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Summary

Spain's call for Britain to share sovereignty of Gibraltar rebuffed.
Socialists in crisis, soul searching over allowing a new Popular Party government.
Three former Popular Party treasurers in macro corruption trial.
Spain continues to overshoot budget deficit target.

Foreign Policy

Spain's call for Britain to share sovereignty of Gibraltar rebuffed

Spain has formally invited the UK to open negotiations on sharing the sovereignty of Gibraltar so that the mandates of EU treaties can keep being applied there, Spain's UN ambassador Roman Oyarzun told the Special Committee on Decolonisation.

Madrid has long claimed the Rock on Spain's southern tip, which was ceded to Britain in 1713 under the Treaty of Utrecht. Spain cites the UN principle of territorial integrity, through UN resolution 1514 (XV) –which says ‘any attempt at the partial or total disruption of the national unity and the territorial integrity of a country is incompatible with the purposes and principles of the Charter of the United Nations’–. For the UK it is the preference of the inhabitants that is paramount.

King Felipe VI described Gibraltar as ‘an anachronism’ during a speech to the UN General Assembly last month.

Fabian Picardo, Gibraltar's Chief Minister, rejected the proposal. A similar one between Britain and Spain was aired more than a decade ago and rejected by 98.9% of Gibraltarians who cast their votes in a referendum in November 2002.

‘When it comes to the question of whether we will transfer all or any part of our sovereignty to Spain our answer will never change’, Picardo said. ‘It is simple: no way, José! You will never get your hands on our Rock. Never’.

With the UK due to leave the EU as of 2019, as a result of the Brexit referendum, Spain's caretaker Popular Party (PP) government thinks it is in a stronger position to resolve to its satisfaction the acrimonious sovereignty row. The PP has been very vocal on the issue of Gibraltar and is likely to form the next government soon, after a 10-month hiatus following two inconclusive elections.

Gibraltarians, unlike those in mainland Britain, voted overwhelmingly in favour of staying in the EU. Oyarzun said joint sovereignty 'would allow Gibraltar to remain in the EU'.

Under the proposal, Gibraltarians would be able to keep their British nationality and gain Spanish citizenship. London has made it clear it would not enter any negotiations with which Gibraltar was not happy. Madrid's position is that Gibraltar's decolonisation is a bilateral matter 'exclusively' for the UK and Spain.

With the UK out of the EU, the border between Spain and Gibraltar would become an external and not an internal EU frontier (which, as at present, has to be kept open under EU rules). As such, Spain could close it and a legal challenge by the UK/Gibraltar would be more difficult.

EU membership has provided Gibraltar with a framework of treaties and laws that give the territory a degree of security, stability and safety, while the Rock's tiny economy, based on financial services, online gaming and tourism (much of it from Spain's Costa del Sol), has boomed. Some 23,000 visitors and 7,000 workers (mainly Spaniards from Andalusia, one of the country's most depressed regions) cross the border daily. There is full employment, in contrast with Spain's jobless rate of 20%, and housing has become so expensive on the densely populated territory that living in Spain has become an increasingly attractive option. For international investors, Gibraltar sells itself as a 'gateway to Europe'.

The key issue for Gibraltar is free flowing movement across the border –more than single market access, as much business is conducted directly with the UK and that can continue–. But unless offices can get their workers across the border, and shops, restaurants and construction firms can get their goods reliably into Gibraltar, a lot of what goes on now will have to be reassessed. Morocco could hold the answer to many of these issues.

A sign of the tougher times facing Gibraltar is that the British diplomat Alison MacMillan, the former Deputy Governor of Gibraltar and then acting Governor, was due last month for a new posting but is staying as the link between the UK and Gibraltar on Brexit

Domestic Scene

Socialists in crisis, soul searching over allowing a new Popular Party government

The ousting of Pedro Sánchez, the Socialists' leader, after a fierce power struggle, is expected to lead to that party allowing the conservative Popular Party (PP) to form a minority government after 10 months of deadlock and a fragmented parliament, following two inconclusive elections.

King Felipe will consult with party leaders on 24 and 25 October and if parliament does not vote in a new government by the end of the month there will be a third election during the Christmas period.

The PP, with 137 of the 350 seats, has the support of the centrist Ciudadanos (32 seats), but needs a handful of 'yes' votes from other parties or abstentions to win the day. These would come from the Socialists or perhaps the Basque Nationalist Party (PNV, five seats) and a couple of Socialists MPs.

