



multinacionales
por marca España



CONTRIBUTION OF FOREIGN MULTINATIONALS TO SPAIN



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PRESENTATION

Foreign-capital multinationals have always regarded our country as an interesting destination for their investments, aware of Spain's importance in the international arena.

Political and macroeconomic stability, the capacity to influence key markets such as Latin America and North Africa, important infrastructures and communications and a competitive business environment offer optimum conditions to consider Spain a fantastic investment destination.

Foreign investment in Spain, especially investment made by multinationals, has contributed significantly to gradually evolve the industrial model, providing dynamism to companies, making important technology transfers and increasing productivity and competitiveness.

This first report drafted by Multinacionales por marca España has an unequivocal title: "Contribution of Foreign Multinationals to Spain". It is a good summary of the impact those companies have on the economy in terms of Foreign Direct Investment (FDI), number of companies, employment and innovation. From all that we can draw a conclusion that I believe is the greatest proof of commitment with the country: during the worst times of the economic crisis, multinationals as a whole were able to maintain their investment levels and, more importantly, employment.

This commitment and the significant contribution made to the economic and social development in Spain are acknowledged by the main institutional and business players and must be conveyed to the public in general.

Multinacionales por marca España was created in 2014 by a group of companies as an independent association for cooperation, giving the Spanish society the experience and global overview that foreign multinationals have with the sole purpose of promoting the image of our country and of the Spanish brand. It helps to attract new investments that promote and strengthen the economic recovery and the creation of stable and quality employment.

Thus, we join the activities developed by the government and its institutions; especially the Ministry of Foreign Affairs and the Government's High Commissioner Office for Marca España, which in an impeccable manner have become a source of reflection, analysis and promotion of Spain, enabling the dissemination of certain values and of a way of understanding life.

Adolfo Aguilar

President of Multinacionales por marca España

OBJECTIVES OF THE REPORT

Without a doubt **the presence of foreign-funded enterprises in our country is very prominent.** The objective of this report is to highlight their presence, especially emphasizing their contribution to the Spanish economy in terms of investment, employment generated and degree of innovation. In a time when it appears that the Spanish economy begins to recover, it is indeed appropriate to highlight foreign-funded enterprises' contribution to the Spanish economy, especially when this contribution has allowed offsetting some of the negative impacts of the economic crisis on key indicators such as employment.

The selected indicators allow us to offer a current picture of this contribution, accurately assessing the interest of foreign companies in generating wealth in Spain. Starting from the quantification of the number of established foreign companies in our country and arriving at analysis of the representativeness of foreign firms in the innovation system of Spain, **indicators show how these companies are betting on our country as a destination for their investments, favouring Spain's development.**

The report attempts to put into context the contribution of foreign firms to the economy, keeping in mind that despite representing a small part of the Spanish business, its role in turnover, job creation and innovative activity is relevant.

The analyses presented here reinforce **the need to consider foreign multinationals as key agents of the Spanish economy**, which deserve equal treatment compared to local companies, given their commitment to the objectives of promoting job creation, encouraging productive investment and in promoting innovation, crucial elements to restart as soon as possible the path of growth activity in Spain's economy.

INDICATORS OF THE CONTRIBUTION OF FOREIGN COMPANIES TO SPAIN

To measure the economic contribution of foreign companies in our country several key indicators have been identified. These indicators include various economic parameters, ranging from the number of companies with foreign capital resident in Spain to the degree of innovation of these companies. The selected indicators showcase an accurate depiction of the contribution of foreign firms to the domestic economy.

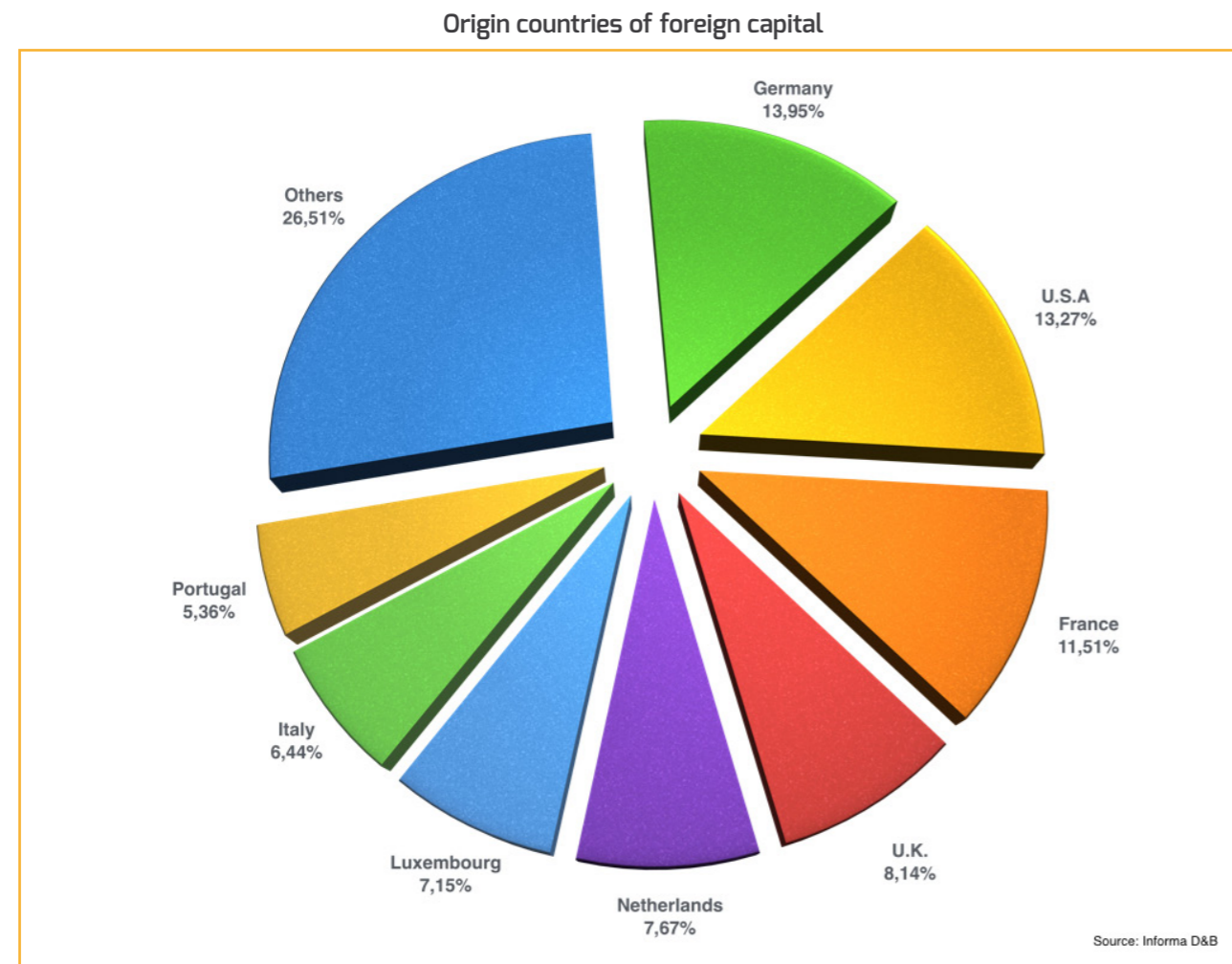
To perform this analysis national and international sources of data have been assessed, allowing to make comparisons with neighbouring countries as well as to evaluate the temporal development of the indicators selected.

“During the years in which our country suffered under the economic crisis, the contribution of multinational companies to the Spanish economy has not only remained stable but increased”

2.1

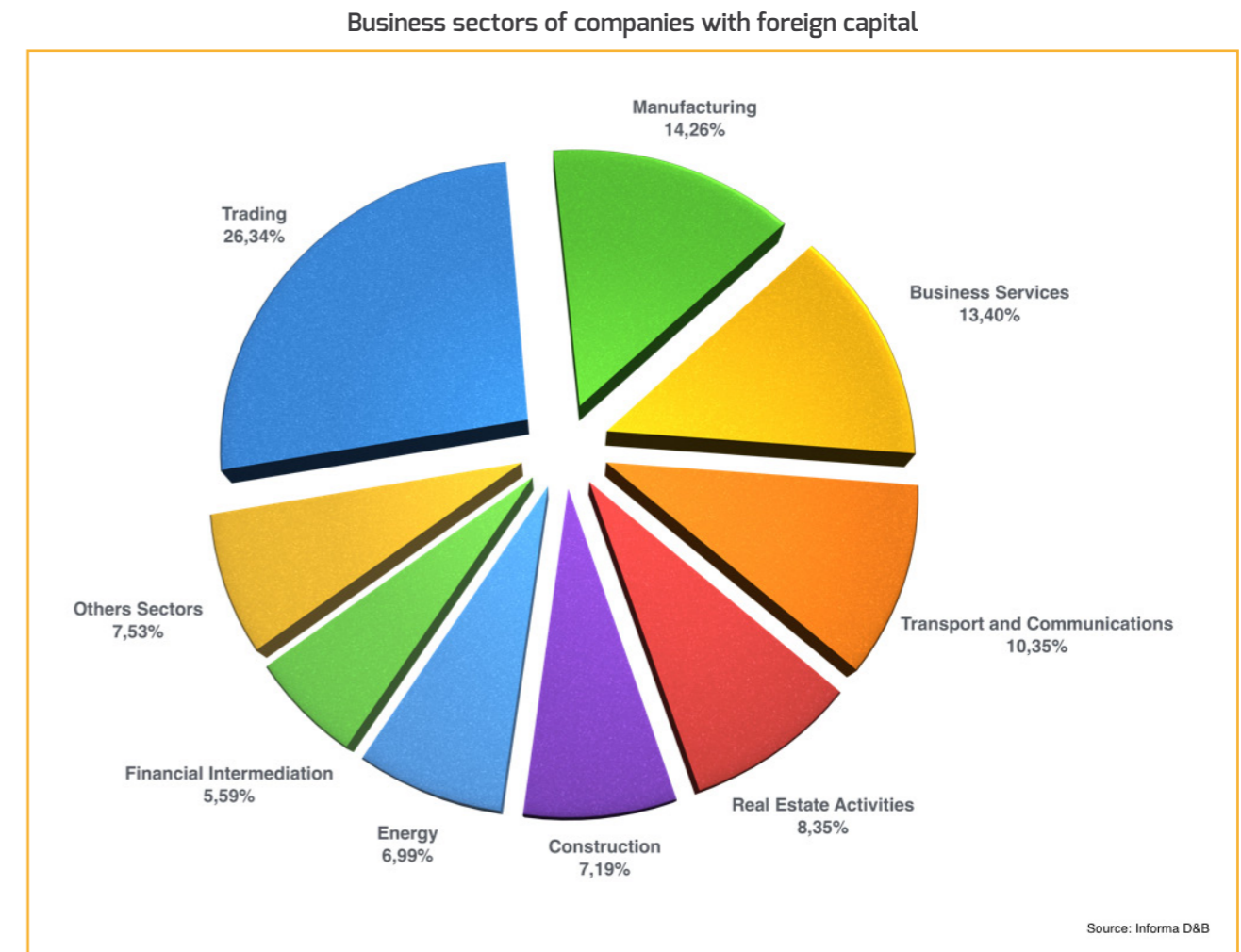
Number of existing companies with foreign capital in Spain

One important indicator that should be taken into account when measuring the impact of foreign firms in the economy is the number of companies with foreign capital existing in Spain, as it will allow to put into perspective the other indicators.



