



# Transports, communications and logistics

## Going to America a hundred years after

ANDREU ULIED  
MARISSA ANGLARILL

This article is a story of infrastructure concessionaires, building companies, engineering firms, operators, public research centres and consulting firms diversifying and opening new markets abroad.



Acknowledgements: David Díaz, corporate director of Abertis; Mateu Turró, associate director of the European Investment Bank (until 2009) and currently full professor of Transport at the UPC and scientific director of CENIT; Pere Lleonart, director of GEE; Joan Verbon, international development director of GPO SL; Meritxell Font, urban mobility project coordinator at MCRIT SL.

## Infrastructure concessionary companies

There is no industry in which Spanish companies take such an international leading position as transport infrastructure, communication and logistic concessions, reminds David Díaz, corporate director of Abertis, a financial expert with a long experience at “la Caixa”.

This is the first important fact to consider, for a glimpse at the ranking published by *Public Work Financing* will show that of the fifteen companies with most infrastructure concessions in the world, seven are Spanish, involving large building firms and banks: ACS/Iridium, Sacyr/Itinere, Ferrovial/Cintra, Global Vía/FCC-Caja Madrid, Abertis, OHL, Acciona/Necso. They altogether have the majority of infrastructure concessions in the world. There is no other industry in which Spanish companies have such a dominant position at international level, but this degree of internationalisation may seem paradoxical as both infrastructure operation and building are industries in which internationalisation is at first glance more difficult than elsewhere.

### Of the fifteen companies with most infrastructure concessions in the world, seven are Spanish.

«Yes, Spanish companies are going international because they need to do so», goes on David Díaz, «although it actually may seem more difficult than in other industries due to links between building and operation of big infrastructures within each country's public policies and governments. But Spain is already a mature market for big infrastructures. The level of investment of the last ten or fifteen years will hardly be kept from 2013 or 2014, and companies, especially those having grown most, will need to seek business elsewhere in Europe, America and, whenever possible, also India and China. For instance, Abertis has

operations in Europe and America. We have been there for years. In China it's more difficult, not because you need to go there in a joint venture with Chinese companies but due to excess financial resources they have based on their high savings rates and relatively low prices. It is possible that within some years, China will be an opportunity market for private initiative, but India is currently more open to private participation.»

### The level of investment of the last ten or fifteen years will hardly be kept, and companies will need to seek business elsewhere in Europe, America, India or China.

In the last fifteen years prior to 2008, investment in infrastructure in Spain was above 2% of GDP (gross domestic product) and focused on transport, particularly railway, mostly thanks to EU structural and cohesion funds amounting to over a hundred billion euros. Additionally, Spain saw big financial flows enter thanks to liquidity of international markets as well as real estate and other investment opportunities, and there was even labour migration ending up in most cases employed in building. Thus, extraordinary investment in infrastructure plus residential building boom caused rapid growth of the Spanish civil engineering and building industry within very few years, which tended towards diversification to power, telecommunications, logistics and seaport management as well as urban services. This industry also went international to keep its business pace, once investment in big infrastructures will slow down in Spain in the next years. The 2008 crisis created an even bigger need for internationalisation and opening new markets and led to merger and acquisition processes and business diversification to new industries, particularly energy, also encouraged by subsidies and public support policies, for Spain is the world's second largest solar energy producer and the fourth in wind energy.

«The opportunity of globalising building and infrastructure operation is as financial as technological», reminds David Díaz. «On the one hand, big infrastructures demand large financial resources at a given point; on the other, public authorities in each country hardly have enough funds for increased welfare they provide in health or education, for instance. The finance market is very globalised and there are investment funds like those related to pension plans or insurance companies, with an interest in goods such as infrastructures that offer stable profit in the long term and positive cash flow in the short term. Big Spanish building companies like ACS, a major shareholder of Abertis and Iridium, find a first opportunity for diversification in this field and create companies to run and maintain infrastructures related to financial institutions. While there are green fields (building and running the infrastructure), others like Abertis are rather brown fields (managing an already existing infrastructure). At Abertis, basically an infrastructure management company, our competitive advantage is access to global financial flows under good conditions and knowledge of financial and legal complexity, concession contracts, public-private partnerships (PPP) depending on the legislation of each country as well as our expertise in running and maintaining infrastructures, motorways, car parks, logistic centres and airports. Our internationalisation model is based on a network of companies with a centralised management but operating their daily business independently.»

