

Inside Spain Nr 110
(22 September-21 October)
William Chislett

Summary

Spain wins UN Security Council seat.

Catalan President scraps independence referendum, plans another form of consultation.

Public debt to exceed 100% of GDP in 2015, forecast to decline as of 2016.

Telefónica completes €8.6 billion purchase of Germany's E-Plus.

Foreign Policy

Spain wins UN Security Council seat

Spain was elected to the UN Security Council for two years as of January, but only by beating Turkey in the third round of run-off voting for the second of two Western seats.

New Zealand won in the first round with 145 votes from the UN's 193 member states. Spain won 132 votes (129 were needed) and Turkey 60.

This will be the fifth time that Spain has formed part of the Security Council, representing 'Western Europe and others', a group that has always elected at least one EU country since the 1980s. Spain was the only candidate from the EU. It also won votes from Latin America and the Caribbean, with the notable exception of Brazil.¹

Winning one of the rotating seats was a personal victory for José Manuel García-Margallo, the Foreign Minister, who reportedly spent more time over the last month in New York drumming up support for Spain than in Madrid. He admitted it was a tough fight.

He passed up attending the Nato summit in Wales in September in order to travel and win the support of Pacific Rim countries. Prime Minister Mariano Rajoy also campaigned for Spain by attending the African Union summit and King Felipe put in a word when he addressed the UN General Assembly.

¹ For a fuller analysis (in Spanish) see the commentary by Ignacio Molina at http://www.realinstitutoelcano.org/wps/portal/web/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/zonas_es/comentario-molina-espana-en-el-consejo-de-seguridad-onu-2015-2016-apuntes-cuatro-planos#.VEIa68IcTcs.

Spain and the UK inch towards ad hoc talks on Gibraltar

Spain's victory in winning a seat on the UN Security Council and the possibility that Madrid and London reach a consensus decision on Gibraltar following this month's meeting of the UN General Assembly's Fourth Committee, which is not just the usual presentation of each side's well-worn positions, could result in ad hoc talks on the thorny issue of the UK overseas territory long claimed by Spain finally taking place.

Spain withdrew from the Trilateral Forum for Dialogue (London, Madrid and Gibraltar) in 2011 after the Popular Party won the general election. Since then there has been no mechanism for discussing common issues other and little more than megaphone diplomacy.

The consensus decision at the Fourth Committee (also known as the Special Political and Decolonisation Committee) is normally drafted by the end of the session and released publicly a month or more later. The decisions and statements on other territories went through as usual but the one on Gibraltar is apparently nowhere near concluded although it is being worked on.

Tensions have also risen because of the dumping by Gibraltar in July 2013 in contested waters of 72 concrete blocks to create a small reef and regenerate depleted fish stocks (deemed legal by the European Commission).

This move prompted Madrid to impose stringent controls at the border, which continue to create massive queues on either side during busy times.

The Spanish government wants a return to the 1984 Brussels Declaration and bilateral talks on issues including sovereignty.²

The statements by Spain and the UK at the Fourth Committee reinforced once again the entrenched positions on both sides and the different interpretations of the history of Gibraltar –ceded to Britain under the Treaty of Utrecht of 1713–.

While, for Spain, 'the principle of self-determination does not apply because there is a conflict of sovereignty and therefore the principle of territorial integrity prevails', Britain 'will not enter into arrangements under which the people of Gibraltar would pass under the sovereignty of another State against their freely and democratically expressed wishes'.

Madrid wants a 'new regional cooperation framework dealing exclusively with issues that directly affect the cooperation between inhabitants on both sides of the Fence [the government's term for the border], which would involve

² The relevant text says: 'The establishment of a negotiating process aimed at overcoming all the differences between Spain and the United Kingdom over Gibraltar and at promoting co-operation on a mutually beneficial basis on economic, cultural, touristic, aviation, military and environmental matters. Both sides accept that the issues of sovereignty will be discussed in that process. The British government will fully maintain its commitment to honour the wishes of the people of Gibraltar as set out in the preamble of the 1969 constitution'.

Spain, the UK, Gibraltar and the ‘competent Spanish and local regional authorities’.

