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Foreign Policy

Government presses ahead with controversial sale of bombs to Saudi Arabia

Spain will sell 400 laser-guided bombs to Saudi Arabia, a contract signed by the previous government in 2015 that was halted amid claims they could be used against civilians by the Saudi-led coalition in the war in Yemen.

In retaliation, Saudi Arabia had threatened to cancel a €1.8 billion contract signed in April to buy five corvettes from Spain's state-owned military shipbuilder Navantia if the bomb sale was cancelled. This would have put at risk up to 6,000 jobs in an area with one of Spain's highest unemployment rates.

The decision to cancel the sale was taken by Margarita Robles, the Defence Minister, and was badly received in Riyadh, which learned about it from the press and not directly from the Spanish administration. For the Saudis, the issue was a question of political confidence.

Other Spanish Ministers, in a collegiate decision, overruled Robles. Josep Borrell, the Foreign Minister, said there were no irregularities in the sale. He said the bombs were precision weapons that 'do not create collateral effects' and were accurate to a range of within a metre of their targets.

'The situation was very complicated', said the Prime Minister, Pedro Sánchez. 'The dilemma the government faced was breaking its commercial, economic and political ties with Saudi Arabia, with the impact this could have in some areas of the country, such as the Bay of Cadiz, or carry out a contract signed by the previous government'.

The previous centre-right Popular Party government, which was ousted in July in a vote

of no confidence in parliament, signed the €9.2 million bombs deal in 2015, and the Saudis have already paid for them. Spain is the fourth-largest provider of military equipment to Saudi Arabia, according to Amnesty International. Between 2015 and 2017, Spain exported arms to Saudi Arabia worth €932 million and authorised licences worth €1,235 million.

A major diplomatic confrontation was averted following meetings between the Saudi Ambassador to Spain, Prince Mansour Khalid al-Farhan al-Saud, the Defence Minister, Foreign Affairs Secretary of State Fernando Valenzuela and Central Intelligence Centre (CNI) director Félix Sanz.

A lot was at stake. Saudi Arabia 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. The Haramain high-speed train from Mecca to Medina, cradle of the Muslim faith, is the biggest international contract obtained by Spanish companies. Saudi Arabia is the second-largest Arab investor in Spain.

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.

The Arms Under Control collective, which includes Amnesty International, Oxfam and Greenpeace urged Spain earlier this year 'to join a growing number of countries like Germany, Sweden, Norway or Belgium that have stopped exporting arms to the Saudi-led coalition'. The UK, the US and France are the main arms suppliers.

Spain has ratified the international Arms Trade Treaty, which forbids the transfer of weapons, munitions and related items when it is known they would be used for war crimes or where there is an overriding risk they could contribute to serious violations of international human rights and humanitarian law. Spain's own arms exports law prohibits arms transfers when there is reasonable suspicion that they could be used in human rights violations.

Moving towards a deal on the status of post-Brexit Gibraltar

The Spanish government is hopeful of reaching a deal with the UK soon on the status of Gibraltar after Britain and with it the overseas territory long claimed by Spain leaves the EU next March.

'I think that the willingness of the British and Spanish governments is to reach an agreement by mid-October', said Prime Minister Pedro Sánchez, who added that London's approach had been very constructive.

Sánchez discussed the issue with Michel Barnier, the EU's Brexit negotiator, and Josep Borrell, Spain's Foreign Minister, in Madrid. Borrell said Spain was 'going to use the Brexit negotiations to obtain the most positive things possible for our people, for Spain and for the Spaniards who work in Gibraltar'.

Madrid wants the UK's withdrawal treaty to include a protocol covering various issues including tax evasion, cigarette smuggling and access from Spain to Gibraltar's airport, which Spain says is built on Spanish land. More than 14,000 companies are based in Gibraltar, which has a population of about 30,000, but many operate in Spain.

An important issue for both sides is ensuring the continued movement of people between the thriving Rock and Spain. Around 8,000 Spaniards from the adjacent economically-depressed Campo de Gibraltar cross the border every day to work, as do some 5,000 British and other EU nationals.

Madrid has not pushed the issue of sovereignty in the talks with London. 'A Spanish willingness to construct a more positive relationship has been increasingly evident in recent months', said Gibraltar's Chief Minister, Fabian Picardo. Spain has a veto right over the future relationship between Gibraltar and the EU after the UK leaves the bloc.

Aid to Palestinians in Gaza and West Bank doubled

The government reacted to the US Administration's decision to end funding for the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA) by doubling its contribution to €2 million.