### **The 2008 crisis encouraged the need for internationalisation and opening new markets and led to merger and acquisition processes and diversification to new industries.**

In fact, the internationalisation process differs according to the industry, be they concessionaires, building companies, logistics and distribution services or rolling stock manufacturers. While big car makers have been multinationals

for decades (they manufacture and distribute globally to optimise their costs), companies in the building industry and infrastructure operation do their business rather through networks of multilocal companies as goods and services provided – infrastructures – are by definition local. Spanish companies in the industry therefore tend to rely on local companies to carry out their building works or infrastructure or service management, creating in practice multilocal networks that may also have different organisation models. While Abertis creates different companies or integrates them into the group of already existing enterprises, in the case of **COMSA EMTE**, the biggest Catalan building company, it is decentralised with different delegations in each country composed of local staff.

### **Spanish companies tend to rely on local companies for building works or infrastructure or service management and create multilocal networks.**

International passenger transport and logistics operators have been emerging with a more or less direct relation with building companies and infrastructure operators. In Europe, progressive liberalisation and integration of the transport markets has opened the doors for new operators in road, air and rail transport, though the latter at a slower pace, in order to provide new services demanded by the market. The big transport operators can be considered international rather than multinational (e.g. car makers) or multilocal companies (e.g. building companies and infrastructure operators) as they provide services with an international or intercontinental scope that only make sense in global markets. The corporate evolution, growth and development rationale of these companies is also singular: international logistics operators tend to grow integrating transport modes to offer door-to-door services to their customers or specialising by customer type.

«In infrastructure operation we are growing especially based on public tender», David Díaz explains, «so it's difficult to have a very accurate programme by goals, although we have strategic goals at Abertis as an orienting guide set out for five years. We couldn't acquire the Pennsylvania Motorway, which was a 12.8 billion euro business. Integration between Abertis and Atlantia didn't come about due to basically political reasons because transport infrastructures are a strategic investment with a strong national component. It's true that we sometimes miss bigger political involvement in the high spheres as the French or even the Italians have, but in the end there is usually a tender, which is transparent based on its size, despite political pressure. Also, the interest of business concentration in infrastructure operation is not clear precisely due to its multilocal structure, but what is clear is that integration can provide a competitive advantage for transport operators.»

### **We sometimes miss bigger political involvement in the high spheres as the French or even the Italians have, Abertis claims.**

It is difficult to follow the development of the industry from outside. For instance, nine-digit euro contracts are cancelled overnight due to lack of trust of lending banks, and in times of crisis one can find from motorways by Sacyr in Andalusia to airports by Ferrovial in the UK. ACS is getting rid of its port business in Mumbai, according to specialist media, affected by the reduction in maritime traffic in the last two years, and wishes to sell Dragados Servicios Portuarios and all its port business with a debt above half a billion euros to focus on the energy industry, where it is already a major shareholder of Iberdrola, as Sacyr is of Repsol.

Due to a recent change in legislation regarding decision-taking mechanisms of management boards of companies, ACS may be

interested in reducing its shares in Abertis, some experts say, to focus on Iberdrola. In this respect, I ask David Díaz in how far can innovation be a competitive advantage in the internationalisation process of building companies and infrastructure operators.

### **Research and technological and scientific innovation will be a competitive element to obtain concessions and manage them efficiently.**

«It's obvious», he answers, «that we have a need for innovation and research, but the truth is that it's very difficult in the industry to monetise it in the short and medium term due to the great singularity of each infrastructure we run and tight public regulation. From a technological point of view, applying new information and communication systems to the infrastructure will of course pose new challenges to operation: for instance, price systems will radically change in the short term due to a shift from fuel taxation to use taxation. In fact, the toll concept will disappear: in a way, all transport infrastructures will be subject to toll, although teledetection systems will spare us from stopping to pay. The concept of payment per use is straightforward as an efficiency criterion: infrastructures need to be paid by users rather than taxpayers, and they need to be run and maintained through charging users rather than the government budget.»