The number of companies based in our country with foreign capital as shareholders stood in December 2013 at 15,601¹. This represents 1% of existing companies in Spain². As discussed in detail in the sections below 1% of existing companies in our country is responsible for **26% of turnover or sales** generated by our economy and **12.4% of employees** in Spain.

The main countries of origin of foreign capital are Germany, United States and France, which together account for 38.7% of the total.



1.- Informa D&B, "Empresas con accionistas extranjeros en España" Feb. 2014.

2.- Percentage obtained on the total number of companies contained in the Central Business Directory INE.

3.- INE (2011), "Estadísticas de Filiales de Empresas Extranjeras en España".



“In recent years, the number of subsidiaries opened in Spain by foreign companies has continued to increase, showing their interest in being part of our economy. Between 2008 and 2011, their number has increased at a Compound Annual Growth Rate (CAGR) of 8.5 %. In the same period, the Compound Annual Growth Rate for the total number of enterprises was 1.7%”

Regarding business sectors, 26.3% of companies with foreign capital belong to the trade sector, followed by manufacturing (14.3%), business services (13.4%) and transport and communication (10.35%). Therefore, many of the companies with foreign capital are participating in the service sector.

2.2

Number of subsidiaries of foreign companies in Spain

Focusing now on the analysis of **subsidiaries that foreign companies** have in Spain it can be seen how this **number has been constantly growing in recent years**. According to INE³, the number of affiliates of foreign companies established in Spain in 2011 (last data published) was 8,986, 4.24% more than in 2010. Subsidiaries of foreign companies in 2011 accounted for 0.45% of all companies based in Spain. As shown in the graph below, this number has grown since 2008 with a compound annual growth rate (CAGR 2008-2011) of 8.5%, demonstrating the interest of foreign companies in having a presence in our country. If this growth is compared with the evolution of the total number of companies in Spain (2008-2011 CAGR: -1.7%) it is found that **foreign firms have managed to reverse the closure of companies that has taken place since the beginning of the economic crisis**.

Analysing the number of foreign subsidiaries in Spain in 2011 by number of employees, it can be seen that 38.9 % are microenterprises (less than 10 employees), 51.9 % are SMEs (between 10 and 249 employees) and 9.2 % are large companies (over 249 employees). Considering the latter category, foreign affiliates accounted for 30.7 % of large companies that exist in Spain in 2011. This percentage has in-

4.- INE (2013): "Estadística de Filiales de Empresas Extranjeras en España. Año 2011".

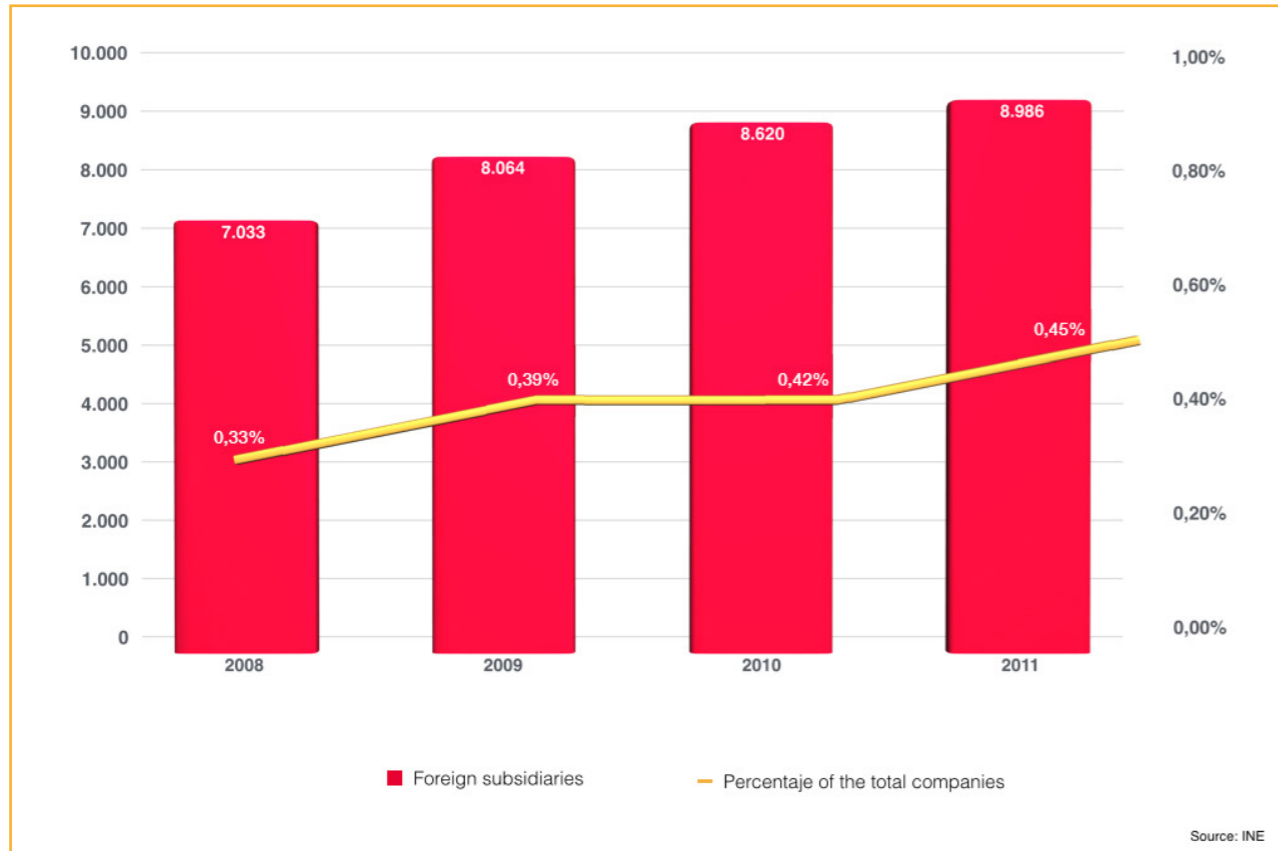
“Only 1% of the societies existing in our country have foreign capital but they generate 26% of the turnover of our economy and employ 12.4 % of the workforce”

creased from 25.8 % in 2008, leading us to conclude that **the growth of foreign subsidiaries within the large company category has been significantly higher than the rest of large companies.**

Most of the parent companies of foreign subsidiaries in Spain are from Europe (81.2 %). If the analysis is focused on the European Union, it encompasses 62.1 % of the parent companies, with Germany, France, United

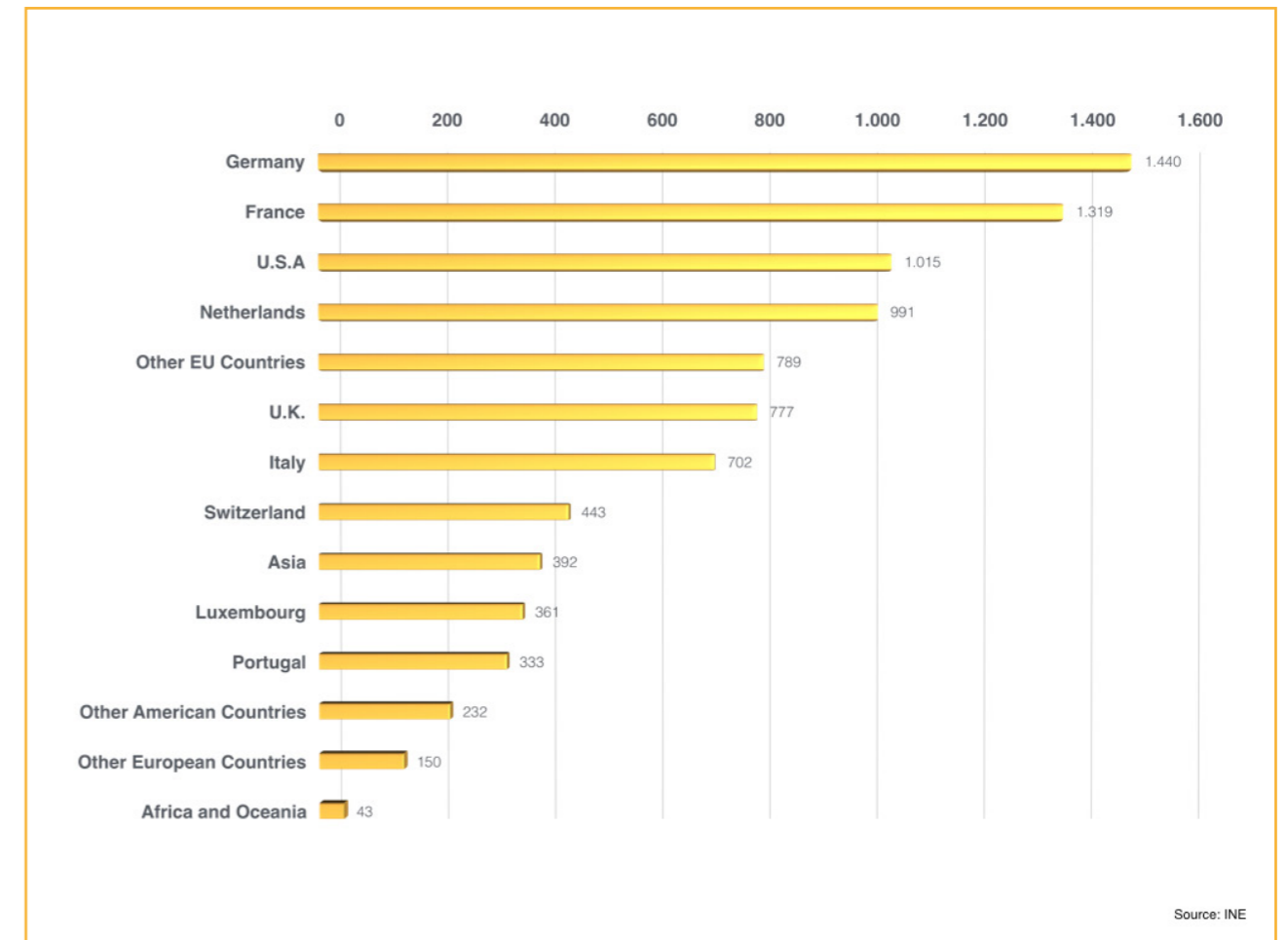
States and the Netherlands as the countries with the highest number of parent companies with subsidiaries in Spain (53 % of total subsidiaries) companies.

Progression of foreign subsidiaries in Spain



As previously discussed, the increase experienced in recent years in the number of foreign affiliates, with special relevance of the subsidiaries that have large company category, demonstrates the interest of foreign companies in investing in Spain, generating new jobs.

Origin of the parent companies of foreign subsidiaries in Spai



5.- Adjusted for calendar effects.

6.- FDI Intelligence, "The FDI Report 2013. Global greenfield investments trends".

