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Zapatero calls for an 'alliance of civilisations' and cements the Madrid-Bonn-Paris axis

Socialists meet stiff resistance over plan to save the ailing shipbuilding industry

José Luis Rodríguez Zapatero, the prime minister, called for an 'alliance of civilisations' to help bridge misunderstandings between the West and the Arab and Muslim world.

Addressing the UN General Assembly's ministerial meeting, he warned of a 'risk of a clash of civilisations' and, recalling the Berlin Wall, argued for the need 'to prevent another wall of misunderstanding and hatred from dividing the world'.

In an indirect criticism of the Bush administration, he said an effective counterterrorism policy must be based on 'respect for international law, on respect for legislation, respect for the United Nations and respect for the efforts of the United Nations Security Council'.

The Socialist government, which took power after the March general election, fulfilled an election pledge and withdrew Spain's 1,300 troops from Iraq, sent there by the previous government, because it said the US-led invasion was illegal. Many voters viewed the troops' presence as a factor in the Madrid terror bombings shortly before the election, which killed 191 people.

Zapatero said Spain would not contribute troops to Iraq, despite the formal handover of sovereignty, because 'peace is a task that requires more courage, more determination and more heroism than war. Precisely for this reason… my country decided not to have a military presence in Iraq'.

In a separate move, Zapatero held an informal mini summit in Madrid with the leaders of France and Germany, consolidating Spain's return to a more Europe-oriented foreign policy.

The three countries agreed, among other things, to jointly begin a public-awareness campaign on the EU constitution. Spain could very well be the first country to approve the new constitution in a referendum, thus setting the tone for the rest of Europe and perhaps help the embattled Jacques Chirac, who faces much stiffer opposition to the constitution than Zapatero. In Spain there is cross-party support.

The three governments, which all oppose US policy in Iraq, have already agreed to share criminal records and coordinate more closely over terrorism. Pointedly referring to US Defence Secretary Rumsfeld's characterisation of France, Germany and other nations opposed to the US invasion of Iraq as 'the old Europe', Zapatero said the 'old Europe' is 'as good as new'. The photograph of Zapatero, Chirac and Gerhard Schröder at the Moncloa Palace is the counter image of the one taken in the Azores in March 2003 of George Bush, Tony Blair and José Maria Aznar.

Spain also agreed with France, Italy, Portugal and the Netherlands to form a paramilitary police force to act in support of EU peacekeeping missions in troubled regions such as the Balkans. The aim is to have an initial unit of 800 men and women ready for deployment by next year.

Socialists meet stiff resistance over plan to save the ailing shipbuilding industry

In its first serious confrontation with trade unions since it took office in April, the government was battling with Izar shipyard workers over a restructuring plan to resolve a crisis in the industry triggered by the previous government's injection of more than €1 billion in illegal state aid. The European Commission has ordered the Socialists to repay the aid.

Izar, fully owned by the state, was created as a single group in 2000. The government wants to separate four of the 10 yards and create a military Izar. The civil shipyards would then be streamlined and some sold to private investors or closed. The military yards would stand a better chance of surviving as they would be allowed to receive state aid. Workers, however, vehemently oppose the plan and after several violent demonstrations the government agreed to draw up a framework for Izar with them and jointly consult the EU.

Spain's shipbuilding industry expanded rapidly in the 1960s and by 1972 it was seventh in the world league. Since then it has been hard hit by competition from countries such as South Korea and the emergence of new rivals (China and Japan). Its days have been numbered for some time. The civil yards have had no new contracts in three years and the military ones recently lost a contract to produce up to six ships for the Israeli navy after leaving the Afcon consortium led by US military engineering giant Lockheed Martin and Bath Iron Works. Izar's exit followed March's change of government in Spain and the subsequent removal of Spanish troops from Iraq. It is understood that the US government had initially recommended Izar for the contract, in recognition of the Popular Party's support for its policy in Iraq.

Over the last 20 years, the number of Spanish shipyard workers dropped from 39,229 to 11,077 and losses were generated in 2000-03. The industry underwent three 'reconversions' between 1984 and 2000.

