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Summary

Madrid calls for shared management of Gibraltar's airport.
Court says jailed candidate to be new Catalan Premier cannot leave prison for investiture vote, raising prospect of fresh elections.
Pensioners' protests force parties to look at reform.
Ibex 35 companies notch up new record in international revenues.

Foreign Policy

Madrid calls for shared management of Gibraltar's airport

Spain wants joint management of Gibraltar's airport after the UK leaves the EU and greater co-operation on tax fraud and tobacco smuggling.

Madrid, however, is not pushing its long-standing demand for sovereignty over the UK overseas territory, which was ceded to Britain under the 1713 Treaty of Utrecht, as part of a Brexit deal. The focus is protecting the strong economic relation between Spain and the UK.

The Spanish government won from Brussels last year the power to veto the provisions of any future EU-UK deal that would apply to Gibraltar perched at the southern tip of Spain.

The government of Gibraltar is studying legal action against the EU over its veto decision.

The airport, located on the isthmus that connects the Rock to the Spanish mainland (see Figure 1), is a particularly contentious issue. Madrid says it was not included in the Treaty of Utrecht and so has always been Spanish territory. Gibraltar contends that it is merely within the British half of the 'neutral ground' that separated the two opposing lines of 18th-century fortifications. Hence, the UK government maintains the airport is a British asset on British land.

Figure 1. Gibraltar and its airport



Source: The Guardian, <https://www.theguardian.com/world/2013/aug/05/gibraltar-row-uk-spain-hague>.

The Córdoba agreement between Gibraltar, Spain and the UK, signed in 2006 by Spain's previous Socialist government, allowed for enhanced use of the airport. It envisaged construction of a terminal on the Spanish side through providing access for passengers heading to and from Spain. Under the agreement, the Gibraltar government would grant a contractual concession to operate the terminal and provide handling services on a commercial basis to a joint venture company owned by Gibraltar and Spanish commercial interests. But the agreement has not been fully implemented.

The conservative Popular Party, in power since 2011, refuses to acknowledge the terms of the agreement, insisting it can only deal with Britain, not the Gibraltar government.

Alfonso Dastis, Spain's Foreign Minister, wants the airport issue resolved before the final Brexit agreement is closed later this year.

The UK's exit from the EU will make the Rock's border with Spain an external and not an internal EU frontier and in an extreme situation could be closed. Around 8,000 Spaniards cross the border into Gibraltar every day and some 5,000 other nationals.

A [policy paper](#) published earlier this month by the Elcano Royal Institute says the current situation 'opens the door to a new status for Gibraltar that is favourable to all involved parties and acceptable to the legitimate interests and aspirations of Spain'.

'The Spanish government has said it doesn't intend to reclaim sovereignty of Gibraltar by using Brexit as a bargaining tool', but it 'does have the legitimate goal of rebalancing the conditions imposed by the United Kingdom in the 70s and 80s'.

These 'privileged conditions' refer to Gibraltar being 'part of the internal market but not the customs union nor the value-added tax area, which has been used to transform the territory into a kind of fiscal paradise'.

[Spain and Tunisia agree security and women's rights accords](#)

Prime Minister Mariano Rajoy and his Tunisian counterpart Youssef Chahed signed agreements on security and women's rights, ending a decade-long freeze following Spain's economic crisis and the revolution in Tunis.

Rajoy also announced a €25 million credit line for small and medium businesses in Tunisia and encouraged Spanish firms to invest in Tunisia.

Domestic scene

[Court says jailed candidate to head new Catalan government cannot leave prison for investiture vote, raising the prospect of fresh elections](#)

The Supreme Court barred Jordi Sànchez from leaving prison to be invested as Premier of Catalonia, increasing the likelihood of new elections in the region, which has been under direct rule from Madrid for more than four months, following a unilateral declaration of independence (UDI) from Spain.

Sànchez has been in jail since last October as he awaits trial on charges of rebellion and sedition over Catalonia's illegal referendum and UDI. The charges against him carry up to 30 years in jail. Had he been allowed to attend the investiture it is unlikely the Catalan parliament would have elected him Premier, as his candidacy did not have sufficient support.