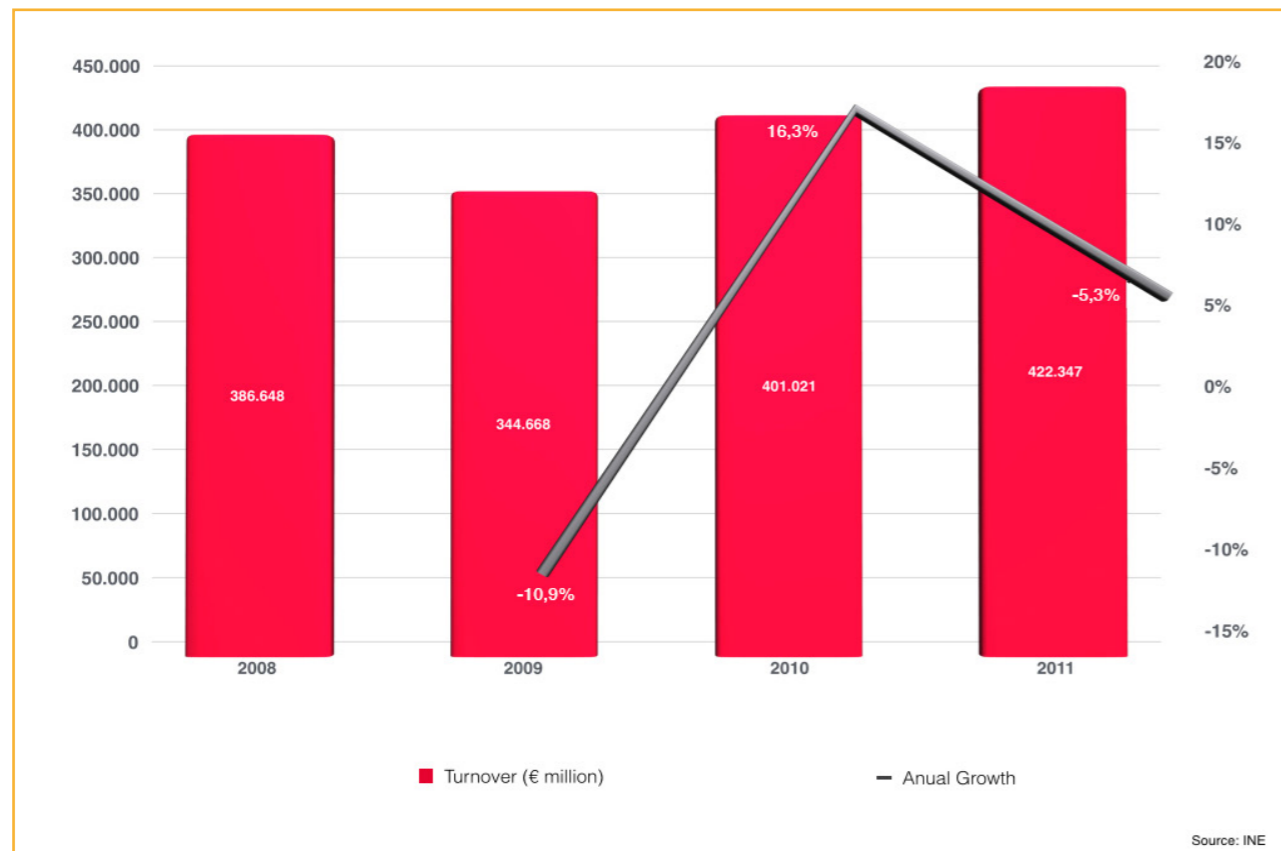
7.- IBM Institute for Business Value (2013): "Global Location Trends".

2.3

Turnover of foreign subsidiaries

The economic impact of the subsidiaries of foreign companies established in Spain is remarkable, considering the limited weight they have in relation to the total number of companies in our country. In 2011, the turnover or revenue generated by foreign affiliates amounted to 422,346 million euros, representing 26% of total turnover generated in Spain⁴. The turnover generated has grown from 2008 to 2011 with a compound annual growth rate of 3%. Again this can be categorized as a **positive trend in a macroeconomic environment** that has experienced a decline in the overall economy in recent years.

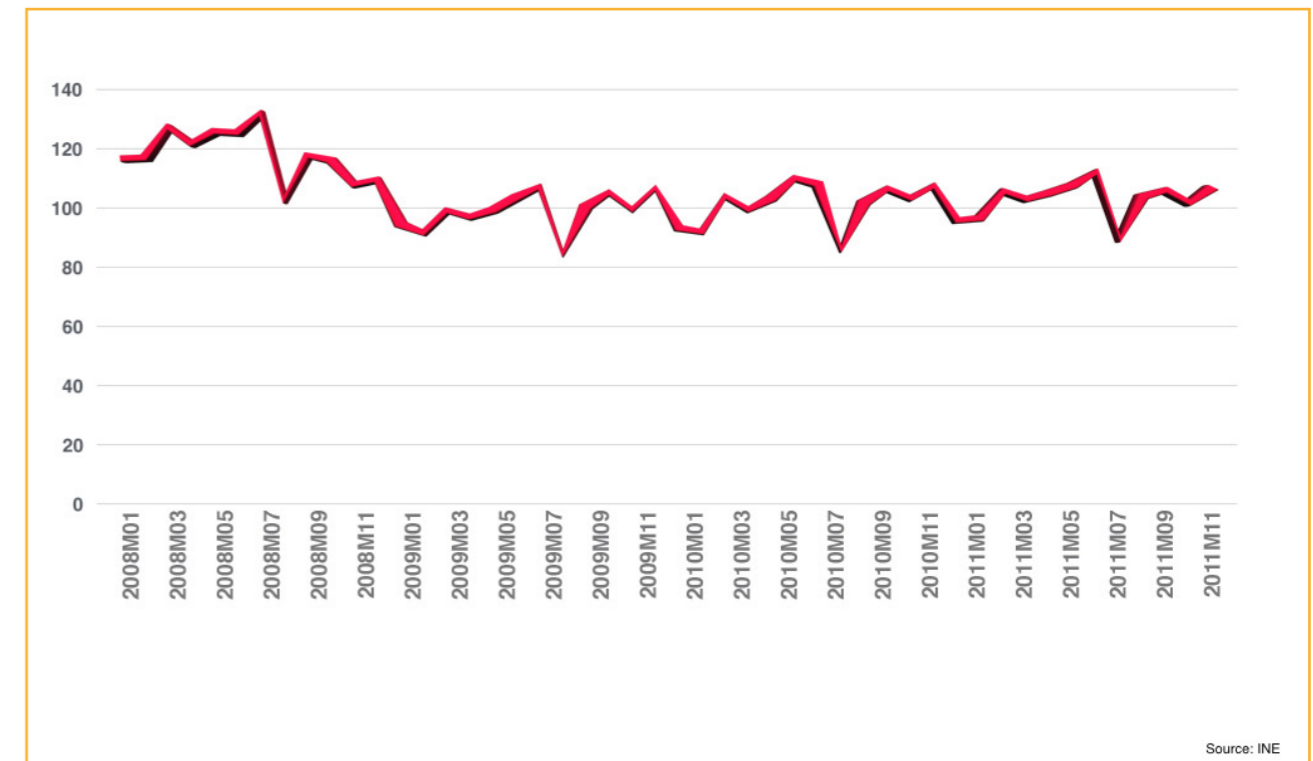
Turnover of subsidiaries of foreign companies in Spain



At the national level, industrial turnover indices, published by the INE, reflects a fall followed by stagnation in turnover of the economy during the period 2008-2011.

In this unfavourable macroeconomic environment, subsidiaries of foreign companies have managed to increase their turnover.

Evolution of the industrial turnover indices 2008-2011 (Base 2010)⁵

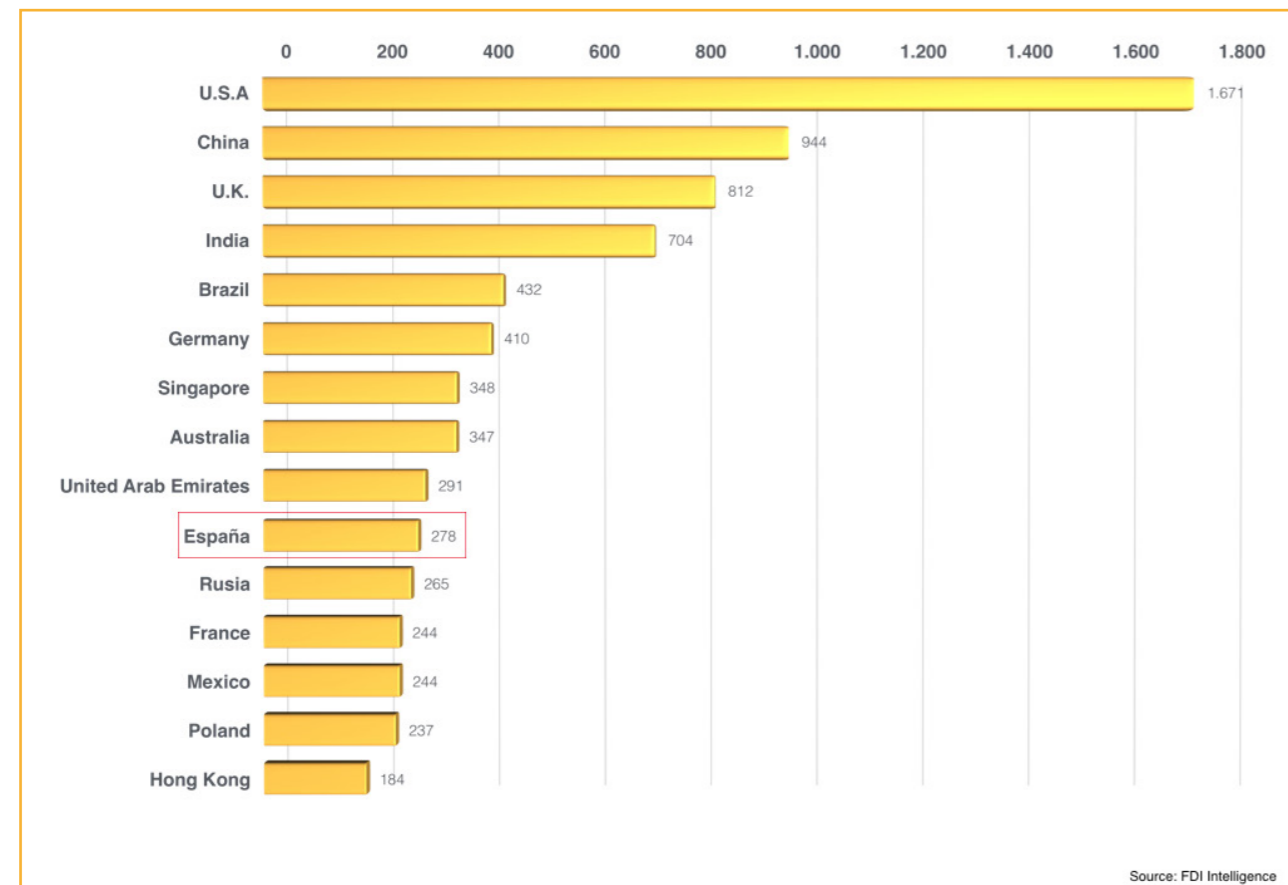


“In 2012, Spain boasted 278 IED of projects, placing our country on the third position in Europe and the tenth in the world”

2.4 Number of FDI projects in Spain

An interesting indicator to measure the activity of foreign companies in Spain is the number of Foreign Direct Investment (FDI) projects that have been developed in our country. This indicator reflects the new investment projects led by foreign companies in Spain (greenfield investments), excluding merger and acquisition of existing shares or equity investments. These investment projects are characterized by an essentially productive nature, having a positive impact on the creation of employment.