The trench warfare among the Socialists came to a head earlier this month when Pedro Sánchez lost the confidence of the 300-strong federal committee after a marathon meeting that lasted for 12 hours, which spilled over into the street outside the party's headquarters with rival factions insulting one another and the –unknown– Verónica Pérez, the chairman of the committee, shouting, 'At this moment the only authority that exists is the chairman of the federal committee is me, like it or not'. A local shopkeeper prepared a giant paella for the crowd of restless journalists.

The meeting followed Sánchez's call for a party primary and congress, in a bid to shore up his weakened position and head off his critics, poor results for the Socialists in regional elections in Galicia and the Basque Country (see Figures 1, 2 and 3) and an attack on him by Felipe González, a former Socialist Prime Minister between 1983 and 1996 and a generally respected figure. Gonzalez said he felt 'cheated' as Sánchez had told him after the June election that the party would abstain to enable a minority PP government to be formed.

Figure 1. Results of Basque elections, 2016 and 2012, seats and % of votes

	2016 seats	2016 % of votes	2012 seats	2012 % of votes
Basque Nationalist Party	28	37.6	27	34.6
EH Bildu	18	21.2	21	25.0
Elkarrekin Podemos	11	14.8	–	–
Socialists	9	11.9	16	19.1
Popular Party	9	10.2	10	11.8
Ciudadanos	0	2.0	–	–
UPyD	–	–	1	1.9

Source: Basque government.

Figure 2. Results of Galician elections, 2016 and 2012, seats and % of votes

	2016 seats	2016 % of votes	2012 seats	2012 % of seats
Popular Party	41	47.5	41	45.8
En Marea	14	19.1	–	–
Socialists	14	17.9	18	20.6
BNG-Nós	6	8.4	7	10.1
AGE (1)	–	–	9	13.9

(1) Galician Left Alternative.

Source: Galician government.

Figure 3. Results of Popular Party and Socialists in Basque and Galician elections, 2005-16 (% of votes)

	2005	2009	2012	2016
PP Galicia	45.0	46.6	45.8	47.5
Socialists Galicia	33.1	31.0	20.6	17.9
PP Basque Country	17.4	14.1	11.8	10.2
Socialists Basque Country	22.7	30.7	19.1	11.9

Source: Basque and Galician governments.

In military jargon, González's outburst was the signal flare that sent Sánchez's critics over the top from their trenches. The charge was led by Susanna Díaz, the President of Andalusia, Sánchez's most powerful foe, who covets the job as the party's secretary general.

Sánchez boxed himself into a corner by repeatedly denying the PP support. His mantra of 'no means no' was resonant of Theresa May's 'Brexit means Brexit', except that there can be a hard or a soft Brexit but only one 'no'. Yet Sánchez never came up with a realistic alternative and had neither the electoral strength nor the political allies to form a government. His only alternative was a government with the far left Podemos, with whom there is no love lost, and MPs who are Catalan separatists, a cause the Socialists do not back. The Socialists agreed a pact with Ciudadanos after the December election for a minority government but this was blocked by Podemos.

Acting Prime Minister Mariano Rajoy, meanwhile, has been a master of what some call 'strategic patience', meaning that that he left it to the other political leaders to move and possibly burn themselves while he appeared to stand still and do nothing.

The catchphrase of Javier Fernández, chairman of the Socialists' interim management group, is 'abstention does not mean support', which represents a significant shift. The Socialists have to decide what is the least bad option and whether they can extract a price for their support and soften the climb down.

The party membership want neither a new PP government nor third elections. They fear the PP would gain more seats and Podemos would overtake the Socialists and become the main party of the left, which would be a devastating blow for the party, although Podemos is also riven by divisions over its strategy.

These fears are borne out by the latest Metroscopia poll, which shows the PP's share of the vote rising to 38.6% if there is a third election, and the Socialists dropping to third place with 18.0% (see Figure 4). A majority of Socialists voters said the party should abstain.

