

Inside Spain Nr 149

20 March - 16 April 2018

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Summary

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ACS wins €1 billion hydroelectric contract in Canada.

Foreign Policy

Spain and Saudi Arabia sign controversial warships deal worth €2 billion

Mohammed bin Salman, the Crown Prince and *de facto* Saudi ruler, and Defence Minister María Dolores de Cospedal signed a memorandum of understanding (MOU) under which Spain will supply Riyadh with five small warships.

A coalition of human rights groups claimed the warships will be used by the Saudi-led coalition to fight Iranian-allied rebels in Yemen. The Arms Under Control collective, which includes Amnesty International, Oxfam and Greenpeace urged Spain 'to join a growing number of countries like Germany, Sweden, Norway or Belgium that have stopped exporting arms to the Saudi coalition'.

The €2 billion deal, delayed for two years, would safeguard thousands of jobs at the state-owned shipbuilder Navantia.

Spain is the world's seventh-largest arms exporter and Saudi Arabia one of its biggest clients. The country is Spain's largest trade partner in the Middle East –trade between the two countries amounted to more than €5.5 billion in 2017– and the second-biggest destination for Spanish investment in the Middle East. Saudi Arabia is the second largest Arab investor in Spain.

The Kingdom and Spain began to build up business ties after King Juan Carlos became head of state on 1975. His son, King Felipe, visited Riyadh in January 2017.

Madrid is pitching to play a significant role in Saudi Vision 2030, a plan aimed at reducing the country's dependence on oil, diversify its economy and develop public service sectors such as health, education and infrastructure.

Prince Mohammed's official visit to Madrid, with an entourage of 600 advisors and servants, came at the end of a tour of the US and several European countries.

Domestic scene

Catalan independence struggle goes international

The preliminary judgement by a German regional court not to extradite Carles Puigdemont, the fugitive former Premier of Catalonia, on charges of rebellion after the Catalan parliament proclaimed an independent state last October, has succeeded in fulfilling the secessionists' campaign goal of internationalising a conflict that until then was largely a purely Spanish affair.

The Schleswig-Holstein district court ruled that the actions of Puigdemont, who was arrested under a European arrest warrant while travelling from Finland to his base in Belgium, did not qualify as high treason in Germany –the closest crime the German penal code has to rebellion– because there was not sufficient evidence of violence.

The court left the door open for Puigdemont to be handed over to Spain to face the much lesser charge of misuse of public funds. Rebellion carries a jail sentence of up to 30 years. The case casts a spotlight on the conception of the rule of law in the EU. The EU is a union of states with different legal systems and traditions.

The ruling caused consternation in the Spanish government, which was magnified by remarks made by federal Justice Minister Katarina Barley, who was quoted by the *Süddeutsche Zeitung* newspaper as saying: 'The judges' decision is absolutely correct. It is what I expected'. She then went on to say that talks should be held 'on the political issues at stake'. She later claimed she had been misrepresented, but the damage had been done. Spain's Foreign Minister, Alfonso Dastis, called her remarks 'unfortunate'.

Rolf Mützenich, parliamentary deputy leader of the Social Democrats, who are part of the German coalition government, waded into the debate by telling *Handelsblatt*: 'The Spanish government should accept that German courts make their decisions independently of political demands'.

His remark was music to the ears of the emboldened secessionists as it cast doubt on the rule of law in Spain, which they claim does not exist in their country. Mützenich went further and compared Spain's legal order with that of Turkey, the independence of whose judiciary has been seriously questioned by the European Commission.

Spanish prosecutors, determined to put Puigdemont on trial for rebellion (some jurists believe sedition is the more correct charge), have two options: convince their German colleagues to change their mind by providing more evidence of the charges against the former Catalan leader, which they have started to do, or, if that fails, try to seek a ruling from the Luxembourg-based European Court of Justice. The Civil Guard has drawn up a list of 404 violent incidents related to the independence process.