The anti-capitalist CUP, which supports independence and has four MPs, said it would abstain. It wants the other pro-independence parties to push more forcefully for a republic.

Sànchez's candidacy arose after Carles Puigdemont, the fugitive former Premier of Catalonia who fled to Belgium last October, failed to get re-elected by parliament in January after the Constitutional Court ruled he could not take part in an investiture debate by video conference or by getting one of his MPs to read a speech in his place.

Sànchez and Puigdemont are two of the 10 people either in prison or in self-imposed exile (see Figure 2). Judge Pablo Llarena denied Sànchez’s request on the grounds that he might re-offend. As we went to press, Sànchez appealed the decision.

Figure 2. Judicial situation of the main protagonists of Catalonia’s independence drive

	Current situation
In prison	
Oriol Junqueras, former Deputy Premier of Catalonia	Pre-trial detention since last November
Joaquim Forn, former Catalan Interior Minister	Pre-trial detention since last November
Jordi Sànchez, leader of Catalan National Assembly	Pre-trial detention since last October
Jordi Cuixart, leader of Omnium Cultural	Pre-trial detention since last October
Fugitives (1)	
Carles Puigdemont, former Premier of Catalonia	In Brussels since last October
Meritxell Serret, former Catalan Agriculture Minister	In Brussels since last October
Antoni Comín, former Catalan Health Minister	In Brussels since last October
Clara Ponsati, former Catalan Education Minister (2)	In Brussels since last October
Lluís Puig, former Catalan Culture Minister	In Brussels since last October
Anna Gabriel, former Catalan MP	In Geneva since February
Others	18 people summoned to appear in court. A couple were imprisoned and then released on bail. All now at liberty, mostly on bail

(1) European detention order issued for those who fled to Belgium and then annulled. Detention order in Spain for the five and also for Anna Gabriel.

(2) She returned to her teaching post at St. Andrew’s University, Scotland, in March.

Source: press reports.

Roger Torrent, the pro-independence speaker of the Catalan parliament, had said that Puigdemont was the only candidate, but divisions among the pro-independence parties and frustration at not being able to form a new government led to Sànchez, head of the Catalan National Assembly, emerging as a compromise candidate, with Puigdemont the power behind the throne from Belgium.

Following the Court’s ruling on Sànchez, Torrent said the investiture was postponed ‘sine die’. This has intensified speculation that the only way to break the impasse and form a

new Catalan government is by holding a fresh election, but the situation would only change if the anti-independence parties overturned the slim majority of the pro-independence parties won at last December's election. The pro-independence parties, however, are not in a mood to relent, and so direct rule does not look like ending any time soon.

Spain is in uncharted waters over Catalonia. The clock starts ticking on electing a new Catalan Premier once the first investiture has been held, but this has not happened and there is no sign that it will. The Premier has to be elected within two months of the first vote, assuming someone is not elected at the first investiture. Some lawyers believe this surreal situation could last until the next Catalan election in 2021.

The latest opinion poll shows the tide turning against independence for the first time since last October when the *procés* began (54% against and 41% in favour, see Figure 3).

Figure 3. Do you want Catalonia to be an independent country? 2014-18 (%)

	Dec. 2014	June 2015	March 2016	Nov. 2016	March 2017	June 2017	Oct. 2017	Jan 2018
No	45.3	50.0	45.5	45.1	48.5	49.4	43.6	53.9
Yes	44.5	42.9	45.3	44.9	44.3	41.1	48.7	40.8

Source: Centre d'Estudis d'Opinió, Catalan government.

Meanwhile, the UN's High Commissioner for Human Rights, Zeid Ra'ad al-Hussein, raised concerns about the pre-trial imprisonment of four pro-independence leaders. 'I remind the authorities that pre-trial detention should be considered a measure of last resort'.

Amnesty International called for the release of Sànchez, describing his continuing detention as 'an excessive and disproportionate restriction on his right to freedom of expression and peaceful assembly'.