Figure 4. Voter intention (% of valid votes)

	2011 election	20 Dec. 2015 election	7 Feb. 2016	3 Apr.	26 June election	9 Sept.	13 Oct.
PP	44.6	28.7	24.0	27.7	33.0	34.8	37.8
Socialists	28.8	22.0	23.3	21.0	22.7	21.3	18.0
Podemos	–	20.7	19.9	15.9	21.1 (1)	21.1 (1)	22.1
Ciudadanos	–	13.9	18.5	18.8	13.0	12.0	11.6

(1) Unidos Podemos.

Source: Metroscopia.

The Socialists' share of the vote in general elections dropped from 48% in 1982, when it swept to power and became the engine of Spain's modernisation, to almost 23% in June of this year (see Figure 5). Its problems and decline is similar to that of other European social democratic parties.

Figure 5. The decline of the Socialists, 1982-June 2016 (% of total votes in general elections)

1982	1986	1989	1993	1996	2000	2004	2008	2011	2015	2016
48.1	44.1	39.6	38.8	37.6	34.2	42.6	43.9	28.8	22.0	22.7

Source: Interior Ministry.

Ex-Catalan Premier to go on trial for Catalan for independence referendum, successor calls another ballot

Artur Mas, the former Premier of Catalonia, will stand trial for holding a mock referendum in November 2014. The move followed on the heels of a promise by his successor,

Carles Puigdemont, to call another referendum next September that he would regard as binding.

Mas is accused of serious disobedience and malfeasance for authorising the non-binding ballot. If found guilty, he faces a 10-year ban on holding public office.

The Constitutional Court upheld the government's ban on the referendum.

Puigdemont hopes to win an agreement from Madrid for next year's referendum, which is most unlikely. If he does not, he has vowed to press ahead. 'If by July there has been no positive response, we will be prepared to climb the last step and call a referendum'.

A poll in July showed almost 48% of Catalans in favour of independence.

This referendum would culminate what the pro-independence camp calls a 'disconnection' with Spain. The ballot would be held under laws passed by the Catalan regional parliament (a majority of whose members are in favour of independence). Although these laws would be annulled by the Constitutional Court, the Catalan government would regard them as the only valid ones and would continue to apply them. As a result, for the secessionists, the ballot would be legally binding. At that stage, Catalonia would be close to a de facto independence. The next phase would be to control the tax system for the region, which is already decentralised (Barcelona collects and transfers part of the receipts to Madrid). The Catalan government could refuse to make any more transfers.

Under the Catalan government's roadmap, the regional parliament will have approved all of the laws needed for an independent state by the end of July.

Three former Popular Party treasurers in macro corruption trial...

Spain's biggest corruption trial in years opened. Among the 37 people in the dock are three former treasurers of the ruling PP including Luis Bárcenas, accused of salting away €8 million in various Swiss bank accounts.

The so-called Gürtel kickbacks-for-contracts case is the first in a series of macro trials that will examine corruption during Spain's boom years that tainted not just the PP. Francisco Correa, the alleged ringleader, who handed out bribes in exchange for contracts between 1999 and 2005, faces up to 125 years if found guilty. He went by the nickname 'Don Vito', after the main character in the film The Godfather.

The scandal led to the resignation two years ago of Ana Mato, the Health Minister. Her former husband, Jesús Sepúlveda, one of the 37 defendants, is on trial for embezzlement, fraud and peddling influence while Mayor of Pozuelo de Alarcón.

The PP is also alleged to have benefited from illegally obtained funds, though it is not facing criminal charges.

... Former IMF chief Rodrigo Rato in Bankia fraud trial

Rodrigo Rato, a former Managing Director of the IMF (2004-07) and before that the Popular Party's Economy Minister (1996-2004), and 64 other bankers went on trial in the court room next to the one for the Gürtel case for allegedly running up around €12 million on 'unofficial' company credit cards at Bankia that were used for purchases such as travel and fine clothes that had nothing to do with their duties.

Bankia, created out of the merger of seven struggling regional savings banks in December 2010, was rescued in 2012 at public expense after it was floated on the Spanish stock market. Rato, Chairman of Bankia, was forced to resign shortly before the bank was bailed out and partly nationalised.

Prosecutors are seeking four-and-a-half years in jail for Rato and six for Miguel Blesa, the former Chairman of Caja Madrid, the largest of the banks that was merged to create Bankia, Spain's fourth-largest bank. If found guilty, Rato could also face a €2.7 million fine, and Blesa a fine of €9.3 million.