Enrique Martínez Robles, the president of SEPI, which owns Izar, says the shipyards are on the verge of bankruptcy and that even without the problem of the state aid their future is very uncertain. José Luis Rodríguez Zapatero, the prime minister, told a

Socialist rally in Bilbao that ‘no dock worker would be abandoned to his fate’ and a few days later in Madrid said the closure of some shipyards was inevitable.

Government seeks pact on illegal immigration and offers amnesty
Illegal immigrant workers in Spain who can prove they have been employed for at least a year will be encouraged to report their employers to labour courts. This is one of the proposals put forward by the government in a bid to achieve an all-party consensus on immigration reform and bring some order to an increasingly chaotic situation. Trade unions say as many as 800,000 foreigners work illegally in Spain. The number of legal immigrants rose from 393,000 in 1992 to 1.7 million in June of this year (see Figure 1).

Figure 1. Immigrants with Work Permit or Residency, 1992-June 2004 (thousands)

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
393.1	430.4	461.3	499.7	538.9	609.8	719.6	801.3	895.7	1,109	1,324	1,647	1,776

Source: Interior Ministry

Other measures include an unspecified amnesty period for companies to register with their social security office any illegal workers they employ. Companies still using illegal workers after then would be severely dealt with. Under the amnesty employers would have to make good on payroll-tax arrears and commit to employing the workers for at least a further 12 months. If this happened the workers would receive temporary papers for work and residency. If the employer opted to pay the fine, the worker would get papers while seeking another job.

Under the current law, enacted by the previous government, illegal workers are in a Catch-22 situation. They cannot get a work permit unless they have a job and they cannot get a job without a work permit. Companies have increasingly turned a blind eye to this and hired foreigners to do jobs shunned by Spaniards.

As well as trying to improve the often miserable conditions in which illegal immigrants are employed, particularly in the agriculture and construction sectors, the government wants to use the reform as a way to root out Spain’s large underground economy (estimated at more than 20% of GDP) and boost tax revenues.

Spain received one in every three immigrants arriving in the EU in 2003 (see *Inside Spain*, Newsletter 5, September 8, 2004). In the first eight months of this year, Spain repatriated 73,747 *sin papeles* as illegal immigrants are called –an average of one every five minutes–. Most of them crossed the treacherous Straits of Gibraltar in ill-prepared boats.

BBVA agrees to acquire a Texan financial group and a Mexican mortgage company
BBVA, Spain’s second-largest bank, is to buy the Texan financial services group Laredo National Bancshares (LNB) for US$850 million and Mexico’s Hipotecaria Nacional for US$375 million. While Santander Central Hispano (see *Inside Spain*, Newsletter 5, September 8, 2004) is seeking to lead cross-border consolidation in Europe with its deal for the UK’s Abbey, BBVA is concentrating on creating a franchise on both sides of the US-Mexico border.

BBVA’s bank in Mexico –Bancomer– is the country’s largest and it is betting that the growing links between Mexico and the US (under the North American Free Trade

Agreement) will enhance future growth. The purchase of LNB gives it access to a potential market of some 5 million Hispanics in south Texas.

The Texan bank is 60% owned –but not managed– by Carlos Hank Rohn, a controversial Mexican businessman barred by the US Federal Reserve from holding office within the bank. He was forced to resign as chairman of the board of LNB in 2001 and to relinquish any management role in the bank. He was also barred from serving as a director or a controlling shareholder in any other US bank without the Fed's prior approval. In exchange, the Fed agreed to drop charges against Mr Hank Rohn for 'various violations of the Bank Holding Act'.

Mexico accounts for around 70% of BBVA's assets in Latin America. The bank is the leader in handling remittances sent by Mexicans in the US to family and friends at home.

Hipotecaria Nacional has a US$2.15 billion loan portfolio and around 90,000 clients. Lending in general and mortgages in particular are very under-developed in Mexico. In 2001, according to the World Bank, bank credit to the private sector in Mexico accounted for less than 20% of GDP, having stood at 36% in 1994. It has now dropped below 16%. The world average is 136%.

Foreign banks in Mexico (including Santander Central Hispano, which owns Grupo Serfin) account for more than 80% of the country's banking assets. They were recently criticised in a report by the banking ombudsman for concentrating on raising commissions to the exclusion of increasing lending.