Foreign Minister Josep Borrell met his Palestinian counterpart Riyad al-Maliki in Madrid and regretted that Washington was losing its traditional mediating role in the Israeli-Palestinian conflict by 'aligning' with Israel.

'I regret that the United States, which for many years played a role in contributing to the peace process... are unfortunately disqualifying themselves from playing a mediator role that has the confidence of both parties', said Borrell.

The Spanish parliament voted unanimously in 2014 to recognise a Palestinian state, but that has remained symbolic.

Domestic scene

One year on, no let-up in Catalan push for independence

Pro-independence Catalans used the region's national day earlier this month to continue to press their demands in the largest show of force since the illegal referendum on secession almost a year ago.

Local police said up to one million took to the streets peacefully. Unlike in previous years, the central government did not provide its own estimate.

The latest poll showed 46.7% of Catalans in favour of an independent state and 44.9% against. Only one in 10 Spaniards support granting Catalonia and Spain's 16 other regions the possibility of becoming independent through a Scotland-style referendum, according to the Centre for Sociological Research (CIS).

The judiciary continues to work toward bringing 25 Catalan politicians to trial before the end of the year on charges ranging from rebellion to misappropriation of funds and disobedience. Some of them are in pre-trial detention including Carme Forcadell, the former Speaker of the Catalan Parliament, while others such as Carles Puigdemont, the former Catalan Premier, fled abroad and are in self-imposed exile.

Having successfully fought the judiciary's attempts to extradite him from Germany for rebellion, Puigdemont filed a civil lawsuit against Supreme Court Judge Pablo Llarena, who is leading the probe into him. The Spanish government has hired the service of a Belgian law firm to defend Llarena.

While Prime Minister Pedro Sánchez has sought to defuse tensions by meeting Quim Torra, the Catalan Premier, and convening a bilateral commission for the first time in seven years to study possible ways to grant Catalonia more autonomy, there has been no substantial change in the standoff. The first fruit of the commission was an agreement to inject €1.49 billion in Catalonia over four years. The Catalan government says Madrid owes it €7.6 billion.

Sánchez intimated that direct rule of Catalonia, under Article 155 of the Constitution, could be restored if the Catalan government takes any further unilateral steps towards secession. Direct rule ended in June after a new Catalan government took office.

Torra called on Sánchez to 'orientate' the State Attorney General on the upcoming trial. He calls the imprisoned politicians 'political prisoners', and compared the independence cause with that of the US civil rights activist Martin Luther King. Torra was rebuffed by Clayborne Carson, the Director of the institute that bears King's name at Stanford University. He told *El Confidencial*: 'I don't see how you can compare separating a rich part from the rest of the country with freeing people from an oppressive system'.

Foreign Minister Josep Borrell, a Catalan, said 'at a personal level' that he would have preferred the jailed separatists to be free while awaiting trial, a sentiment echoed by Territorial Affairs Minister Meritxell Batet, who said it would make dialogue 'easier'. One reason why they are not is that the prosecutors fear they would join their colleagues in exile. Keeping them in prison is a rallying point for a fractured independence movement.

Meanwhile, a 'yellow ribbon war' (a pro-independence symbol and of solidarity with the imprisoned separatists) broke out in Catalonia, with secessionists putting them in public places and opponents taking them down, which in some cases led to altercations.

Inés Arrimadas, the leader of Ciudadanos in Catalonia, complained of discriminatory treatment by the Mossos d'Esquadra, the Catalan police force. 'The police identify people who remove the ribbons but not those who put them there', she said.

In a separate development, Manuel Valls, the former French Prime Minister who has dual nationality, as he was born in Barcelona of a Catalan father, announced his candidacy for mayor of Barcelona. A vocal opponent of Catalan independence, Valls will

run as an independent and has the backing of Ciudadanos, the leading anti-secession party in the region and also the largest single party in the Catalan parliament.

As regards the wider picture of Spain's 17 regions and the position of their financing, one of the grievances of Catalan secessionists, who say Catalonia contributes too much and receives too little in return, the latest figures released by Fedea, a think tank, showed that tax revenue per person in Madrid, for instance, was twice that of Extremadura, one of the poorest regions, in 2016 (see Figure 1) but after redistribution under the common system it received 9% more money from the central government per person than Madrid (adjusting for the cost of service provision).

