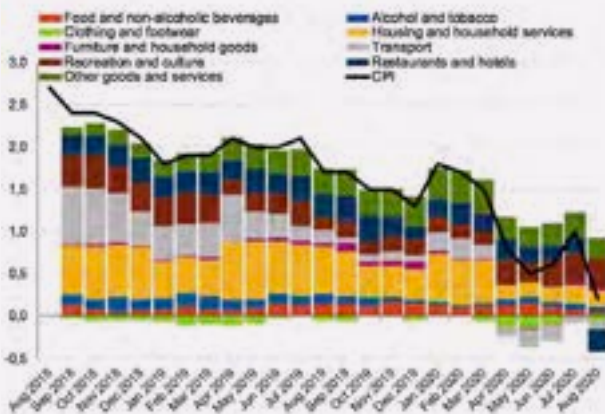


Source: Afi, Macrobond

The health crisis has also had a significant impact on prices. As a result of the lockdown and other restrictions imposed, private-sector consumption and business investments slumped during the first half of the year. Household income and salaries also dropped considerably, although this was tempered by the job protection mechanisms. These factors have resulted in a short-term, demand-side shock on prices, causing deflationary pressures in both countries, as the YOY changes in prices illustrate.

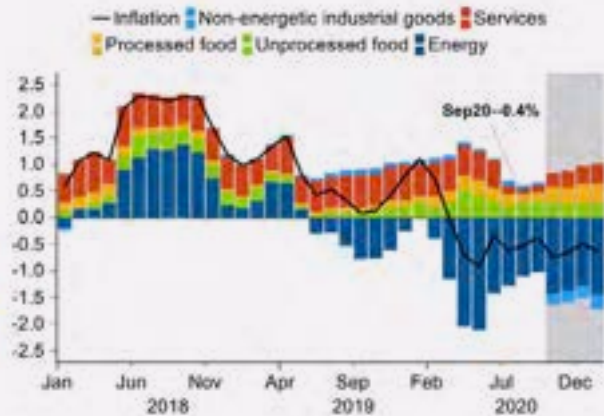
Nevertheless, the medium- and long-term outlook suggest a less certain future. After months of weak inflation, inflationary pressures may arise for several reasons: higher production costs because of ruptures in global supply chains and disruptions to manufacturing; the monetary and fiscal responses 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 inflation and components, UK
(% YOY)



Source: Afii, Macrobond

Inflation and components, Spain
(% YOY, contributions)

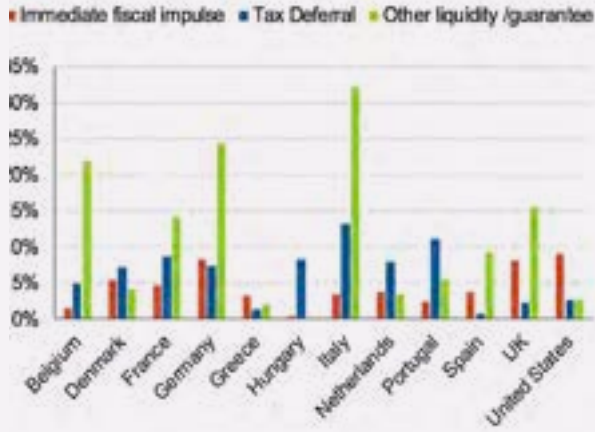


Source: Afii, Macrobond

As well as the job protection mechanisms both in the UK and Spain and in most affected countries, fiscal responses have once again become vital to tackling and palliating the detrimental effects of this health crisis. In this regard, fiscal responses including budget support measures, tax holidays and public assistance in the form of guarantee facilities have equated to around 25% of 2019 GDP in the UK and 14% in Spain.

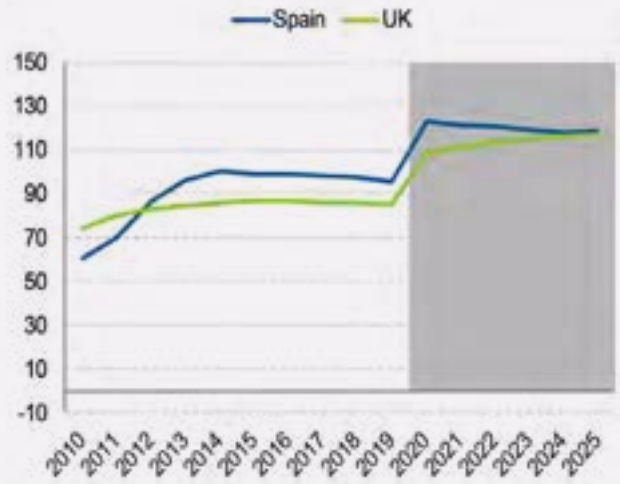
Consequently, the fiscal panorama for forthcoming years will continue to be shaped by expansionary policies in most of the major economies, with the subsequent increases in public debt and potential associated risks but with positive effects on economic activity and investments. Here, Spain will benefit from Next Generation EU: the European fiscal plan to tackle the health crisis, which could provide access to around EUR 140 billion over the next five years for a large number of investment projects.

Fiscal response measures (% of 2019 GDP)



Source: Afi, government agencies

Public debt projections (% GDP)



Source: Afi, IMF

Burgeoning public debt, due to the discretionary response and the effects of the fall in GDP, will pose a challenge to the economic recovery. Currently, low inflation and interest rates are a balm for the possible unwanted effects of high levels of borrowing. That said, if conditions change, an effort will be needed to start bringing public debt down again.

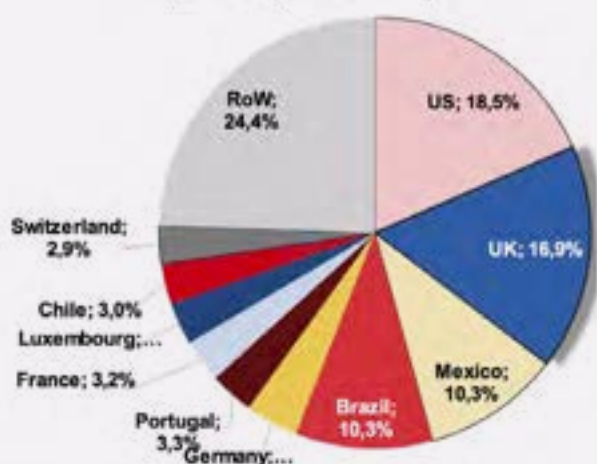
2. STOCK OF SPANISH FDI BY DESTINATION COUNTRY

The UK has been the most important market for Spanish investment over the last decade and the primary investment market in seven of the last 10 years. In 2018 (the last year for which data is available), the UK attracted 16.9% of Spanish investment, only sitting behind the US (18.5%). Its position remains relatively unchanged compared to the 2019 Barometer.

The UK was the recipient of 16.9% of the total stock of Spanish FDI in 2018 (EUR 77.539 billion, as per the ultimate investing country criterion). This figure is slightly lower (EUR 3.8 billion less) than the historic peak of EUR 81.227 billion in 2015

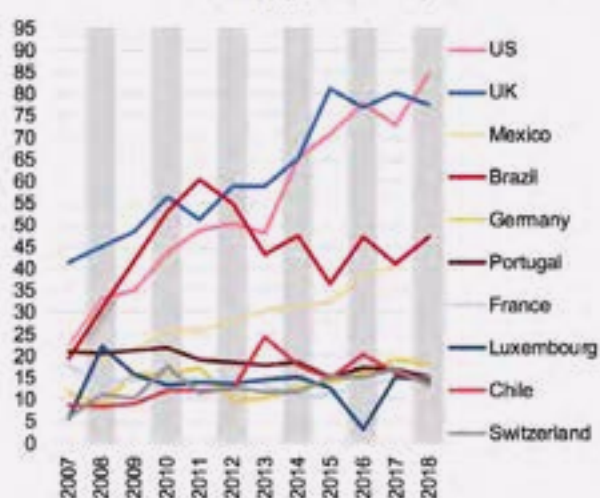
The continuous upward trend in the stock of Spanish FDI since 2007 flattened off from 2015 and continued to do so in 2018. Nevertheless, no other country (except the US in recent years) has managed to attract a greater quantity of Spanish investment than the UK. Since the start of the series in 2007, the UK market has been the top market for Spain in seven of the last 10 years, as reported by the Secretary of State for Trade.

Stock of Spanish FDI in 2018 by country
(percentage distribution)



Source: Afi, Secretary of State for Trade

Historical evolution of stock of Spanish FDI by country
(EUR billion)

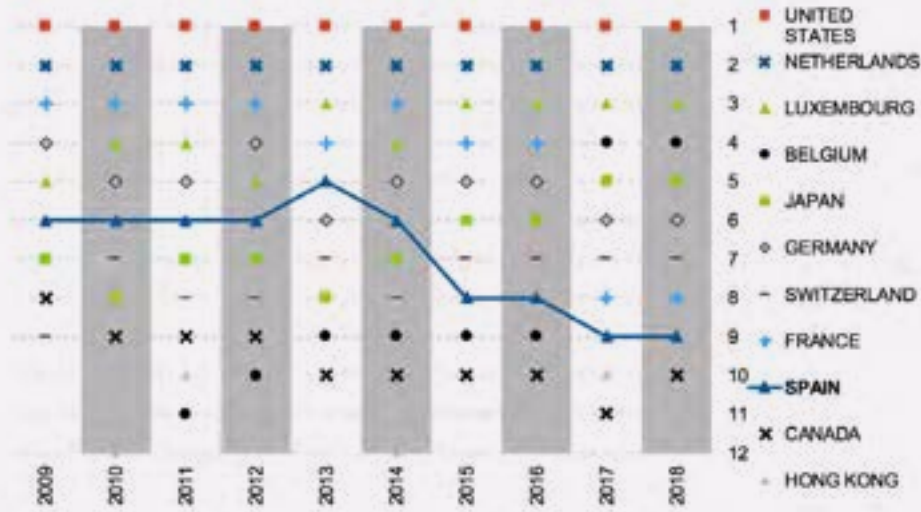


Source: Afi, Secretary of State for Trade

A comparison with the figures in the 2019 Barometer (which analysed 2016 data) shows how the UK's position as a destination for Spanish investment has changed little. In percentage terms, investment in the UK is up 0.1 percentage points (pp), while in absolute terms there has been a EUR 500-million increase since last year's Barometer.

Spain's investment position has ranked among the Top 10 in the UK over the years. However, it has lost some ground since 2014, despite the upward trend in absolute terms.

Ranking of stock of FDI in the UK by country and year

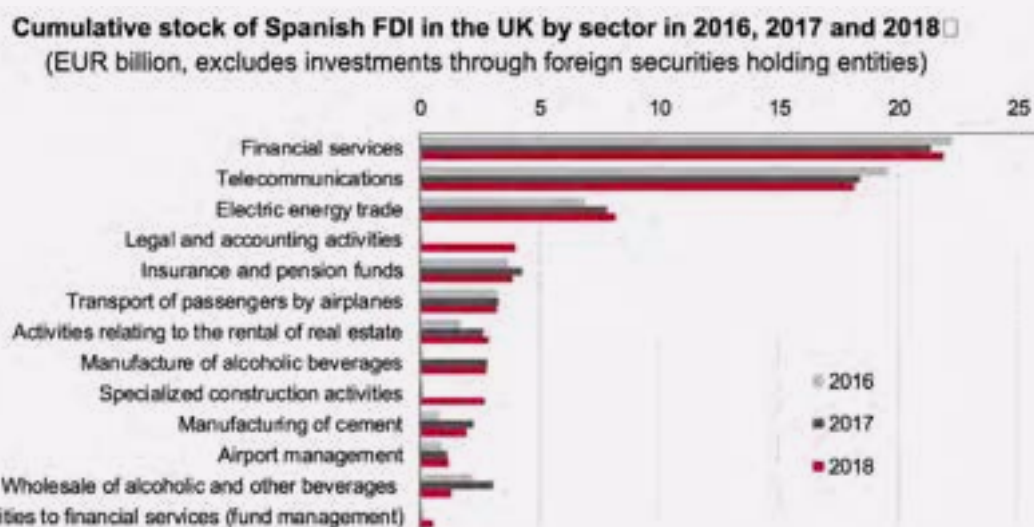


Source: Afi, UK Office for National Statistics

3. STOCK OF SPANISH FDI IN THE UK BY SECTOR

The stock of Spanish FDI accumulated in the UK is concentrated in the financial services, telecommunications, electricity trading, legal and accounting services, insurance, air passenger transport and real estate sectors.

The stock of Spanish FDI accumulated in the UK is mainly in the financial services (EUR 21.870 billion), telecommunications (EUR 18.170 billion) and electricity trading (EUR 8.150 billion) sectors.