Number of FDI projects by country



“In 2012, in the world economy, Spain was ranked as the fourteenth country to receive investment flow. Also in that year, in terms of accumulated IED stock Spain was ranked twelfth”

In 2012, the number of FDI projects in Spain reached 278, placing our country as the third European country with the largest number of FDI projects, only behind the United Kingdom and Germany⁶. In that year our country was the only one, along with Poland, which increased the number of FDI projects from 2011. By number of FDI projects, Spain was in 2012 the tenth country in the world that received more projects. Again, it is worth highlight the interest awakened by Spain among foreign companies, who recognize it as an attractive investment destination.

The number of FDI projects in 2012 increased by 9% compared to 2011, once again demonstrating the growing interest of foreign companies to invest in Spain, helping to generate wealth in our country.

The two major cities of Spain, Madrid and Barcelona, are located in the tenth and thirteenth position in the world ranking of cities

that received the largest number of FDI projects in 2012⁷. Spain appears in the select club of countries, with the United States, China, Brazil and India, with more than one city in the top 25 cities that receive FDI projects.

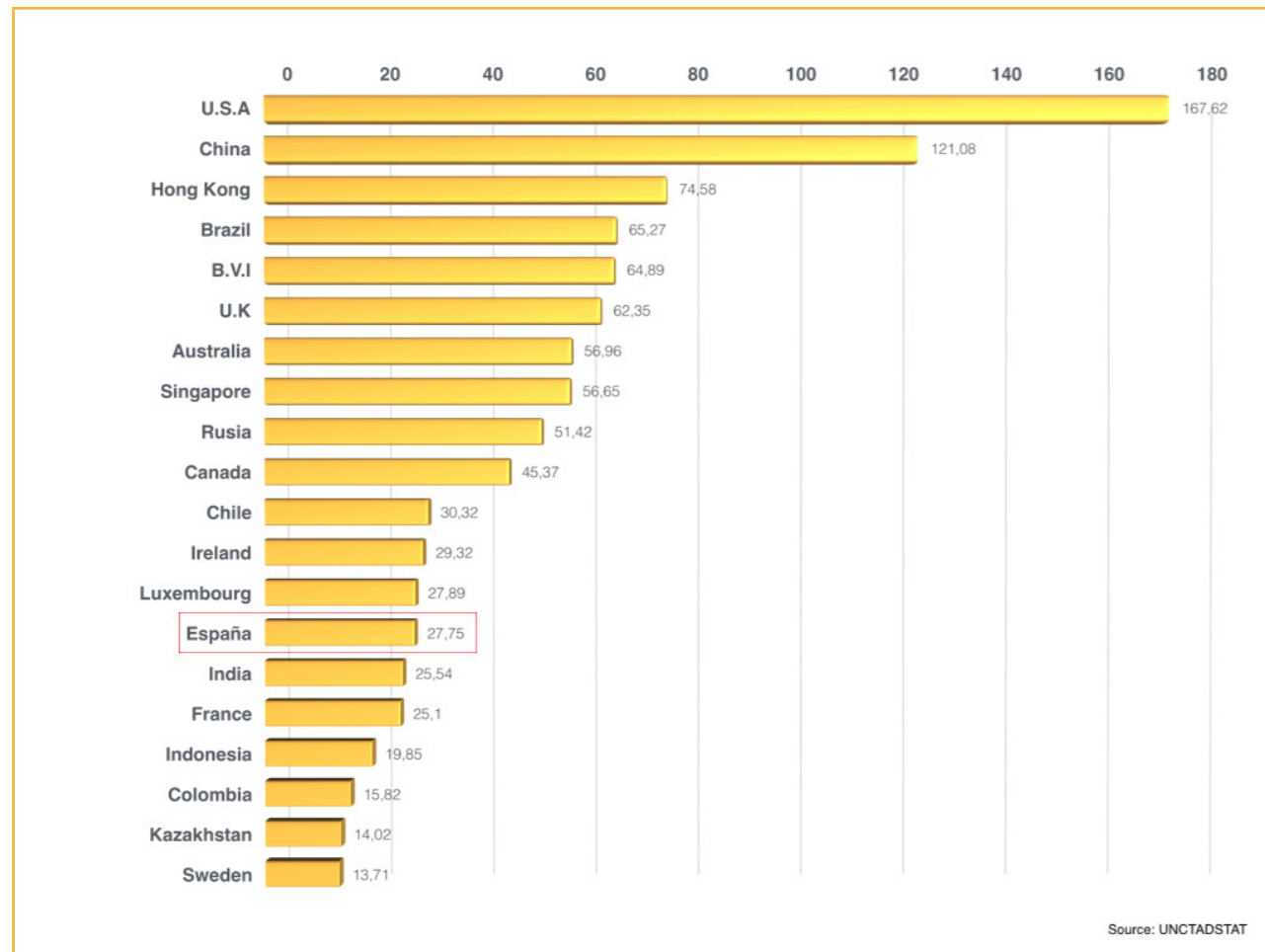
2.5 Investments by foreign companies in Spain

The indicators analysed so far show the developments of the impact of foreign firms in our country in terms of number of companies with foreign capital, number of foreign subsidiaries, turnover generated and FDI projects launched in recent years. All of them have shown a positive development in recent years, despite the unfavourable macroeconomic environment due to the economic crisis. However, the key indicator that allows accurately quantifying the contribution of foreign companies is the direct investment in our country. The analysis of this indicator can be done in two directions: a geographical scope, comparing foreign direct investment (FDI) in Spain with other neighbouring countries, and over time, analysing the evolution of the investment in our country in recent years. Both analyses provide an overview of what FDI is meaning to the Spanish's economy.

2.5.1 Comparison of FDI (flow and stock) in Spain to the rest of the world

According to statistics compiled by the United Nations Conference on Trade and Development (UNCTAD) **in 2012 Spain was ranked as the fourteenth world economy that received the most investment flow**, reaching 27,750 billion dollars, surpassing neighbouring countries like France or Italy. This represents 2% of global FDI flows in 2012. In a year in which the global flow of FDI fell 18.2%, Spain managed to increase 3.5% the flow received.

Flow of FDI received in 2012 (billions of dollars)



If the evolution of the position occupied by **Spain** as a receiver country of FDI is analysed, since 2000 it can be seen that, except for 2009, Spain has **always been among the 20 countries with more FDI flow received**, validating the interest of foreign companies for our domestic market.

In terms of stock of accumulated FDI, Spain stood at 2012 as the twelfth largest country, with 634,540 million dollars. This represents 2.78% of cumulative stock of FDI worldwide. At the European Union level only the three largest economies (the UK, France and Germany) together with Belgium surpass Spain in this indicator:

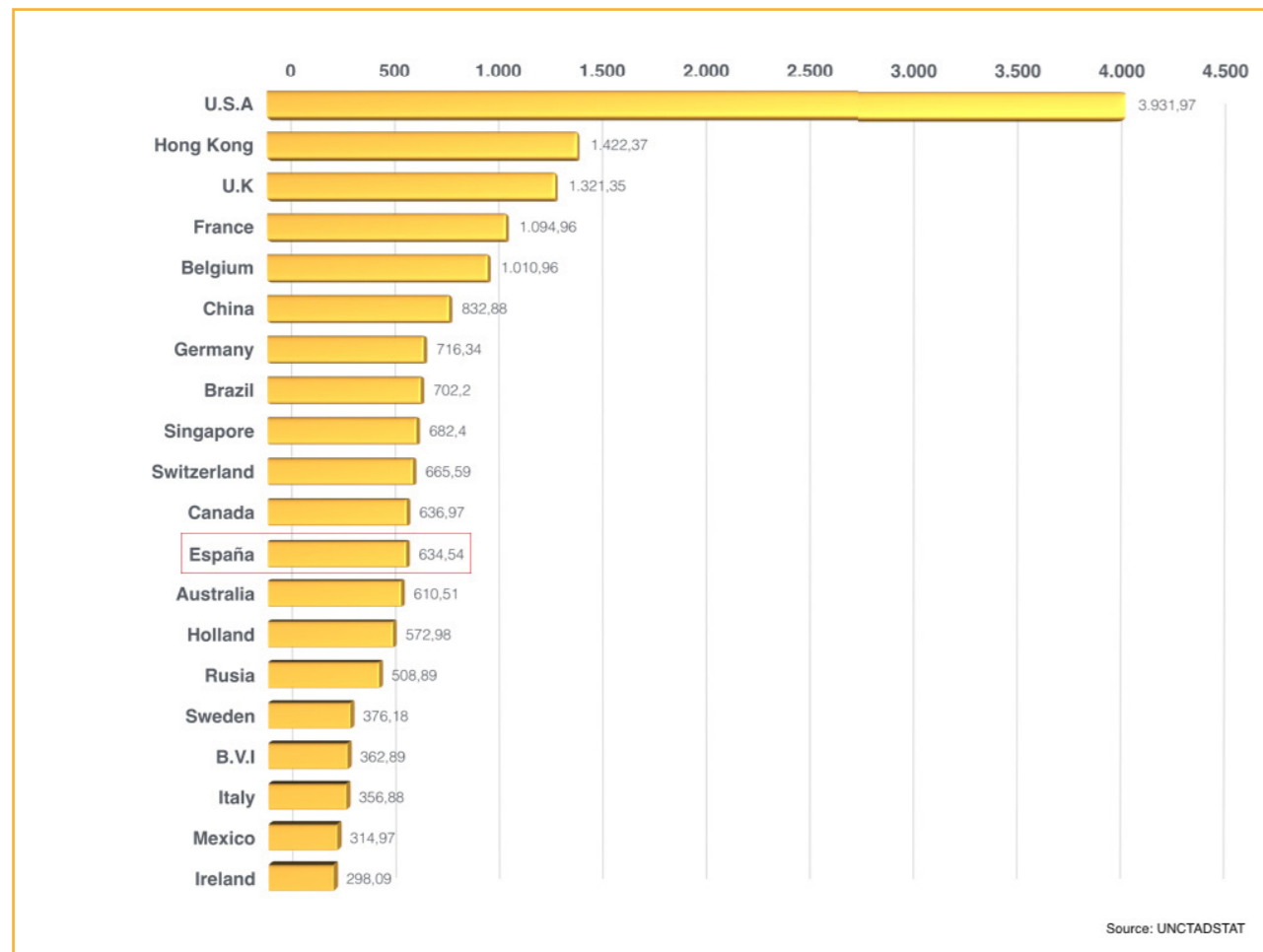
Evolution of the position of Spain as a receptor of FDI flows



After analysing the evolution of Spain's position among the countries with highest cumulative stock of FDI, **Spain has been placed within the top ten countries with the highest cumulative stock of FDI until 2011**, year when it dropped to eleventh, driven by the fall in FDI inflows received.