Pre-trial detention in Spain can last two years, and in special circumstances can be extended, compared with a maximum of 182 days, for example, in England.

'Feminist strike' draws massive response

Hundreds of thousands of female workers in Spain marked International Women's Day by going on an unprecedented strike, hitting some sectors such as public transport and education.

Called under the slogan, 'Without us the world stops', the strike was nationwide and particularly strong in cities like Madrid where 80% of workplaces reportedly observed the strike and demonstrations were massive.

Protestors were joined by several leading female politicians including the Mayors of Madrid and Barcelona, Manuela Carmena and Ada Colau.

The situation of women in Spain has advanced considerably since the end of the Franco dictatorship in 1975 and probably more so than in any other EU country. Women were effectively second-class citizens. For example, Franco's laws discriminated strongly against married women. Article 57 of the penal code (repealed in 1975) stated that 'The husband must protect his wife and she must obey her husband'. Without her husband's approval, a wife was prohibited from almost all economic activities, including employment, ownership of property, opening a bank account or even travel away from home. The law also provided for less stringent definitions of such crimes as adultery and desertion for husbands than it did for wives. Single women were not allowed to leave their home without their parents' consent before the age of 25.

Today, 37% of executives are women (the EU average is 39%), more women are at university than men, 39% of MPs are women (31% in Germany) and the gender pay gap is 14.2%, much lower than the EU average of 23.4% (see Figure 4).

Figure 4. Gender pay gap in the EU: % of average gross hourly earnings of men (1)

	%
Germany	21.5
UK	21.0
EU average	16.2
France	15.2
Spain	14.2
Italia	5.3
Rumania	5.0

(1) 2016 figures.
Source: Eurostat.

Spain ranks fifth out of 153 countries in the Women, Peace and Security (WPS) Index released this month by Georgetown University and the Peace Research Institute of Oslo (see Figure 5). The index offers a comprehensive measure of women's wellbeing and their empowerment in homes, communities and societies more broadly.

Figure 5. WPS index

Ranking	Score out of 1
1. Iceland	0.886
5. Spain	0.860
12. Germany	0.845
12. UK	0.845
21. France	0.817
22. US	0.810
32. Italy	0.790

Source: Georgetown University and Peace Research Institute of Oslo.

Few women, however, are on the boards of the top companies: only 23.7% in the case of the companies that comprise the Ibex 35, the benchmark index of the Madrid Stock Exchange, and 16.9% in the other 899 listed companies. And only 26% of diplomats are women.

Domestic violence also remains a problem. Last year 49 women were killed by their partners or ex-partners, compared with 44 in 2016. Reports of violent abuse were also on the rise: 129,193 in 2015, 142,893 in 2016 and 166,620 in 2017.

European Court condemns Spain for convicting two Catalans who burned photo of monarchs...

The European Court of Human Rights unanimously ruled that Spain violated the right of freedom of expression by convicting two Catalans for publicly burning a photo of King Juan Carlos and Queen Sofía.

Enric Stern and Jaume Roura set fire to pictures of the royal couple in 2007 in Girona when they joined a group protesting against the King's visit to the city.

The court found the act 'had been part of a political, rather than personal, critique of the institution of monarchy in general and in particular of the Kingdom of Spain as a nation'. The judges said they were 'not convinced' that the burning 'could reasonably be construed as incitement to hatred or violence'.

The two men were initially sentenced to 15 months in prison for insulting the monarchy, a crime in Spain. The sentence was later reduced to a fine of €2,700 each. The court ordered Spain to reimburse the fines and pay the legal costs.

The court's decision was the seventh condemnation for violations of freedom of speech in recent years and could have been avoided if Spain had followed the Court's recommendations.

The decision followed the removal last month from Madrid's ARCO fair of a tableau called 'Political Prisoners in Contemporary Spain' which showed 24 pixelated mugshots, three of them jailed Catalan separatist leaders.

The day before the Supreme Court upheld a 42-month jail sentence against rapper Josep Miquel Arenas for insulting the monarchy and glorifying terrorism in YouTube posts.