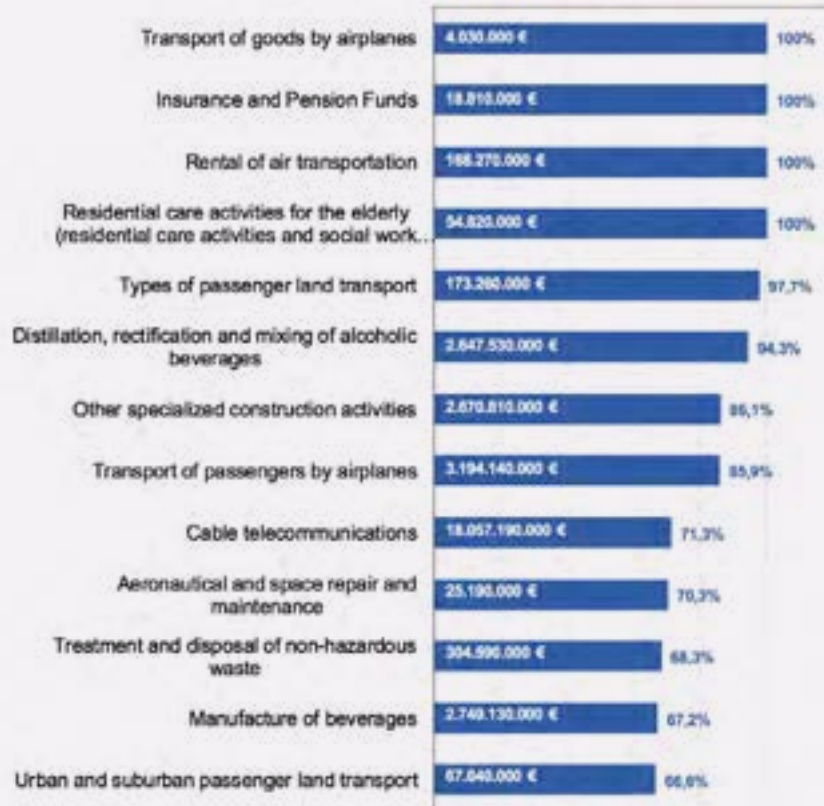


Source: Afi, Secretary of State for Trade

On the other hand, as a percentage of the total stock of Spanish outward FDI (stock of Spanish FDI in the UK in the sector/ total stock of Spanish outward FDI in this sector), the investment position is particularly significant in the air transport (freight and aircraft leasing, both 100%); insurance and pension funds (100%), elderly care (both residential and day care, 100%); land and air passenger transport (over 97% in the first case and around 86% in the second); and distilling, rectifying and blending of spirits (94.3%) sectors.

Investments in the non-hazardous waste treatment (68.3%); aeronautical and aerospace repairs and maintenance (70.3%) and cable telecommunications (71.3%) sectors are also notable, demonstrating that Spanish outward investment in sectors with high levels of productivity and value-added is very marked in the UK.

Percentage of stock of Spanish FDI in the UK (over Spain's total outward FDI) by sector and final volume



Source: Afi, Secretary of State for Trade

Spanish investments in the UK are particularly concentrated in financial services, topping EUR 20 billion in the last three years for which data is available. Also marked, is the level of investment in the telecommunications, electricity trading, insurance and pension fund management, and air passenger transport sectors. The increase in funds channelled into the legal and accounting services, specialist construction and, in recent years, property lease sectors also stand out.

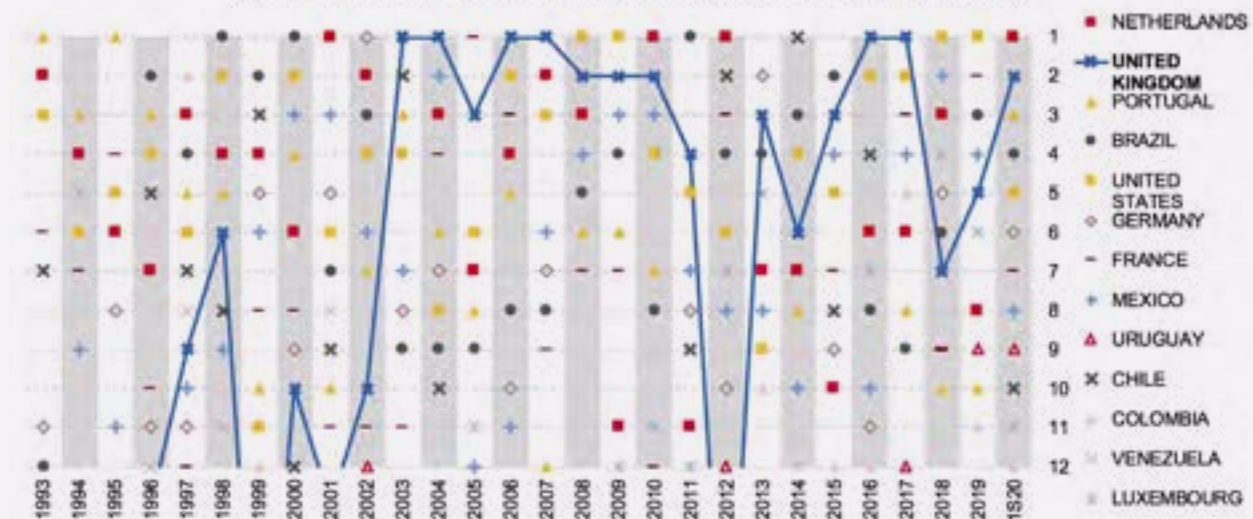
4. TOTAL CUMULATIVE FLOWS UNTIL H120

The UK accounts for the largest volume of FDI flows since the beginning of the historical series in 1993. Moreover, the flow of UK inward investment into Spain rose sharply during the expansion of the Spanish economy although, as the flows into the UK illustrate, there was a major deterioration in 2018 and 2019, which could be associated with the uncertainty surrounding Brexit. In 2020, the volume of flows has still not picked up although, according to the available data, the UK has reached second slot in total terms – an improvement on the previous two years.

In cumulative terms, for all the years for which data is available (period from 1993 to the first half of 2020) the UK has received more than EUR 144 billion of Spanish FDI (gross investment as per the intermediate country criterion and excluding operations carried out by foreign securities holding entities), or 17.8% of total Spanish outward FDI flows over the period. During the four years since the Brexit referendum (from the third quarter of 2016 to the second quarter of 2020), investment flows into the UK amount to more than EUR 29.588 billion – more than 20% of Spanish outward FDI flows worldwide in that period.

In comparison with the 2019 Barometer (which only contained data until the first half of 2018), cumulative investments are up EUR 3 billion. However, this equates to 17.8% of total flows in the period from 1993 to Q220 compared to 18.6% over the period from 1993 to Q318, primarily due to the increase in outward investment into the US in recent years.

Ranking of Spanish outward FDI flows by country and year
(excludes investment made through foreign securities holding entities)

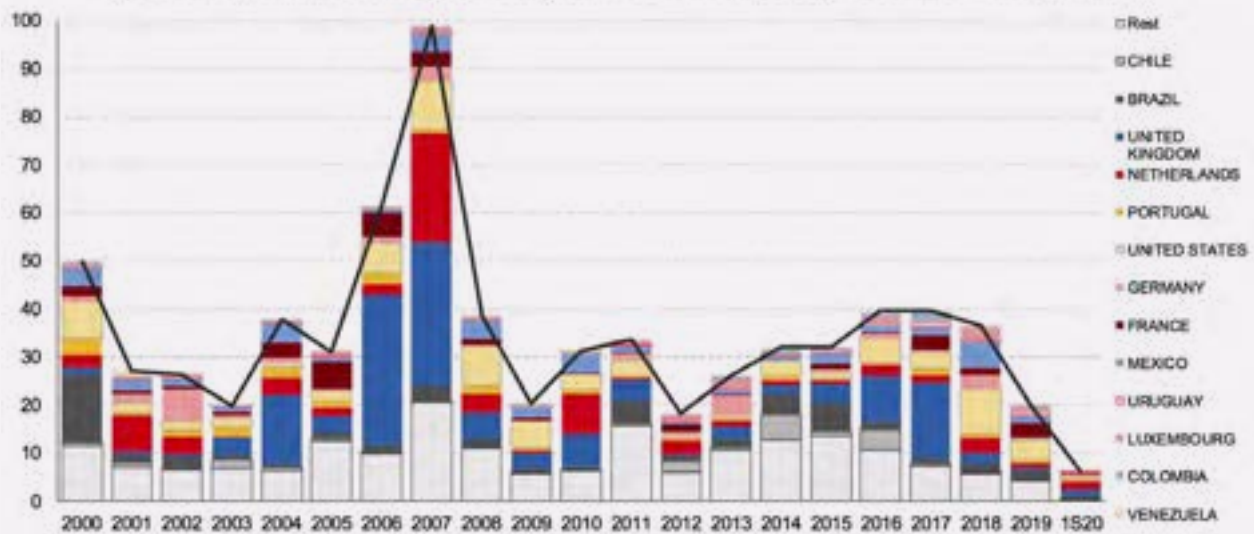


Source: Afi, Secretary of State for Trade

Year after year, the UK has consistently ranked among the top investment destinations for Spain (in gross terms) and since the start of the historical series in 1993 it has ranked first in six of the last 28 years (2003, 2004, 2006, 2007, 2016 and 2017) and second in four other years. While the volume of Spanish outward FDI into the UK has continuously risen since 2014, the fall in 2018 and 2019 – when flows shrank from EUR 15.6 billion in 2017 to EUR 1.9 billion and EUR 1 billion in 2018 and 2019, respectively – could be due to Brexit uncertainty. However, these were two years during which FDI shrank around the globe. According to the United Nations Conference on Trade and Development (UNCTAD), global gross FDI flows fell by 19% in 2018 compared to 2017 and by up to 40% in the case of flows received by Europe.

The UK has attracted the largest volume of Spanish outward investment by a considerable margin (EUR 144.6 billion compared to the EUR 79.7 billion of cumulative Spanish investment in the Netherlands – a figure affected by tax conditions – and EUR 83.9 in the US), demonstrating the interest of Spanish companies in staying in the UK market given their expectations of generating business in the medium term. The years in which Spanish investment reached its highest levels in global terms, 2006 and 2007, were characterised by a strong volume of investment into the UK (EUR 31.487 billion in 2006 – greater than the combined investment to the rest of the world over that year – and EUR 30.043 billion in 2007: the largest volume of Spanish investment any country has ever received in a single year).

Gross Spanish outward FDI flows by country until the second quarter of 2020
(EUR billion, ultimate investing country criterion excluding foreign securities holding entities)

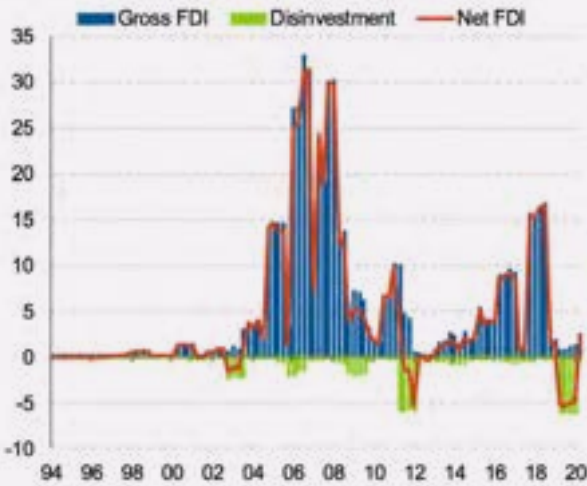


Source: Afi, Secretary of State for Trade

On the other hand, the nature of Spanish outward investment in the UK is eminently productive, as demonstrated by the fact that most has not come from foreign securities holding entities⁽¹⁾. Another feature of Spanish investment in the UK is that disinvestment flows have been scant over the historical series, which has led to positive net investment flows and explains the consistent expansion of the stock of Spanish FDI in the UK. That said, the available figures (to Q220, inclusive) show a period of divestment coinciding with the prevailing doubts about the timing and nature of Brexit. Throughout the first half of 2020, the health crisis also had a clear impact on FDI flows, which may continue for another quarter or so because of the gestation time of projects.

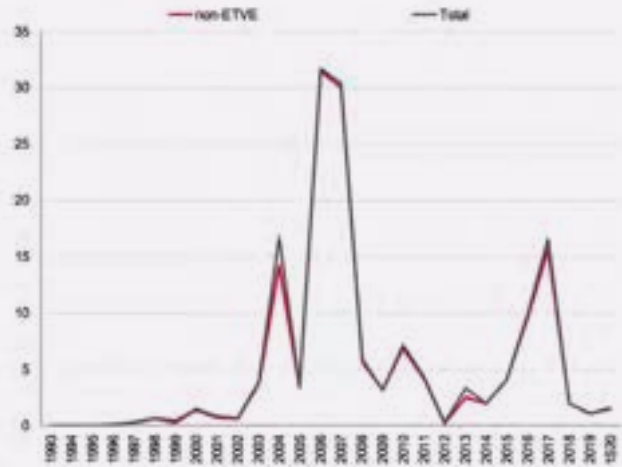
(1) Not performed through a foreign securities holding entity: vehicles that benefit from a special tax regime exempting the holders of shares or other units of stock in foreign companies from paying tax on dividends or gains thereon.