Repsol YPF wins a big natural gas contract in Iran and one in Canada
Repsol YPF and Royal Dutch/Shell are to invest US$4 billion in the extraction and marketing of Iranian natural gas. The move, following three years of negotiations, represents a big step in the expansion of the Spanish company which acquired Argentina's YPF in 1999.

The companies will produce seven million tons of natural gas and one million tons of liquefied gas a year for sale in Europe and Asia by 2010.

The two companies will work with the National Iranian Oil Company (NIOC). Iran has the world's second largest natural gas reserves after Russia and wants to become the world's biggest exporter. The NIOC will have a 50% stake in the project and the two companies 25% each.

Repsol has also teamed up with the Canadian company Irving Oil to develop the first liquefied natural gas terminal on the eastern coast of Canada to supply markets in eastern Canada and the north-eastern US.

The initial capacity will be 5 billion cubic metres per year, three storage tanks with a total capacity of 480,000 cubic metres, and an initial expected production of 14.2 million cubic metres of natural gas per day, which could subsequently reach 28.4 million metres.

Spain, still receiving the most EU funds

Spain received €8,733 million net in EU funds in 2003, the largest amount in absolute terms but not in terms of GDP or euros per inhabitant (see Figure 2). Of the €15,842 million that Spain received, well over half were structural funds. These are funds for regions whose per capita GDP is less than 75% of the EU average –known as Objective 1 regions–. Objective 1 regions cover 76% of Spain's territory and are home to 58% of the population. The entry of 10 new countries in 2004 which are much poorer than the EU-15 members will sharply reduce the average per capita GDP in the EU. As a result of this 'statistical effect', the only Spanish regions that might still qualify for aid in 2007 are Andalusia and Extremadura and perhaps Galicia. And Spain would also fail to quality for the less important cohesion funds, as by 2007 its national per capita income would surpass the threshold of 90% of the EU average needed to qualify for these funds.

Figure 2. Budgetary Balance of Selected EU Countries (difference between contributions and funds received)

	2003		2002		
	€ mn	% of GDP	€ mn	% of GDP	€/inhabitant, 2003
France	-1,911	-0.12	-2,164	-0.14	-32
Germany	-7,652	-0.36	-5,041	-0.24	-93
Italy	-794	-0.06	-2,868	-0.23	-14
Portugal	3,482	2.66	2,694	2.13	333
Spain	**8,733**	**1.21**	**8,880**	**1.29**	**214**
United Kingdom	-2,753	-0.16	2,880	-0.17	-46
EU-15 average	-280	0	-148	0	