Spain's courts have convicted more than 50 people for 'hate speech' or the glorification of terrorism since 2015, under a new penal code and a controversial Citizen Security Law (dubbed the 'gag law'), passed by the previous Popular Party government, that conservative judges are implementing zealously.

An Amnesty International report this month criticised Spain's use of counterterrorism legislation to take people to court who posted social media messages judged to 'glorify terrorism'.

... Council of Europe calls for Spain to set up independent anti-racism body

The Council of Europe urged Spain to create an independent equality body and bring itself into line with the practices of almost the rest of the 47-member organisation. The microstate of San Marino is the only other country not to have an institution specifically designed to tackle racism.

The previous Socialist government created the Council for the Elimination of Racial or Ethnic Discrimination in 2009, but it is not independent as it works within the Health Ministry and 'has been left practically inactive', according to a report by the Council.

Budget cutbacks have also weakened measures against racism. There has not been any integration strategy for foreigners in Spain since 2014.

Spain has integrated with a considerable degree of success more than 5 million immigrants over the past 20 years, but there are shortcomings in some areas such as the schooling of Roma children. Only 45% of these children complete compulsory education, and the situation is also bad for non-EU migrant children. Migrant children receive only limited support in learning Spanish and the other official languages and catching up academically.

The Council also raises the issue of migrants affected by health reforms in 2012. Those without legal status only have access to emergency services and do not have full public health coverage.

On the positive side, the Council says there is less hate speech in Spain than in other European countries and the use of racist terms in the mainstream political discourse is rare.

There is also a high degree of openness towards LGBT persons; Spain was the third country in the world to legalise, in 2005, same-sex marriage.

Spain slips in Transparency International's Corruption Index...

Spain fell slightly in Transparency International's 2017 corruption perception index from 41st to 42nd out of 180 countries, its lowest position ever, and on a slightly lower score of 57 out of 100 (the nearer to 100 the cleaner the country, see Figure 6).

Figure 6. Corruption Perceptions Indexes, 2010-16, main EU countries (1)

2016 rank	2017 score	2016 score	2015 score	2014 score	2013 score
1. N. Zealand	89	90	91	91	91
8.UK	82	81	81	78	76
12. Germany	81	81	81	79	78
16. US	75	74	76	74	73
23. France	70	69	70	69	71
42. Spain	57	58	58	60	59
54. Italy	50	47	44	43	43

(1) On a scale of 0 (highly corrupt) to 100 (very clean). In 2016, 176 countries were ranked, in 2015 167, in 2014 174 and in 2013 175.

Source: Transparency International.

... but has 21 university faculties in the world's Top 50

Spain has no university in the world's Top 200 when institutions are ranked as a whole, but when faculties are classified the picture is much brighter. The latest QS World University Rankings has 21 Spanish faculties in the world's Top 50.

The highest ranked faculty is the University of Barcelona's anatomy and psychology department, which is placed 21st (see Figure 7).

Figure 7. Top Spanish university faculties

Subject	Ranking	Institution
Anatomy and psychology	21	University of Barcelona
Architecture and urbanism	22	Polytechnic University of Catalonia
	31	Madrid Polytechnic
Library & information management	22	Carlos III University Madrid
Business & management	27	Ramón Llull University
	31	University of Navarra
Dentistry	30	Complutense University Madrid
Veterinary science	31	Autonomous University Barcelona
	33	Complutense University Madrid
Archaeology	33	University of Barcelona

Source: QS Rankings.

The rain in Spain is finally falling and not just on the plain

Two weeks of welcome rain have not alleviated Spain's drought since 2014 but have increased the amount of water in reservoirs by 23%, the equivalent of what the agricultural sector consumes in a year.

Reservoirs as a whole last week were at 53.7% of their capacity, up from 43.5%, but this is still below the average of the decade before the drought started of 65.8% and some are still below 30%. The giant reservoir at Buendía is still only at 11.6%.

Reservoirs last June were at their lowest level since 1995, the last severe drought.