Spanish outward FDI into the UK to Q220
(EUR billion, ultimate investing country criterion excluding foreign securities holding entities)



Source: Afi, Secretary of State for Trade

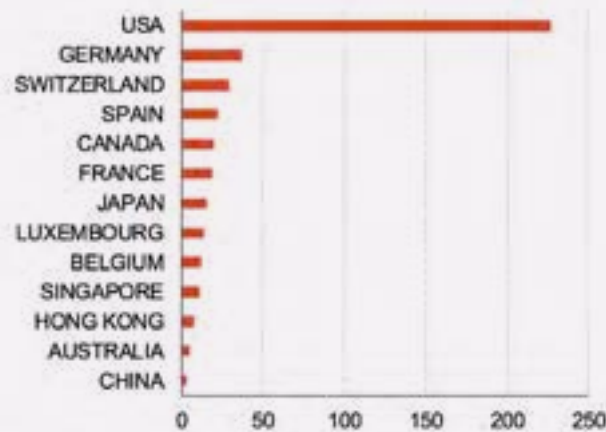
Spanish outward FDI into the UK by type of entity to Q220
(EUR billion)



Source: Afi, Secretary of State for Trade

For the UK, it can be seen that Spain is one of the most important countries in terms of cumulative net flows during the period 2009 to 2018. Over those years, Spain contributed close to GBP 22 billion. However, it is some way off the top investor in the UK (the US), which invested total net flows in excess of GBP 200 billion during the same time frame.

Cumulative net FDI flows into the UK by country until 2018
(GBP billion)



Source: Afi, UK Office for National Statistics

5. SPANISH OUTWARD FDI FLOWS BY SECTOR

Spanish investment in the UK is still especially concentrated in the services sector, where it is also highly diversified (financial sector, retail, technical advisory and support activities and so on). Although there are industrial sectors that are also attractive to Spanish investors, such as the manufacture of beverages, cement, the chemical industry or the energy sector, the UK financial sector has been the main pole of attraction for Spanish investment in the country, in terms of both volume (more than EUR 29.4 billion) and regularity and consistency over the years.

The UK has attracted Spanish investments due to the strength of its financial sector, and Spanish money has been pumped into monetary and credit intermediation banking activities in the UK every year since 1993. Furthermore, sectors in the three financial service-related categories of Spain's national economic activity classification (CNAE)⁽²⁾ have enjoyed a total of EUR 29.4 billion of Spanish investment over the whole historical series. That said, there has been a slight disruption to the consistency of investments over the last two years. Part of the activity of Spanish businesses in the financial sector is in the retail segment, which generally depends on the performance of the UK's domestic market. This will, in principal, be less affected by the outcome of the talks on future relations.

In addition to the financial sector, other sectors stand out, either because of the consistency with which they have received Spanish investment over time or because they have received a high volume of investment. As for the former, the sectors in which Spanish investment has remained the most consistent over the years have been: commerce, both wholesale and retail (with EUR 9.772 billion of accumulated investment between them and a presence, in the case of wholesale commerce, in the 27 years of the historical series); real estate activities (EUR 2.552 billion); and technical architecture and engineering services (with a lower volume, EUR 175 million, but which has had a constant flow in 18 of the 27 years of the historical series). Once again, the last few years have seen a decline in consistency in these and other sectors due to greater political instability. Although no clear impact of the health crisis can yet be seen, the already major deterioration of the UK economy could prompt Spanish retail companies to divest in the coming quarters.

The UK sectors that have accumulated the highest flows of Spanish investment, apart from financial services, include: the telecommunications sector (EUR 37.529 billion); the supply of electricity and gas (EUR 22.636 billion, mostly electricity trading); the manufacture of other non-metallic mineral products (mainly cement, with an accumulated investment of EUR 17.933 billion); storage and activities ancillary to transport (EUR 5.220 billion); and air transport (EUR 4.708 billion, mostly air passenger transport).

The following double-entry table provides a breakdown of annual Spanish FDI flows by sector since the beginning of the historical series.

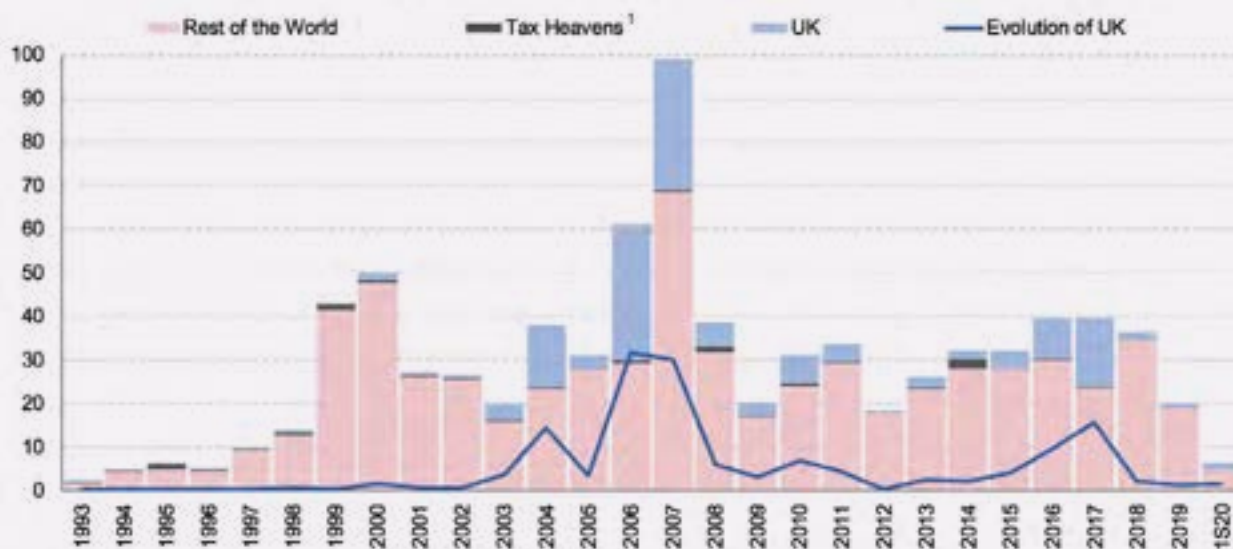
⁽²⁾ The financial services category, which includes: monetary and credit intermediation banking activities; ancillary activities mainly comprising fund management; and the insurance, reinsurance and pension fund sector category.

6. SPANISH FDI FLOWS SINCE THE BREXIT REFERENDUM (JUNE 2016)

Spanish investor interest in the UK waned between 2018 and 2019 as uncertainty surrounding Brexit grew. Although the investment trend remained relatively stable in the popular sectors, the flow did decrease over those two years. Investor interest does, however, appear to have picked up slightly in recent quarters.

During the first few years after the Brexit referendum, Spanish investment activity in the UK appeared to withstand the political uncertainty, and Spanish investors' faith in the UK market showed no signs of wavering. However, between 2018 and 2019 flows of FDI into the UK shrank, ultimately reaching levels close to those posted in 2012. Total Spanish outward investment, meanwhile, rebounded in 2013 following the euro crisis, before stagnating between 2015 and 2018 and then falling in 2019. The figures for the first half of this year do not appear to suggest an increase in FDI into the UK, while the general trend is downward. It is expected that the emerging public health and political risks will weigh heavy in H220.

Gross Spanish outward FDI into the UK and the Rest of the World
(EUR billion, quarterly, excluding foreign securities holding entities)

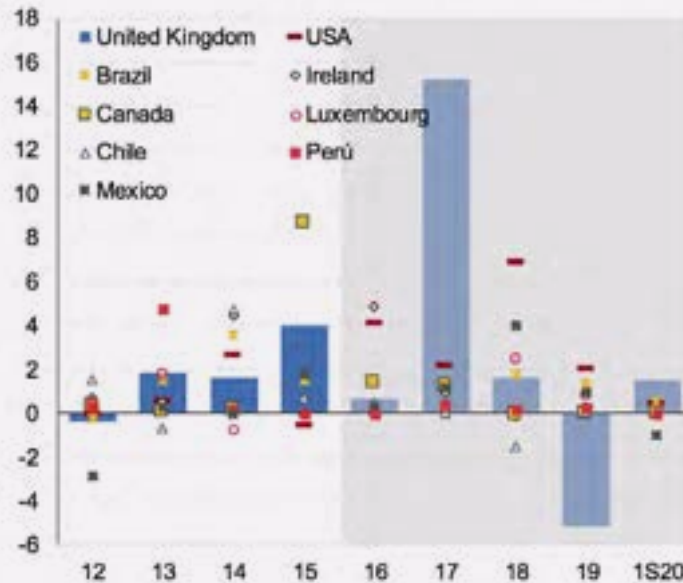


Source: Afi, Secretary of State for Trade

(1) Tax havens according to Spanish legislation: Anguilla, Antigua and Barbuda, Bahrain, Bermuda, Brunei, Dominica, Fiji, Gibraltar, Grenada, Guernsey, Isle of Man, Cayman Islands, Cook Islands, Falkland Islands, Northern Mariana Islands, Solomon Islands, Turks and Caicos Islands, British Virgin Islands, United States Virgin Islands, Jersey, Jordan, Lebanon, Liberia, Liechtenstein, Macau, Mauritius, Monaco, Montserrat, Nauru, Saint Vincent and the Grenadines, Saint Lucia, Seychelles, Vanuatu

Looking at the trend since the referendum (from mid-2016 to 2020), there has been a decline in flows in recent periods, especially in the third year (2018), which came at a time of greatest uncertainty around the outcome of Brexit. Although flows have picked up somewhat over the last year, the coming quarters will be challenging in the investment sphere due to the massive impact of the health crisis on companies and the need for a clear pathway for the economy and the future relationship between the EU and the UK.

Main recipients of net Spanish outward FDI since 2012 (EUR billion, excluding foreign securities holding entities)



Source: Afii, Secretary of State for Trade

An examination of sector trends also reveals a differential pattern since the Brexit referendum, suggesting that Spanish investor interest in the UK may have weakened owing to the UK's exit from the European Union. While the financial, retail and wholesale, and real estate sectors have continued to enjoy a significant part of Spanish outward investment, it can be seen that the degree of consistency has waned in all of these sectors. That said, there has been a slight recovery in some sectors such as energy, the chemicals industry and food, which have received large flows over recent quarters. This highlights the diversification of Spanish investment in the UK. Clear sector-specific effects of the health crisis are not yet evident.

Gross Spanish outward FDI into the UK by sector since the Brexit referendum

(EUR thousands, intermediate country criterion excluding foreign securities holding entities, vertical arrangement corresponds to the number of quarters with investment flow, colour scale to the amount of quarterly FDI flow)



Source: Afii, Secretary of State for Trade

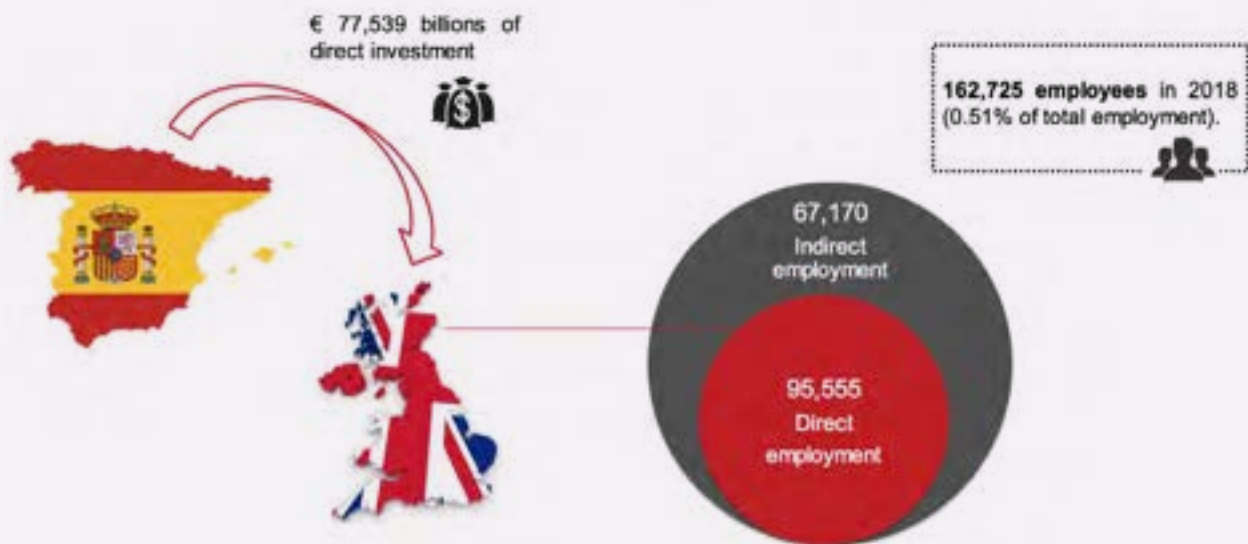
7. EFFECTS ON EMPLOYMENT OF SPANISH FDI IN THE UK

Spanish outward FDI into the UK contributed to generating 162,725 jobs in 2018, representing 0.51% of total national employment.

Spanish outward FDI into the UK helped generate 162,725 jobs in 2018, which equates to 0.51% of the UK's total employment. This figure is similar to the entire population of important British cities such as Oxford (171,380), Bournemouth (163,600) and Cambridge (158,434).

