

ISSUE

2

JANUARY 2007

# Trade Line



Guggenheim museum  
in Bilbao

**SPAIN: THE KEYS TO UNDERSTANDING  
THIS COMPLEX COUNTRY**

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**RUSSIA: HOW TO NEGOTIATE, SPECIFICS AND RISKS**

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**HOW TO SECURE TRADE RECEIVABLES**

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**coface**

YOUR TRADE RISKS, UNDER CONTROL.

# and how why

*Einstein said that theories should be "as simple as possible but no simpler". Likewise, economic analyses must be wary of reducing complex situations to summary explanations.*

*This common sense remark applies to Spain - which has managed to combine modernity with tradition - even more than to any other country.*

*Companies working or looking to work on the other side of the Pyrenees must not only consider the character of the Spanish people, but also the characteristics specific to regions with ever greater decentralised power. Trade Line attempts to provide a few clues.*

*The second part of this issue explains how important it is to understand Russia's local specificities in order to negotiate successfully.*

*You will also find a brief report that shows how Coface helps companies secure their trade receivables.*

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# SPAIN: THE KEYS TO UNDERSTANDING THIS COMPLEX COUNTRY



*Formerly, Spain used to be the land of “La Patria”, unitary and authoritarian; today it is a State of autonomies and pluralities. It remains steeped in tradition, and yet bubbles with modernity. Hierarchy certainly still dominates company life but democracy is being invented in this spontaneous society. To pierce this complexity, Trade Line has chosen to compare several viewpoints.*

By **Olegario Llamazares**, economist  
and CEO of Consultancy Global Marketing Strategies

## General information and specific lessons

If I had to choose a single character trait to describe the personality of the Spanish, I would opt for pride and guarding of their honour. So if I had to give just one piece of advice to company managers wanting to work in Spain, I would tell them: “Be careful not to offend their pride”. When a Spaniard takes a stand, it is difficult to persuade him to change his mind, if only as a matter of pride. If he retracts and changes his mind, we would use the expression “dar el brazo a torcer”, i.e. having his arm twisted. This gives an idea of the effort it takes!

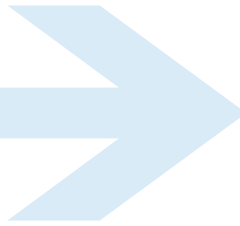
Not offending your partner is a necessary but obviously not sufficient prerequisite. Anyone wishing to penetrate the Spanish market must understand all sorts of realities concerning both the company environment and negotiation strategies.

### THE COMPANY ENVIRONMENT

- In recent years, Spain has developed at a faster rate than other European countries, although the level of wealth and development

remains lower than the most advanced countries in the European Union.

- In Spain, development does not have a traditional north-south divide but rather an east-west divide. The eastern part of the peninsular (Catalonia, Aragon and Valencia) enjoys the best growth prospects in the country.
- The regions - autonomous Communities - are having increasing influence in the Spanish economy, since the central administration has transferred a great number of responsibilities



“ES MUY LISTO”  
IS NOT  
A COMPLIMENT

to the regions. Most of the communities have bodies whose aim is to promote foreign trade and attract foreign investments.

- The two most important business centres are Madrid and Barcelona. Madrid is the financial capital, home of the big businesses in the construction, energy and general services sectors. In fact, it harbours over 50% of Spain's foreign investments. As for Barcelona, it is the country's industrial capital (car-making, chemicals, pharmaceuticals, heavy machinery, etc.) and new technology.
- We can also distinguish strong regional specializations (furniture and footwear in Valencia, machine tools in the Basque country, foodstuffs in Andalusia, wine in Rioja and in the Castilla-la-Mancha province, etc.). This geographical concentration facilitates commercial strategies for foreign companies setting up in Spain.
- Spain's leading industry is tourism which represents over 10% of GDP. Spain is the world's second major tourist destination after France.
- With expansion of the European Union, Spain is the country that has suffered the most from the new allocation quotas of EU funds and assistance offered to businesses. Spain, that up until now has received a large slice of these funds, will become a net contributor in a few years' time.
- Spain benefits from foreign investments and welcomes multinationals. Very few Spanish companies have international scope at the moment although the number is on the up and up. The main areas in which such companies are choosing to settle are in other EU countries or Latin America.

**NEGOTIATION STRATEGIES**

- In Spain, a network of personal contacts is vital for doing business. It is preferable to be introduced by a person you already know, particularly if you are planning to set up a fairly large-scale project. Once contact has been established, you must continue to groom the new relationship and devote time to it. You should visit your new contacts in person or speak to them on the telephone rather than write letters or send e-mails.