“In 2013 there was an important recuperation of the productive IED, net and gross”

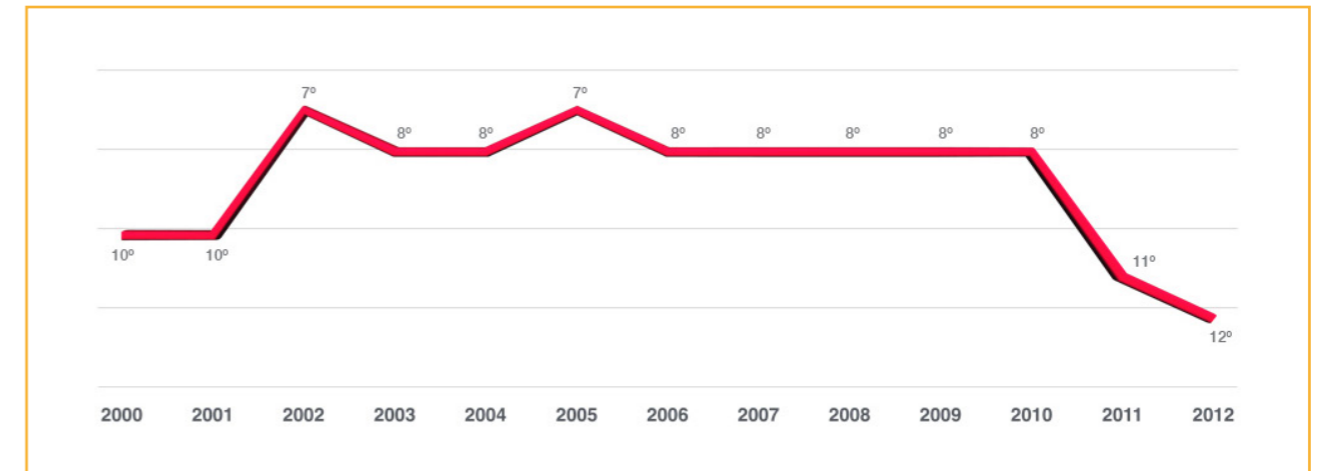
Accumulated FDI stock in 2012 (billions of dollars)



“The Spanish subsidiaries of foreign companies were able to maintain employment even during the worst years of the economic crisis our country has suffered”

This geographical comparison allows to see how Spain is located among the world's largest receptors of foreign direct investment.

Evolution of the global position of Spain regarding the cumulative stock of FDI



2.5.2

Temporal evolution of FDI flows in Spain

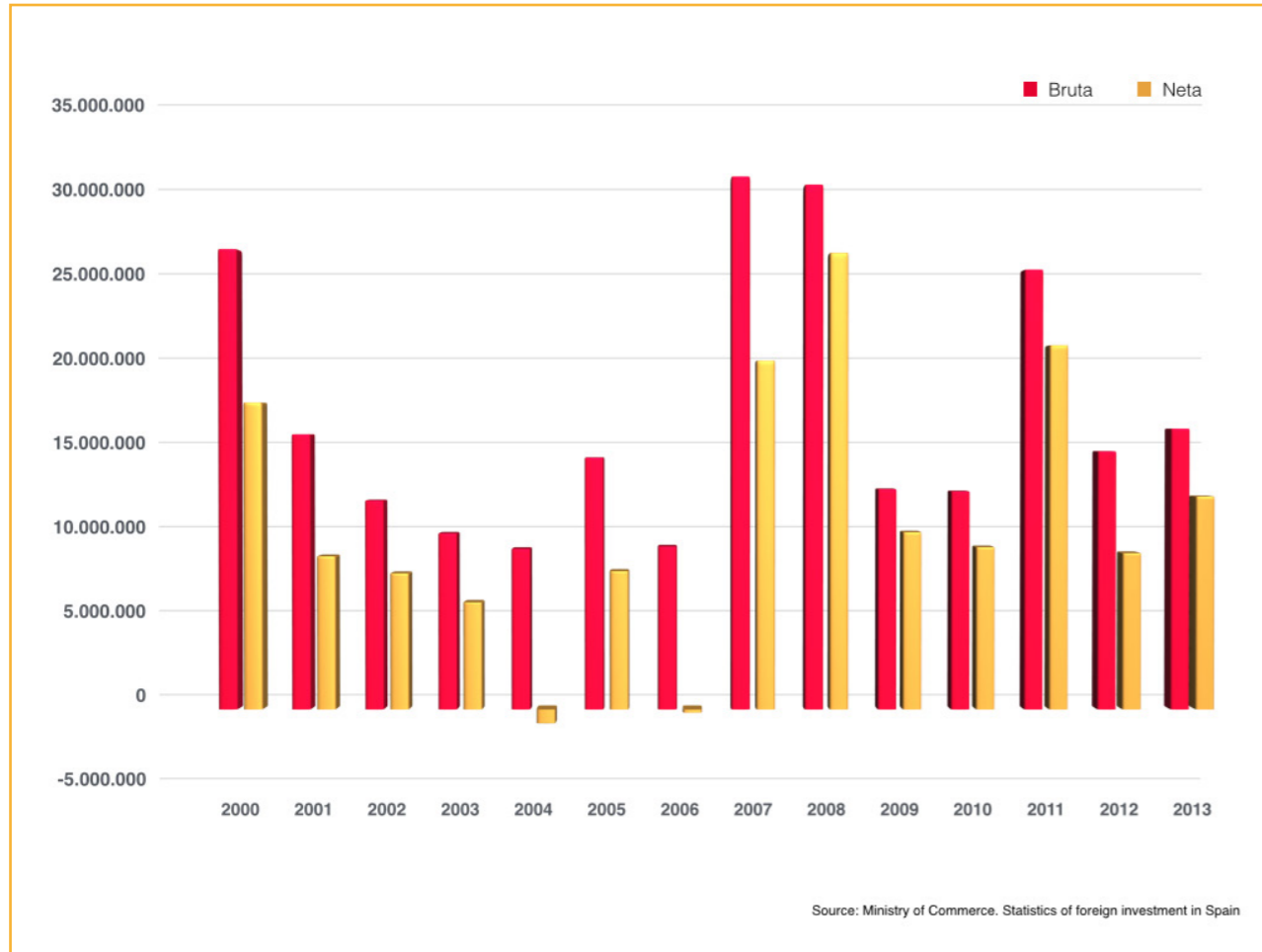
The FDI received by a country can be classified under two main categories:

- Productive investment or not ETVE (short-name for Entities Holding Foreign Securities)
- ETVE Investment, are holding companies whose primary purpose is to facilitate the development of tax optimization strategies.

Zooming in on the analysis of productive investment (not ETVE), which is what actually creates jobs and wealth, and using national sources of information⁸, it can be seen how in **2013 there has been a significant recovery in gross FDI flow for the year 2012**. In 2013 the flow of gross investment amounted to 15,814 million euros, up to 8.8% over 2012.

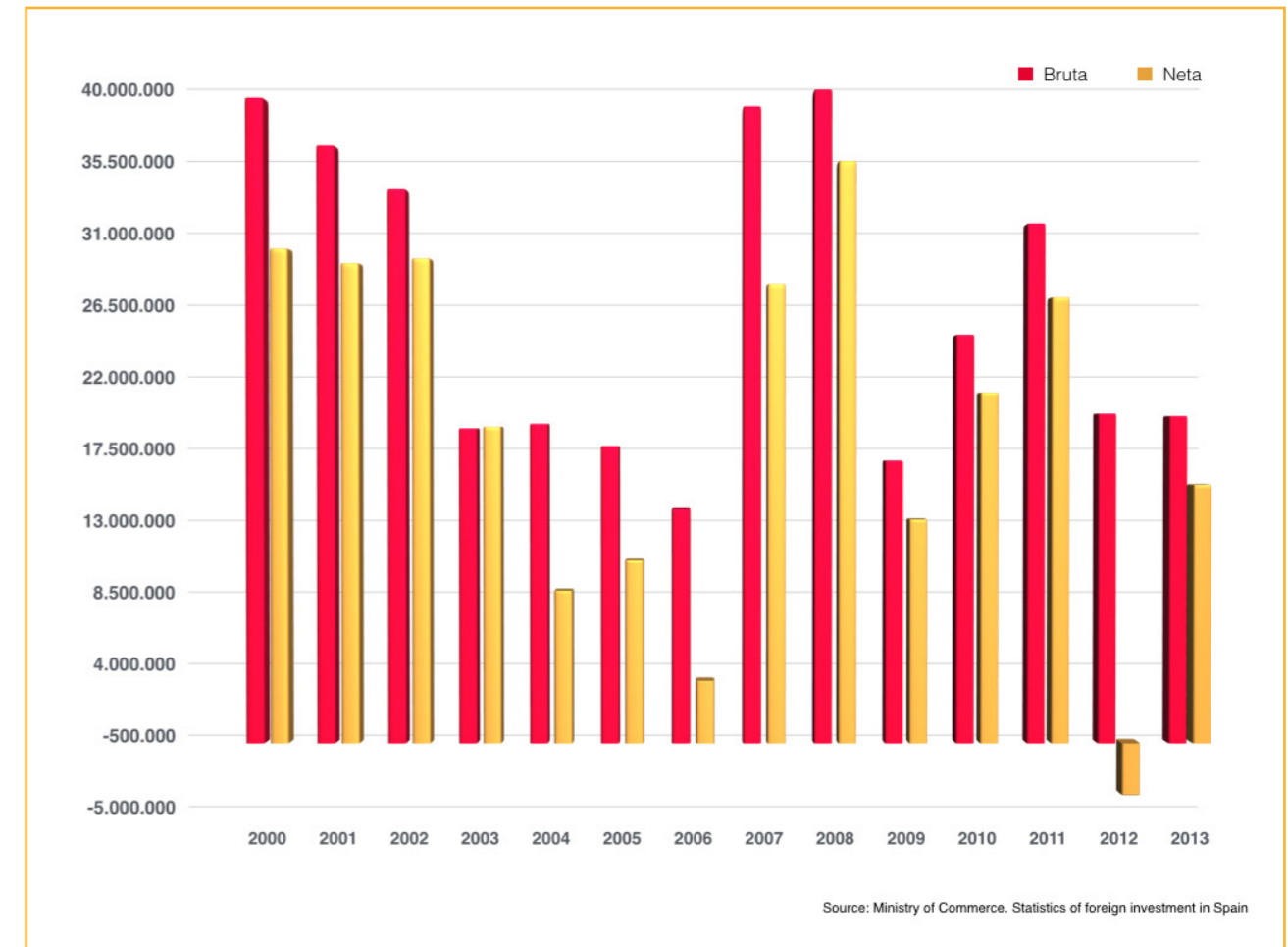
Taking into account the **net flow of productive investment**, which accounts for the flow of gross investment minus disinvestments made in the same period, **a notable advance is also perceived compared to 2012 (36.2%)**, reaching 12,000 million of euros.

Evolution of productive FDI flow in Spain (gross and net)



Regarding both types of investment (ETVE and not ETVE), the overall gross FDI in 2013 dropped by 0.7%, weighed down by the sharp decline in ETVE investment (-27.9%).