The Basque Country, thanks to its special status under its own system, got 228% of the adjusted average per person (2014, latest figure available), whereas Valencia received only 91.3% and Catalonia 100.3%.

Those living in the four underfunded regions (ie, below the average final financing of 100) numbered 16.9 million compared with the 29.7 million in the 11 overfunded regions.

Figure 1. Per-capita adjusted financing at different stages in the application of the common regional financing system (1)

	Fiscal capacity (regional tax revenue before redistribution)	Financing after equalisation transfers	Final financing
Andalucía	78.6	94.4	95.0
Aragón	103.0	99.3	106.7
Asturias	94.6	97.3	103.8
Balearic Islands	137.9	116.6	111.8
Canary Islands (2)	56.1	100.8	106.6
Cantabria	100.7	94.9	119.8
Castile-La Mancha	77.7	93.4	97.9
Castile-León	90.2	96.8	105.5
Catalonia	121.0	104.7	100.3
Extremadura	68.8	92.1	109.9
Galicia	81.9	94.3	101.7
La Rioja	97.9	97.2	115.1
Madrid	146.9	112.5	101.1
Murcia	81.9	94.5	93.1
Valencia	93.3	95.1	91.3
Average	100	100	100

(1) 2016.

(2) The Canary Islands have a special fiscal regime with lower indirect taxes and the Basque Country and Navarre have their own systems.

Source: Fedea.

The Catalan conflict is also complicating the government's attempts to get its budget for 2019 approved by parliament. The Socialists only have 84 of the 350 seats and need the support of Unidos Podemos and Basque and Catalan nationalists (the same parties that backed the Socialists' censure motion and ousted the Popular Party in June).

Pere Aragonès, the Deputy Premier of the Catalan government and de facto leader of Catalan Republican Left (ERC, with nine MPs) –as its head, Oriol Junqueras, is in prison–, implied that supporting the budget depended on whether the imprisoned politicians remained in jail.

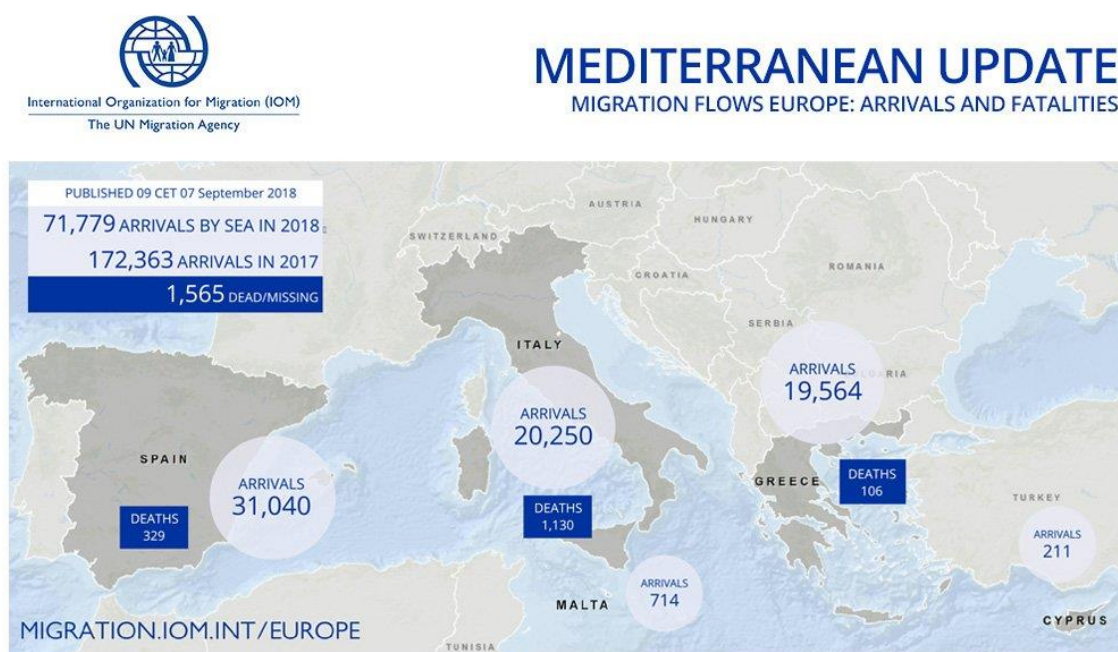
Emergency measures to handle the surge in migrants

The government set up centres to handle the sharp rise in migrants, most of whom are arriving by sea on Spain's southern coast from North Africa.