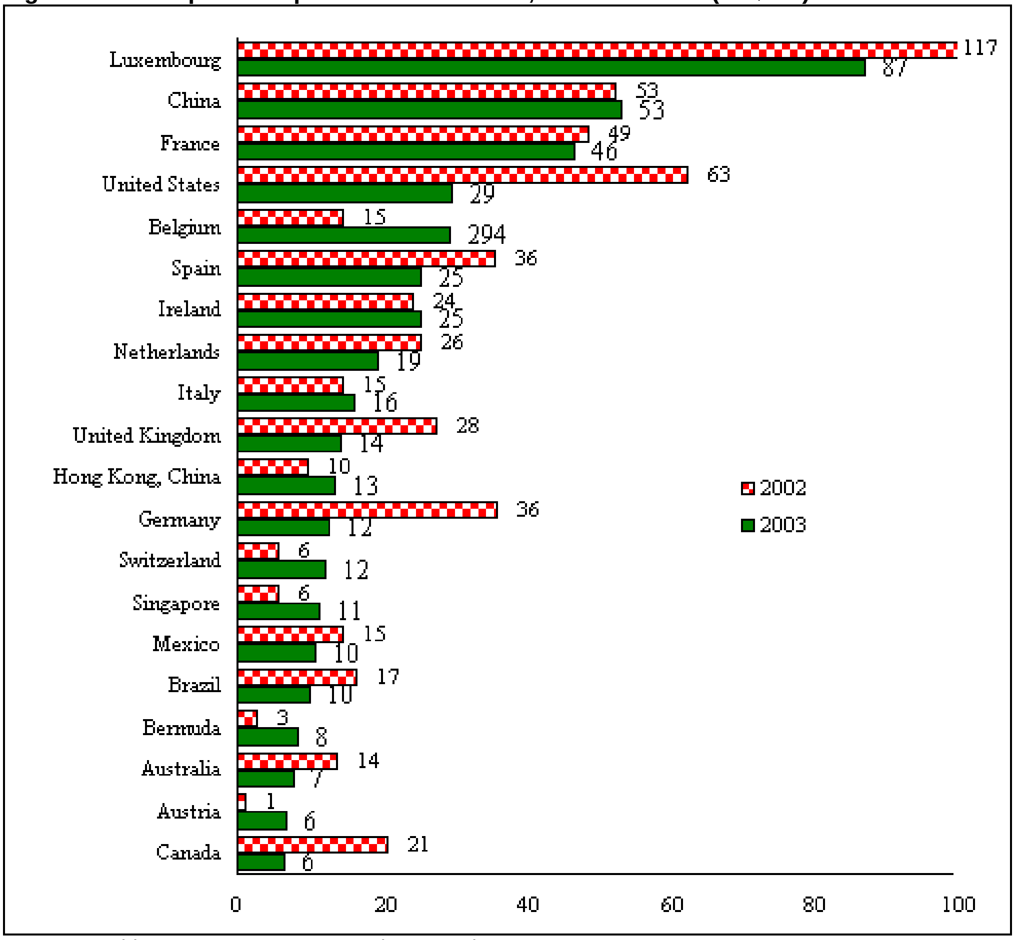
Source: European Commission

Foreign direct investment falls in Spain, but was the fourth largest in the EU in 2003

Spain received US$25.6 billion of foreign direct investment (FDI) in 2003, down from US$36 billion in 2002 but the fourth largest in the EU (see Figure 3). Given that the bulk of Luxembourg's FDI was transhipped (ie, it was not invested in the country), Spain was the third largest recipient.

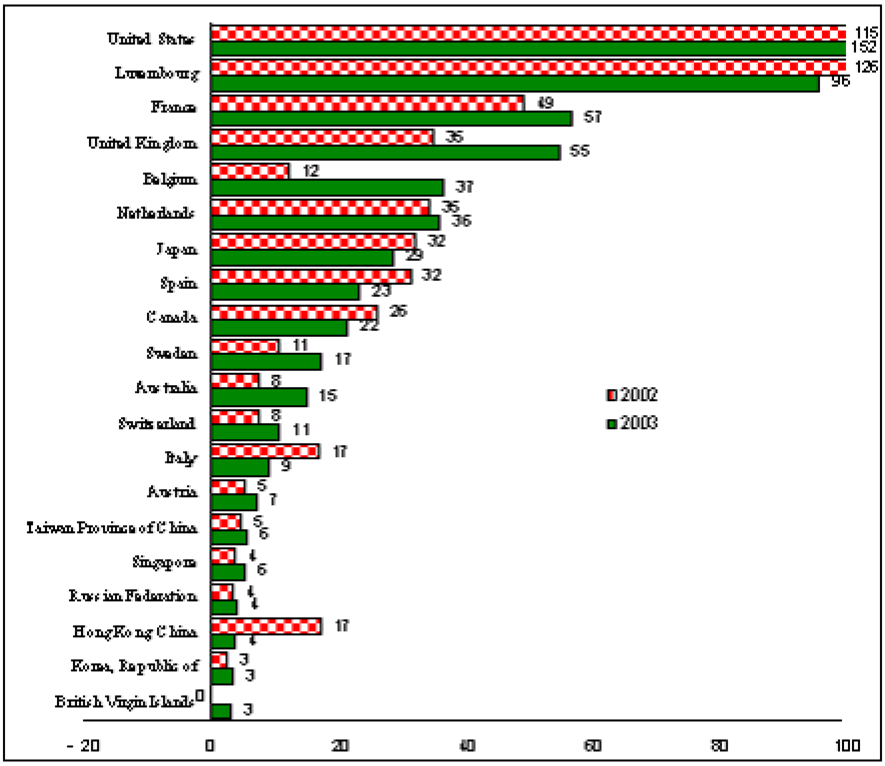
The dip in FDI in Spain was part of a global fall in foreign investment of 18% over 2002 to US$560 billion. Spain's outward investment also declined, from US$32 billion in 2002 to US$23 billion in 2003 (see Figure 4). Spain was a significant net investor abroad between 1997 and 2001. In 2002 and 2003 it reverted to being a net recipient of investment.