Of the total employment generated by Spanish investment in 2018, 95,555 jobs were direct jobs, while the remaining 67,170 jobs were indirect jobs created thanks to knock-on effects in the supply chain.⁽³⁾

Employment generated by Spanish FDI in the UK



Compared to the 2019 Barometer – which estimated the impact on employment in 2016 – the number of jobs generated by Spanish outward FDI into the UK has risen by 36,500 (29%). Of this amount, 21,000 are direct and 15,500 indirect jobs.

(3) Indirect employment has been estimated on the basis of Leontief type I multiplier effects for the different productive areas of the economy (2015 Input-Output Tables).

8. ASSESSMENT BY SPANISH COMPANIES IN THE UK OF THE UK BUSINESS CLIMATE

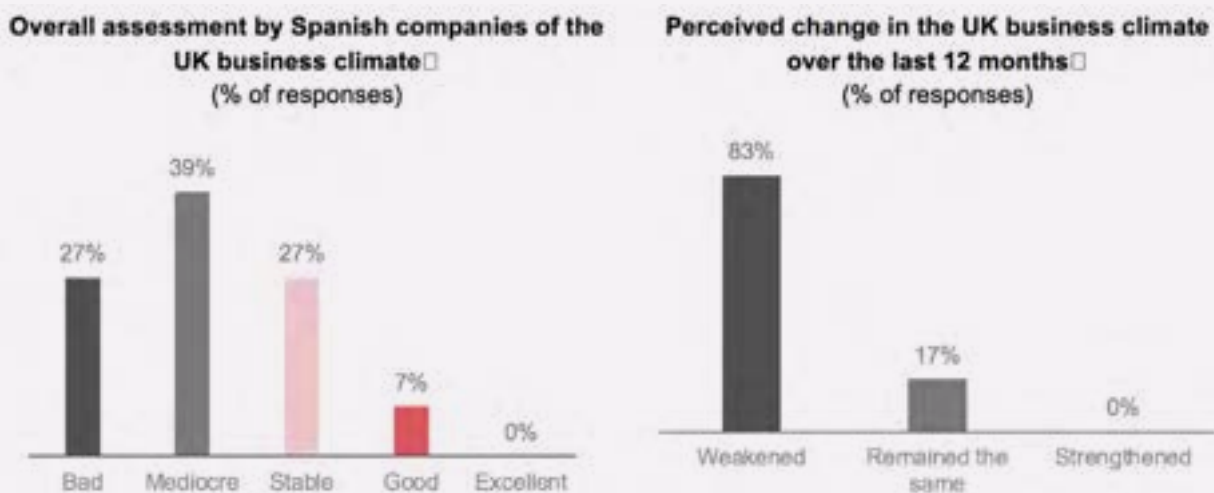
This next section looks at Spanish companies' views on the current business climate in the UK, based on the opinions and expectations of Spanish businesses operating in the UK garnered through the survey (see methodological annex). On the one hand, an overall assessment of the state of play and perceived changes over the last year is provided, and on the other, a specific assessment of each aspect of the business climate.

OVERALL ASSESSMENT AND RECENT DEVELOPMENTS

Spanish companies in the UK give the current UK business climate a score of 2.1 (scale from 1 to 5). However, the specific scores given for the key aspects of the business climate are better⁽⁴⁾.

Four out of five businesses perceive a deterioration over the last year.

Spanish companies in the UK give the UK business climate in 2020 a score of 2.1 out of 5. Two-thirds of companies surveyed give a score of "Mediocre" or "Bad"; consequently, the overall assessment of the business climate is gloomier than in last year's Barometer (when a score of 2.5 was given). This bleaker outlook was reported by 83% of businesses, while the remaining 17% stated that they had not perceived any change.



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

(4) See details in the next section on "Assessment of the main aspects of the business climate".

ASSESSMENT OF THE MAIN ASPECTS OF THE BUSINESS CLIMATE

The level of digitalisation once again scored as the aspect most highly valued by Spanish companies (same score of 3.6), while relations with public administrations scores the least (2.8 points).

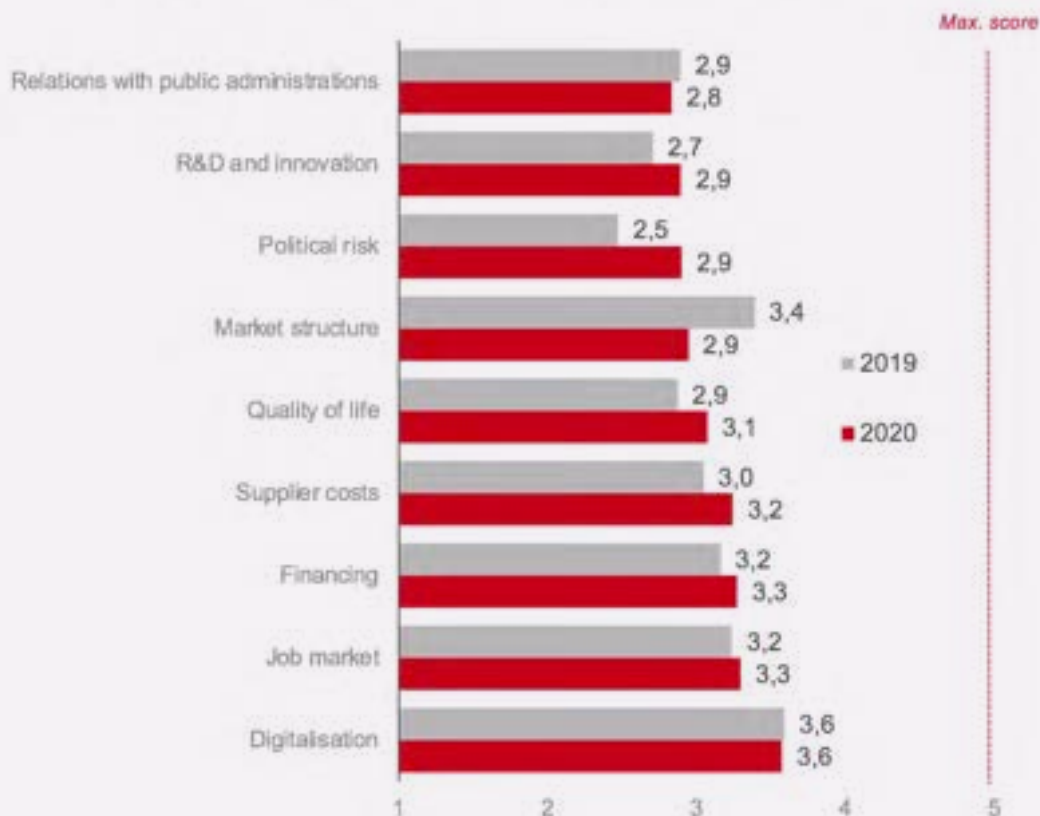
Nine aspects of the business climate were analysed: relations with public administrations; political risk; finance; job market; market structure; digitisation; supplier costs; quality of life; and research, development and innovation (R&D and innovation).

All received a score of between 2.8 and 3.6 points in this edition of the Barometer. The aspect ranked lowest is still relations with public administrations, in terms of both the degree of institutional stability and the fiscal pressure on businesses.

At the other end of the scale, digitalisation (referring to the UK economy as a whole and at a company level) once again comes out top, with the same score as in 2019.

Compared to the 2019 edition, perceived political risk scored better after it was reported to be the most concerning aspect in the previous Barometer. On the flip side, the score for market structure has decreased to below average.

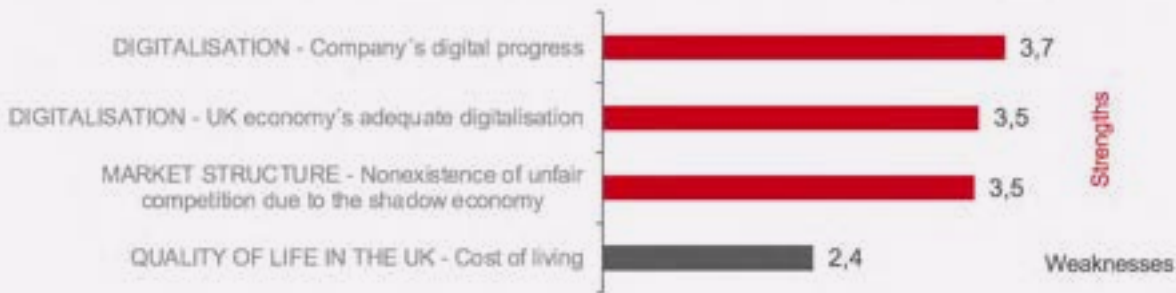
Assessment of the business climate in the UK by thematic area
(score based on % of responses, where 1 is bad and 5 is excellent)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

In particular, the cost of living (quality of life) is once again the worst rated aspect of the UK economy, despite a slight improvement of 0.2 points versus 2019. In fact, it is the only aspect seen as a weakness (score lower than 2.5 points). Meanwhile, the strong points are digitalisation at a company and economy level, and the perceived lack of unfair competition.

Main strengths and weaknesses of the UK business climate (score based on % of responses)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

A detailed examination of each of the nine areas defining the UK business climate is provided hereon.

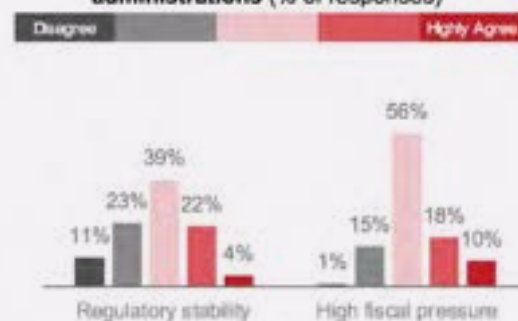
RELATIONS WITH PUBLIC ADMINISTRATIONS

Relations with public administrations was the lowest scoring area of the UK business climate in 2020, due to the perceived high level of fiscal pressure (score of 2.8), lower than the score for the existence of regulatory stability (same score of 2.9 points as in 2019).

Over a third of Spanish companies surveyed say they do not agree or partly disagree that there is a stable regulatory framework in the UK. Consequently, the average score for this aspect of relations with public administrations was 2.9 out of 5.

At the same time, 28% of survey respondents see the level of fiscal pressure as being high, giving it a score of 2.8. This is the second worst score of all the business climate indicators.

Assessment of framework for relations with public administrations (% of responses)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

(5) Although the aspect (sub-area) with the lowest score is the cost of living.

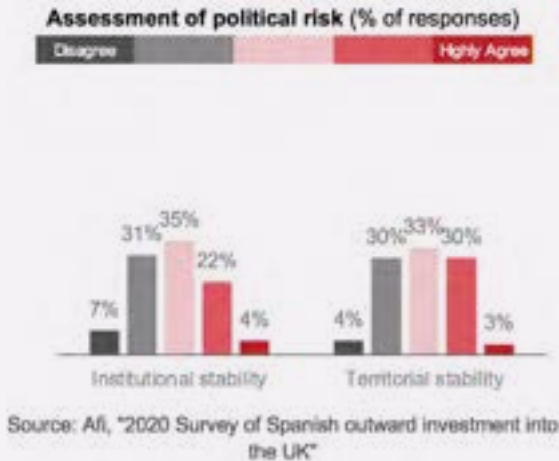
POLITICAL RISK

The score for political risk has improved notably compared to the 2019 Barometer, although it still ranks among the lowest scoring areas.

Aspects related with institutional and regional stability define political risk.

Only a quarter of those surveyed consider that there is sufficient institutional stability, and therefore this aspect received a score of 2.9 points. That said, this is an improvement on the 2019 score of 2.2.

Regional stability, meanwhile, was given a score of 3, with a third of businesses believing there is a stable climate in the UK.



FINANCING

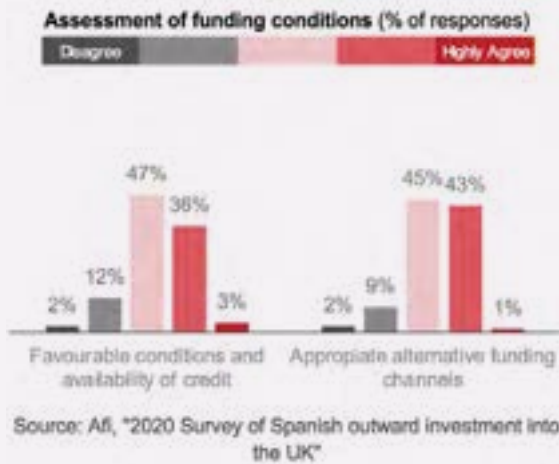
Borrowing conditions are still well valued and have actually scored higher compared to 2019.

The finance framework in the UK market is assessed by looking at:

- (i) The conditions for access to and obtaining bank credit; and
- (ii) The degree of development of alternative funding channels.

Both aspects were given a score of 3.3 points, which is above average and higher than those obtained in 2019 of 3.1 points and 3.2 points, respectively.

For good reason, 39% of companies surveyed consider there are suitable conditions for accessing credit and 44% believe there is an appropriate degree of development of alternative funding channels.

