

Inside Spain Nr 150

16 April - 24 May 2018

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Summary

Spain seeks to replace UK as command centre of EU's anti-piracy mission.
Catalan parliament elects secessionist Premier, direct rule maintained.
Basque separatist terrorist group ETA disbands, with no government concessions.
Government U-turn on pensions to achieve budget approval.
Iberdrola raises its offer for Brazil's Eletropaulo.

Foreign Policy

Spain seeks to replace UK as command centre of EU's anti-piracy mission

Spain is in a strong position to replace the UK as the country leading the EU's anti-piracy operation after it leaves the bloc next year.

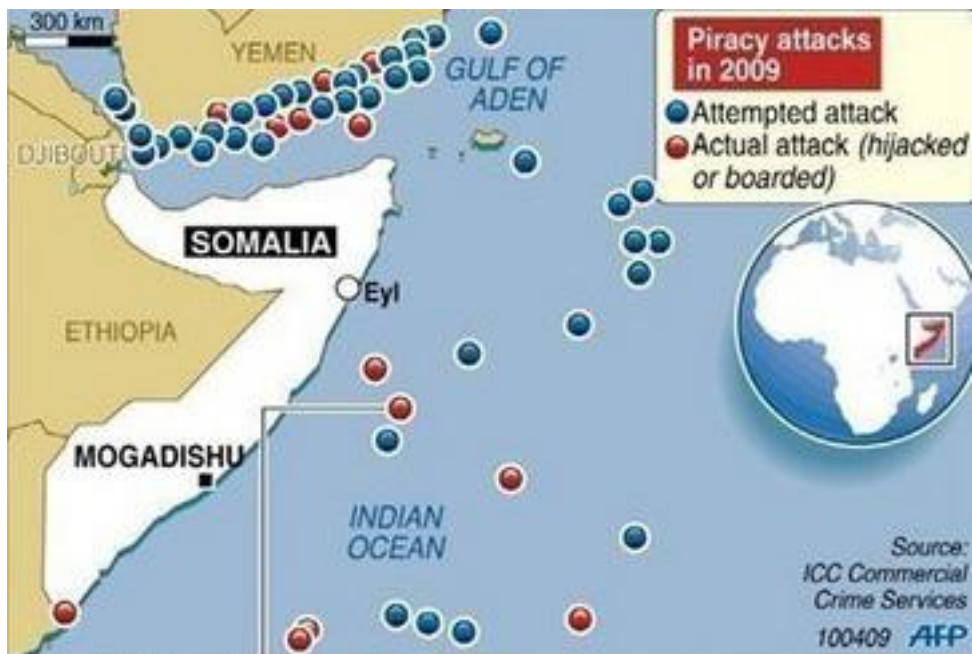
The EUNAVFOR Atalanta operation is run from Northwood near London. Spain wants the command centre to be based at its southern port of Rota, where US troops are also stationed.

Rota is Spain's largest naval base and the US's biggest in south Europe. Spain also hopes to make Rota the EU's fifth operational headquarters, which the UK also holds. This would make Rota a headquarters for all types of missions.

Madrid's offer would form part of a joint effort with France, which would be responsible for the Maritime Security Centre of the Horn of Africa (MSCHOA), also based in Northwood.

The EU's anti-piracy operation was launched in 2008, in response to Somali pirates hijacking vessels and taking hostages in some of the world's busiest shipping lanes (see Figure 1). More than 90% of the volume of EU trade passes through or near the Gulf of Aden.

Figure 1. Piracy Attacks in 2009



Source: AFP.

The Franco-Spanish project has a rival: the base in Rome, headquarters of Operation Sophia against smugglers of migrants in the central Mediterranean.

The number of attacks off the coast of Somalia in the Indian Ocean declined from a peak of 176 in 2011 to seven in 2017.

Rajoy boycotts the EU-Western Balkans summit as he does not recognise Kosovo

Prime Minister Mariano Rajoy, fearful of stoking the crisis over the illegal push for independence in Catalonia, boycotted the summit in Sofia between EU leaders and their Western Balkan counterparts, because Spain does not recognise the independence of Kosovo declared 10 years ago.

Four other EU countries also do not recognise Kosovo's independence –Greece, Cyprus, Romania and Slovakia– but their leaders attended the summit. Kosovo is recognized by 113 UN member states.