An opinion poll in September by the government-funded CIS ranked corruption as Spaniards' second biggest concern after unemployment.

Council of Europe criticises politicisation of system for electing the judiciary governing body

The Council of Europe's Group of States against Corruption (Greco) hit out at the way the members of the General Council of the Judiciary (CGPJ), the governing body of the Spanish judiciary, are chosen.

The CGPJ's 20 members are appointed by parliament and the Senate on the basis of a simple majority (previously, before a controversial reform in 2013, by a three-fifths supermajority vote). As a result, they are still perceived as being largely beholden to the parties that appointed them.

In a hard-hitting *report* published this month, Greco said the 'political authorities shall not be involved, at any stage, in the selection process of the judicial shift'. GRECO noted that while the appointment of the CGPJ is a constitutional matter, the Constitution does not specify the way in which members of the CGPJ are to be selected. 'It is crucial that the CGPJ is not only free, but also seen to be free from political influence'.

A recent survey conducted by the CGPJ among the profession presented some 'disquieting' figures: only 24% of the judiciary responded to the questionnaire distributed by the CGPJ (1,285 out of 5,390 judges) and 75% of the respondents considered that the CGPJ does not sufficiently protect the principle of judicial independence.

The 2015 EU Justice Scoreboard places Spain 25th out of 28 countries, and nor does it do well in the world ranking by the World Economic Forum (97th out of 144).

In another survey, 67% of the respondents said the criteria of merit and competence are not observed in the appointment decisions made by the CGPJ regarding the higher ranks of the judiciary.

Greco said only five of the 11 proposed anti-corruption measures had been adopted since its last report, albeit partly. The six measures not implemented to Greco's satisfaction are:

- The Congress and the Senate adopt a code of conduct made easily accessible to the public.
- Appropriate measures be taken to ensure effective supervision and enforcement of the existing and yet-to-be established declaration requirements and other rules of conduct of members of parliament.
- Rules on how members of parliament engage with lobbyists and other third parties who seek to influence the legislative process should be introduced.
- Assess the legislative framework governing the CGPJ and of its effects on the real and perceived independence of this body from any undue influence, with a view to remedying any shortcomings identified.
- Objective criteria and evaluation requirements be laid down in law for the appointment of the higher ranks of the judiciary, in order to ensure that these appointments do not cast any doubt on the independence, impartiality and transparency of this process.
- Extend the limitation period for disciplinary procedures.

The five partly adopted measures are:

- Current disclosure requirements applicable to the members of both chambers of parliament be reviewed in order to increase the categories and the level of detail to be reported.
- A code of conduct for judges be adopted and made easily accessible to the public and that it be complemented by dedicated advisory services on conflicts of interest and other integrity-related matters.
- Reconsider the method of selection and the term of tenure of the prosecutor general, establish clear requirements and procedures in law to increase transparency of communication between the prosecutor general and the government, and explore further ways to provide greater autonomy in the management of the means of the prosecution services.

- A code of conduct for prosecutors be adopted and made easily accessible to the public, and that it be complemented by dedicated guidance on conflicts of interest and other integrity-related matters.
- Develop a specific regulatory framework for disciplinary matters in the prosecution service, which is vested with appropriate guarantees of fairness and effectiveness and subject to independent and impartial review.