Fabian Picardo, Gibraltar’s Chief Minister, said the ad hoc talks would be akin to the technical level discussions under the Trilateral Forum where officials met to try and prepare matters for the political level talks. ‘If we do not agree to something, it does not progress, and the same is true for all the other parties that are present’.

Meanwhile, the Spanish Foreign Ministry denied a report in the *Wall Street Journal* that said the dispute over Gibraltar was driving Spain to veto the UK’s role in Europol, the EU’s law enforcement agency, and other arrangements.³ The substance of the report was confirmed, however, by a senior British diplomat.

Last year London exercised the UK’s right under the Lisbon Treaty to opt out from all EU police and criminal justice measures. He said the government had put forward a package of measures for the UK to re-join that the European Commission and all member states except Spain had accepted.

Rajoy visits China, signs business deals worth €3 billion, ends spat over universal jurisdiction

Prime Minister Mariano Rajoy signed agreements with his Chinese counterpart Li Keqiang worth an estimated €3 billion, covering co-operation in areas ranging from the film industry to nuclear safety, telecommunications and tourism.

The official visit also cemented the end of the dispute over Spain’s universal jurisdiction law which led to a court ordering Interpol last February to issue arrest warrants for the former Chinese President Jiang Zemin, ex-Premier Li Peng and three other Chinese officials over alleged human rights abuses in Tibet decades ago.

The move angered the Chinese government and threatened to derail Madrid’s push to deepen bilateral trade and investment relations.

The conservative Popular Party government fast-tracked a legal change one day after the warrants were issued that curbed the use of universal jurisdiction, drawing criticism from international human rights groups and satisfying Beijing.

The doctrine is now only applied when the defendant is Spanish or a resident of Spain, and only public prosecutors and victims are able to bring cases forward, with interest groups barred. The charges against the Chinese President were brought by Tibetan human rights groups in Spain.

³ See <http://online.wsj.com/articles/spain-threatens-u-k-s-inclusion-in-eu-justice-cooperation-1412881174>.

'Despite our different social and cultural systems, there are no fundamental conflicts between us', Chinese President Xi Jinping told Rajoy.

China was Spain's biggest trading partner outside of the EU last year. Bilateral trade amounted to almost US\$25 billion.

The NH Hotel Group signed an agreement in principle with HNA to expand into China.

Spain to send 300 troops to Iraq to train its army...

Ten years after Spanish troops were withdrawn from Iraq by the former Socialist Prime Minister José Luis Rodríguez Zapatero, the Popular Party government will send 300 troops sent to help train the army.

The mission is Spain's contribution to the coalition of 30 countries to combat the Islamic State (IS) jihadist insurgency.

Spain suffered a horrendous terrorist attack by Islamist militants in March 2004 when bombs exploded in commuter trains killing 191 people and wounding more than 1,400. The Popular Party government at that time was an American ally in the war on Iraq.

The attack took place three days before a general election which returned the Socialists to power and led Rodríguez Zapatero to withdraw the troops.

Given the unpopularity of Spain's involvement in the US-led war on Iraq in 2003, which was not sanctioned by the UN, Pedro Morenés, Spain's Defence Minister, denied there was any similarity between the new mission and the last one. Although not part of a UN mission, he said Spain's involvement was legitimated by Baghdad's call for help.

... and contribute €36 million to the recovery of Palestine and Gaza

Spain committed itself at the international donor conference on Palestine and Gaza in Cairo to donate €36 million over the 2014-17 period, at least half of which will be used on the recovery and reconstruction of Gaza.

Spain has traditionally maintained a strong bond of solidarity with the people of Palestine and has been one of the leading donors in terms of Official Development Aid, contributing around €600 million since 2005.

In another development, Simon Manley, Britain's ambassador to Spain, visited Gibraltar with Sir Julian King, a senior British diplomat. This was reportedly the first time a serving British ambassador to Madrid had taken this step.

Domestic Scene

Catalan President scraps independence referendum, plans another form of consultation

Artur Mas, the Catalan President, called off the non-binding referendum on independence planned for 9 November, after the Constitutional Court suspended it, and said another and unspecified form of consultation would take place.

His move prevented a potentially serious confrontation with the central government in Madrid, which would have sparked a constitutional crisis, but drew an angry response from the Catalan Republican Left (ERC), the most avowedly pro-independence party that is leading the charge.