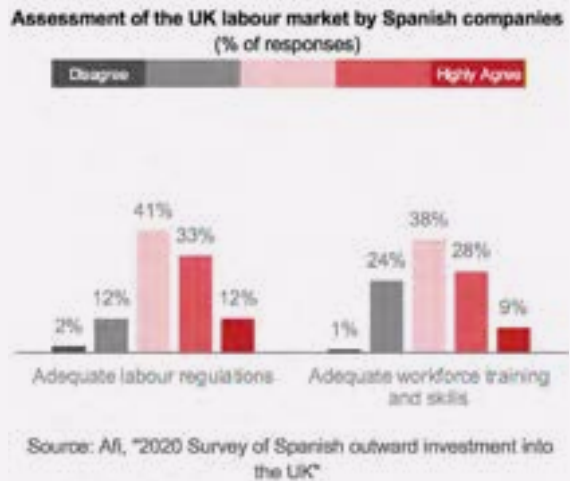


JOB MARKET

The UK job market has been perceived as better in 2020, with a slightly higher score for the labour market regulatory framework.

UK labour market regulations (hiring subsidies, flexibility, labour costs, severance costs etc.) are well received by Spanish businesses, obtaining a score of 3.4 points (compared to 3.3 in 2019). Some 45% of firms surveyed approve the suitability of these regulations.

On the other hand, the degree to which workforce training and skills meet company needs (availability of specialists and qualified manpower, proficiency of languages etc.) was given a score of 3.2. Of those responding, 27% believe the workforce is sufficiently skilled.

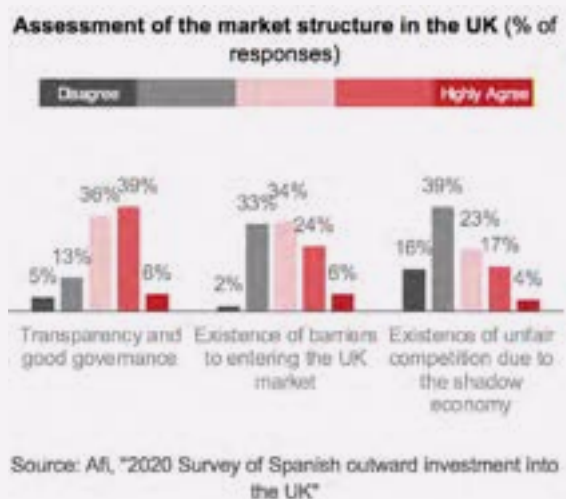


MARKET STRUCTURE

The lower score for market structure conditions in 2020 versus the previous year is above all due to the drop in score for perceived barriers to entry (although it was still given 3 points).

Two aspects of "market structure" scored lower than in 2019: First, the perception of barriers to entering the UK market, receiving a score of 3 points – two-tenths less than in 2019; and Second, potential unfair competition due to the existence of a shadow economy in the markets in which the company operates (score of 3.5 points, down a tenth). This latter aspect still scored well because 55% of survey respondents do not believe such unfair competition exists.

At the same time, 46% of businesses surveyed consider that relations with public administrations take place within a framework of transparency and good governance, giving this aspect a score of 3.3.



(6) Note that an inverse scale was used to assess the perception of barriers to entry and unfair competition so that the scores are comparable with other (positive) aspects of the business climate.

DIGITALISATION

Digitalisation is still the most appreciated aspect of the UK business climate.

Spanish companies with investments in the UK are in agreement regarding the satisfactory progress made in terms of digital transformation of both the UK economy (57% of respondents) and of their own companies (63%).

The level of digitalisation at company level even scored a tenth higher than in 2019 (3.7 points). The variation in the score for the digitalisation of the entire economy was the same but in the opposite direction (3.5 points).

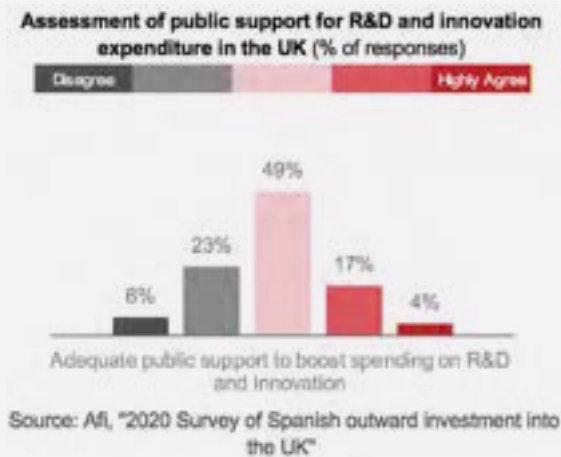


R&D AND INNOVATION

There is still room for improvement of public support for R&D and innovation, despite the higher score this year.

Public sector support (grants, tax breaks) to boost spending on R&D and innovation by businesses is not deemed sufficient by 30% of Spanish companies with investments in the UK. However, almost half of survey respondents were on the fence about this aspect.

Overall, the score for this indicator was 2.9 – two-tenths higher than in 2019.



SUPPLIER COSTS

The degree of adequacy of the main supplies and availability of supplier and distribution networks scored higher, both obtaining a score of over 3 out of 5.

Some 43% of businesses believe supplier and distribution networks are sufficient for them to operate. This aspect obtained a score of 3.4 (compared to 3.2 in 2019).

Meanwhile, the availability, quality and costs of suppliers (mainly of transport, telecommunications and energy services) are perceived as adequate by 29% of companies responding to the survey, yielding a score of 3.1 points (2.9 in 2019).

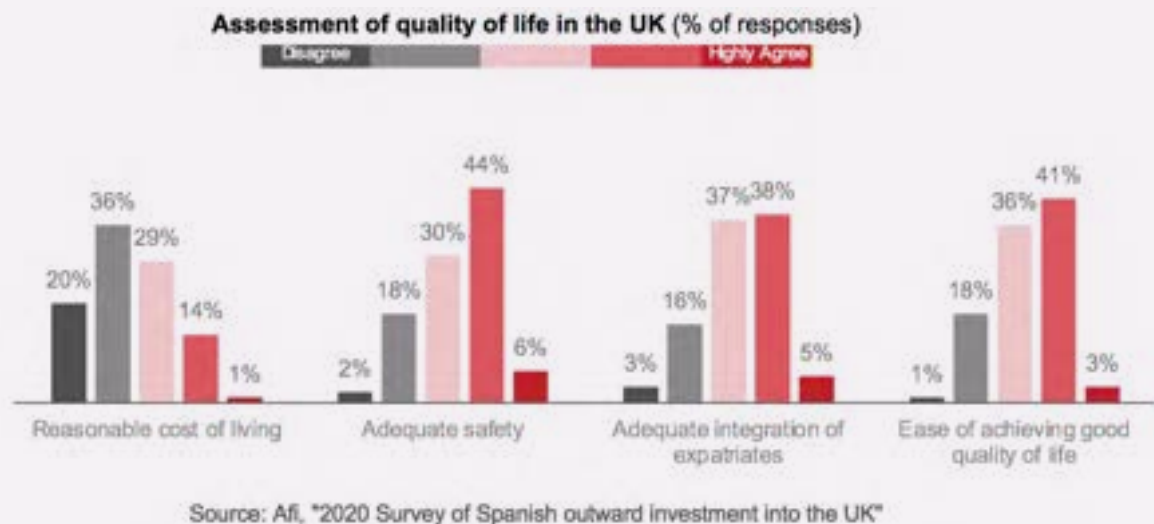


QUALITY OF LIFE IN THE UK

Cost of living is another poorly considered aspect of the business climate, while other aspects related with quality of life are well received (3.3 points). All scores are up versus 2019.

Some 56% of survey respondents do not believe the cost of living in the UK is reasonable, giving an overall score of 2.4. That said, this score is two-tenths higher than in 2019.

The other aspects – safety, social integration of expatriates and quality of life – are perceived as being good. All received a score of 3.3 points (2019: 3.2, 3.1 and 3, respectively). Notably, half those businesses surveyed consider security in the country to be adequate. Forty-five percent deem the country offers a good quality of life and 44% believe expatriates are adequately integrated into society.



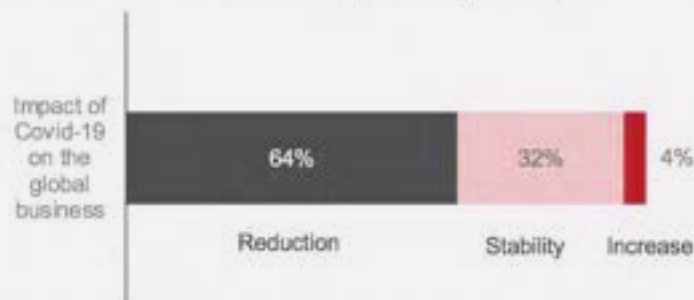
9. PERCEPTION OF IMPACT OF COVID-19⁽⁷⁾

The health crisis caused by the Covid-19 pandemic has rocked the economy and also shaped business decisions in recent months. The operations of most Spanish companies in the UK have not been immune to the pandemic's effects; neither have their investment plans in the UK market.

The pandemic caused a slump in global business in H120 in 64% of Spanish companies with investments in the UK included in the survey. Around half have resorted to state aid, especially the Coronavirus Job Retention Scheme. Fifty-six percent have had to change their investments plans in the UK for this year and next because of Covid-19. Above all, this has entailed reducing or pushing back their planned investments.

Most (64%) Spanish companies in the UK participating in the Barometer survey have suffered a slump in their global business (not just in the UK market) during the first half of 2020 because of the pandemic. However, the pandemic's impact has not been uniform from one sector to the next. Indeed, the type of sector in which the survey respondents operate and the conditions therein have actually enabled 32% of companies to maintain the same level of activity in general, while 4% have managed to increase it.

Impact of Covid-19 on the global business of Spanish companies with investments in the UK during the first half of 2020 (% of responses)

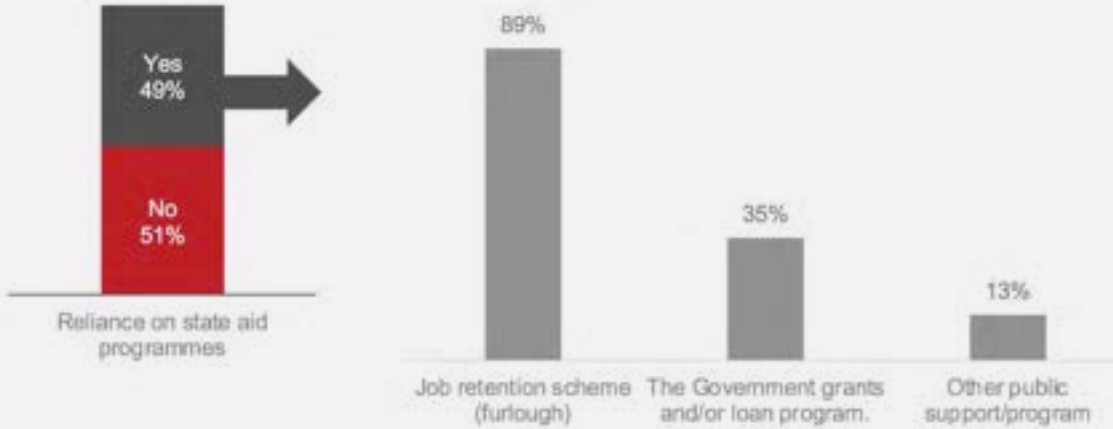


Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Overall, around half the companies questioned (49%) have resorted to state aid to mitigate the impacts of the pandemic. Most of these (89%) have benefited from the Coronavirus Job Retention Scheme.

⁽⁷⁾ Note: The survey was primarily conducted in the second fortnight of July and August 2020.

Reliance on state aid programmes to tackle the pandemic in 2020 (% of responses)

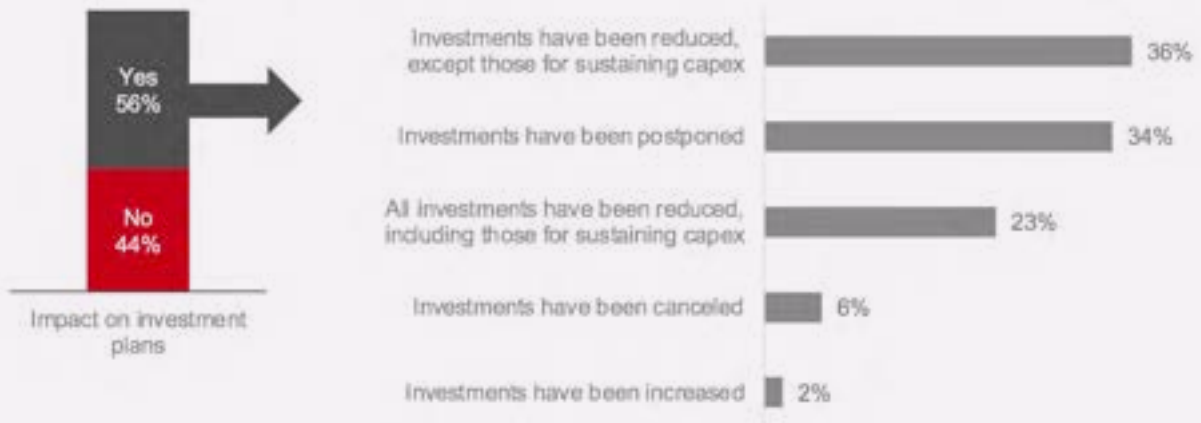


Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Fifty-six percent of companies surveyed report that the Covid-19 pandemic has altered their business investment plans in the UK market.