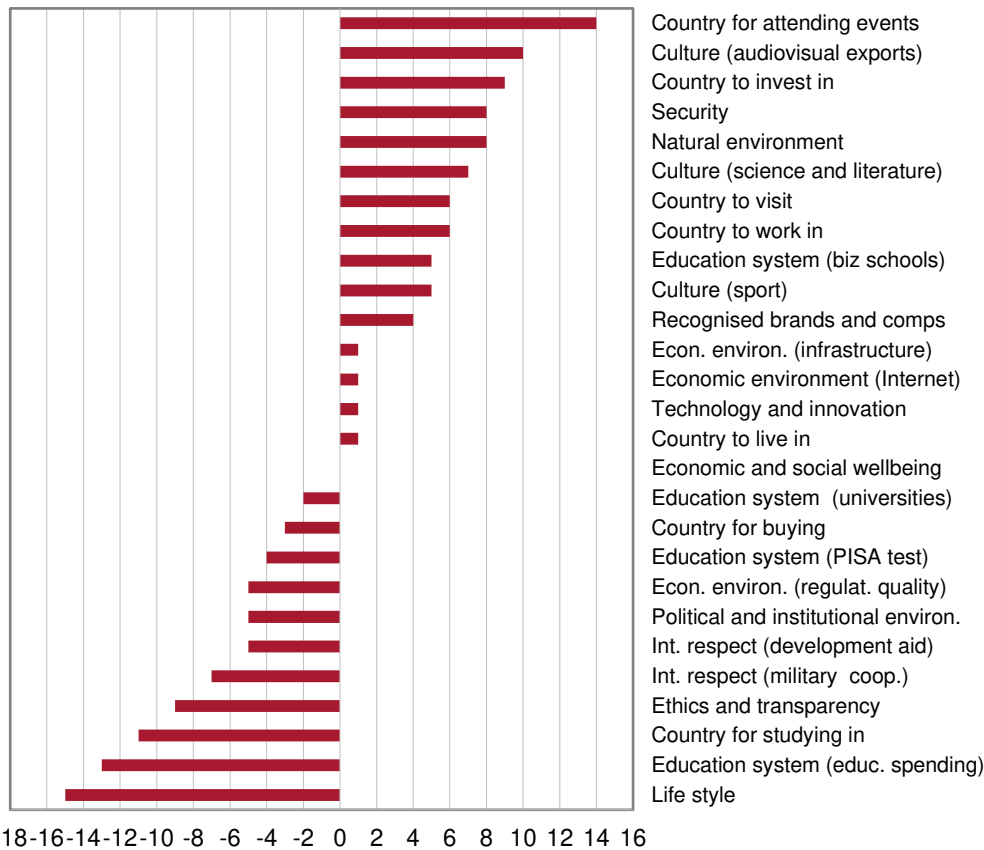
Spain's image improving but still a lot of work to do

Elcano's latest annual study of Spain's image abroad contrasted with the reality on the ground (known as SIDIR) shows a further improvement in the perception of the country but a continued gap between the image (subjective) and data (objective).¹

The most striking example of this is that Spain is ranked 15th among 55 countries in terms of security in surveys conducted by the Country RepTrak, far from its 9th position based on the number of murders per 100,000 inhabitants, a standard yardstick. Ten other areas are also out of sync with reality, including the country's attraction to hold international events, exports of audiovisual products and recognised company brands (see Figure 6). These are the areas where Spain's public and private sectors need to work harder to improve its image.

¹ The full report (only in Spanish), by Carmen González Enríquez and José Pablo Martínez Romera, is available at http://www.realinstitutoelcano.org/wps/portal/web/rielcano_es/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_es/gonzalez-enriquez-martinezromera-sistema-indicadores-distancia-imagen-realidad-sidir-caso-espanol-3ed-2016.

Figure 6. Difference between Spanish positions in rankings of objective indicators and its image in 27 analysed spheres (1)