Rajoy attended the dinner with EU leaders the evening before. Spain was represented at the summit on EU enlargement and other issues by an official and endorsed the final declaration, which referred to Western Balkan 'partners', rather than 'countries', a formula agreed in order to gain the support of all 28 EU members.

The Spanish government has always stated that it is a 'matter of principle' not to accept any unilateral independence.

Spain and Venezuela to normalise relations after spat

Madrid and Caracas agreed to restore ambassadors withdrawn in January after a spat that followed EU sanctions on Venezuela over abuses associated with opposition protests.

The EU imposed a travel ban and froze the assets of seven senior Venezuelan officials.

Spain has been at the forefront of seeking ways to initiate a dialogue between President Nicolas Maduro's authoritarian government and the opposition.

Spain has become the favoured European destination for Venezuelans fleeing the lack of democracy and an economy in ruins. More than 26,000 arrived in Spain last year.

Domestic scene

Catalan parliament elects secessionist Premier, direct rule maintained

Catalonia finally has a Premier as of 15 May, but almost seven months of direct rule from Madrid have not come to an end because the proposed government of the new ultranationalist leader, Quim Torra, includes two separatists who are in pre-trial detention and two who are wanted by the Spanish authorities after fleeing Spain.

Under the terms of the direct rule imposed last October, after Carles Puigdemont, the former Catalan Premier, held an unconstitutional referendum followed by a unilateral declaration of independence, home rule was supposed to end once a new and legal Catalan government was formed. Puigdemont is in self-imposed exile in Germany fighting extradition.

The central government views Torra's move as a provocation and did not publish in the official gazette (BOE) the names of the new Catalan cabinet, a step that is needed to confirm their appointment. As a result, direct rule continued.

Torra, who said the 'legitimate president' is Puigdemont, vowed to build an independent republic. He only secured the simple majority in the Catalan parliament required to get elected thanks to the four MPs of the anti-capitalist Popular Unity Candidacy (CUP) abstaining. The CUP, however, said it would not work with Torra's government. The pro-independence parties have a slender majority in the regional parliament. Puigdemont's three previous candidates for Premier, including himself, did not manage to get elected because they were either in jail or had fled Spain.

Ciudadanos (Cs) and the Socialists support the ruling Popular Party (PP) on continued direct rule. Cs, which also backs the minority PP government, takes the toughest stance. Its leader, Albert Rivera, says the Catalan public TV channel TV3 should be included under direct rule for its pro-independence propaganda.

Torra's first act as Premier was to visit Berlin to 'pay homage' to Puigdemont, who is accused of misuse of public funds and rebellion, which carries a maximum penalty of 30

years in prison. He also visited the jail in Madrid where the two proposed officials are being held along with other former separatist leaders.

A German court has rejected Spain's request for Puigdemont to be extradited for rebellion and is studying the lesser charge. A final decision has yet to be made. A Belgian court turned down the request to extradite three other Catalan separatist leaders.

Torra called for unconditional talks with Prime Minister Mariano Rajoy. The two sides are miles apart. A former publisher who comes from the right wing of Catalan nationalism, Torra has poured scorn on Spain. Six years ago he called those living in Catalonia who rejected its language and culture 'carrion-eaters, scorpions, hyenas, wild beasts in human form'.¹ He apologised for this after becoming Premier.

Torra also made himself look ridiculous by saying Catalonia was suffering a 'humanitarian crisis'.

... Basque separatist terrorist group ETA disbands, with no government concessions

The Basque separatist group ETA dissolved itself, ending one of the longest terrorism campaigns in modern Europe with the loss of 854 lives, thousands injured and 79 kidnappings, but without winning any concessions from the government.

Founded in 1959 during the Franco dictatorship, initially as a cultural organisation and later as an armed group to fight for an independent Basque state, ETA's highest profile assassination was the 1973 bombing of the car in which the dictator's heir apparent, Prime Minister Luis Carrero Blanco, was travelling.

The group stepped up its campaign after the advent of what it deemed a sham democracy as of the 1978 Constitution, and the granting of considerable autonomy to the Basque Country. It murdered 95 people in 1980, twice as many as during the Franco regime.²

Weakened by repeated arrests of its leaders and operatives and minimal support for its cause in the Basque Country, the group became a spent force some years ago. Its dissolution was inevitable. The last person killed in Spain was in 2009 and in France in 2010.