Spain received 36,597 migrants between 1 January and 9 September, 32,022 of whom arrived via the Mediterranean (43% of the total using this route), according to the International Organisation for Migration (IOM). The number that arrived by sea was almost three times more than in all of 2017.

While those arriving in Italy, the focal point, dropped during this period to 20,319 compared with 100,308 in the whole of 2017, Spain became the favoured destination (see Figure 2).

Figure 2. Migration flows to Europe, 2017-18



Note: the figures shown here correspond to the period 1 January-7 September.

Source: IOM.

On some days up to 300 migrants arrive by sea. July saw the arrival of 7,855 migrants, including 630 on board the Aquarius rescue ship that was turned away by the Italian government.

On the ground, 116 migrants who stormed the fence into the Spanish enclave North African of Ceuta from Morocco last month were returned under an agreement with the Moroccan government.

Spain began to train the Libyan coastguard under an EU programme aimed at reducing the illegal trafficking of migrants.

President Donald Trump told Foreign Minister Josep Borrell that Spain could solve the migration crisis by building a wall across the Sahara. Borrell said Trump compared the situation in northern Africa and the Mediterranean to that along the US border with Mexico where Trump has promised to build a wall. It was not known whether the remark, made when King Felipe and Queen Letizia visited the White House in June, was in jest.

Prime Minister Sánchez rejects accusations of plagiarism in his doctoral thesis

Prime Minister Pedro Sánchez became the latest politician under scrutiny for his academic qualifications after the newspaper *ABC* accused him of plagiarising parts of his doctoral thesis.

The accusation followed the resignation of Sánchez's Health Minister, Carmen Monton, after press reports of irregularities in her master's degree, which she denied.

Sánchez published his thesis, and the government used two plagiarism detection programmes that it said proved that the thesis 'amply passed' both.

An investigative judge ruled in August that the master's degree of Pablo Casado, the new leader of the Popular Party, had been awarded in 2009 in dubious circumstances, and sent the case up to the Supreme Court because of immunity laws protecting elected officials from lower courts (known as *aforamiento*).

That court will decide whether to proceed with the case, and if it follows the non-binding report of its prosecution office will rule against doing so. The report refuted the investigative judge's case but said there were grounds to charge Casado with bribery. This charge, however, cannot proceed because the crime was committed more than five years ago and so is prescribed under the statute of limitations.

Casado was awarded the master's degree in regional law by the King Juan Carlos University (URJC), the same institution that awarded a degree in 2012 to Cristina Cifuentes, who was forced to resign as Premier of the Madrid region in April over claims she faked her master's degree. Casado said he was exempted from 18 of the 22 subjects as it was deemed he had covered them with his previous law degree from a private institution, the CES Cardenal Cisneros. He did not attend lectures or sit exams but presented a final dissertation that has not been made publicly available. He insists it was all by the book and that he did nothing wrong.

Parliament approves exhumation of Franco

Parliament voted narrowly in favour of removing the remains of General Francisco Franco, Spain's dictator between 1939 and 1975 following his victory in the Civil War, from the grandiose Valley of the Fallen mausoleum.

The government's decree-law, a procedure of urgency,¹ passed with 176 votes in favour (Socialists, Unidos Podemos and Basque and Catalan nationalists), 165 abstentions (the Popular Party and Ciudadanos) and two against (allegedly by mistake). The PP and Ciudadanos said they abstained because decree-laws bypass the usual (and very slow) parliamentary procedure.

The centre-right PP would probably have abstained even if a decree-law had not been used, as its leader, Pablo Casado, made it very clear before the vote that Spain had more important issues and should look to the future and not the past. Ciudadanos, meanwhile, is competing to some extent for the same ground as the PP, some of whose voters have switched to it in recent elections.

Forty-three years after Franco died, the issue of what to do with the dictator's tomb is no longer such a contentious issue as Spain has become a mature democracy. The left's position was stated by Deputy Prime Minister, Carmen Calvo, when she said: 'Democracy is not compatible with a tomb that honours the memory of Franco'.

Defenders of keeping Franco at the Valley of the Fallen, which is run by Benedictine monks who live in an adjacent abbey, say it is a monument to reconciliation. Yet this contradicts the original intention and is hard to square with the fact that it was mainly built with the forced labour of Republican political prisoners over an 18-year period (they were allowed reduced sentences in exchange). Although the mass tombs that line the walls of the basilica contain the dead of both sides (33,847), the Republican dead were brought there without consulting their families, and in some cases against the express wishes of relatives.