Evolution of FDI flows (ETVE and not ETVE) in Spain



“In Spain, 10% of the innovative companies are companies with foreign capital. In the case of large companies this percentage rises up to 32.8%”

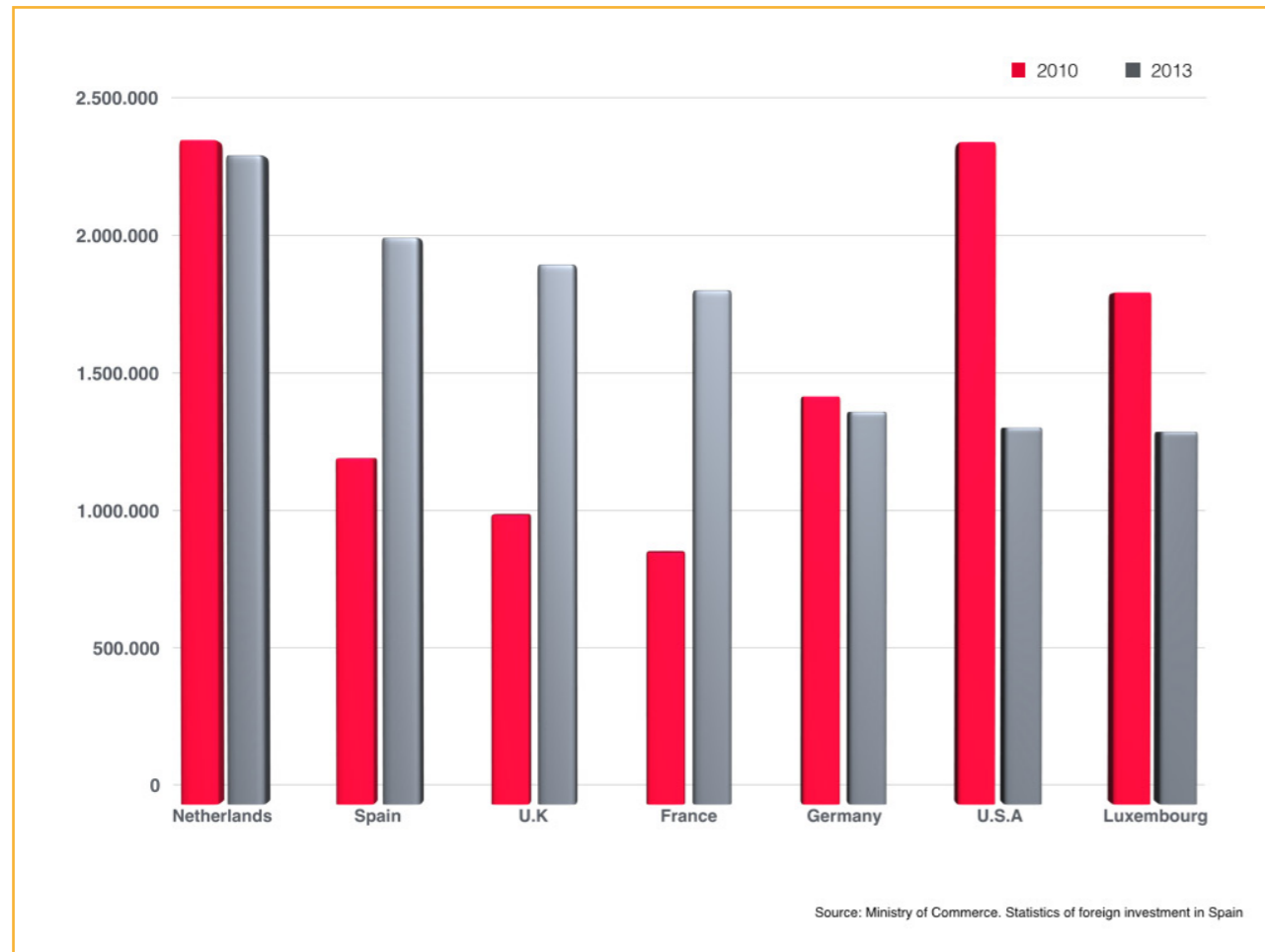
Two main conclusions can be drawn from analysis of these graphs:

- **Productive investment (not ETVE) has grown significantly in 2013**, reaching the second highest number in the last five years, which shows an increase in the confidence of foreign firms in our economy.

- **On net terms the growth of productive investment has been even more prominent (36.2%),** demonstrating that not only foreign companies have invested more, but they are doing it with a clear vocation of permanence in our country.

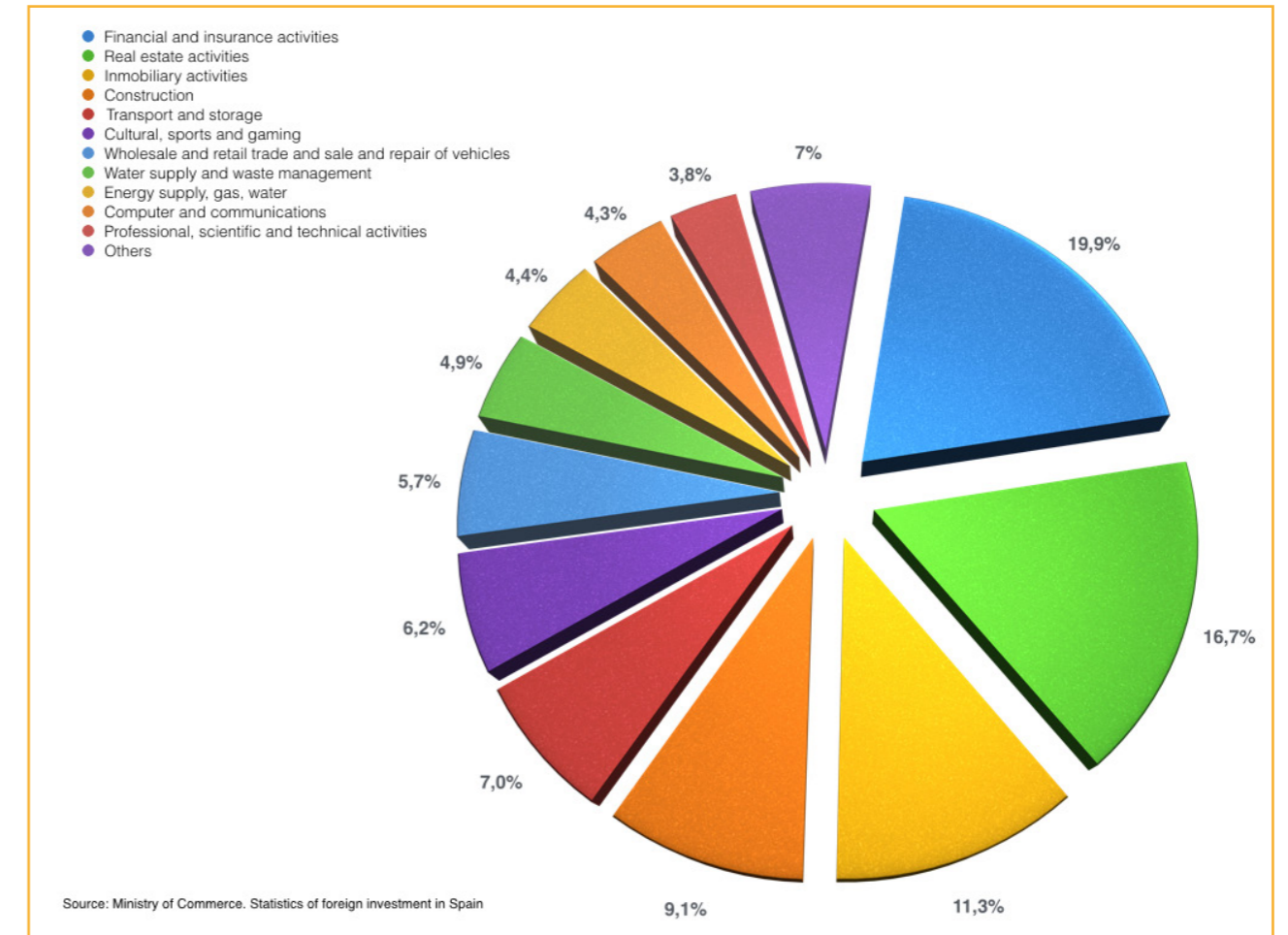
From a geographic perspective, and taking into account the latter country from where the investor comes, it is found that **90.3% of gross productive FDI comes from OECD countries**, with the Netherlands, Spain (in what is known as Circular investment, investor from abroad whose ultimate owner is a resident in Spain), UK, France, Germany and the United States being the main investors.

Main countries with origin of FDI gross production



As it can be seen, the countries of within the European Union context (United Kingdom, Netherlands, France and Germany) have maintained and even increased their investments in Spain in 2013. Conversely, investment from the United States has suffered a significant decline in the last year. The countries within our immediate surroundings are regaining confidence in our economy and significantly increasing its investment in Spain.

Distribution of gross productive FDI in 2013 by sector

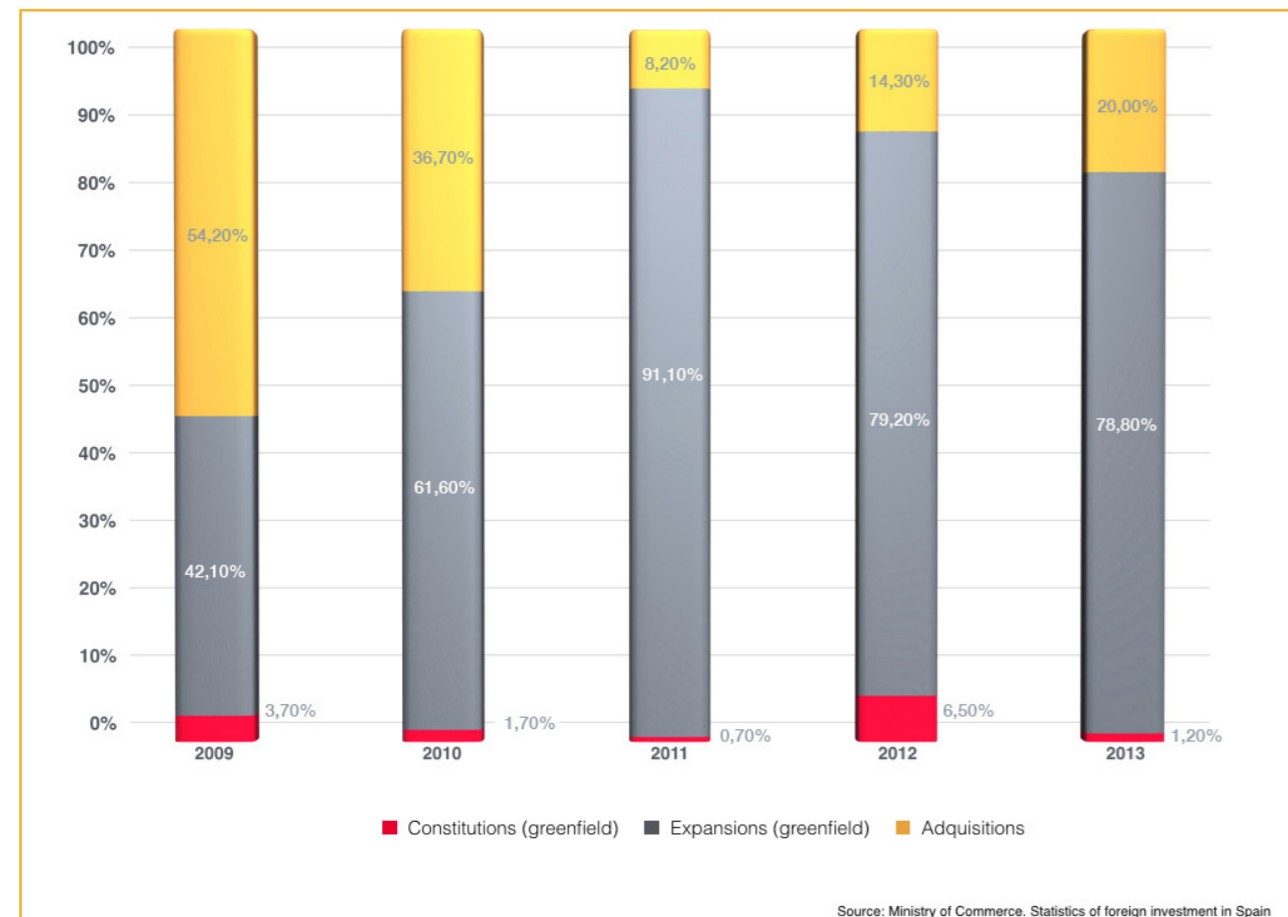


To complete the analysis of the contribution of foreign companies in the form of direct investment it is worth to highlight the business sectors that have been benefited by the investment.