The government said there would be no impunity, unlike in Northern Ireland following the 1998 Good Friday Agreement, and vowed to continue its criminal investigations. According to Covite, an association of victims, at least 358 ETA crimes have yet to be solved.

¹ The novelist Javier Cercas delves into Torra's xenophobic past at <https://voicesfromspain.com/2018/05/14/nightmare-in-barcelona/>.

² For greater detail see my post on ETA published on 7 May at <https://blog.realinstitutoelcano.org/en/basque-terrorist-group-eta-disbands-after-60-years/>.

The one area where there might be leeway is on the re-location of some of the 243 ETA members serving jail sentences in Spain (another 53 are in France). The policy of the current and past governments has so far been to keep most of them far from their families in the Basque Country.

Juan Ignacio Zoido, the Interior Minister, said there will be 'no type of conversations, nor negotiations nor compensations because the only commitment is to the victims of terrorism'.

ETA only apologised to victims who did not have a direct participation in what it termed the 'conflict'. 'This is not the end we wanted as a society or as victims, and not the one we deserved', said Consuelo Ordóñez, the head of Covite, whose brother Gregorio, a Popular-Party politician, was assassinated by ETA in 1995.

ETA no longer exists, but the 'conflict remains, as it does in Catalonia', said Arnaldo Otegi, the coordinator of the pro-independence coalition Euskal Herria Bildu, the group's political ally and the second-largest party in the Basque parliament. Otegi spent a year in jail for glorifying terrorism in 2007 and four years (2012-16) for trying to rebuild a banned political party.

His narrative is one of 'suffering' inflicted on the Basque Country and a 'smooth transition [to democracy] where the deep state remained untouchable', and not a victory for the rule of law.³

Madrid regional Premier resigns over 'fake degree' scandal after video released

Cristina Cifuentes, the head of Madrid's regional government, accused of fraudulently obtaining a master's degree, quit following a video that went viral showing her being questioned by a security guard for putting €40 worth of face cream in her bag without paying seven years ago.

Her resignation, which she had resisted for several weeks, was the latest high-profile scandal to hit the ruling Popular Party (PP), embroiled in various corruption trials. There was speculation that the video was released by someone in the PP in order to force her resignation and draw a line under a scandal that was adding to the erosion of support for the PP, mainly to the benefit of Ciudadanos (Cs).

A Metroscopia opinion poll showed the PP losing massive support if a Madrid regional election was held. The party would drop to third place, with 25 of the Madrid parliament's 129 seats (17.7% of the vote), down from 48 seats and 33.1% in the 2015 election. Cs, which backs the PP's minority government at the national level, would be the winner, with 48 seats and 32.9% of the vote, up from 17 seats and 12.1% in 2015.

³ Otegi's vitriolic take on the end of ETA can be read at <https://www.theguardian.com/commentisfree/2018/may/17/eta-armed-struggle-spain-brutality-basque>.

Whichever party rules in Madrid tends to also rule at the national level. Another Metroscopia poll gave victory at the national level if an election were held today to Cs (see Figure 2). The combined share of the vote of the PP and the Socialists, the two parties that have alternated in power since 1982, would drop from 52.7% in the 2016 election to an all-time low of 38.5%. The hard-left Unidos Podemos would overtake the Socialists.

Figure 2. Voter intention (% of valid votes)

	26/VI/16 election	January 2017	July 2017	Jan 2018	May 2018
PP	33.0	33.2	26.9	23.2	19.5
Socialists	22.7	19.1	22.0	21.6	19.0
Unidos Podemos	21.7	21.7	19.7	15.1	19.8
Ciudadanos	13.0	15.5	18.5	27.1	29.1

Source: Metroscopia.

The PP's last four Premiers of the Madrid region have been tarnished or formally charged with corruption, most notably Ignacio González, Cifuentes' predecessor, who was arrested and imprisoned last year for six months as part of a probe into the alleged misuse of public funds at a water company. He was released on bail of €400,000 pending trial. His predecessor, Esperanza Aguirre, later leader of the PP group in the region's parliament, resigned last year after admitting she had failed to properly oversee the actions of her protégé. Alberto Ruiz-Gallardon, another PP Premier of Madrid, came under investigation last month in the water company case.