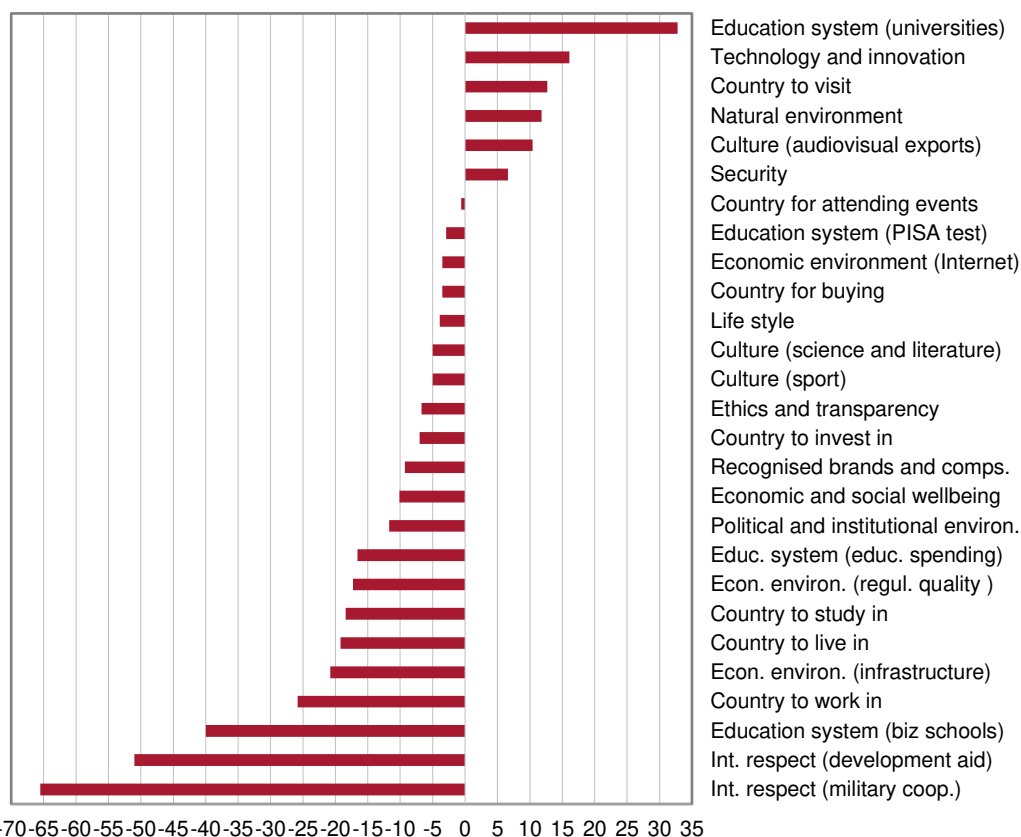


(1) The spheres on the right of the central axis are those where the reality is better than the image and on the left the image is better than the reality. The difference is with the second SIDIR report.

Source: Real Instituto Elcano.

The report includes, for the first time, an analysis of the evolution of Spain's reality and that of its image. Six areas have improved more than the image of them including universities and technology and innovation (see Figure 7).

Figure 7. Difference between the evolution of Spain's reality and that of its image (in percentage points?) (1)



(1) Difference with the first SIDIR report.

Source: Real Instituto Elcano.

The Economy

Spain continues to overshoot budget deficit target

The caretaker government met the deadline for presenting the 2017 budget plan to the European Commission. The budget deficit is forecast at 3.6% of GDP, down from 4.6% this year but above the 3.1% target agreed with Brussels for next year.

As the government is unable to draw up new accounts and is having to roll over the 2016 budget, it will be up to the new administration to adopt additional measures to meet the 3.1% target. This will mean further spending cuts or higher taxes.

The deficit was supposed to have come down to the EU ceiling of 3% this year, but that proved impossible after the government missed the targets in 2014 and 2015. Last year, with the economy expanding 3.2%, the deficit came in at 5.1%, well above the Commission's target of 4.2%.

Spain narrowly missed being fined in July for failing to comply with the EU's fiscal rules and was given until 2018 to reach the 3% threshold.

The latest IMF forecasts for Spain put the deficit at 2.65% in 2018, above the figure of 2.2% contained in Madrid's plan (see Figure 8).

Figure 8. IMF forecasts for Spain, 2016-21

	2016	2017	2018	2019	2020	2021
GDP growth (%)	3.10	2.2	1.9	1.9	1.8	1.6
Jobless rate (%)	19.4	18.0	17.0	16.1	15.6	15.3
Budget deficit (% of GDP)	4.48	3.10	2.65	2.29	2.19	2.11
Public debt (% of GDP)	100.1	100.2	100.0	99.2	98.3	97.4

Source: IMF.

A major contributor to the general government deficit is the social security system (whose deficit is forecast at around 1.5% of GDP this year. Its deficit in the first eight months was 30% higher at €6.12 billion. The special reserve built up during the boom to help pay pensions during times of crisis will be depleted by the end of 2017.

In another development, the annual inflation rate in September (0.2%) was positive for the first time since July 2015, mainly due to the rise in fuel and electricity prices.

Corporate scene

Talgo wins contract to refurbish Los Angeles Metro vehicles

The train manufacturer Talgo will refurbish 74 rail cars of the Los Angeles Metro at a cost of €65 million.

As a result, Talgo will return to Milwaukee's Century City Business Park in order to carry out the contract. It left it in 2014 after a lengthy battle with state officials over cancelled contracts to manufacture and maintain trains.

Talgo was supposed to build trains for a proposed high-speed rail link between Milwaukee and Madison but Governor Scott Walker cancelled the project after he was elected in 2010. His administration then refused to pay for and take ownership of trains his predecessor had ordered from the company