Some in ERC have called for acts of civil disobedience including an illegal referendum and a unilateral declaration of independence. The party is also pushing for an early election, which it would win, as it is the only one that is gaining votes significantly, other than the radical Podemos, according to the latest survey (see Figure 1).

Figure 1. Voting intentions in Catalonia after the Constitutional Court suspends independence referendum (% of votes)

	October 2014 intentions	2012 Catalan election (%)
Catalan Republican Left	19.2	9.4
Convergence and Union	14.8	21.2
Catalan Socialists	9.2	10.0
Citizens	6.5	5.2
Podemos	6.2	–
Initiative for Catalonia	6.1	6.8
Catalan Popular Party	4.5	9.0

Source: Metroscopia survey between 30 September and 2 October 2014.

Mas also faces divisions within the ruling Convergence and Union (CiU), a nationalist coalition between his broadly separatist Catalan Democratic Convergence (CDC) and the largely non-separatist Democratic Union of Catalonia (UDC) which could split away and form a new centrist party.

Were Mas to form an electoral alliance with the ERC on the issue of independence with him heading it, as he has mooted, it could well spark the departure of the UDC from CiU.

Mas's idea of a pseudo referendum under another name would apparently seek to circumvent the legal obstacles on holding such a consultation, but the government could still challenge it when the full details are known.

Criminal probe into credit card scandal rocks the political establishment

An investigating judge summoned for questioning three of the former top leaders of Bankia and the former Caja Madrid after launching a criminal probe into a credit-card scandal involving at least 86 bankers, politicians, businessmen and trade union officials who went on a €15.5 million spending spree between 1999 and 2012.

Bankia's near collapse triggered a €41 billion bailout for Spain's banking sector in 2012, €22 billion of it for Bankia which made the largest ever annual loss in Spain's corporate history.

Those summoned were Rodrigo Rato, a former head of the International Monetary Fund, ex-Bankia chairman and the economy supremo in the previous Popular Party government, Miguel Blesa, the former chairman of Caja Madrid, the main savings bank that merged with five others to form the ill-fated Bankia in 2010, and Idefonso Sánchez Barcoj, Caja Madrid's chief financial officer.

The three face possible charges of misappropriation of company funds and embezzlement. Judge Fernando Abreu set a €3 million court bond for Rato and €16 million for Blesa.

They were met at the court with yells of 'Thieves!' from protestors who say they lost their savings when Bankia collapsed.

The 86 held 'opaque' corporate credit cards as part of their remuneration for serving on one of Caja Madrid's boards or its foundation, and did not have to justify the spending. Of the 86, 27 are or were members of the ruling Popular Party, 15 of the opposition Socialists, five of United Left and 10 trade union leaders.

Publication in the media of the cardholders' itemised and lavish spending in a name and shame exercise, including after Bankia was nationalised, has caused widespread outrage in a country that is already experiencing a wave of corruption cases. The case provides further evidence of the widespread perception of the political class as a 'cast'.

Sánchez Barcoj, with a salary of €2.4 million, spent €574,000 on his card including cash withdrawals amounting to €180,000; Blesa, with a salary of €3.5 million, ran up bills of €436,700, including €10,000 on wine and €9,000 on a safari in South Africa; and Rato, with a salary of €2.7 million, spent €99,036 on hotels, restaurants and travel. More than half (52%) of the €15.5 million was spent on holidays and weekend leisure activities.

The Tax Agency is also investigating the use of the cards. Bankia has opened an account so that money can be returned.

Heads were quick to roll once the media published the details, including the Director-General of the Economy Ministry in the Madrid region, the chief of staff of the Secretary of State in the Budget Ministry and two trade union leaders. Rafael Spottorno, the former head of the royal household, resigned as an adviser to King Juan Carlos, who abdicated in June. He denied he had abused his card.

The scandal exposed the close links between politicians and the regionally-based savings banks. Their number has fallen from 45 to eight since 2008.

Rajoy withdraws divisive and tighter abortion bill, Justice Minister resigns

Prime Minister Mariano Rajoy decided not to move ahead with a controversial and restrictive abortion bill that provoked widespread criticism including from within his ruling Popular Party. As a result, Alberto Ruíz Gallardon, the Justice Minister and architect of the reform, resigned.

Had it become law, it would have rolled back parts of the 2010 law that brought this issue broadly into line with the rest of Europe.