Pedro Agramunt (a PP Senator) and Jordi Xuclà (of the Catalan pro-independence party PDeCAT), were among several members of the Council of Europe's parliamentary assembly (Pace) accused last month of breaking the body's rules on ethics over cash-for-votes allegations focused on Azerbaijan. Agramunt ignored calls to resign and was banned from holding any senior post in Pace for 10 years and Xuclà for two years. They were also banned from representing Pace in other international bodies, but retain their right to speak in the assembly, which is unable to force them out.

Agramunt was forced to resign as Pace President in 2017, after a vote of no-confidence over his participation in a Russian government trip to Syria.

In Valencia, Eduardo Zaplana, a former PP regional Premier (1995-2002), was arrested on charges of laundering more than €10 million in tax havens and bribery.

Foreign population rises for first time since 2011

The number of foreigners registered in town halls increased last year for the first time since 2011, reversing a steady decline from a peak of 5.7 million (see Figure 3). They rose 146,611 to 4.7 million (10.1% of the total population)

Figure 3. Foreigners registered in Spain (million) (1)

	2012	2013	2014	2015	2016	2017	2018
Registered foreigners	5.7	5.5	5.0	4.7	4.6	4.5	4.7

(1) At 1 January of each year.

Source: INE.

An important and overlooked factor in the decline –more than the fall in immigrants as a result of Spain’s economic crisis– is the very large number of them who have obtained Spanish citizenship and so no longer figure as foreigners in town-hall registries. More than 660,000 foreigners became Spanish citizens between 2011 and 2015.

Among the top 10 countries with citizens in Spain, the largest increase was in Colombians (+20,250 to 165,608). The biggest rise among all countries was in Venezuelans (+26,608 to 95,474) who are fleeing hyperinflation, a lack of food and medicine, the second-highest homicide rate in the world and an authoritarian government.

The fall in the number of Britons in Spain, which started before the UK’s decision in 2016 to leave the EU, was halted. Their number was up 149 at 240,934 (see Figure 4) but well down on 397,892 in 2011.

Figure 4. Registered foreign population, top 10 countries, 1 January 2018 and 1 January 2017

Country	1 January 2018 (1)	1 January 2017 (2)	Change 2018/2017
Morocco	769,050	749,670	+19,380
Rumania	673,017	687,733	-14,716
UK	240,934	240,785	+149
China	215,748	208,075	+7,673
Italy	206,066	189,780	+16,286
Colombia	165,608	145,358	+20,250
Ecuador	135,045	141,810	-6,765
Bulgaria	123,730	127,669	-3,939
Germany	110,852	111,814	-962
Ukraine	106,823	103,072	+3,751
Other countries	1,972,545	1,867,041	+105,504
Total	4,719,418	4,572,807	+146,611

(1) Provisional figures.

(2) Definitive figures.

Source: INE.

Britons are the oldest foreign group in Spain. Their average age is 53 and five months, 10 years higher than the average age of Spaniards and more than 20 years above that of Moroccans (see Figure 5).

Figure 5. Average age of foreigners in Spain by country of origin

Country	%
UK	53.5
Germany	49.3
Spaniards	43.9
Foreigners	36.0
Rumania	32.9
China	31.2
Pakistan	31.0
Morocco	30.8

Source: INE.

The Economy

Government U-turn on pensions to achieve budget approval

The minority Popular Party government was forced to change its mind and restore the indexation of pension payments to inflation, finally clearing the way for parliament's approval of this year's budget.

The move followed protests by pensioners over the ending of indexation and was part of a deal struck with the Basque Nationalist Party (PNV) whose votes in parliament are needed to get the budget narrowly approved.

The PNV had for months made the ending of direct rule in Catalonia its condition for approval, but the government refused to give ground on this issue. Ciudadanos had already given its approval.

Prime Minister Mariano Rajoy had said there was no room for an overall increase in pensions, which have been rising by 0.25% a year (below the inflation rate) since 2014.