Financial and insurance activities account for almost 20% of the gross productive FDI in 2013. Investment in such activities increased by 41.9% compared to 2012. The industrial sector also accounts for much of the gross FDI productive, although in this case there has been a significant decline in 2013 over the previous year (-38.6%). The third most productive sector attracting gross productive FDI is real estate, which has grown in 2013 a significant 66.7%. The three sectors reviewed were able to attract 47.9% of gross productive FDI in 2013, with nearly 7,600 million euros.

2.5.3 Types of productive investments

Types productive operations gross FDI



Within the productive FDI (not ETVE), investments can be aimed at the formation of companies, the purchase of new shares or purchase of existing shares. The first two cases (called **greenfield operations**, as discussed above), **are having a greater impact on production and job creation in 2013, and accounted for 80% of productive investment**⁹. The percentage of investment in greenfield operations in the past four years has been above 60%, demonstrating again the willingness of foreign companies to invest in wealth-producing projects in Spain.

2.6 Employment generated by foreign companies in Spain

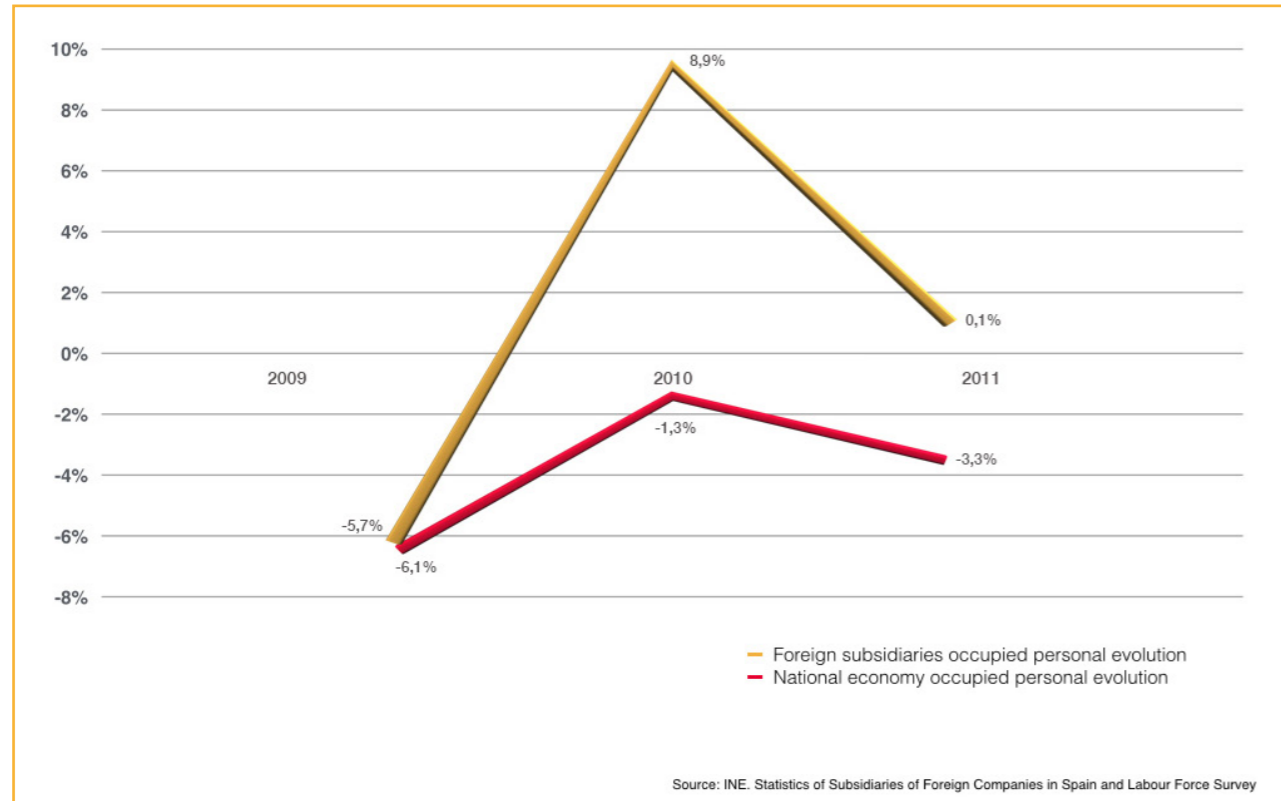
One of the main purposes of investments by foreign companies in Spain is the creation of new jobs. In this regard, the stock of employment generated by foreign direct investment in 2011 reached 1.24 million.

Evolution of employment of foreign subsidiaries



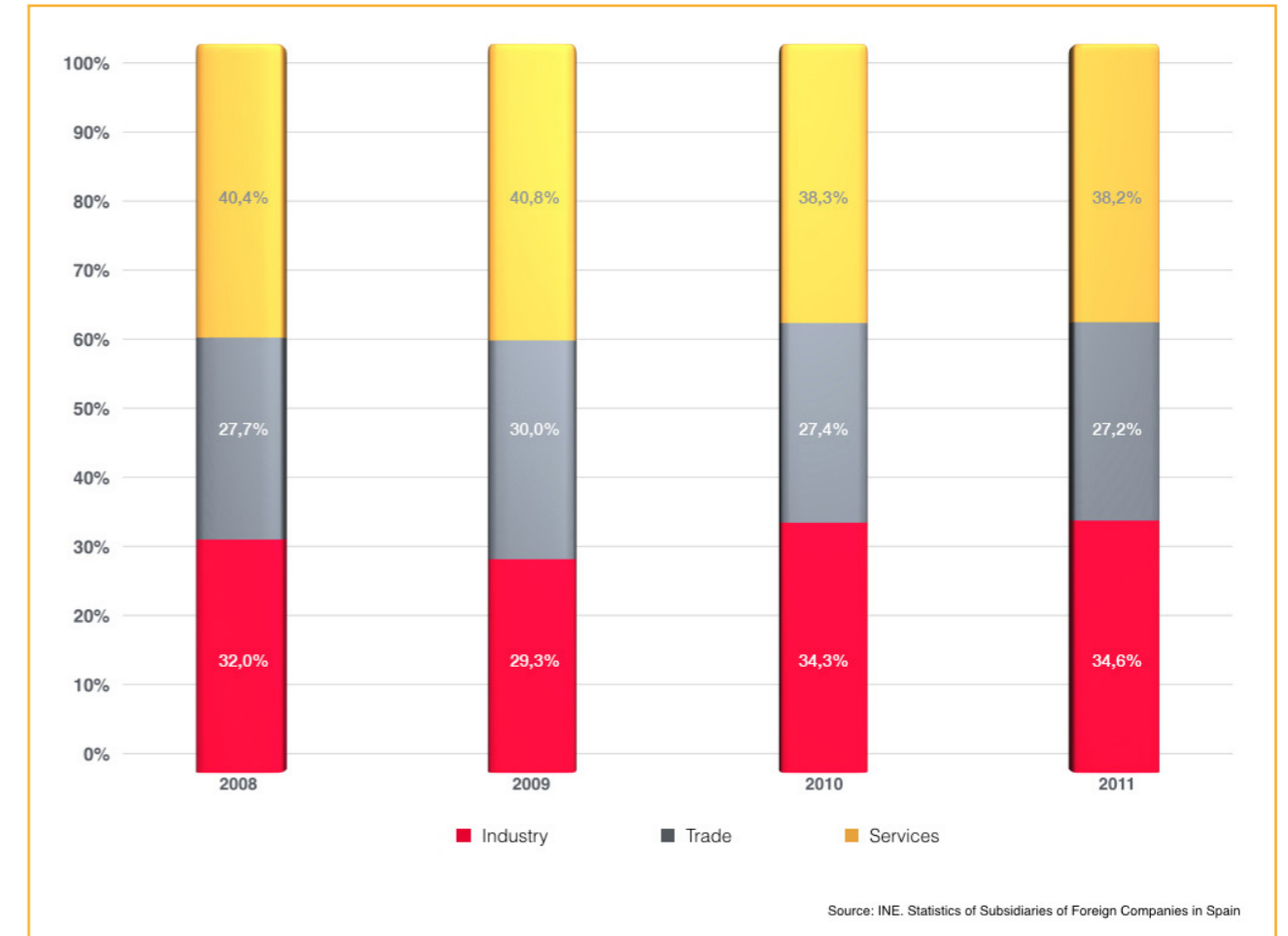
Considering the amount of people employed by subsidiaries of foreign companies in Spain, it can be found that this indicator has not stopped growing until 2011 (last data published), increasing its weight in the total number of people employed by companies operating in our country.

Employment growth rates of foreign subsidiaries vs national economy



Subsidiaries of foreign companies have managed to maintain employment, even in the worst years of the economic crisis suffered by Spain. In fact, if the evolution of employment in foreign subsidiaries is compared to the evolution of employment in the national economy it can be seen a far better employment behaviour in foreign subsidiaries.

Evolution of staff employed by sectors



“In Spain, 12.4% of the companies that develop I+D activities are companies with foreign capital. In the case of large companies this percentage rises up to 34.5%”

While at national level there has been job losses in the three years considered (2009, 2010, and 2011), foreign affiliates were able to recover the decline experienced in 2009, surpassing the volume of persons employed in 2008.

To complete the description of the employment generated by foreign affiliates in Spain it is worth analysing the distribution of such employment by business sectors. The evolution of the staff employed by sectors indicates a slight increase in the weight of employment in the industrial sector to the detriment of the service sector.

From the analysis of the previous graphs, it is apparent **a stabilization of employment in foreign affiliates operating in Spain**, where the impact of the economic crisis in terms of job losses has been much more moderate than in the rest of the economy. **Foreign companies have managed to keep their employees occupied at the start of the crisis**, helping to minimize the overall impact of the economic crisis on employment.

2.7 Innovation of foreign companies in Spain

The last indicator that will help to quantify the contribution of foreign firms to the Spanish economy is their degree of innovation.

An innovative company can be described as the one that launches a series of innovative activities (product, process, organizational, marketing, etc.) under various forms (internal scientific research and technological development, acquisition of external R&D, acquisition machinery, equipment, hardware, and advanced software, acquisition of other external knowledge, training, introduction of innovations in the market, other preparations for production and/or distribution) in order to improve the output of the company.