- The Spanish show great enthusiasm for foreign goods and do not promote very many “Made in Spain” products. They consider, however, that their country is the best in the world in terms of quality of life.
- Meetings must be fixed at least a week in advance and confirmed one or two days before. It is better to try and arrange meetings with people as high up as possible in the company's hierarchy. Secretaries are the key to attaining this.
- The Spanish are not particularly well-known for their punctuality. However, you should never arrive too late. In general, meetings begin about 10 minutes later than the time agreed. Cynics say that only bullfights and funerals start on time!
- A meeting usually starts with an informal discussion about your trip, the weather, the traditions of the country or an item in the news, leaving little scope for more serious conversation. During the first interview, the two parties get to know each other and study the various possibilities open to them. The terms of the agreement are rarely negotiated right from the first meeting.
- Perhaps due to their lack of confidence or natural reserve, the Spanish are reticent in giving detailed information about their company, the sector in which they work or their competitors. You should avoid asking this type of question directly as it will only incite the Spanish party's mistrust.

**GENERAL INFORMATION**

<b>Population:</b>	41.2 million
<b>Surface area:</b>	505,990 km2
<b>State organization:</b>	Constitutional monarchy
<b>GDP per inhabitant (PPP):</b>	£20,320
<b>Currency:</b>	Euro (€)
<b>Official languages:</b>	Spanish, Catalan, Galician, Basque and Valencian in the Autonomous Communities of Catalonia, Galicia, the Basque Country and Valencia
<b>Business language:</b>	Spanish, English and French (in Catalonia and the Basque Country)
<b>Religion:</b>	Catholic (95%)
<b>Capital:</b>	Madrid (3.1 million inhabitants)
<b>Principle cities:</b>	Barcelona (1.7), Valencia (0.8), Seville (0.7), Zaragoza (0.6), Malaga (0.5), Bilbao (0.4)
<b>Telephone dial code for Spain:</b>	34
<b>Internet code:</b>	.es
<b>National Holiday:</b>	12 October

“LAS PRISAS”

- Some Spaniards are suspicious of extremely well-prepared people or those who give the impression of flaunting their knowledge. The double meaning of the expression “Es muy listo”: “he is very intelligent” and “he is crafty” reflects this attitude. Better therefore to be modest.
- The atmosphere of negotiation is relaxed although formal. The Spanish will become serious when negotiating key issues but will be more relaxed and cordial during the rest of the conversation. They do not hesitate to show humour and crack jokes even with people they hardly know.
- Argumentation is an essential stage in the negotiation process. This is why Spaniards will adopt a passive attitude to start with, becoming increasingly animated as the conversation progresses until they have completely monopolized the floor. When this happens, you will have to be firm and not hesitate to interrupt the person talking; if you do not, it will be taken as acquiescence. In Spain, it is widely believed that the more you talk, the better you are defending your position.
- The Spanish like to give advice and are eager to point out flaws in the other party's discourse. You must not show offence and even less enter into an argument.
- Hagging is frowned upon in commercial negotiations. It is usually wiser to accept two or three compromises whose importance will depend on the objective to be reached. This is why it is necessary to plan for possible concessions right from the beginning.
- The practice of hagging actually depends on the region in which the negotiations take place. While this practice is quite widespread in Mediterranean areas (Catalonia or

Valencia), it is not much used in the north (Basque country and Galicia).

- The decision-making process is slow and very hierarchical. Most of the decisions - particularly if they affect new suppliers or associates - are taken at the top of the hierarchy. Even if the CEO of the company has delegated others to carry out the negotiation, he/she is still the final arbiter and must be kept informed of the outcome of discussions.

- It is useless to put pressure on the other party to try and accelerate the negotiation process. It is said that “las prisas son para los malos toreros y los ladrones”, i.e. haste is only for bad bullfighters and burglars. However, it is advisable to enquire regularly as to the state of progress of your dossier. This will show that there is interest in the dossier and will prevent it from stagnating.

- The Spanish do not like to say “no” directly. If they are unwilling to agree to a proposal, they will simply let the dossier rest, hoping that the other party will give up. For the same reason, they may not answer telephone calls or e-mails. If this is the case, you would probably be well advised to give up, even though you may have thought that the negotiation had started off on a positive footing.

- At the close of a commercial interview, the expression “lo estudiaremos” (we shall study it) is sometimes used. This ambiguous phrase generally means that the interlocutor is not particularly interested in the proposal, or at least not in the short term.

- Within the framework of negotiations with the administration or large companies with a dominant market share (in the construction or mass retailing sectors), payment terms are often lengthened and can reach three months or more.

- Traditionally, negotiations do not end with the drawing-up of highly detailed contracts that must be respected to the letter. The courts do not have enough credit in the eyes of entrepreneurs who prefer to reach an amicable solution in the event of breach of contract rather than take the matter to the courts.