Figure 3. The Top 20 Recipients of FDI Inflows, 2002 and 2003 (US$ bn)



Source: World Investment Report 2004 (UNCTAD).

Figure 4. The Top 20 Economies for Outward FDI, 2003 (US$ bn)



Source: World Investment Report 2004 (UNCTAD).

Three Spanish companies –Telefónica, Repsol YPF and Endesa– were among the world's top 50 non-financial TNCs ranked by foreign assets (see Figure 5). Telefónica dropped from the 13th to the 28th position, Repsol YPF from the 31st to the 41st and Endesa entered the list. The ranking is based on foreign assets (in 2002), and both Telefónica and Repsol reduced them.

Figure 5. Spain's Companies in the World's Top 50 Non-Financial TNCs, Ranked by Foreign Assets[1]

Ranking				*US$ mn*				*Employment*		
				Assets		*Sales*		No. of Employees		
Foreign Assets	TNI[2]	Company	Country	Foreign	Total	Foreign	Total	Foreign	Total	TNI[2] (%)
28	63	Telefónica	Spain	35,720	71,327	11,286	26,874	88,401	152,845	50.0
41	72	Repsol YPF	Spain	23,121	39,902	11,303	34,516	14,072	30,110	45.8
45	83	Endesa	Spain	22,460	50,503	5,528	16,305	12,334	26,354	41.7

(1) Based on 2002 data.
(2) The transnationality index (TNI) is calculated as the average of the following three ratios: foreign assets to total assets, foreign sales to total sales and foreign employment to total employment.
Source: World Investment Report 2004 (UNCTAD).

Single Iberian electricity market to start in June 2005
The much delayed single electricity market for Spain and Portugal, agreed in November 2001 with an original start-up date of January 2003, will begin in June 2005, according to an agreement between the two governments. It would be Western Europe's fifth-largest power market after Great Britain (see *Spain and Portugal: From Distant Neighbours to Uneasy Associates* by William Chislett, *www.realinstitutoelcano.org/documentos/134.asp*).

Spain's 'more transparent business climate' than France and Italy
Spain's business climate is more transparent than France's and Italy's but is still far from that of Finland and the United Kingdom, according to the latest Opacity Index (see Figure 6).

The index measures the risks associated with unclear legal systems, regulations, economic policies, corporate governance standards and corruption in 48 countries. The final score is the average of five sub indices. Britain has become more transparent over the years, while America's rating has fallen.

Figure 6. EU Countries in the 2004 Opacity Index (100 = complete opacity)

Country	Score
Finland	13
United Kingdom	13
Denmark	19
Sweden	19
Austria	23
Belgium	23
Netherlands	24
Germany	25
Ireland	26
Spain	**34**
Portugal	35
Hungary	36
France	37
Greece	41
Poland	41
Italy	43

Source: Kurtzman Group, Milken Institute.

Education levels rising, but shortcomings in some areas
One quarter of Spain's 25-34 year age group has a university degree, well above the OECD average of 19% and only bettered by four countries, but the proportion of 20 to 24-year olds not in education and without upper secondary education is almost 32%, much worse than the country mean of 19% and only surpassed by Mexico, Portugal and Turkey.

The OECD's Education at a Glance 2004 (based on 2002 data) offers a fascinating snapshot. Among other things it clearly brings out the attainment differences between the pre- and post-Franco generations, testifying to the substantial investment made since the dictator died in 1975. For example, only 17% of the 25-64 year age group has a university qualification compared with 25% for 25-34 year olds.

State spending on education represents 4.3% of GDP, against an average of 5% (including private spending it is 4.9% and the average is 6.2%) and expenditure per student from primary to tertiary education is US$5,385 (compared with a country mean of US$6,190).

State primary school pupils receive 880 hours of teaching a year, 77 hours more than the average, but in lower and upper secondary education students only receive 564 and 548 hours, respectively, compared with the averages of 714 and 674 hours.

Surprisingly, perhaps, starting salaries for primary teachers in Spain (US$28,161) are among the highest in the OECD area. Only four countries pay more: Denmark, Germany, Switzerland and the US. And, less surprisingly, Spanish females are significantly better than males in reading.