That law, passed by the previous Socialist government, allows women to opt for abortion in the first 14 weeks of pregnancy, and up to 22 weeks if the foetus is seriously deformed or if the birth poses a serious health risk to the mother.

The scrapped bill, adopted by the cabinet last December, would have made it more difficult for a woman to cite mental distress over an unwanted pregnancy as a health risk. It proposed allowing abortion only for women whose pregnancies result from rape or threaten them with serious health risks, and no longer in cases of serious foetal abnormalities.

By bowing to pressure to keep the existing law, Rajoy, with one eye on next year's municipal and general elections, alienated the most conservative elements in the PP and burnished his centrist credentials.

An opinion poll by Metroscopia showed that 75% of respondents welcomed the scrapping of the bill. Just over half (52%) of PP voters and 85% of Socialist voters supported the move.

The government, however, has not abandoned the issue: it will seek to reverse the current situation that allows 16 and 17-year-olds to have an abortion without parental consent, something that does enjoy majority support.

'We'll continue working towards cohesion but we cannot have a law which will just change when the next government comes in', said Rajoy referring to the Socialists who said they would scrap the law if they were returned to power.

Transparency International hits out at lack of lobbying regulations

Spain needs to regulate lobbying of the executive and legislative branches as part of the efforts underway to restore public confidence in the political class battered by corruption scandals.

The government and opposition parties are discussing reforms to 'regenerate' democracy, but the regulation of lobbying is limited to a register of lobbyists in the parliament. There have been repeated promises over the past 36 years to

regulate lobbying along the lines of other European countries and missed opportunities to do so.

According to a report by Transparency International's chapter in Spain,⁴ funded by the European Commission, Spain has an 'incredibly low' overall score of 21% in the areas of transparency, integrity and equality of access to public officials (see Figures 2-4). The score is based on a survey that asked 65 questions that address two points: 'How well is Spain insulated against unfair and opaque lobbying?' and 'How strong are mechanisms to ensure transparency, integrity and equality of access to public decision-makers?'.

The worst area is transparency in lobbying (10%), both by public authorities (access to information, mandatory registration of lobbyists and sanctions, legislative footprint) and by those who exercise lobbying (information disclosure).

Figure 2. Transparency in lobbying (%)

	%
Access to information	33
Registration and disclosure by lobbyists	7
Oversight of register and sanctions	0
Legislative footprint	0
Value	10

Source: Transparency International España.

Figure 3. Integrity (%)

	%
Post-employment and pre-employment restrictions	58
Code of conduct for public sector employees	58
Code of conduct for lobbyists	0
Self-regulatory code(s) of ethics	25
Value	35

Source: Transparency International España.

Figure 4. Equality of access (%)

	%
Consultation and public participation in decision-making	33
Advisory/Expert group composition	0
Value	17

Source: Transparency International España.

As evidence that lobbying is prevalent in Spain, 56% of politicians surveyed say they have talked with lobbyists and they do it because it is their duty to do so. Despite the negative images associated with lobbying, 86% concluded that lobbying does indeed contribute to policy development.

It is a widely believed that money buys influence in Spain. According to the 2013 Eurobarometer, 77% of Spaniards believe that corruption is part of the country's business culture, while 67% believe that the only way to succeed in business is through political connections. Moreover a staggering 84% of people believe that bribery and corruption are the easiest way to obtain public services. These perceptions are higher among companies.

⁴ See http://www.transparencia.org.es/Estudio_Lobby/Resumen_ejecutivo_ingl%C3%A9s.pdf.

Parliament approved a resolution earlier this year that included lobbying regulation, but Transparency International points out that the most consequential lobbying activity in Spain is not in the legislature but the executive and the leadership of the main parties.

This is because parliamentary elections are held in Spain with closed and blocked lists of candidates that give party leaders enormous power over their elected representatives. As a result, trying to influence an MP in Spain is a less effective effort than targeting the party leadership.

Spain's first Transparency Law, also criticised as inadequate by Transparency International, comes into effect in December at the state level (a year later for municipal and regional governments).