Spanish jurists said the German court did not fulfil its brief as, having ruled that the charge against Puigdemont was not tantamount to high treason (which is questionable), it should have identified whether the charge corresponded to other crimes under German law, such as disobedience.

The German equivalent of what has happened in Catalonia would be for the President and parliament of a *Land* (region) to disobey the German constitution and declare independence, following a referendum that was declared illegal by the country's Constitutional Court. Furthermore, the *Land's* police gave cover to protestors summoned to confront national police dispatched by the central government to ensure compliance with the court's orders. And none of this apparently was a crime.

The German court's ruling stated that 'the violent acts produced on the day of voting [the illegal referendum] were not sufficient to pressure the government to such an extent that it was forced to capitulate to the demands of the violent ones'.

Based on this reasoning, which Francesc de Carreras, Professor of constitutional law at Barcelona's Autonomous University called 'laughable', the 'violence of Tejero and Milans del Bosch on 23-F was not sufficient to cause the state to capitulate and yet no one cast a doubt that this was a coup d'etat'. Lt. Colonel Antonio Tejero and Lt. General Jaime Milans del Bosch were the ringleaders of a failed coup in 1981 and received long jail sentences.

Supreme Court judge Pablo Llarena, who is leading the case against Puigdemont and his associates, drew a thinly veiled comparison between last year's events in Catalonia and the 1981 coup.

While the German court very quickly decided the case of Puigdemont, a court in Scotland is taking its time over a similar extradition request for Clara Ponsatí, a former Catalan minister. Her fate will not be decided until August.

She fled to Belgium with Puigdemont and three other members of his team after their government was forced from office when Madrid put Catalonia under direct rule under Article 155 of the 1978 Constitution (modelled to a large extent on Germany's). She then returned to a post she had held at St Andrew's University.

Meanwhile, a second attempt to elect the jailed separatist Jordi Sànchez as Premier of Catalonia failed after the Supreme Court refused his request again to attend the Catalan parliament. He has been in pre-trial detention for six months.

This was the fourth bid to elect a new leader. Not only have all the candidates been unacceptable to Madrid, as they are pro-independence and so direct rule would not be withdrawn, but the three pro-independence parties in the Catalan parliament, which have a slim majority, have been unable to unite behind a candidate and muster sufficient votes.

If a new Catalan Premier has not been elected by 22 May, a fresh election will be held in July.

Basque terrorist group ETA plans to dissolve by mid-June

The Basque terrorist group ETA, which killed more than 820 people and injured hundreds more in a campaign spanning 50 years for an independent Basque state (see Figure 1), will dissolve by mid-June according to the International Contact Group, which oversaw the group's disarmament.

Figure 1. The Basque Country and territory claimed by ETA



Source: BBC.

Agus Hernán, on behalf of the Group, said ETA wanted formal international recognition of its decision to disband.

ETA, an acronym for 'Basque homeland and freedom', has not killed anyone since 2010 and a year ago surrendered its arms. Among its victims were Admiral Luis Carrero Blanco, the dictator Franco's Prime Minister and chosen successor, who was assassinated in a car bomb attack in Madrid in 1973, and 21 people who died in the 1987 bombing of a supermarket in Barcelona.

ETA's dissolution is unlikely to produce an amnesty for its imprisoned members, 230 of whom are serving long sentences, with a further 57 in France, but it might lead to them being moved nearer to the Basque County, a longstanding demand of ETA and the radical Basque left.

Business lobby draws attention to lack of confidence in Spain's public institutions

Spaniards' confidence in public institutions has declined significantly over the past decade, according to wide-ranging report by the Círculo de Empresarios (Businessmen's Circle), a lobby group.

The report, presented in parliament, assesses political corruption, the justice system, the health of the country's democracy, the functioning of markets, education, regulatory bodies, transparency and public administrations.

The Círculo dates the deterioration from the decade-long boom period 'when cheap credit acted on the economy in a similar way to oil or natural resources in emerging countries, encouraging speculation and rentier activities'.