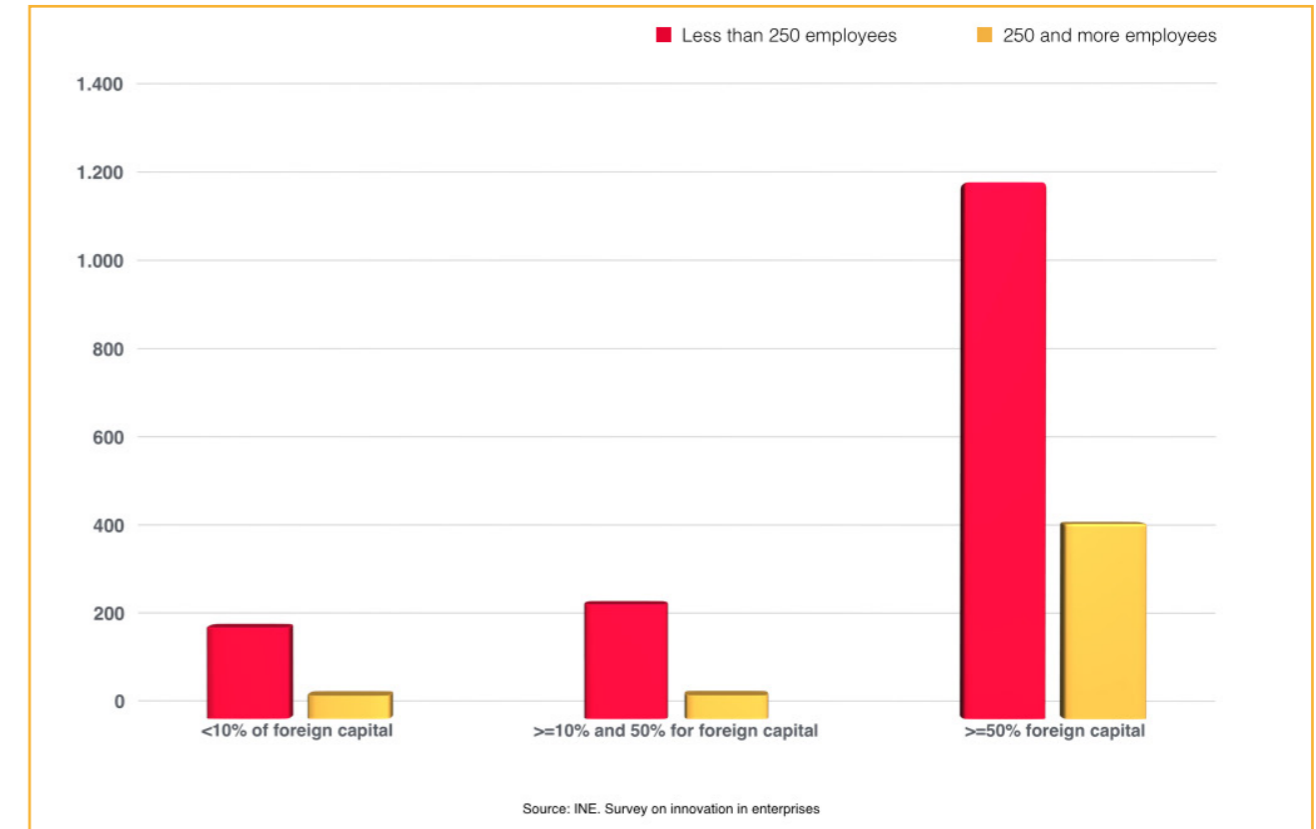
According to the National Institute of Statistics, in 2012 there were in Spain a total of 20,815 innovative companies, of which 10.2 % were companies with foreign capital (2,218). This means that **14 % of companies with foreign capital are considered innovative companies**.

One characteristic that deserves to be highlighted is that **the increase in the participation of foreign capital means an increase in the number of innovative enterprises**, giving an idea of the importance of innovation for foreign companies operating in Spain.

The weight of innovative companies with foreign capital to the total innovative companies in Spain differs considerably depending on the size of the company. So while SMEs with foreign capital accounted for

8.3% of innovative SMEs in our country, **large companies with foreign capital account for almost one third of large innovative companies** (32.8%). Therefore it can be concluded that the larger the company and the highest percentage of foreign capital, the greater number of innovative companies.

Innovative companies with foreign capital by company size



Regarding the total numbers of large companies with foreign capital, 62.8% of them can be considered as innovative¹⁰.

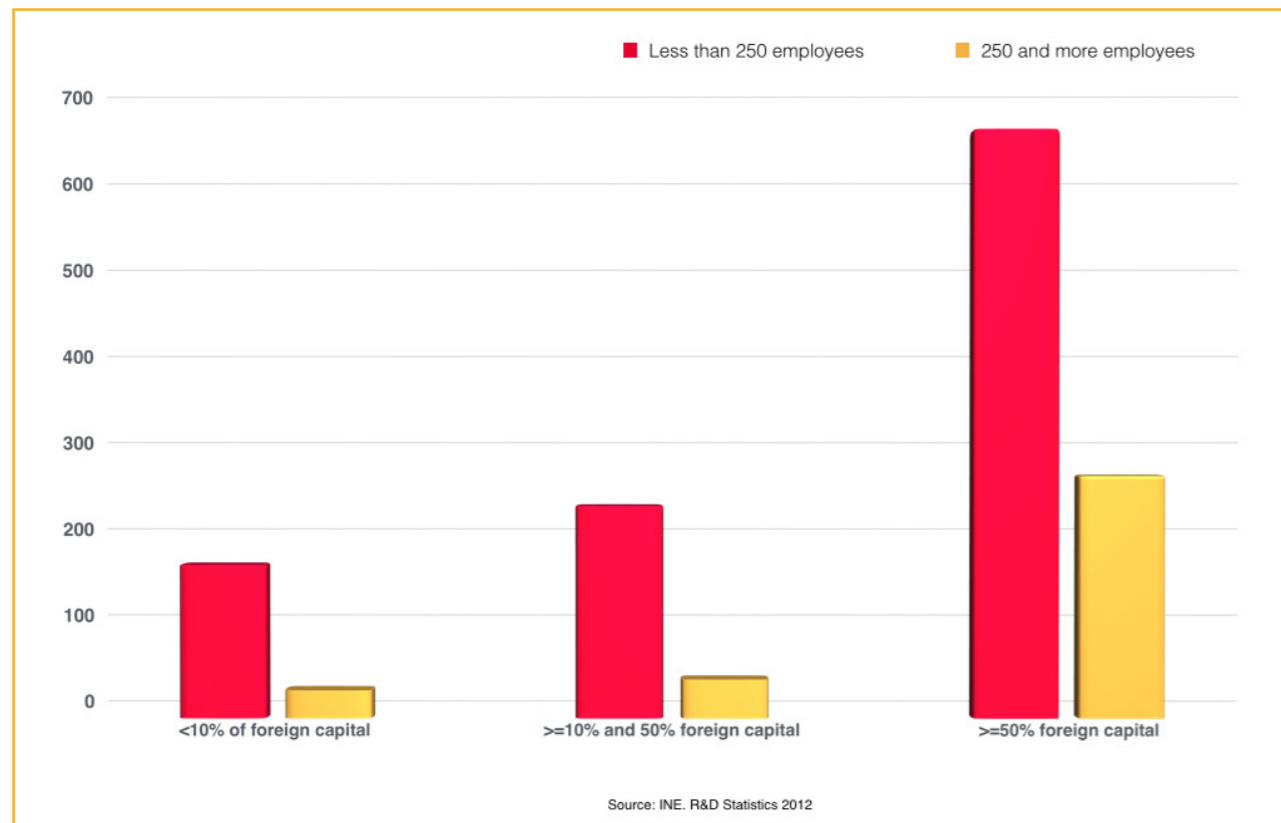
The research and development activities are especially important within the innovation process. In 2012, there were 11,213 companies in Spain performing R&D. Of these, 12.4% (1,391) had foreign capital.

As in the case of innovative enterprises, the increase of the firm size and the foreign ownership capital positively influences the number of companies performing R&D. Considering SMEs that conduct R&D,

those with foreign capital represent 10.3% of the total. **For large companies, 34.5% of all companies involved in R&D have foreign capital.**

Once again the important role of foreign firms is shown in their economic contribution to Spain, in this case regarding an essential aspect for future economic growth like investment in R&D. Although they represent a very small percentage of all companies operating in Spain, their participation in the Spanish R&D area is very important.

Companies doing R&D with foreign capital, by company size





CONCLUSIONS OF THE STUDY

Based on the above analysis it can be concluded that:

- The contribution of foreign firms to the Spanish economy has maintained and even increased in the years of economic crisis our country has experienced.
- The number of affiliates of foreign companies in Spain has grown steadily in recent years, demonstrating the interest of these companies to participate in our economy.
- Subsidiaries of foreign companies generated 26% of the turnover of our country in 2011, growing at an annual rate of 3 % between 2008 and 2011.
- In 2012, 278 foreign direct investment projects (FDI) were launched, making Spain the third European country in number of FDI projects.
- Spain was in 2012 the fourteenth world economy with most FDI inflows (27,750 million dollars).
- In 2013, gross productive FDI reached 15.814 million euros, 8.8% more than in 2012.
- Foreign investment in Spain has enabled the creation of 1.24 million jobs. Subsidiaries of foreign companies in Spain have managed to maintain the level of employment despite the severe economic crisis that Spain is suffering.
- The percentage of innovative enterprises with foreign capital is very important (10.2%). For large companies this percentage rises to 32.8 %.
- The percentage of firms that perform R&D that have foreign capital is also outstanding (12.4%). In the case of large enterprises it can be seen again how the percentage increases markedly, reaching 34.5%

These summarised figures demonstrate the important contribution of foreign firms to our economy, which has remained stable despite the economic crisis and has shown encouraging signs of growth in the coming years. To do this, the consolidation of a stable institutional and regulatory framework, that does not create an obstacle for FDI, seems essential.



ABOUT MULTINATIONAL COMPANIES FOR MARCA ESPAÑA

This is a platform integrated by multinational companies from all sectors of business that have an office in Spain. It aims to promote, from within the world of business, public support of Marca España while spreading within the business organizations themselves the perception of our country as an excellent investment target. It promotes awareness of the role played by multinational organizations in the growth and sustained development of Spain, and works towards making our country a supportive environment for multinational companies.

1. It brings together multinational companies from different business sectors operating in Spain and who wish to show their commitment to the Spanish society and to Marca España.
2. It aims to work in three main fields: cooperating actively in the support of Marca Spain, cooperating in the promotion of our country as a target for the investments of multinational companies, and work towards making Spain a supportive environment for multinational companies.
3. It promotes the cooperation with Spanish public administrations to:
 - further Marca España and uphold the common interests of the country.
 - bring to the attention of public Administrations the aspects bearing on the decision making of multinational firms which position Spain as an investment target that guarantees the development of their activities.
4. It promotes the image of Spain within multinational companies to enhance the perception of the country as a target for future investments due to its political and social stability, high quality of life and competitiveness
5. It promotes the awareness of the role multinational companies play in the growth and sustained development of the Spanish economy.

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Plaza de Castilla, 3 | 28046 Madrid - España | Teléf.: +34 917 895 800
informacion@multinacionalesmarcaespana.org
www.multinacionalesmarcaespana.org