- Although inspired by French legislation, commercial law and administrative norms can seem confused and complicated. ■

**Local Press:** [www.elpais.es](http://www.elpais.es)  
[www.expansiondirecto.com](http://www.expansiondirecto.com)

[www.mae.es](http://www.mae.es) (Ministry of Foreign Affairs)  
[www.mcx.es](http://www.mcx.es) (State Secretariat for Trade and Tourism)  
[www.icex.es](http://www.icex.es) (Spanish Institute for Foreign Trade)  
**Bodies:** [www.investinspain.org](http://www.investinspain.org) (Investing in Spain)  
[aduanas.camaras.org](http://aduanas.camaras.org) (Import and Export Statistics)  
[www.ine.es](http://www.ine.es) (Spanish Institute of Statistics)  
[www.aeat.es](http://www.aeat.es) (Spanish Agency for Tax and Customs Administration)  
[www.aenor.es](http://www.aenor.es) (Spanish Standards Association)

**Miscellaneous:** [www.cscamaras.org](http://www.cscamaras.org) (Higher Council of the Chambers of Commerce)  
[www.directorio.camaras.org](http://www.directorio.camaras.org) (Exporters and Importers Register)  
[www.ifema.es](http://www.ifema.es) (Trade Fairs in Madrid)  
[www.firabcn.es](http://www.firabcn.es) (Trade Fairs in Barcelona)  
[www.tourspain.es](http://www.tourspain.es) (Tourist Information)

# Still room for foreign companies

The traveller driving along Spain's motorways is seized by an impression of "A New World". Road and rail routes are new and fast. Cranes spike the horizon in all directions on the outskirts of cities. New residential districts, industrial estates and business centres are multiplying. In Castille or Extremadura, the wide open spaces are immense, reminiscent of the American prairies.



By **Xavier Denecker**, CEO of Coface Iberica and head of the Iberian platform.

The traveller's perceptions correspond to reality. Since its entry into the European Union, Spain has invested its structural funds wisely and its economy has just overtaken that of Canada, a member of the G8, the club of the most advanced countries. In 2005, Spain's growth rate was double the European average and it has managed to maintain its public finances in equilibrium. In a few years, it has built one of the world's leading automobile industries and is currently reinforcing its position in cutting-edge market sectors such as aeronautics and renewable energies. More and more Spanish companies are investing abroad. For example, in France, Albertis is now at the helm of the consortium controlling Sanef (toll motorways), Ebro has acquired Panzani (foodstuffs), Fagor has taken over Brandt (household appliances) while in the United Kingdom, Banco Santander has bought out Abbey National and Telefonica the same with O2, and in Italy, SOS Cuetara controls Carapelli (olive oil). In addition, several Spanish business schools are ranked at the top of all management institutions worldwide.

But does this make Spain an Eldorado towards which foreign companies should hasten? Does it still offer golden development opportunities and, if so, under what conditions?

Before examining its positive aspects, just for the record we will mention the weak points in Spain's economy. Its development has been founded in part on highly labour-intensive sectors such as tourism, construction and horticulture. Inflation is consistently higher than the European average every year, causing productivity problems in the long term. The most recent members to the EU are



Headquarters of Coface Iberica in Madrid

now offering the cost advantages that Spain was able to offer in the eighties. Finally, the approaching cessation of European funding will certainly present a formidable challenge to the country.

However, in spite of these drawbacks, Spain is unarguably a country rich in opportunities for foreign companies. It just has to be understood that these opportunities are not the same ones that existed in the past. Many companies came here to find more qualified, motivated, flexible and cheaper labour than in other Western European countries. The automobile sector is a perfect illustration of this: the Renault and PSA factories in this country are among the most successful in the world. But the ever growing hesitation of large manufacturers to build their new models in Spain shows that these factors can no longer be the only motivation for settling here.

## OPPORTUNITIES HAVE DOUBLED SINCE THEN:

These consist, on the one hand, in joining forces with a market that is in the full flush of development. We know the role that the French supermarket/mass retailing chains have played. But there is still plenty of room to spare, including for SMEs capable of offering products adapted to Spanish tastes in domains as varied as seafood, perfumes, design or robotics.

There are also opportunities in the field of advanced technology and development of potential partnerships with Spanish interests, not only in aeronautics, high-speed trains, wind farms and software packages but also

FORGING  
ALLIANCES

in financial engineering and services with high added value. However, the difficulties should not be underestimated. In spite of its apparent geographical and cultural proximity, this market is difficult to penetrate. In most sectors (finance, real estate, telecommunications, mass retailing) the principle national operators hold a position of oligopoly and entry into the market by newcomers is often hindered. The legal context favours free enterprise but the relational networks and customs are frequently obstacles to competition from outside. Although it is relatively easy to settle in the beginning, attaining a solid position and reaching the threshold of profitability requires a good dose of business acumen and unrelenting tenacity.

The key to success for an SME wanting to settle in Spain, once the indispensable market research has been carried out, is to forge contacts with well-established and reputable local partners: corporate leaders, intermediaries, distributors, suppliers, advisors, etc. *Pramex*<sup>(1)</sup>, a company belonging to Natixis, occupies a solid

position in Spain and is able to provide efficient assistance in identifying such partners. Once a significant volume of business has been established, *Coface Iberica*<sup>(2)</sup> offers a Globalliance contract to cover outstanding payments. For several years, commercial losses have been relatively low in Spain. However, payment terms are long and delays frequent, limiting suppliers' capacity to react if their customers run into financial difficulties. Protection of sales revenues is an absolute necessity, which partly explains why Spain is the country that uses the most credit insurance anywhere in the world.