Only 2% said that events had led to an increase in their investments, while the majority reported a reduction in investments, except to sustain capex (36%), or that they had postponed their investment plans (34%).

Perception of impact of Covid-19 on investment plans in the UK in 2020 and 2021 (% of responses)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

10. PERCEPTION OF IMPACT OF BREXIT

At the beginning of the year (31 January), the UK left the European Union as a result of the Withdrawal Agreement. Nevertheless, the UK will remain in the single market until 31 December 2020: the deadline for concluding negotiations on a future bilateral trade relationship.

Spanish companies with interests in the UK market have been closely following the talks and how this future relationship between the UK and the EU will pan out. These companies' perception of the impact of Brexit on their businesses will now be analysed.

IMPACT ON BUSINESS INVESTMENT PLANS IN THE UK

Fifty-six percent of survey respondents declared that they have not significantly changed their investment strategy in the UK since the start of the Brexit negotiations.

That said, more than 3 out of 5 companies with investments in the UK are concerned that a potential regulatory divergence between the UK and the EU will have a potentially negative impact in the short to medium term.

On the whole, companies are optimistic, with 78% of respondents expecting an extensive trade agreement will be reached (CETA-style or even a customs union).

Fifty-six percent of companies surveyed report that they have not significantly altered their investment policy in the UK since Brexit talks began in 2016. This proportion is 9 pp higher than in the 2019 Barometer.

Of those businesses that have altered their investment policy, for 35% of these, the changes have involved their international investment strategy, labour recruitment policy and the opening/development of new lines of business in the UK market. However, above all (in half the cases), decisions on other aspects of business (beyond those referred to above) have been affected.

Existence of significant changes in the company's policy regarding its investment in the UK since the start of Brexit negotiations (% of responses)

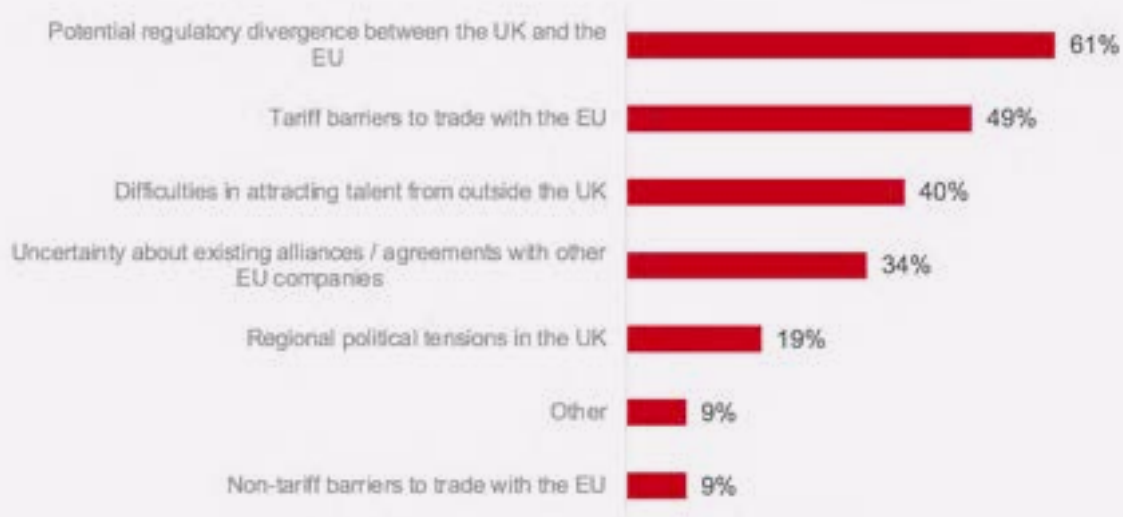


Note: A company may select more than one "Yes" response.

Source: Afi, "2020 Survey of Spanish outward investment into the UK"

At the same time, 61% of survey respondents consider that, in the short to medium term, a potential regulatory divergence from the EU's framework may be one of the factors that could have the greatest negative impact on their activity in the UK. Similarly, 49% of companies worry about the potential negative impact of customs duties in bilateral trade. Difficulties in attracting talent from outside the UK and uncertainty about the future of existing agreements with other EU companies are also a concern for 40% and 34%, respectively, of those surveyed.

Aspects that may have the most negative short- and medium-term impact on the company's activity in the UK (% of responses)

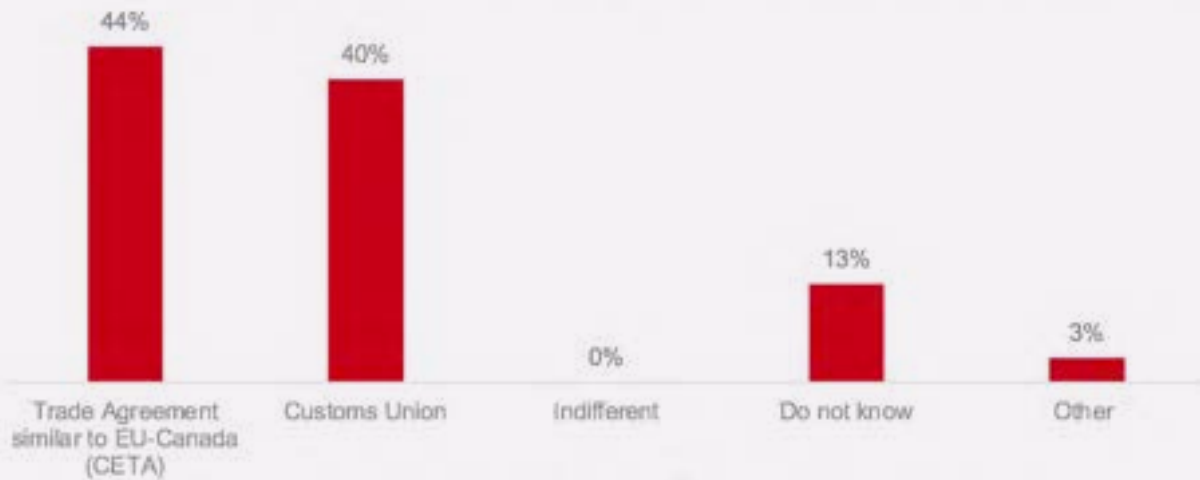


Note: A company may select more than one option.

Source: Afi, "2020 Survey of Spanish outward investment into the UK"

While the framework for future trade relations between the UK and the EU is still unclear, Spanish companies with investments in the UK included in the survey would prefer a trade agreement similar to that between the EU and Canada (Comprehensive Economic and Trade Agreement, CETA) (preferred option of 44% of companies answering the survey) or even a customs union (40%). Nevertheless, this latter option (a customs union) is more of a preference than an expectation.

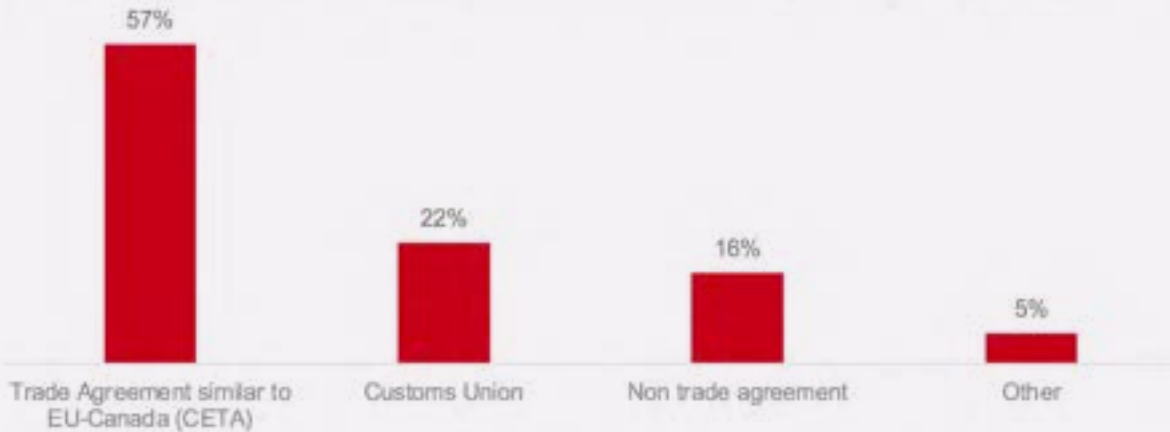
Preferences regarding the future trade relationship between the UK and the EU (% of responses)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Many businesses in the UK are also optimistic about a comprehensive trade deal being reached. Fifty-seven percent of respondents expect that the negotiations between the UK government and the EU will result in a CETA-style agreement, while 22% consider a customs union will prevail. Only 16% of survey respondents think a deal will not be reached, which would result in World Trade Organisation (WTO) rules being applied.

Expectations regarding the future trade relationship between the UK and the EU (% of responses)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

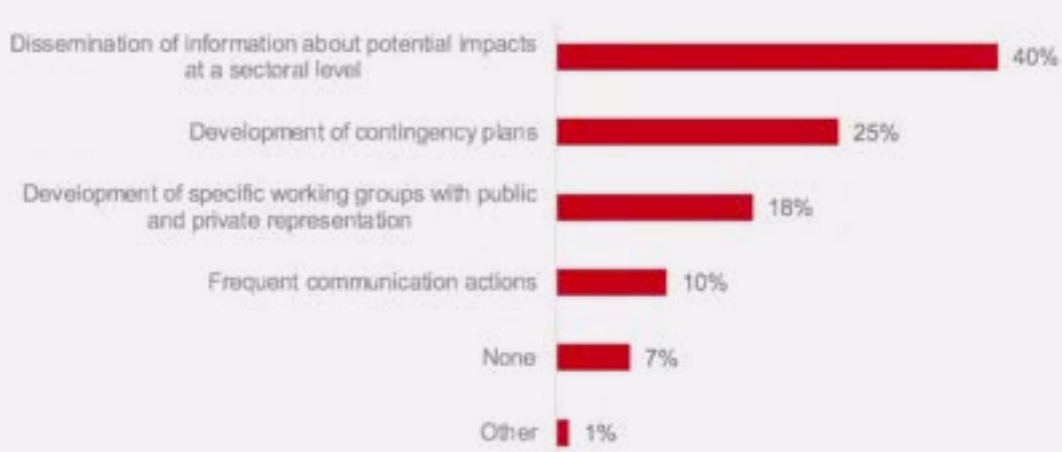
OPINION ON GOVERNMENT ACTIONS

Spanish companies are calling for more support from the UK government in terms of the dissemination of information about the potential impacts of Brexit and the future trade relationship on their sectors.

While the framework that will govern bilateral trade and economic relations is still uncertain, Spanish companies with investments in the UK believe more support is needed from the UK government, particularly concerning the dissemination of information about potential impacts at a sectoral level (40% of companies surveyed). Aside from details of the tariffs that will be imposed on goods exported from Spain, companies need further information on possible non-tariff barriers that may affect trade between Spain and the UK in their sector after 31 December.

A quarter of companies surveyed believe support from the UK government to draw up contingency plans is most necessary. In last year's Barometer, this aspect of government support was first and foremost in Spanish companies' minds (35% of respondents selected this option in 2019).

Principal areas where Spanish companies believe further support from the UK government is needed (% of responses)



Afi, "2020 Survey of Spanish outward investment into the UK"

11. EXPECTATIONS ON BUSINESS IN THE UK FOR 2020 AND 2021

The expectations of Spanish companies with investments in the UK about their future activity (in terms of turnover, employment and investments) in this market have logically been affected by the two phenomena described above: the impact of the crisis caused by Covid-19 and Brexit. However, there was a high degree of uncertainty surrounding both challenges at the time the survey was conducted. The first, concerning how the pandemic will evolve, which will determine the intensity and duration of the crisis; and the second, regarding the outcome of the negotiations on the future economic-trade relationship between the UK and the EU.

Against this backdrop, the expectations of the businesses surveyed, at the start of the second half of 2020, about how their performance and investments in the UK will change in 2020 and 2021 are now analysed.

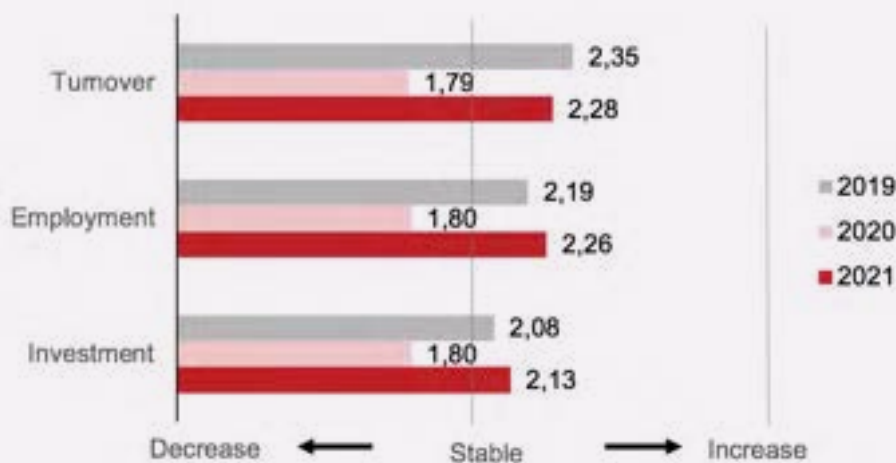
EXPECTED BUSINESS PERFORMANCE

The expectations of Spanish companies in the UK point to a drop in activity in 2020, although with a rebound in 2021, in terms of turnover, employment and investment.