This breeding ground facilitated many scandals by politicians and businessmen that today are in the courts and eroded confidence in public institutions.

Political corruption has worsened in the last 15 years, says the report, and has not been helped by the 132 pardons granted by governments for those condemned for illicit activities between 2000 and 2012, nor by political parties' uncompromising defence of their leaders when indicted.

'Corruption is not in our cultural DNA nor in that of the political parties' but 'it is in our institutional DNA: public organisations strongly controlled by the governing political parties, which lack the weights and counterweights of power that oversee the integrity and impartiality of public action'.

The authors of the report draw a distinction between the lack of confidence in the political system and the notable degree of confidence in the public administrations that provide services, such as health.

Publication of the report coincided with calls for Cristina Cifuentes, the Popular Party (PP) Premier of the Madrid region, to resign over claims she faked her master's degree in 2012 at the Universidad Rey Juan Carlos, an institution where the PP is particularly influential.

She denied the accusation and said she would only resign if Prime Minister Mariano Rajoy asked her to do so. 'It is the university that has to clarify things, and not me as a student', she told a meeting of the PP leadership in Seville.

Two of the three people who signed her certificate said their signatures had been forged. One of the two people, Laura Nuño, the Deputy Director of the Institute of Public Law, the department where Cifuentes says she studied for her master's, resigned. She said she had never taught a single class to Cifuentes. Enrique Álvarez Conde, the Institute's head, was suspended pending the outcome of an investigation.

The university said it could not find any trace of her dissertation. One university official said the certificate was a 'reconstruction'.

The case sparked outrage among academics for damaging the reputation of universities and undermining confidence in them and among students.

First-time asylum seeker requests almost doubled in 2017

A total of 30,400 people requested asylum in Spain last year, 96% more than in 2016 and the largest increase in first-time asylum seekers registered in the EU.

The number, however, only accounted for 5% of the EU's total (see Figure 2). The highest number of registered first-time applicants relative to the population of each country was recorded in Greece (5,295 first-time applicants per million population).

Figure 2. First-time asylum seekers in EU countries, 2017

	Number	%of total
Germany	198,300	31
Italy	126,600	20
France	91,100	14
Greece	57,000	9
UK	33,300	5
Spain	30,400	5
EU-28 total	650,000	100

Source: Eurostat.

Syrians, Iraqis and Afghans continued to be the top citizenships, and there was also a significant increase in the number of Venezuelans seeking asylum in Spain because of the dire economic crisis there and the authoritarian government.

Spain granted citizenship to 151,000 foreigners, second-highest number in EU

Spain granted 150,944 foreigners citizenship in 2016, 32% more than in 2015 and the second highest number after Italy. One quarter of them were Moroccans (see Figure 3).

Figure 3. Main recipients of citizenship granted by EU countries, 2016

Country	Total	Main recipients (% of total)		Second (% of total)		Third (% of total)	
Italy	201,591	Albania	18.3	Morocco	17.5	Rumania	6.4
Spain	150,944	Morocco	24.5	Bolivia	10.5	Ecuador	10.1
UK	149,372	India	16.1	Pakistan	11.2	Nigeria	6.6
France	119,152	Morocco	14.9	Algeria	14.8	Tunisia	6.4
Germany	112,843	Turkey	14.4	Poland	5.9	Russia	4.3

Source: Eurostat.

The total number of people who acquired the nationality of an EU country was 994,800 (15% of them in Spain).

First time mothers in Spain oldest in EU at 31

Women in Spain have their first child at almost 31, the oldest in the EU along with Italy. The country's fertility rate of 1.34 births per woman is the lowest, also with Italy (see Figure 4).

Figure 4. Births of first child by mother's age and fertility rate, 2016

	Mother's age	Fertility rate
France	28.5	1.92
Germany	29.4	1.60
Italy	31.0	1.34
Poland	27.2	1.39
Spain	30.8	1.34
UK	28.9	1.79

Source: Eurostat.