The Economy

Pensioners' protests force parties to look at reform

Demonstrations by retirees across Spain calling for higher pensions made the government call a meeting of the all-party group, known as the Toledo Pact, to study whether there is scope to raise pensions.

Protesting at their loss of purchasing power, demonstrators held banners calling this year's 0.25% increase (for the fifth year running) 'miserable'.

Prime Minister Mariano Rajoy told parliament he would increase some pensions if opposition parties supported his minority government's budget proposal for 2018, which has been held up because of lack of support.

Rajoy said there would be tax breaks for surviving spouses claiming pensions and those on minimum state pensions, which stand at around €640 a month. 'As long as I'm the Prime Minister, pensions won't be frozen... they will rise as much as possible', he told parliament in a special session.

Pension reforms were enacted in 2013 by the previous Popular Party government, when it had an absolute majority, following studies showing the system was unsustainable.

The population is ageing rapidly, the fertility rate is low (1.3 children per woman) and the jobless rate remains high at 16%. The social security system ended 2017 with a record deficit of €18.8 billion and the number of social security contributors per pensioner reached its lowest level (2.09, see Figure 8). There is thus little scope to raise pensions and keep the system sustainable unless the government can obtain more revenues from higher taxes and more social security contributions from greater employment.

Figure 8. Number of social security contributors per pensioner

	2007	2009	2010	2011	2012	2013	2014	2015	2016	2017
Nr	2.71	2.62	2.56	2.47	2.34	2.27	2.25	2.25	2.27	2.09

Source: Ministry of Employment and Social Security.

Pensions since 2013 have increased by a minimum of 0.25% a year and can only rise further if the state pension fund is in surplus. Payment rises are capped at 0.5% above inflation. As of next year, pensions will be calculated with the help of a new 'sustainability factor' that links payments to life expectancy –and ensures that pensions will actually fall as the average lifespan increases–.

The PP has the largest proportion of voters who are pensioners.

EIB Vice-President Román Escolano new Economy Minister

Román Escolano, the former Vice-President of the European Investment Bank, took over from Luis de Guindos as the new Economy Minister. He is likely to continue the policies of his predecessor who was appointed in 2011 to manage Spain's deep recession and banking crisis.

De Guindos has moved to the European Central Bank as Vice-President.

Escolano takes office at a time when the economic recovery has been consolidated, with growth of 3%, record exports and tourists in 2017, and the country headed this year to finally exit the EU's excessive deficit procedure (which means it will cease to be under fiscal surveillance). Unemployment, however, is still high at 16% (26% in 2013).

Among the main challenges facing him are to privatise 60% of Bankia by the end of 2019. Created from several savings banks, Bankia was nationalised in 2012 following its near collapse which sparked a euro zone bailout of it and some other much smaller banks.

Escolano has banking and private-sector experience. He headed the Instituto de Crédito Oficial (ICO) between 2012 and 2014 and before that was head of institutional relations at BBVA, Spain's second-largest bank.

Spanish patent applications hit new record

The number of patent applications filed last year by companies and research centres in Spain rose 7.4% to a record 1,676, but in terms of applications per million inhabitants (34.2) Spain is one of the least innovative countries and far behind leaders such as Germany and the Netherlands (see Figure 9).

Figure 9. European patent applications filed in 2017

	Applications	Ratio per mn inhabitants
Germany	25,490	316.3
France	10,559	157.3
Netherlands	7,043	412.2
UK	5,313	82.0
Italy	4,352	70.0
Finland	1,818	329.4
Spain	1,676	34.2

Source: European Patent Office.

Catalonia was the region that filed the most applications (37.6% of the total), while Andalusia registered the strongest growth (+52.4%) from a very small number.

Spain's spending on R&D was 1.2% of GDP in 2016 compared to 2.9% in Germany and 2.7% in Finland.

The European Commission's latest report on the Spanish economy points out that the innovation performance remains weak. 'Low capacity of small and medium enterprises to adopt innovations and take advantage of digitisation is a drag on Spain's longer-term productivity growth'.

Government agrees to raise civil servants' salaries by 8% over next three years

Civil servants will recover some of their lost purchasing power, as a result of austerity measures during the recession, thanks to an agreement between the government and trade unions to increase their salaries by 8% over the next three years.