To summarize, therefore, Spain is no longer an Eldorado for cheap subcontracting. It has become an advantageous market for high added-value products and services. Penetrating this market presupposes the necessity of building a network of alliances. Coface is present in Madrid, Barcelona, Valencia, Seville, La Coruna, San Sebastian and Alicante. For foreign companies already present in Spain, or who want to set up there, Coface can be their first and most useful ally. ■

(1) See contact page 9

(2) See contact page 11

## Spain's risks,

as seen by Coface's Country Risk and Economic Studies department

### Strong Points

- Business activity is carried by dynamic consumer demand, however consumer spending is based predominantly on debt and climbing property prices.
- Public investment in infrastructures, still with the benefit of European Community subsidies, are progressing and bridging the gap in the lack of advance in communications networks.
- The balance of public accounts is benefiting from this growth as well as from the social surpluses generated by a burgeoning labour market and legislation prohibiting regional authorities from showing deficits.
- Spain's close links with a large part of the Americas and the fact that they have a shared language are promising.
- Spain is still a front-line tourist destination but is nevertheless competing with many other low-cost destinations.

### Weak points

- The soaring house prices linked to the dearth of low-cost social housing, the acceleration of immigration and to low real interest rates, thus stimulating household debt to maintain consumption, constitutes a real threat in the event of a turnaround in the property market.
- Spain's product competitiveness is suffering from the country's greater level of inflation than that of other EU countries combined with an offer of products with insufficient added value in comparison to the offer from Asian and Eastern European competitors.
- Structural unemployment is still very high on a market where protected wage-earners, benefiting from branch agreements and price indexation, exist side by side with a huge temporary/casual workforce.
- The education system, professional training and research and development are still underdeveloped.

Principle economics indicators	in %	2002	2003	2004	2005	2006(e)	2007(f)
<b>Economic growth</b>		2.7	3.0	3.2	3.5	3.8	3.3
<b>Consumption (var.)</b>		2.9	2.7	4.3	4.3	3.6	3.3
<b>Investment (var.)</b>		-3.0	2.5	3.6	9.5	7.2	7.5
<b>Inflation</b>		3.0	3.1	3.5	3.4	3.7	2.9
<b>Unemployment rate</b>		11.2	11.1	10.5	9.2	8.2	7.8
<b>Short term interest rates</b>		3.3	2.3	2.1	2.2	3.2	4.0
<b>Public balance / GDP</b>		-0.2	0.0	-0.2	1.1	1.5	1.1
<b>Public debt / GDP</b>		60.0	55.0	53.0	50.0	47.0	45.0
<b>Exports (var.)</b>		2.0	3.6	4.0	1.5	7.0	5.0
<b>Imports (var.)</b>		3.8	6.1	9.5	7.1	9.0	7.0
<b>Current balance / GDP</b>		-3.6	-3.9	-6.0	-7.4	-8.6	-9.4

(e) = estimate

(f) = forecast

## Sector risks,

as seen by Coface's Country Risk and Economic Studies department

### Chemicals

In 2005, although production increased by 3%, the trade balance remained negative because of a strong increase in imports. Within a context of rising oil prices and increased cost of raw materials, companies were unable to pass all their production cost increases on to their sales prices that have remained stable. Pressure from the competition in producer countries benefiting from cheaper raw materials is expected to grow in 2006. Moreover, according to the Kyoto Protocol, this sector is committed to reducing its greenhouse gas emissions by a quarter between now and 2012.

### Textiles

The elimination of quotas in January 2005 followed by their partial re-introduction has highlighted the vulnerability of the textile industry (in particular yarns and fabrics) in the face of competition from China. Production fell by close to 3%, thousands of jobs were lost and the trade balance was negative. In 2006, companies in this sector will be reorienting towards niche markets with higher added value while at the same time relocating their low-profit production to North Africa or Eastern Europe. The mass retailing chains and clothes manufacturers have managed to adapt more rapidly to the changing market, relocating their production and developing vertical integration enabling them to benefit from an advantageous position both nationally and internationally.

### Iron and steel

In 2005, production increased moderately while prices fell slightly, against a backdrop of slackened demand from China and higher energy prices. The market is expected to slow down in 2006 because of high stock levels and reduced demand. The companies will focus once more on the Spanish market where the demand for flat products for construction, the automobile industry and household appliances is expected to remain high.