Spain has undergone profound social changes in the last 40 years which to a large extent explain why the age at women have their first child has been put back and why the fertility rate is low. Many more women go to university than before and are employed, often on precarious temporary contracts, while successive governments' budgetary policy has been one of the least supportive of families in the EU. Almost 7% of women have their first child when they are over 40, double the EU average.

Spain's fertility rate dropped from 2.80 children per woman in 1978 to 1.23 in 2000, and since then has picked up a little. The Socialist government of José Luis Rodríguez Zapatero introduced the so-called *cheque bebé* (a €2,500 benefit for every newborn or adopted child) in July 2007 in an attempt to boost the low birth rate, but it was scrapped at the end of 2010 as part of budget cuts when the economy was in recession.

Deaths outstripped births in 2016 for the second year running. The population has been shrinking since 2012 because of net migration as recession (until 2013) and high unemployment encouraged people to seek better prospects abroad.

The low fertility rate and the ageing population (20% of the population is over the age of 65 compared to 8% in 1960) present major challenges for the healthcare system.

The Economy

Spain finally meets budget deficit target in 2017, but still no budget for 2018

The budget deficit came in at 3.07% of GDP last year, meeting the EU-imposed target of 3.1% and paving the way for the country to exit supervision by Brussels 10 years after the start of Spain's financial crisis.

Bringing the deficit down to almost 3% of GDP –the EU threshold enshrined in treaties– has been a long and winding road (see Figure 5). The target, moreover, was met last year without having to revise it upward, as happened in 2016 and in other years.

Figure 5. Spain's budget performance, 2007-2017 (% of GDP)

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
+1.92	-4.42	- 11.02	-9.45	-9.31	-6.79	-6.67	-5.84	-5.23	-4.29	-3.07

Regional governments met their deficit target for the first time since 2006, while local governments notched up their sixth straight surplus and the Social Security system remained in deficit (see Figure 6).

Figure 6. Public administration accounts, 2016 and 2017 (% of GDP)

	2016	2017
Regional governments	-0.84	-0.32
Local governments	+0.61	+0.59
Social Security	-1.59	-1.48
Central government	-2.48	-1.86
Total	-4.29 (1)	-3.07

(1) Brussels softened the target from 4.2% to 4.6%.

Source: Finance Ministry.

There are still no signs that this year's budget will be approved. The ruling Popular Party has the support of Ciudadanos –which backs its minority government– but it also needs five votes of the Basque Nationalist Party (PNV). In order to cope with this limbo, last year's budget was rolled over, but extra measures will have to be taken at some point if this year's deficit target of 2.3% of GDP is to be met and the new budget has not been approved.

The PNV is denying its support as long as the central government maintains its direct rule in Catalonia. Since this does not look like happening in the near future, the budget deadlock will probably only be broken by the PNV extracting concessions in the form of extra subsidies.

The proposed budget includes increased payments for pensioners (who have protested at their loss of purchasing power) and reduced taxes for workers on lower incomes. The amount of salary at which income tax starts to be levied would be raised from €12,000 to €14,000.

The budget is based on GDP growth of 2.7%, up from a previous estimate of 2.3% last October, and a fall in the jobless rate to 15% with the creation of 500,000 jobs.

In a related development, the Finance Ministry warned 14 municipal governments that if they did not reduce their large debts and pay their suppliers more quickly the central government would intervene and directly pay them from revenues. The most indebted town hall is that of Jaén in Andalusia whose debt of €435 million works out at €3,795 per citizen and which takes an average 540 days to pay its suppliers.

Jaen's debt largely stems from a tram service (4.7km long and 10 stations) completed in 2011 at a cost of €120 million and which operated for only 17 days during a trial period. It was stopped when a local bus company denounced it for unfair competition.

Meeting the EU's public debt requirement of 60% of GDP will be much harder. Spain's debt ballooned from 37% in 2007 to 60% in 2010 and 98.3% at the end of 2017. Luis Linde, the Governor of the Bank of Spain, said it would take 'several decades'.