The rise is conditional on the economy continuing to grow by around 3%.

Social protection spending among lowest in EU

Spain protection expenditure, which includes functions such as unemployment and old age, amounted to 16.8% of GDP in 2016, well below the EU average, according to the latest Eurostat figures (see Figure 10).

Figure 10. Total expenditure on social protection by function of largest EU countries (% of GDP)

	Sickness	Old age	Survivors	Family	Unemployment	Others	Total
France	2.8	13.5	1.5	2.4	2.0	2.2	24.4
Germany	3.2	9.2	1.9	1.7	1.7	1.7	19.3
Italy	1.8	13.5	2.7	1.5	1.2	0.4	21.1
Spain	2.4	9.2	2.3	0.7	1.8	0.5	16.8
UK	2.5	8.6	0.1	1.4	0.1	3.1	15.8
EU	2.7	10.2	1.3	1.7	1.3	1.7	19.1

Source: Eurostat.

The highest proportion of social protection spending goes on old age (the population is rapidly ageing) and the lowest on family and children (0.7%, less than half the EU average). The latter is one of the factors behind Spain's low fertility rate of 1.3 children per woman.

Corporate scene

Ibex 35 companies notch up new record in international revenues

The companies that comprise the Ibex 35, the benchmark index of the Madrid Stock Exchange, generated a record 67.7% of their revenues abroad in 2017, up from 65.8% in 2016. Total revenues rose 5.4% to €443.5 billion.

Acciona, the infrastructure and renewable energy company, increased its share of international revenues from 48.4% to 56.3% and the bank BBVA from 78.5% to 82.6%, while those of Santander, the euro zone's largest bank by market capitalisation, dropped a little from 89.8% to 87.3% (see Figure 11).

Figure 11. International revenues of Ibex-35 companies, 2017 (€ million and % of total revenues)

Company	Sector	Total revenues (€ mn) (1)	International (% of total)
Abertis	Motorways	5,136	74.0
ACS	Construction & services	34,898	87.3
Acerinox	Metals	4,627	89.7
Aena	Consumer services	3,961	5.4
Amadeus	Technology	4,852	95.0
Acciona	Construction	7,254	56.3
Amadeus IT Holding	Travel technology	3,418	95.0
Bankia	Banking	2,309	0.1
Bankinter	Banking	1,289	8.3
BBVA	Banking	29,296	82.6
Caixabank	Banking	6,970	6.0
Cellnex	Technology	758	44.0
Inmobiliaria Colonial	Real estate	283	69.1
Día	Supermarket chain	8,620	44.4
Enagás	Energy	1,360	0.2
Endesa	Energy	19,556	9.7
Ferrovial	Construction	12,208	76.8
Gas Natural	Energy	23,306	53.8
Grifols	Pharmaceutical	4,318	94.4
IAG	Transport	21,329	86.5
Iberdrola	Energy	31,263	57.6
Inditex	Consumer goods	25,336	83.7
Indra	Technology	3,012	53.9
Mapfre	Insurance	19,309	65.4
Mediaset	Consumer services	986	2.9
Melia	Consumer services	1,885	52.7
Merlin	Real estate	463	2.3
Red Eléctrica	Energy	1,941	2.2
Repsol	Energy	41,668	50.3
Banco Sabadell	Banking	4,840	34.7
Banco Santander	Banking	56,041	87.3
Siemens Gamesa	Engineering	6,538	97.5
Técnicas Reunidas	Engineering	5,068	98.6
Telefónica	Telecoms	52,007	75.6
Viscofan	Consumer goods	778	86.2
Total		443,468	67.7

(1) Figures rounded to nearest whole number.

Source: BME Spanish Exchanges. Data from the National Securities Market Commission (CNMV).

ACS wins €145 million bridge contract in Boston

The construction company ACS is to demolish and re-build a 117-year-old bridge in Boston after winning the €145 million contract, strengthening its position in the US market which accounted for 38% of revenues in 2017.