Forty-five percent of companies expect to see a reduction in their turnover in the UK market in 2021.

The expectations of the businesses surveyed reflect the effects of the current crisis on their activity, with scores that do not exceed 1.8 points (on a scale of 1 to 3) for 2020 vis-à-vis turnover (1.79), employment (1.80) and investment (1.80). Nevertheless, as a whole, the level of activity is expected to pick up in 2021, with scores of over 2.1 points in all three cases.

Expectations for growth of business activity of Spanish companies in the UK (score based on % of responses, where 1 is a reduction and 3 is an increase)



Note: The scores for 2019 correspond to businesses' expectations gathered in the first quarter of 2019 for the first edition of the Barometer.

Source: Afi, "2019 and 2020 Survey of Spanish outward investment into the UK"

In line with the aforesaid, while 44% of respondents said they expect turnover to reduce this year, only 17% think it will in 2021. In addition, 45% of companies envisage their turnover will rise during the year ahead. Thirty-one percent of companies foresee having to cut their workforces in 2020; a figure that drops to 9% for next year.

EXPECTED BUSINESS INVESTMENTS

Expectations for investments in the UK market for the whole of 2020 show that 28% of Spanish businesses believe they will invest less. Only 7% expect their investments to increase this year.

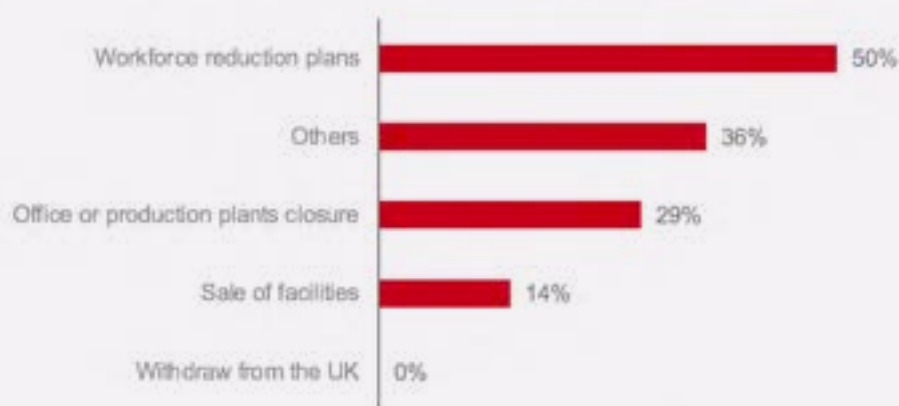
However, for 2021, 26% envisage channelling more money into in this market, and those with divestment plans falls to 12% of the total.

For those companies expecting to invest more over the period 2020-21, the main reason is to expand their existing business lines. Those expecting to reduce their investments will do so above all through workforce reduction plans.

Business expectations suggest direct investment of Spanish companies in the UK will remain relatively stable, with 65% of companies envisaging their investments will remain unchanged in 2020 and 62% foreseeing the same in 2021. Looking to the year ahead, 26% of companies expect to implement new investment projects (compared to 7% in 2020). Meanwhile, only 12% of respondents expect to reduce their investments in the UK, slightly less than half the rate for 2020 (28%).

Of the companies surveyed that expect to reduce their investments in the UK market over the period 2020-21, the greatest proportion foresee this being through workforce reduction plans (50% of businesses). However, to a lesser extent, they will also choose to close offices or production plants (29% of respondents), and use other divestment channels (36%), albeit without abandoning the UK market.

Channels for reducing investment in the UK in 2020-2021 (% of survey respondents expecting to reduce their investments over this period)

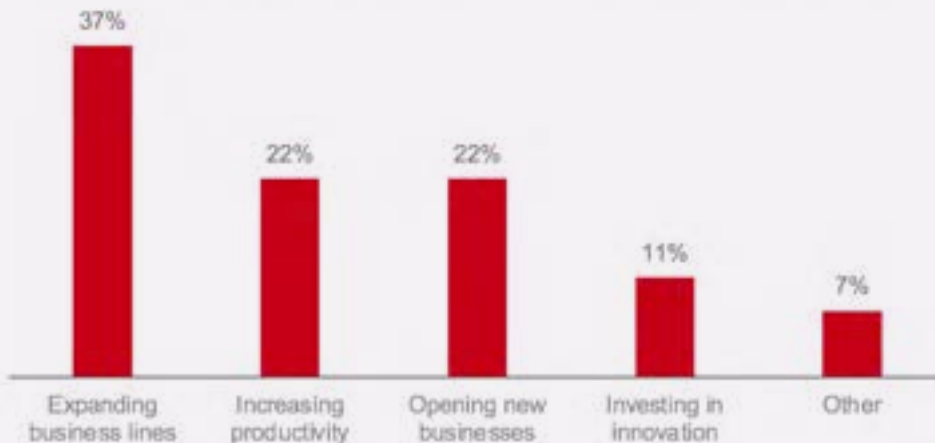


Note: A company may use various channels.

Source: Afi, "2020 Survey of Spanish outward investment into the UK"

On the contrary, for 37% of companies the main reason for increasing their direct investment in the UK over this time horizon (2020-2021) is because they want to expand their existing business lines. This was also the primary reason given in the 2019 Barometer by companies planning to make new investments in the UK market that year. For 22% of companies, the primary aims of channelling more money into the UK are to increase productivity and open new businesses.

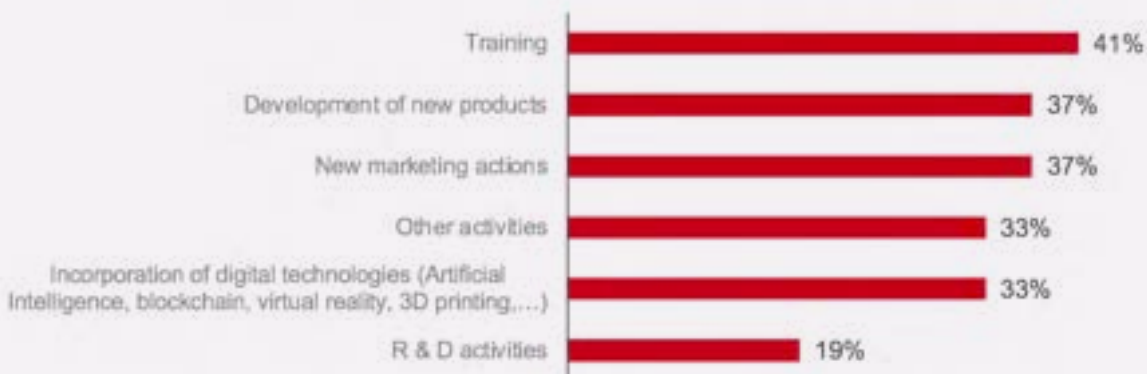
Main objectives with regards to planned increases in Spanish investment in the UK in 2020-2021 (% of survey respondents expecting to increase their investments over this period)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Drilling down into the activities these planned investments are earmarked for, there is notable diversity. At least 1 in 3 companies report that their investment plans focus on workforce recruitment and/or training (41% of survey respondents expecting to increase their investments), new product development (37%), marketing actions (37%), and the incorporation of digital technologies (33%).

Activities in which planned Spanish investments are earmarked for, 2020-2021 (% of survey respondents expecting to increase their investments over this period)

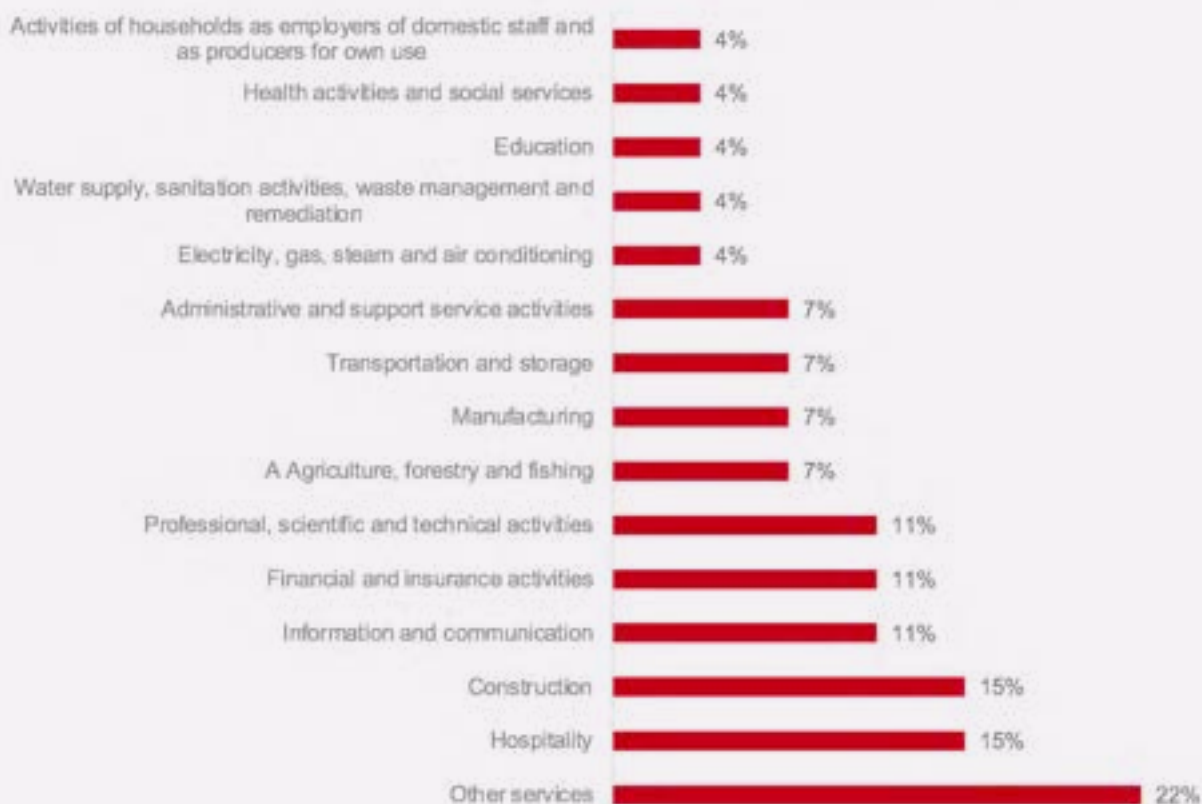


Note: A company may expect to invest in more than one activity.

Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Turning to the sector distribution of the planned investments, "Other services" (as per Spain's national economic activity classification: 2009 CNAE) is once again the main focus of planned investments, featuring in the investment plans of 22% of companies planning to spend more in the UK in 2020-2021. Hospitality and construction also stand out (15% of companies in both cases).

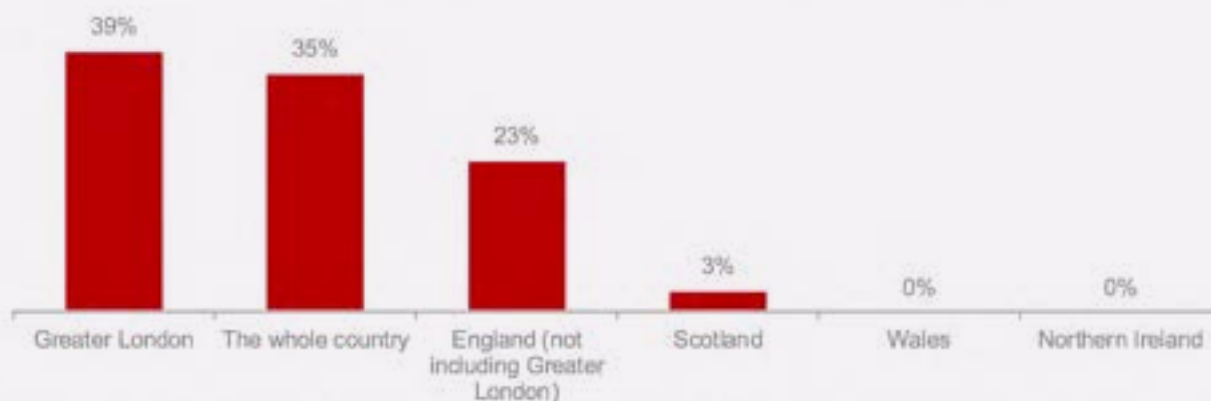
Sector distribution of planned Spanish investments in the UK in 2020-2021 (% of survey respondents expecting to increase their investments over this period)



Note: A company may expect to invest in more than one sector. Classification of sectors as per 2009 CNAE to one digit.
Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Lastly, looking at the geographical spread, London and its metropolitan area is the epicentre of future investment projects for 39% of companies. Another 35% report that their plans cover "the whole country", i.e. a geographically diverse investment strategy across England, Scotland, Wales and Northern Ireland.