The rating agencies Moody's and S&P raised Spain's sovereign ratings. Moody's increased it one notch to Baa1, with a stable outlook, and Standard & Poor's to A- and assigned the country a positive outlook.

'Much has been done to address the weaknesses in the banking sector that emerged during the financial crisis. It has also become increasingly clear that structural changes in the economy have changed the growth model to one that is broader-based and more sustainable than in past recoveries', said Moody's. Fitch, the other big rating agency, upgraded Spain's sovereign debt rating in January.

Spain continues to be the world leader in wine exports –by volume, not value–

Spain led the world's wine producers in 2017 with exports of 22.8 million hectolitres worth €2.85 billion, but France managed to earn more than €9 billion exporting just 15 million hectolitres.

While Spain's wine was sold at an average of €1.25 per litre, France's went for €6 and Italy's for €2.78. Spain's average price was 5% higher than in 2016. Only South Africa sold its wine for less, at an average of €1.23 per litre.

With bumper production and lower demand in Spain (10 million hectolitres in 2017 compared to 14 million in 1997), producers had to export more. But a lot of the wine exported is in bulk (ie, not bottled): 12.6 million hectolitres, more than half the total, as against 10.2 million in bottles.

Tax Agency recovers €14.8 billion from cheats

The Tax Agency's crackdown on fraud recovered €14.8 billion last year, close to double that in 2007 at the height of Spain's boom and a flourishing black economy.

Following the bursting of a massive property bubble in 2008 and a severe deterioration in public accounts (the budget deficit reached 11% of GDP in 2009), the Tax Agency employed more inspectors and got tougher.

The amount recovered last year was €91 million less than in 2016 (-0.6%) and was the second straight year of a fall. The highest amount was in 2015 (€15.7 billion), suggesting the Tax Agency has reached a ceiling.

Income disparity by regions widens

Spain as a whole recovered its pre-crisis (2008) GDP output in the second quarter of 2017 in real terms, but nine of the country's 17 regions have yet to do so. These regions are: Andalusia, Aragón, Asturias, Cantabria, Castilla y León, Castilla-La Mancha, Valencia, Extremadura and La Rioja.

Various factors are behind the lagging regions including demographics (ageing populations) and the structure of their economies, in particular the importance of the construction sector, which collapsed following the bursting of a massive property bubble.

The per capita income distribution by regions varies considerably. The per capita income of Madrid, the richest region (€33,809), is 35% higher than the national average and almost double that of Extremadura, the poorest region (see Figure 7). The per capita income gap between Madrid and Extremadura widened from €13,885 in 2007 to €16,547 in 2017.

Figure 7. Per capita GDP of Spain's 17 regions, 2017 and 2007

	€, 2017	€, 2007
Madrid	33,809	29,965
Basque Country	33,088	30,599
Navarra	30,914	29,483
Catalonia	29,936	27,445
Aragón	27,403	25,361
La Rioja	26,044	24,717
Balearics	25,772	25,238
Spain	24,999	23,396
Castilla y León	23,555	22,589
Cantabria	22,513	23,377
Galicia	22,497	19,800
Valencia	22,055	21,239
Asturias	22,046	21,200
Murcia	20,585	19,574
Canary Islands	20,435	21,004
Castilla La Mancha	19,681	18,564
Andalusia	18,470	18,298
Extremadura	17,262	16,080

Source: INE.

Corporate scene

ACS wins €1 billion hydroelectric contract in Canada

ACS, one of the world's largest construction companies, won a €1 billion slice of the €6.7 billion contract to build a hydroelectric plant in Canada, known as the Site Clean Energy project.

The company controls 55% of the consortium that will construct the overflow channels and the generation station. The project is expected to be completed in 2023.

Acciona to build its ninth wind farm in the US

Acciona is to build its ninth wind farm in the US at a cost of around €160 million, which will increase its wind power capacity in that country to 866 MW. The farm will be located in Cameron County, Texas, near to the farm Acciona started up in 2016.