The Economy

Public debt to exceed 100% of GDP in 2015, forecast to decline as of 2016

Spain's gross public debt, which has ballooned since 2007 as a result of the bursting of a massive housing bubble and a recession that eroded public finances (see Figure 5), will surpass 100% of GDP next year and peak as of 2016 when the government hopes to run a primary budget surplus (excluding interest payments on the debt).

Figure 5. The rise and rise of Spain's gross public debt (% of GDP)

	2005	2007	2009	2011	2013	2014	2015F
Gross public debt	43.3	36.3	54.3	71.1	94.4	97.6	100.3

Source: Economy Ministry.

Cristóbal Montoro, the Budget Minister, announced the mixed news when he presented the budget for 2015. He said the budget deficit target of 4.2% of GDP agreed with Brussels would be achieved, despite tax cuts worth €9 billion and greater spending on education and infrastructure.

Interest payments on the debt are estimated at €35.5 billion in 2015, 12% more than in 2014, despite the sharp drop in the yield on Spanish debt due to the improved macroeconomic fundamentals, which works out at close to €100 million a day.

Civil servants' salaries will be frozen for the fifth year running and state pensions will rise by 0.25%.

The return to growth (2% next year) is reflected in lower spending on unemployment benefits which are budgeted at 15% less than this year, but still a hefty €25.3 billion.

The number of people registered as unemployed stood at 4.44 million in September, 276,705 less than a year ago. The number of jobless rose by 19,720 in September, the smallest rise since 2007. Unemployment increases that month because of the end of the summer holiday season. On a

seasonally-adjusted basis the number fell by 33,127, the best figure for September since the series began. Of the 4.44 million, 2.52 million were receiving unemployment benefits.

The stated jobless figure, released every three months and based on household surveys, is much higher at 5.6 million, as it includes people who say they want to work but who are not registered as jobless because they do not think it worthwhile, or wish to avoid controls as they are working in the black economy.

While more people are obtaining permanent contracts, under new hiring arrangements, though sometimes for no more than a couple of hours a day, the proportion on temporary contracts remains high, particularly those under the age of 24, as does the share of the long-term unemployed in total unemployment (see Figure 6 and Figure 7). The situation has not improved much since 2013.

Figure 6. Young employees on temporary contracts (% of total employed)

	2013	2010
Poland	68.6	64.5
Spain	64.7	58.4
France	58.6	55.2
Germany	52.8	57.2
Italy	52.5	46.7
EU-28	42.7	42.1
UK	14.7	13.7

Source: Eurostat.

Figure 7. Long-term unemployment (% of total unemployment)

	2013	2010
Italy	56.4	48.0
Spain	49.7	36.6
Castile-La Mancha	54.2	33.7
Galicia	50.3	35.8
Madrid	50.2	35.1
Basque Country	49.1	32.6
EU-28	47.4	40.1
Germany	44.4	45.3

Source: Eurostat.

While the government forecasts 348,200 jobs will be created next year, the IMF's projection is much lower at 130,000. Both, however, say the jobless rate will drop below 24%, to 22.9% in the case of the government and 23.5% the IMF (see Figure 8). The IMF is also more pessimistic about the budget deficit: 4.7% of GDP as opposed to the government's 4.2%.

Figure 8. IMF forecasts for 2015 and 2016

	2014	2015	2016
GDP growth (%)	1.3	2.0	1.8
Average inflation (%)	0.0	0.6	0.9
Jobless rate (%)	24.6	23.5	22.4
Budget deficit (% of GDP)	-5.1	-4.7	-3.8
Public debt (% of GDP)	98.6	100.0	102.0

Source: IMF, World Economic Outlook, October 2014.

Spain's recession was deeper than originally thought. As a result of a revision of the way GDP is calculated, the economy declined 7.3% between 2008 and 2013 and not 6.7%. The new calculation includes an estimate of illegal activities such as prostitution and drug trafficking.

The Spanish economy will drop from 13th to 14th position in the ranking of world economies in 2014 in current dollars and from 14th to 16th place in terms of purchasing power parity, according to the IMF (see Figure 9).