A combination of a rapidly ageing population, substantially increased life expectancy and a very high unemployment rate (16%) has put the social security system under considerable strain (with a deficit of €18 billion in 2017). The Reserve Fund created to help pay pensions is almost empty. The number of social security contributors is still around one million fewer than its peak in 2007, despite economic recovery in the last three years.⁴

⁴ For a fuller explanation of the problema see my post <https://blog.realinstitutoelcano.org/en/spains-protests-over-pensions-no-room-for-populist-measures/>.

The rise this year and next is forecast at 1.6% at a cost of more than €3 billion. Finance Minister Román Escolano said the increases were a one-off and did not imply inflation indexation beyond 2019. The revenue to finance the increases will come from a tax on digital multinationals such as Google and Amazon.

A report by the European Commission, written before the U-turn, said the government's 2013 reforms 'will have a positive impact on the sustainability of the system' and 'pensioners have largely maintained their relative standard of living during the crisis'. The at risk-of-poverty rate of those over the age of 65 (14.4%), it said, was lower than those of working age (30.4%).

The European Commission was not happy with the U-turn as it will make it more difficult to attain this year's budget deficit target of 2.3% of GDP. The Commission forecast the deficit at 2.6% before the U-turn (see Figure 6).

Figure 6. Macroeconomic forecasts, 2018 and 2019

	2018	2019
GDP growth (%)	2.9	2.4
Jobless rate (%)	15.3	13.8
Current account balance (% of GDP)	+1.5	+1.6
General government balance (% of GDP)	-2.6	-1.9
General government gross debt (% of GDP)	97.6	95.9

Source: European Commission.

The deficit came in at 3.07% last year, narrowly 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 once the deficit is below 3%.

Pension reforms in 2013 reduced annual rises to 0.25% as long as the social security system remained in deficit and capped the maximum increase at 0.5% above inflation, if the system could afford it.

The reform of the statutory retirement age, which is gradually being increased from 65 to 67 as of 2027 (for both men and women), remains but not the introduction next year of a new 'sustainability factor' that links payments to life expectancy –and ensures that pensions will actually fall as the average lifespan increases–. This has been postponed until 2023.

Other reforms provide incentives to extend working life and tighten the requirements for early retirement and partial retirement, adjusting the parameters for determining the amounts of pensions by increasing the number of years to receive the maximum pension

(from 35 to 37 years), increasing the number of years of contributions for calculating the base (from 15 to 25 last years before retirement) and applying smaller pension calculation coefficients.

Spain's per capita income overtakes Italy's

Spaniards became richer than Italians in 2017, as a result of Italy's long stagnation and failure to reform and Spain's economic revival over the last decade.

Spain's per capita income on a purchasing power parity basis (used to compare income levels in different countries) was US\$38,285 compared with Italy's US\$38,140 (see Figure 7).

Figure 7. Per capita GDP, 1980-2023 (at current purchasing power parity, US\$)

	1980	1990	2000	2010	2017(e)	2023(e)
France	10,763	19,661	28,514	37,284	43,760	53,205
Germany	11,273	20,725	29,839	40,850	50,425	62,510
Italy	10,543	20,016	28,601	34,767	38,140	45,440
Spain	7,883	15,293	24,053	32,251	38,285	48,768
UK	8,878	17,538	26,669	36,038	44,117	52,902

(e) Estimates for Italy and UK in 2017 and all countries in 2023.

Source: IMF.