### Automobiles

In 2005, the number of new vehicles sold increased in Spain, partly compensating for a decrease in sales to the European Union. However, the fall in automobile production was mainly due to competition from Eastern European countries that are benefiting from most of the new investments and where the well-known makes are increasingly concentrating their production. In 2006, the growth of vehicle sales on the domestic market in which Renault is the leader (ahead of PSA, Ford and Seat) should continue thanks to a renewal of the motor car population and to advantageous financing concessions. However, the high prices of fuel and steel could handicap vehicle sales and reduce manufacturers' profit margins. Apart from a few major original equipment manufacturers (OEMs) such as Delphi or Ficosa, a multitude of SMEs gravitate around them and are caught in a vice between the high prices of raw materials and price pressure exerted by the manufacturers. The OEM sector is therefore particularly at risk.

### Supermarket/mass retailing

This sector consists of Spanish groups (60%) and foreign distributors (40%). In 2005, the concentration of companies remained unchanged but it was still lower than in other EU countries. The regional chains have retained dominance in their local markets but are under threat by the expansion of nation-wide groups such as Mercadona. Supermarkets have progressed more than hypermarkets that are handicapped by regulatory constraints. However, a new European directive aimed at eliminating trading permits may encourage the opening of further hypermarkets. As in the other European countries, the sales of "hard discount" stores, mainly branches of German groups, are growing dynamically. In 2006, the move towards greater concentration should accelerate, particularly with regard to medium sized companies. Traditional commerce will continue to lose market share.



## The attractions of the Spanish market

With a growth rate that has never fallen below 2.7% over the last four years (over 3% again in 2005), Spain is one of the most dynamic countries in Europe. While growth forecasts in the euro zone are estimated at 2,2% for 2007, Spain is once again expected to attain over 3%.



By **Victor Manuel Fernandez**,

Director of the Iberian Peninsula for Natexis Pramex International.

This economic vitality can be explained by several factors. Domestic demand is strong - it increased by 4.2% in 2004 - and the fall in loan costs has stimulated the 3.5% increase in Spanish household consumption. In addition, we have those mammoth projects that drive economic activity: the America's Cup in 2007 and the Universal Exhibition in Zaragoza in 2008. Spain is also benefiting from structural aid from the European Union. This has diminished lately but is programmed to continue anyway until 2013.

Infrastructures and construction are among the country's most buoyant sectors. Another flagship activity is mass retailing, which continues to gain ground with a 3.1% increase in the number of hypermarkets and a 4.7% increase in discount stores. Franchising over all sectors is in full growth (812 banners and 58,321 stores). Finally, renewable energy should offer real opportunities for foreign companies. A Plan

for Renewable Energy, recently adopted by the government, involves a 20 million euro investment earmarked for the development of renewables in Spain.

Many foreign companies, both large and small, are interested in the Spanish market. We assist around a hundred every year. They are often confronted with administrative difficulties. It isn't easy to understand Spanish decentralization with its three levels of administration for the creation of a company in the country. Creating a company in Catalonia or in Castille are very different propositions. Foreign companies must also protect themselves against counterfeiting that is unfortunately still rife on the Spanish market. Another negative point: payments are made much later in Spain and the rate of unpaid bills is relatively high: 3.2%. This is why Natexis Pramex Iberica is working with Coface to anticipate non-payment risks of outstanding payments. ■

**Victor Manuel Fernández**

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## Did you think you knew Spain?

The real Spain is not only the one you see on “sun and beach” postcards. Its current dynamism attracts much envy and also expectations. Acknowledgement of Spain's specific characteristics, whether cultural, economic or political, is an obligatory right of passage for anyone who wants to do business there.



By **Nicolas Prego**, Economic Advisor at the French Embassy in Spain.



Contrary to popular belief, Spain is not technologically backward; far from it - it is a country that is investing in advanced technology with a will (multiplication of “clusters” concentrating the best in each sector: automobiles, biotechnology, aeronautics, etc.) and with ambition (the State is currently setting up measures aimed at helping innovative companies).

At regional level, Spain has centres aimed principally at SMEs. During the last Summit held in Barcelona (October 2005), the Spanish and French Ministers of Industry agreed to create a “Franco-Spanish Forum on competitiveness clusters”.

Spain's progress is such that sellers of French technology must not expect to be greeted like Messiahs on their arrival. Both international and local competition is fierce.

And while certain products may interest potential buyers, they will sometimes or even frequently propose “technological partnerships”.

The process of devolving power and public policies on the regions is now practically complete.

This is one of Spain's greatest original moves for the 21st century. Some examples: products must be labelled in the language of

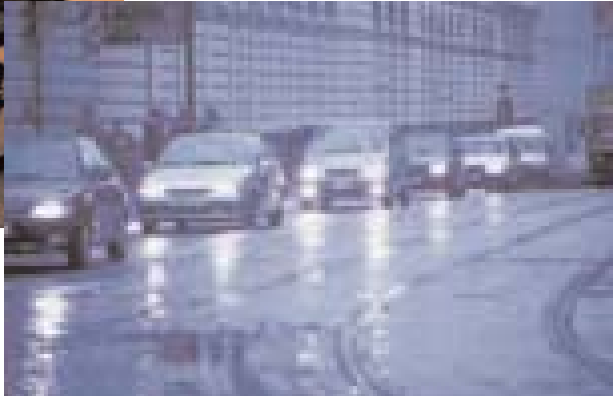
their region under penalty of marginalization, certain decisions being made by the regional authorities. Concerning investments, these same authorities can also be generous and know perfectly well how to combine any aid they may be prepared to offer with EU, national, municipal, sectorial and other types of subsidies.