However, as we said before, every project in this industry is singular, subject to the circumstances of each moment or country. According to the Extraordinary Infrastructure Plan that is being discussed right now in Spain, governmental payment to concessionary companies would not depend on the number of users following financial problems many concessionaires have had in Spain due to traffic reduction in the last years. Thus, rather than medium and long-term social and economic

profitability of public investment – related to its financial sustainability – based on the number of users and the service they get, the plan seeks especially the impact of public works on job creation and economic recovery.

So according to David Díaz, financing and conditions for access to credit in this economic context are of paramount importance for concession agreements, and reaching them will depend on many specific items, opportunity factors difficult to systematise. Once the concession contract is signed, operation requires efficient cost and expense management. For instance, in the case of the UK airports run by Abertis, income depends on agreements with low-cost airlines and business done in the terminal, all of which at extreme competitiveness and variability. Research and technological and scientific innovation will in the medium term be a competitive element to obtain concessions and manage them efficiently, so Abertis created at the Polytechnic University of Catalonia the Abertis chair through its foundation and participates in university courses, for instance at ESADE.

An item that could be strategic would be to have a better knowledge of each potential market and establish relational networks because it is true that we could submit a higher number of unsolicited proposals, but even here the truth is that they are not very effective as of now. In the short term, due to the variable and dynamic nature of the industry, universities or external research or innovation centres will hardly be able to provide knowledge that may translate into competitive advantage. The fact is that Spanish companies rapidly went abroad because they were mature and needed to complete their business in Spain with business abroad. «Abertis already had good international relation networks in financial matters, one of the first global markets, thanks to “la Caixa”. So far we have been acquiring knowledge of markets and technological innovation of the network of companies having entered the group gradually, starting with Saba and Acesa», Díaz says.

## Building companies

It is difficult to make any forecast on transport infrastructure companies, Pere Leonart from Gabinet d'Estudis Econòmics states. He is the author of *El mercado internacional de la construcción: retos y oportunidades para las empresas españolas*, a key reference report in the industry. He sent me his own press dossier of the last months, with business news and projects that have probably changed as I am writing this article or will so when this *Paradigmes* issue is published. The Extraordinary Infrastructure Plan is an example.

Reports by the employers' association stated in early 2010 a reduction in investment in infrastructure in Spain, amounting to nearly 30% per year since 2008, by which investment in 2010 will be down to 2005 levels. Public investment in the near future is unlikely to be as high as in recent years. Perhaps it will be done through private financing, like the 2010-2014 Extraordinary Plan, which is currently under discussion and will have a very positive impact on the industry.

### Building companies have been pushed to go international due to diminished public investment in infrastructures in Spain.

This is why building companies have been pushed to go international. Access to foreign markets is not very difficult for big Spanish building companies like ACS, Sacyr, Ferrovial, FCC, OHL and Acciona, all with a large size. In an anticipation of diminished public investment in infrastructures in Spain after 2014, no matter overall economic development, once cohesion and structural funds for Spain are drastically reduced, all big building companies will have internationalised, looking for some specialisation, e.g. railways at COMSA EMTE or urban services at FCC.

ACS is today the biggest company in the industry. 26% of its 15 billion euro turnover comes from international business, whereas this figure was only 17% five years ago. ACS was formed by a process of successive acquisitions of building companies started in 1983 that diversified progressively, especially towards the energy industry, and became highly international. In 2004 it strengthened its position as an infrastructure concessionary with the creation of Abertis, of which it holds one third of the shares, the same amount as “la Caixa”.

Apart from ACS, there were further five building mega-companies with a turnover between 4 and 16 billion euros in 2008 (Ferrovia, FCC, Acciona, Sacyr, OHL), three big companies between 1 and 3 billion (ICC, San José, COMSA EMTE) and around 125 medium-sized companies (30-700 million euros), of which a dozen had a turnover above 400 million. Growth and internationalisation of all these building companies occurred within few years. FCC had only 9.9% of its turnover from international business in 2005 but almost 45% in 2010.

Other big Catalan building companies are Copisa, Acsa-Sorigué and Copcisa, with a turnover between 600 million and 1.25 billion euros. The biggest company is COMSA EMTE with a 2.2 billion turnover and more than 8600 employees. With more than a century experience, it focuses on infrastructure, engineering and systems, environment, services, logistics, concessions and renewable energies. A key area at COMSA EMTE in recent years has been precisely international business. Expansion has led to permanent establishment in many countries, like Spain, Chile, Argentina, Brazil, Mexico, Algeria, Portugal, France, Finland, Poland, Romania and Australia. The company has a turnover in international business above 300 million euros, with strong growth expectations in the immediate future. COMSA EMTE is the eighth largest Spanish company in the building industry.