Figure 9. Ranking of world economies in 2014 in current dollars and purchasing power parity (US\$ trillion)

	Purchasing power parity ranking	Ranking by current dollars (US\$ trillion)
China	(1) US\$17.63	(2) US\$10.35
US	(2) US\$17.41	(1) US\$17.41
India	(3) US\$7.27	(10) US\$2.04
Germany	(5) US\$3.62	(4) US\$3.82
France	(8) US\$2.58	(5) US\$2.90
UK	(10) US\$2.43	(6) US\$2.84
Italy	(12) US\$2.05	(8) US\$2.12
Spain	(16) US\$1.53	(14) US\$1.40

Source: IMF, World Economic Outlook, October 2014.

Exports lose steam, car output puts Spain back in top 10 world ranking

Exports of goods in August were 5.1% lower year-on-year at €16.43 billion, the sharpest slowdown since the last months of 2009, while imports rose 0.5% to €19.11 billion.

The fall in exports reflected the stagnation in the euro zone and the increase in imports the incipient recovery in Spain's domestic market.

Exports in the first eight months were 0.9% higher at €157.19 billion and imports 5.8% more at €173.67 billion. The trade deficit of €16.48 billion was almost double that in the same period of 2013.

The motor industry accounted for 14.5% of total exports. The almost 12% rise in output of cars in the first half of this year to close to 1.3 million units saw Spain return to the ranking of the world's top 10 producers (in ninth place).

Spaniards work a longer day than Germans

Contrary to popular belief abroad, Spaniards do not have a short working day because of siestas and endless coffee breaks.

They worked on average 1,665 hours in 2013, 327 more than Germans (see Figure 10).

Figure 10. Hours worked annually in 2013

	2013
US	1,788
OECD average	1,770
Italy	1,752
UK	1,669
Spain	1,665
France	1,489
Germany	1,388

Source: OECD.

Corporate Scene

Telefónica completes €8.6 billion purchase of Germany's E-Plus...

Telefónica finally closed its acquisition of KPN's German mobile operator, E-Plus, making it the market leader.

E-Plus and Telefónica's German 02 network will have some 41 million customers between them and a market share in line with that of Vodafone and Deutsche Telekom.

Telefónica will hold 62.1% of the new company and KPN of the Netherlands 20.5%.

The deal was closely scrutinised by regulators over the last year and Telefónica had to make some concessions.

... Gas Natural to make bid for Chile's main electricity company

Gas Natural is to step up its presence in Latin America with a US\$3.3 billion offer to acquire Compañía General de Electricidad, Chile's largest electricity distributor.

Including debt, Gas Natural said the value of the deal would be about €6 billion, making the transaction its biggest foreign acquisition and the largest purchase of a utility in Latin America.

Sacyr wins €490 million metro contract in Brazil...

Somague, a subsidiary of Sacyr, was part of a consortium that won a €490 million contract to build part of the metro in São Paulo. This is Somague's fourth contract for the city's metro network.

... ACS gains €435 million toll road contract in the US...

ACS is to build and operate for 35 years a toll road in Portsmouth, Ohio. It beat off a US company and Spain's Ferrovial to win the €435 million contract.

ACS entered the US in 2006 and has projects worth around €7 billion.

... Ferrovial in take-over bid for Australian Transfield Services

Ferrovial, the infrastructure group, launched a €680 million take-over bid for Transfield Services, the Australian outsourcing and construction services company that runs offshore immigration centres.

The offer came a week after it joined Macquarie of Australia to take over Glasgow, Aberdeen and Southampton airports.

Insurer Mapfre buys Direct Line's units in Italy and Germany

Spanish insurance company Mapfre agreed to buy the Italian and German businesses of Direct Line, Britain's largest motor insurer, for €550 million. The deal will add 1.6 million clients.

European Commission orders Spain to recover illegal state aid

The government must recover the illegal state aid granted to Spanish companies which gave them an unfair advantage when making foreign acquisitions.

The final decision by the European Commission to abolish a tax practice followed rulings made in 2009 and 2011 regarding purchases of EU and non-EU companies.⁵

Spain allowed companies to deduct from their corporate tax base the financial goodwill resulting from the purchase of more than 5% of a foreign company. The scheme helped companies such as Telefónica, Iberdrola and Santander beat rivals in their purchases.

Spain was ordered to recover any aid granted, but the authorities continued to allow companies to deduct financial goodwill from indirect foreign shareholdings, through the purchase of non-resident Spanish holding companies. The Commission concluded that this was also illegal.

⁵ See http://europa.eu/rapid/press-release_IP-14-1159_en.htm.