The world of labour relations in Spain is one of the keys that should not be overlooked.

Although there is great flexibility in hiring staff (even if you can sometimes find yourself befuddled by the mass of sectorial, regional and function-related collective agreements), the implications can be extremely complex in practice and there are rigid constraints over dismissing staff.

Reforms are currently being studied but at the moment a dismissed employee has to be paid, in general, 45 business days per year of employment, which can be extremely onerous if a company set-up experience turns out to be unsuccessful and you wish to sell up and leave.

To conclude, companies wishing to work in Spain are strongly advised to seek the assistance of specialists who have experience of the country, its specifics and its markets.



The Economic Missions (present in Madrid, Barcelona and Bilbao) are available to provide information and advice on the Spanish markets and on investment opportunities.

Other players are present in Spain and can be excellent sources of advice: the Chambers of Commerce, for example, or the legal firms, accounting firms (“gestorias”) and, of course, Coface Iberica and Coface Servicios España. ■

*Nicolas Prego*  
 - French Embassy in Spain -  
 28001 Madrid

## I n t e r v i e w

### “Technology and training are the motors of success”

With **Francisco Gutierrez**,  
 Credit Manager for Ugine & ALZ  
 (Arcelor Group).

**Trade Line (TL):** In order to better understand your point of view on the Spanish market, could you present your Company's business sector?

**Francisco Gutierrez (FG):** Ugine & ALZ is a European subsidiary of Arcelor. Its business sector is stainless steel and it specializes in the manufacturing of flat products.

With a turnover of €2,740 million in 2004, a production volume of 1.35 million tons and a staff of 5,300 employees, U&A has 4 recognized high-efficiency production plants in Europe: Isbergues (France), Gueugnon (France), Genk and Carinox (Belgium).

Our main markets are automobiles, household appliances, industry and construction.

In Spain we deal in stainless steel sales and product processing.

We buy the raw materials from our parent company in France and process the products to sell to our clients.

**TL:** How do you see your trade relations with Spanish companies? What are their payment procedures?

**FG:** Commercial relations with Spanish companies are good. Assessment of payment behaviour is good. In general, payment terms are respected.

**TL:** What services does Coface offer to assist you?

**FG:** Coface offers us customer guarantees and supplies us with tools that enable us to know them better, particularly from a financial point of view.

**TL:** In your opinion, what are the keys to success on the Spanish market? What would your advice be to companies wanting to begin working in Spain?

**FG:** You should have innovative ideas in marketing and company administration. You should also have good IT material. In fact, investing more in technology and training are the motors for success.

One thing is certain: you have to take the Spanish mentality into account when dealing with customers and respect their traditions and customs that are unlikely to change overnight.

## Coface in Spain

Coface started up in Spain in 1983 with the opening of a representative office in Madrid, whose activity was limited to risk analysis. In 1995, it reinforced its presence with the creation of a subsidiary, Coface Iberica, charged with marketing its range of guarantees and services with French subsidiaries settled in Spain and also with Spanish companies themselves. Coface Iberica then gradually consolidated its geographical presence, opening offices and commercial agencies throughout the country.

### A DOUBLE STRUCTURE FOR MANAGEMENT OF GUARANTEES AND CREDIT MANAGEMENT SERVICES

On the one hand, Coface Iberica markets credit insurance guarantees (domestic or export): individual risk coverage, loss surpluses, investments, etc.

On the other, Coface Servicios España SL is charged with marketing all Coface credit management services (whether linked or not to credit insurance): company information

through Coface's worldwide @rating service and debt recovery management.

This double structure includes 92 employees, regional offices, and representative offices in Madrid, Barcelona, San Sebastian, Valencia, Alicante, Seville, La Coruna and Murcia, and works in close collaboration with the Coface structures in Lisbon and Porto.

During 2006, Coface Iberica also began marketing factoring services, thus offering its clients the possibility of managing all of their customer accounts with maximum safety. ■

## Coface offices in Spain

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# Negotiating in Russia: specifics and risks

Russia is the key market for large-scale exports to Eastern Europe because of its size, its dominant position in the ex-USSR and its vibrant economy stoked mainly by oil, gas and raw materials revenues. It has a rich cultural heritage and its socio-political context is undergoing profound changes. Understanding Russia's local idiosyncrasies is therefore a must to negotiating successfully and fully appreciating the risks inherent in subsequent decisions. This article is based on the experience acquired during 15 years of working in the country.



By **Alain Fromental**, CEO of Sofracop, Expert on Russia for Natexis Pramex International, Advisor on International Development for the Banque Populaire group and external consultant for Coface Expert.