It is not only the big building companies that are in internationalisation processes. A company from Torredembarra, Vicsan, created in the 1980s by a maintenance supervisor working on the Ebro motorway, expects a turnover higher than 10 million euros from its first projects in Algeria.

## Engineering

Spanish and Catalan engineering companies also started going international. As occurs in the rest of the industry, civil engineering is a hardly global business in relation with car, aeronautical, telecommunications or defence engineering.

Joan Verbon is an engineer with an MBA from ESADE. He is international development director at GPO Ingeniería, an engineering and architecture company specialised in doing infrastructure projects and works supervision. GPO grew rapidly in recent years and has much experience in railway projects, like most Spanish consulting and engineering firms, and wishes now to open abroad, including the US market, where big infrastructure investment is expected in coming years. GPO already created a company in Florida, one of the states with the highest investment that will build the first high-speed railway line in the United States. Joan will be in charge of pushing and managing this subsidiary in its first stage. It is intended to serve other states and the whole Caribbean out of Miami.

«So you're going to America with your family», I tell him, «like Catalans one or two centuries ago!»

«Yes, GPO already set one foot there, but we need to have both to work in the infrastructure investment plan the Obama Administration will probably enact soon. It's not easy to get orders to draft engineering projects in the United States because American firms are not below ours, although they may have less



▲ COMSA EMTE focuses its business on infrastructures, engineering and systems.

experience in railway right now. Also, there are Spanish engineering companies with a delegation in the US and Latin America, like **TYPSA**, **EPTISA** and **IDOM**, among others. In fact, **IDOM** and **SENER** were the first independent engineering firms not belonging to industrial groups that went international, many years ago, and **INECO**, a public consulting and engineering company, is also going for it, having the support of **TECNIBERIA** and **ICEX**, **Talgo** and **Renfe**. GPO has to explore its opportunities, starting with developing a brand image. But how do you develop the brand image of a Catalan engineering firm in the

United States? So far we were clear about how to submit offers to Spanish public authorities, but infrastructure investment in the United States is much more complicated; there is a bigger diversity of public and private companies taking part, different financing modes related or not to maintenance and operation. Nevertheless, we have worked a lot with railway projects in Spain and big infrastructures also in Africa, in Mozambique and Guinea, as well as India and Turkey, and this is probably our biggest competitive advantage. Another are cooperation and trust networks we have with Spanish



building companies and concessionaires. Anyway, we are into internationalisation. We need to go international because large investment in infrastructure as it has been in Spain in the last ten or fifteen years will not come again, so we need to look for new expanding markets.»

**«We have worked a lot with railway projects in Spain and big infrastructures also in Africa, in Mozambique and Guinea, as well as India and Turkey, and this is probably our biggest competitive advantage», they say at GPO.**

Medium-sized engineering companies like GPO, specialised in making projects and works supervision, perhaps generate dozen of million euros and have a hundred or more employees, so their need for internationalisation is big, as occurs with big building companies and infrastructure operators. Of almost 20,000 Spanish companies in the industry, more than 99% are small and medium-sized. They have a strong technological component and in the case of civil engineering, infrastructures and public works, much of their work is done with public authorities. Internationalisation thus requires integration into and providing added value to networks of usually larger companies; it also requires skilled people from the country where a given infrastructure is to be planned, with an expertise in working with the authorities in charge. Although civil engineering companies have more difficulties than other engineering industries, they are the bulk of Spanish engineering firms operating abroad (nearly 77% of TECNIBERIA members). Although civil engineering is only a minor part of international engineering services, which are rather focused on telecommunications, car manufacturing and defence, its relevance is much bigger in Spain, its increase in recent years having occurred thanks to powerful public infrastructure investment policies. Now they are full into internationalisation.

## Public research centres

I ask Mateu Turró, one of the directors of the **EIB (European Investment Bank)** until 2009 and currently full professor at the UPC and one of the scientific directors of **CENIT**, about the impact of the Extraordinary Infrastructure Plan on the economy and the industry. CENIT is a public research centre for transport at the UPC that grew considerably in recent years and is making big progress in its internationalisation.