Geographical distribution of planned Spanish investments in the UK in 2020-2021 (% of survey respondents expecting to increase their investments over this period)



Note: (i) the same company may plan to invest in more than one region; (ii) the investment plans covering all regions are only recorded as being in "the whole country".
Source: Afi, "2020 Survey of Spanish outward investment into the UK"

KEY FACTORS SHAPING THE ASSESSMENTS AND EXPECTATIONS OF SPANISH COMPANIES IN THE UK

Recent performance (2019/2020)

- Ninety-three percent of survey respondents believe the business climate in the UK has worsened over the last year.
- The score for the business climate has dropped from 2.5 to 2.1 (on a scale of 1 to 5) between 2019 and 2020.
- The specific areas where it has weakened concern market structure and relations with public administrations.
- However, many other aspects have scored far higher than in 2019, most notably there is a lower perceived political risk.
- The level of digitalisation has once again been given the highest score by Spanish companies.

Current situation (2020)

- The Covid-19 pandemic has led to a slump in global business in 64% of businesses during the first half of 2020. Forty-nine percent have accessed public aid.
- Fifty-six percent of companies have changed their investments plans in the UK because of Covid-19.
- At present, 61% of companies are also worried about possible regulatory divergence between the UK and the EU, while 40% believe more government support is needed by way of disseminating information about the potential impacts of Brexit at a sectoral level.
- Seventy-eight percent of respondents expect an extensive trade deal will be brokered (CETA-style agreement or even a customs union, although the latter is more a preference than an expectation). Only 16% foresee no trade deal being reached.
- Twenty-eight percent will reduce their investments in the UK this year, while only 7% expect to increase them.

Outlook (2021)

- Forty-five percent of companies expect to increase their turnover in the UK in 2021.
- Thirty-five percent envisage employment growth in their company in the UK market next year.
- Twenty-six percent expect to increase their investment in the UK, while only 12% have divestment plans in place for 2021.
- Companies intending to cut their investments in the country will do so, above all, through workforce reduction plans.
- Companies planning to invest more primarily intent to expand their existing business lines.

Source: Afi, "2020 Survey of Spanish outward investment into the UK"

METHODOLOGICAL ANNEX: CHARACTERISTICS OF THE SAMPLE OF COMPANIES

The analysis presented in this edition of the Barometer of Spanish investment in the UK is based on the views and opinions of a total of 98 Spanish companies with direct investments in the UK market.

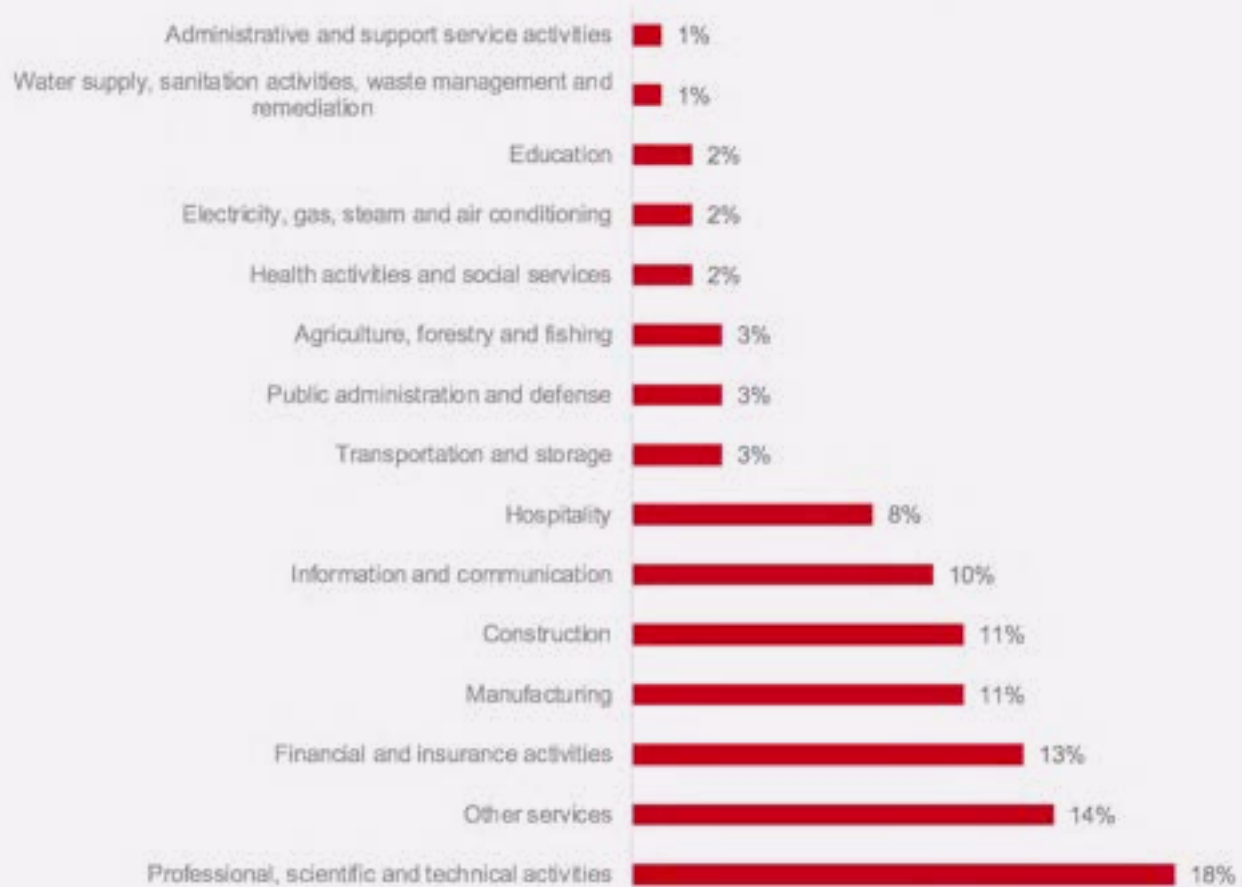
The survey of Spanish companies established in the UK was carried out using an on-line questionnaire. The questionnaire contained a combination of questions on the profile of each company, their assessment of the UK business climate, and their expectations for their activity and investments in the UK.

It was also deemed worthwhile for this second edition of the Barometer to examine two very significant challenges affecting Spanish investment in the UK: (i) the impact of Covid-19, and (ii) the effect of Brexit and the future UK-EU trade relationship.

The survey was conducted between 15 July and 2 September 2020.

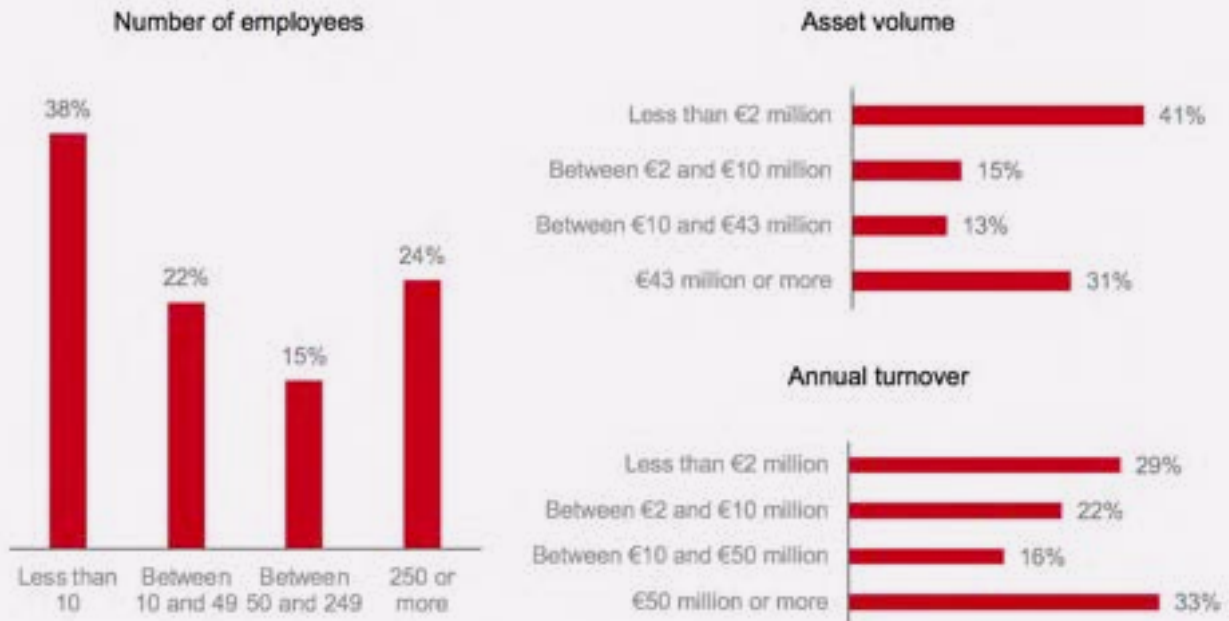
The companies responding to the survey were well spread across sectors and a wide variety of sizes.

Sector distribution (% of total companies surveyed)



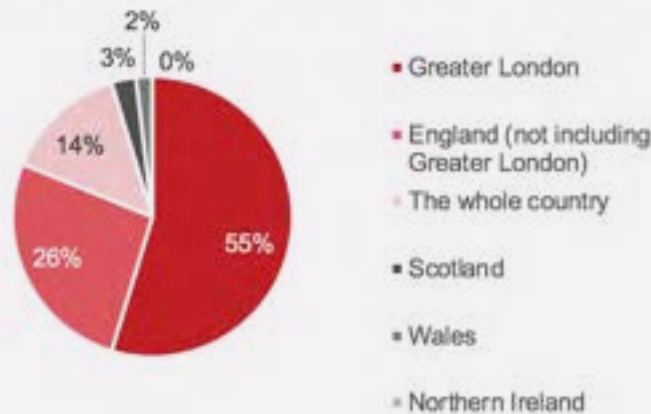
Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Distribution by company size (% of total companies surveyed)



Source: Afi, "2020 Survey of Spanish outward investment into the UK"

Regional distribution of operations in the UK (% of total companies surveyed)



Source: Afi, "2020 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 **principal function** 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.



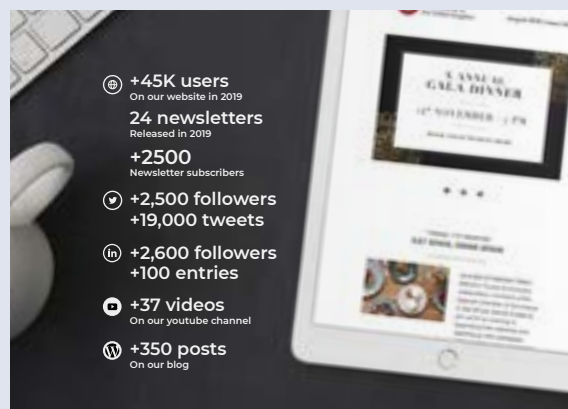
Bilateral Trade:

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 expand their contact networks

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.



BOARD OF DIRECTORS OF THE SPANISH CHAMBER OF COMMERCE IN THE UK

HONORARY ROLES

Honorary President

Mr. Carlos Bastarache, H.E. Spanish Ambassador in the UK

Honorary Vice-President

Mr. Álvaro Nadal, Head of the Economic and Commercial Office, Spanish Embassy

EXECUTIVE COMMITTEE

President

Mr. Eduardo Barrachina, **White & Case**

Vice-Presidents

Ms. Nuria Corominas-Rovira, **Roman RM**

Mr. Juan Botín, **Banco Santander**

Treasurer

Mr. Nacho Morais, **Frank Consulting**

Secretary General

Mr. Igor Urrea, **Spanish Chamber of Commerce in the UK**

COMMITTEE MEMBERS

Mr. Anselmo Andrade, **BBVA**

Mr. Gonzalo Coello de Portugal, **Binom Architects**

Ms. Gabriela Martínez de Aragón, **CaixaBank UK**

Mr. Ignacio Morillas-Paredes, **Colman Coyle**

Mr. Jerónimo Cruz, **Dragados**

Mr. Juan Pablo Pérez-Royo, **Ferrovial Agroman UK**

Mr. Jorge Gil de Gómez, **H10 London Waterloo**

Mr. Javier Fernández Hidalgo, **Hispania**

Ms. Sensi Álvaro, **Iberia**

Mr. Ramón Ramírez, **IDOM UK**

Mr. Miguel Janín, **London Property Partners**

Mr. Javier San Basilio, **Mapfre RE, London Branch**

Mr. Adam D. L. Munday, **Meliá White House**

Mr. Albert Coll, **Sabadell UK**

Ms. Cristina Ginés, **Sener**

Mr. Gonzaga Kutz, **Unicaja**

Mr. Juan Carlos Machuca, **Uría Menéndez**



Spanish Chamber
of Commerce in
the United Kingdom

BBVA

CAF

cellnex
driving telecom connectivity

CLH
PS

ferrovial

LOPEZ
LANDA
INTERIORS

ribera
SALUD RESPONSABLE

Sabadell

Santander

LIBRA
MORANDEZ

WHITE
& CASE



Cámara
de Comercio de España

Department for
International Trade

IN COLLABORATION WITH

Bloomberg

Cámara
Valencia