## 1. Context specifics

### EDUCATION

Russia has a strong knowledge culture and a rigorous educational system. The people you will meet are likely to be extremely well-versed in their particular field: technical, commercial, linguistic, etc. It is important not to underestimate them.

### VALUES

The Slavic culture has a system of values that is quite different from ours. In order to understand the reasoning and reactions of the opposite party in a negotiation, it would be useful if you read some of their greatest authors (for example, Dostoyevsky).

When negotiating, it is important to bear in mind the following:

- The Russians have a highly developed gambling instinct (chess or roulette) and enjoy taking risks to win. You should remain extremely vigilant during negotiations: naivety or ignorance will not be excused.

- For historical reasons, the Russians tend to focus on the short term rather than the long.
- Despite humorous criticism of the poor running of their country, they are nevertheless extremely proud of being Russian.
- They seek signs of trust in foreigners, and often express regret at the relative difficulty of being able to establish a climate of mutual trust with, for example, the French as compared to the Germans, Italians or Dutch.
- Generally speaking, they are appreciative of personal contacts and relationships in their business dealings. Therefore a visit to your company may be an important step forward.

### SOCIO-POLITICAL DEVELOPMENT

Russian society is in the throes of major restructuring: from planned economy to market economy. We should not forget that only a few years ago a spirit of entrepreneurship was considered a crime: everything was decided by Gosplan!

NAIVETY  
IS OUT

Almost all negotiators are skilled but tend to fall into two distinct categories:

- Older managers from the Soviet era (gradually becoming extinct!). These are more likely to be searching for financial solutions to their problems rather than commercial or industrial partnerships. They will be relatively rigid in negotiations.
- The new entrepreneurs engaged with the free market system. Generally young, they tend to speak at least one foreign language, have travelled abroad and are dynamic and pro-active.

## 2. Communicating

### THE WORKING LANGUAGE

Only a minority of the population speaks a foreign language. Russian is obligatory for business discussions, even if some of those you meet with may speak English, French or German. A competent interpreter, working on your behalf, will be a determining factor in your negotiations.

It is important to have documents (whether commercial, legal, technical or other) in both languages, French and Russian: this will show that you are serious about wanting to work in Russia.

### GETTING TO KNOW EACH OTHER

It is the custom in Russia not to start negotiating immediately (contrary to the American method). You should take the time to introduce yourself and listen to the person you are meeting before getting down to business.

They will, for the most part, be willing to show signs of friendliness and cordiality because this is part of their tradition. But this will not affect the concrete reality of negotiations.

### PROMOTIONS/ADVERTISING

Russian entrepreneurs are confronted with a young and highly competitive market in which advertising plays a front-line role.

They will ask potential partners and/or suppliers to work with them in promoting their products: you should prepare yourself to answer this question that will inevitably be raised during discussions.

## 3. Preparing negotiations

### MARKET VALIDATION

Before negotiating in Russia, it would be wise to research the market profile. This knowledge will be useful not only as a context for your business plans but also to show potential partners that you are aware of the market background. A market validation study can be carried out rapidly.

It should include an assessment of the market potential, identification of the principle operators and a description of the conditions for accessing the market, in particular the local administrative regulations and procedures.

### FINDING POTENTIAL PARTNERS

In order to negotiate effectively, you must first identify several possible partners. Letting the person you are meeting know that they are not your sole contact is very important in the Russian context, where monopoly has long been the norm - competition being a relatively new concept - which you should put to your advantage.

## 4. Negotiating

### ASSESSING YOUR POTENTIAL PARTNER

The Russians' negotiating technique consists of encouraging the opposite party to do all the talking, while allowing as little opportunity as possible for giving away information themselves (a chess strategy). In order to be on equal terms, you should explain your position succinctly after having taken all the time necessary to obtain the relevant information.

DON'T  
TALK TOO MUCH

If such information is not immediately available, you should consider postponing the meeting until you are properly prepared.

## ASSESSING THE FINANCIAL RISKS

It is essential to obtain figures on the company.

The Russians are often reticent about providing figures but you must insist so that you can assess your risk.

You will be frequently led into discussing projects that are far too oversized for their actual financial capacities, which could pose a major risk when carrying the operation forward.

## "MUTUALLY BENEFICIAL SOLUTIONS"

It is traditional in Russia to indicate in protocols of intent that the parties to the contract will seek "mutually beneficial" solutions. It is fundamental for the conduct of negotiations to understand what your Russian partner's interests really are. If you neglect to do this, it is highly likely that you will discover it much later, to your detriment.

## THE IMPACT OF BUREAUCRACY

Bureaucracy is omnipresent in Russia and can become an obstacle to finalizing a contract.

It is therefore essential to check the prevailing administrative constraints before concluding your agreement.

This will prevent your partners from using these bureaucratic obstacles as an excuse not to meet their obligations.

## FORMALIZING AGREEMENTS

The legal formalization of your agreements will not safeguard their successful outcome.

When executing a contract, you must do everything possible to avoid court cases which are still relatively ineffective in Russia.