### The Extraordinary Infrastructure Plan is justified with its effect on employment.

Provided with €17bn, equivalent to 1.7% of GDP (gross domestic product), the Extraordinary Infrastructure Plan is set out as a strategic public-private financing agreement between the government and building companies, banks and public credit organisations like the EIB and the **Spanish Official Credit Institute** to keep the pace experienced in the last years regarding building and infrastructure operation between 2010 and 2014. The plan is justified with the positive effect it shall have on the building industry, one with the biggest multiplying effects on the Spanish economy, which according to employers' associations is able to create between 300,000 and 400,000 direct and indirect jobs during the building period. According to the proposed model, the government pays concessionaires a flat rate during 25 or 30 years as a compensation for their investment as well as maintenance and operation of the infrastructure. This way it is possible that the financial balance sheet for the government, considering the reduction in unemployment costs and tax income from building and operation of the infrastructure is even positive. Companies will obtain relatively low profitability, yet attractive enough due to moderate risk. However, this idea that seems to solve a deep crisis with an ease that would leave even **Keynes** astonished,

needs to be analysed from an overall social point of view, i.e. its socio-economic profitability, as well as its redistribution effects, for instance between given regions or the present and future generations.

### **Building a high-speed railway line to Asturias and Galicia will mean losing much more profitable investments for all of Spain.**

Public accounts are namely not the same as those of overall society. An example that socio-economic profitability can be negative despite that of public finance being positive is the proposed VAT increase. If the plan creates jobs and value and private use of resources is less profitable right now than creating new infrastructures, it can be a good option. However, financial or fiscal tricks, which are mere resource transfers, do not create wealth as there is a winning and a losing side to it. The issue needs to be addressed from the viewpoint of resources available to society. What matters is that public resources are devoted to those contributing most to social and economic development. If the public sector is the one able to provide the biggest return to society through infrastructures, this could be logical, but it is not always the case. What needs to be done in Spain and Catalonia is to start evaluating systematically and transparently the different options of investing resources, which are inevitably limited. Calculations need to be done based on a standard situation and investment alternatives. Building a high-speed railway line to Asturias and Galicia may lift to the post of regional president those politicians having decided to spend a huge amount of money of all Spaniards, but the benefits for some lucky travellers (much below the figure that could justify such big investment) will mean losing much more profitable investments for all of Spain. For if the funds come from an ICO loan, it means that they are Spanish funds diverted from other potential productive investments. And if they come from the EIB

(which can be considered foreign funds), it is obvious that they need to be paid back at an interest that despite being low and require investment to have a higher long-term profitability for society (and ideally for the government) than the interest rate to be paid.

### **The consequence of investing without reasonable priorities are unbalanced infrastructure networks, often with excess capacity.**

Having infrastructures adjusted to needs is fundamental for economic growth, but it is a big mistake to think that the more infrastructures the better. Some are socially more useful than others. Some need to be done before others. The consequence of investing without reasonable priorities are unbalanced infrastructure networks, often with excess capacity and with shortcomings in other cases, and a building and civil engineering industry perhaps oversized or in any case requiring sectorial and geographic diversification and quick internationalisation.

## **Consulting firms**

«Yes, I'm also moving to the United States this summer», Meritxell Font tells me. «My husband has been offered to manage the delegation of the engineering company he works for.»

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This does not seem to be good news for **MCRIT**, the consulting firm specialising in infrastructure investment planning and

assessment studies where Txell works. She has been for years in charge of the company's projects for the European Commission and the European Investment Bank. MCRIT was then an uncommon consulting firm as most of its turnover came from contracts with European institutions and research programmes. Txell had to travel often to Brussels and Lux-

embourg. Now she coordinates urban mobility plans for the Barcelona Province Council and many Catalan town councils.

«Since I'm going there», Txell suggests, «MCRIT could open a small delegation in America, or however they like to call it.» Why not, if everybody is doing so?

#### ANDREU ULIED

Doctor in Civil Engineering from the UPC and MDesS HGSD.  
Director of MCRIT S.L.



#### MARISSA ANGLARILL

Degree in Economic Sciences from the UAB.  
Specialist in international trade registered at COPCA and promoter of research projects.  
Expert in international trade at MCRIT S.L.