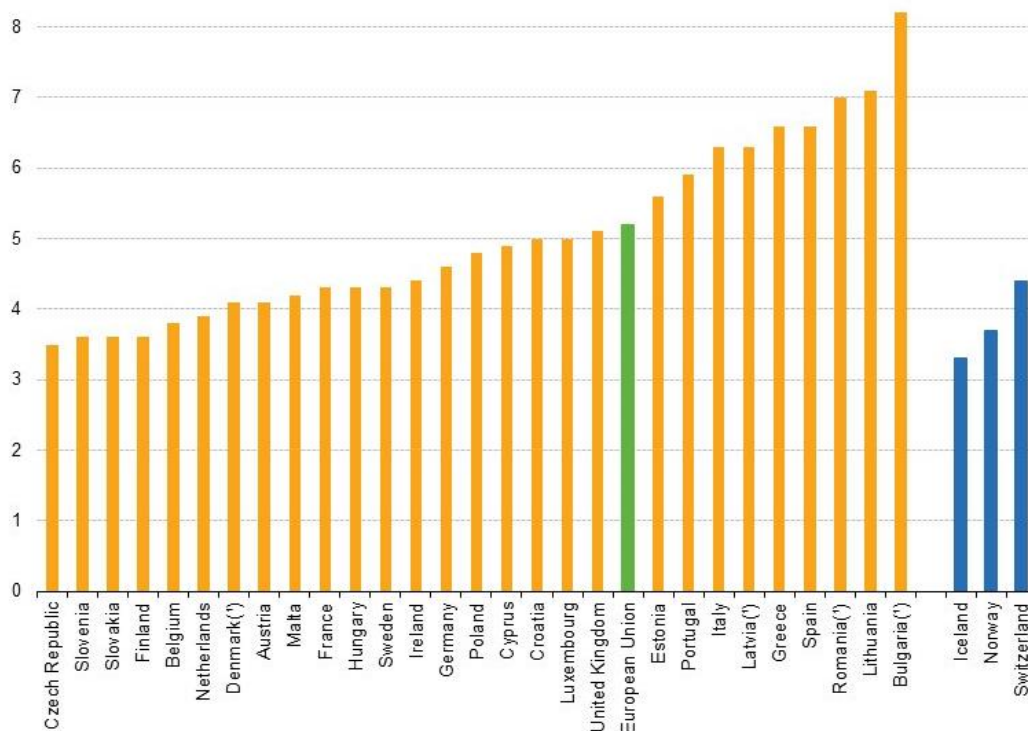
Both economies were hard hit by the 2008 international financial crisis but while Spain has recovered its pre-crisis GDP level and since 2015 has been one of the fastest growing countries among developed countries, Italy has not yet regained its pre-crisis level and remains a laggard.

The Italian economy was twice as large as Spain's in the late 1990s. Today, it is only 50% larger. Its economic output is not much larger than in 2000, while Spain's GDP has increased 35%. Italy's population is 60 million compared with Spain's 44 million, something that also affects per capita GDP.

Income equality improves

The top 20% of Spain's population with the highest income received 6.6 times as much income as the bottom 20% in 2016, down from 6.9 in 2015, according to the latest Eurostat figures (see Figure 8).

Figure 2. Income inequality: quintile share ratio (2016)



(*) 2017 data

ec.europa.eu/eurostat

Source: Eurostat.

Record exports of arms and defence equipment

Spain exported a record €4.3 billion of arms last year, 7.3% more than in 2016 (see Figure 9). The biggest client was Germany (eight transport planes).

Figure 9. Spain's exports of arms, 2008-2019 (€ mn)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Exports	934.5	1,346	1,128	2,431	1,953	3,907	3,203	3,720	4,051	4,346

Source: Secretariat of State for Trade.

Sales to Saudi Arabia, which are controversial because of that country's involvement in the conflict in Yemen, amounted to €270.2 million. Madrid and Riyadh signed a €2 billion memorandum of understanding last month, paving the way for Spain to supply five small warships. The order would safeguard thousands of jobs at the state-owned shipbuilder Navantia.

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'.

Corporate scene

Iberdrola raises its offer for Brazil's Eletropaulo

Iberdrola, Spain's largest power company, increased its bid for Brazil's electricity distributor Eletropaulo, topping that made by Italy's Enel.

With 18 million customers in São Paulo state, the richest and most populous in Brazil, Eletropaulo serves a region with strong electricity demand and could provide a springboard to the rest of Latin America.

Neoenergia, 52.45% controlled by Iberdrola, is Brazil's biggest electricity utility.

Elecnor wins €12 million wind-energy project in Panama

The engineering firm Elecnor is to build its first wind energy park in Panama after winning a €125 million turnkey contract.

Eleven Spanish companies among Europe's 40 fastest-growing

Spain has 11 of the fastest-growing companies in Europe in the top 40 compared with nine for the UK and eight for Germany, according to the latest FT 1000 which lists firms in 31 countries that achieved the highest compound growth rate (CAGR) in revenue between 2013 and 2016.

The fastest growing Spanish company is Traventia Viajes (travel and leisure), ranked third with a CAGR of 355.9%.

Technology is the best represented sector, with 155 companies in the list.