## 5. Materializing the negotiation

### FOLLOW-UP AFTER NEGOTIATION

The signature of a contract is only the first stage, after which you have to build a relationship with your Russian partner. Check that the commitments made are respected, react rapidly and with determination at the first sign of dysfunction, supply all documents promised translated into Russian, invite your partner to visit your company to establish a sustainable relationship of trust, etc.

For example, the Russians consider that the follow-up process is often neglected by French companies in comparison to their German partners.

### A DURABLE PRESENCE

The opening of a branch office or subsidiary is a determining factor in ensuring a durable presence on this market.

Thus the promotional and after-sales organization must be made on-site and under your supervision. ■

*To summarize, knowing and understanding the context is a determining factor for the success of a project in Russia. Improvisation is a guarantee of failure.*

**Alain Fromental** specializes in international consultancy work and in particular with Russia since it joined the market economy. SOFRACOP, the company he runs, is a firm specializing in partnerships with Russia and operates in three main sectors:

- providing advice and assistance to French companies in their approach to the Russian market: understanding of the context, search for partners, assistance in negotiation and in setting up businesses there;
- promotion of European wines and spirits with Russian importers;
- organization of cultural exchanges between Russia and Europe.

## How to secure your trade receivables

The risk that a company takes by granting term payments (unpaid invoices) can be covered by credit insurance, which is one of the outsourced procedures in trade receivables management.



By **Michel Danielou**, Coface Risk Manager for Latin America, Spain and Portugal.

In order to accomplish its mission of optimising trade receivables management, credit insurers must have at their disposal three indispensable prerequisites:

- a unique risk management tool
- a widespread presence in their user markets
- a team of underwriters with detailed knowledge of customer needs.

Coface can respond to the needs of its customers in this domain since it possesses these three prerequisites.

### THE UNDERWRITING PROCESS

It is through the underwriting process that credit insurers assess and monitor the risks they underwrite. An underwriter fixes the amount of the guarantee that can be accorded for each buyer, and uses public or private information in making this analysis.

The Coface underwriters have reliable and up-to-date information permanently at their fingertips thanks to a unique risk management tool: the Common Risk System (CRS), covering 50 million companies around the world. This tool is shared with 30,000 customers, who can access it on-line, and with its partners who are generally credit insurers with the CreditAlliance network.

## EASY: Universal company identification system

In 2005, Coface and Creditreform (the German leader in company information) concluded a cooperation agreement in order to develop EASY.

This is a high-performance and universal company identification system that, via a single number, establishes a correspondence between international identification numbers and their national equivalents.

Thanks to a powerful search engine, it can perform multilingual research, starting from different character types.

EASY associates access to a common repository grouping together several million companies with a data base of a vast number of information providers, and in total transparency for its users.

The system also enables attribution of a single universal identification number, in addition to existing identifiers, to each company.

And finally it enables the expansion, updating and standardization of its customers' databases.





## PUBLIC INFORMATION

Public information would include publicly advertised information, press articles, correspondence in the form of circulars sent by buyers to their suppliers and to credit institutions.

The content of public information, therefore, can differ widely from one country to another.

For example, in Europe, France and Belgium are models of transparency.

Their companies are easily identifiable and the obligation to publish company accounts is generally respected.

On the other hand, identification can present much greater difficulties in countries with less developed traditions of information processing.

In some countries, even purely descriptive data such as addresses are not indicated according to the standard format accepted in our part of the world.

For example, a company located in Costa Rica indicated its location as follows: "MEDIAS Y CALCETINES, S.A., 100 metres from the Mobil garage in Heredia".

## PRIVATE INFORMATION

To compensate for a lack of precision in public information, the underwriter must also be able to access private information.

This confidential information takes various forms: mission reports from underwriters, memorandums collected from Coface offices throughout the world, its partners and the banks, corporate financial statements under seal of confidentiality and Coface payment records as the credit insurer present in 60 countries.

Centralisation of the credit records of CRS users enables access to a background history of the payment behaviour of companies in a certain country or a certain business sector, and thus to extrapolate their future behaviour.

The necessity of collecting confidential information in the field makes the setting up of local organizations indispensable as they are in a position to persuade buyers to divulge information with added value.

It can be difficult, in certain cases, to obtain complete corporate financial statements.

But a face to face meeting with the managers (who love talking about their company) always enables an opinion to be formed.

Examination of company accounts is extremely useful for underwriters.

They can then use their analytical talents to the full and, of course, engage in risk coverage with greater certainty. But even when in possession of a buyer's accounts, the underwriters are not "only" financial analysts.

They must take decisions based on various criteria taking into account the correct balance of financial rigour and business opportunity in the interest of their customers.

They attach great importance to the particular conditions of the transaction to be guaranteed such as credit terms, the status of exclusive distributor, added value of the product, etc.

It is only with this information that they can hope to take the right underwriting decision. ■

COLLECTING  
AND  
SORTING  
INFORMATION