Not only is Franco buried there, but so is José Antonio Primo de Rivera, the founder of the fascist Falange movement, side by side with the dictator. Franco is the only person in the Valley of the Fallen who died in his bed: Primo de Rivera was shot by a Republican firing squad in 1936. Every 20 November, the anniversary of both deaths, a mass is held, attended by a nostalgic few. More curious tourists today visit the site than Francoists.

The government also plans to create a truth commission on the Civil War and the dictatorship, the merits of which various historians, including Sir Paul Preston, questioned because there is hardly anyone alive today who fought on either side in the war. Truth commissions in Chile and South Africa, for example, were established at the beginning of the democratic transitions in the two countries.

The Defence Ministry has finally agreed to declassify military documents covering the Civil War and the dictatorship. The previous Socialist government almost completed the task of sorting through them in 2011 but the Popular Party halted the move when it took office at the end of that year.

To the bane of historians, in particular, Spain has nothing comparable to the UK's 30-

¹ Parliament has the right to reject a draft decree, but only under a heavily-curtailed procedure that leaves a maximum of 30 days to examine and debate the legislation.

year rule of declassifying official documents. Spain's Official Secrets Law dates back to 1968.

Spain ups its position in UN Human Development Index, overtaking Italy

Spain rose from 27th to 26th position out of 188 countries in the latest UN Human Development Index, which is based on several factors (see Figure 3).

The country's life expectancy at birth (83.3 years) is the highest in the EU, but its mean years of schooling is among the lowest at 9.8. Polish and Rumanian children, for example, spend more years at school.

Figure 3. UN Human Development Index for selected countries

Ranking (1)	Human Development Index value 2017	Life expectancy at birth 2017 (years)	Mean years of schooling (2017)	GNI per capita (2011 PPP US\$) 2017
1. Norway	0.953	82.3	12.6	68,012
5. Germany	0.936	81.2	14.1	46,136
13. US	0.924	79.5	13.4	54,941
14. UK	0.922	81.7	12.9	39,116
24. France	0.901	82.7	11.5	39,254
26. Spain	0.891	83.3	9.8	34,258
28. Italy	0.880	83.2	10.2	35,299

(1) Out of 188 countries.

(2) The maximum value is one.

Source: United Nations Human Development Report, 2018.

Spain's index value (maximum value one), based on life expectancy at birth, mean years of schooling, expected years of schooling and per capita gross national income, increased from 0.755 in 1990 to 0.891 in 2017, a rise of 18%, faster than the other three big euro-zone countries (Germany, France and Italy) but from a lower starting position (see Figure 4).

Figure 4. Change in UN Human Development Index for selected countries, 1990-2017 (1)

	1990	2000	2010	2012	2017	Change 1990-2017 (%)
1. Norway	0.849	0.917	0.939	0.942	0.953	12.2
5. Germany	0.801	0.860	0.912	0.919	0.936	16.8
13. US	0.860	0.884	0.910	0.915	0.924	7.4
14. UK	0.775	0.866	0.902	0.899	0.922	18.9
24. France	0.779	0.849	0.882	0.887	0.901	15.6
26. Spain	0.755	0.825	0.867	0.874	0.891	18.0
28. Italy	0.768	0.828	0.869	0.876	0.880	14.5

(1) The maximum value is one.

Source: UN Human Development Reports.

Spain remains in third place in the Bloomberg Healthcare Efficiency Index

Spain continued to be ranked third in the 2018 Bloomberg Healthcare Efficiency Index after Hong Kong and Singapore (see Figure 5). The index is based on life expectancy, per capita health spending and expenditure as a percentage of GDP and uses the latest data (2015) from the World Health Organisation. The UK fell from 21st position to 35th. In 2014, Spain was in 14th place.

Figure 5. Bloomberg Healthcare Efficiency Index, Top-five countries out of 190

	Efficiency score
1. Hong Kong	87.3
2. Singapore	85.6
3. Spain	69.3
4. Italy	67.6
5. South Korea	67.4

Source: Bloomberg.

The Economy

Tourism now employing as many as construction at height of boom

The buoyant tourism industry, the world's second largest in terms of visitors (81.8 million in 2017), now employs more people than the construction industry did at the height of its boom in 2008.

Construction employed 2.55 million people in 2008, which plummeted to 979,000 in 2014

as a result of Spain's Great Recession. Since then, the number has recovered to 1.2 million, while tourism employs 2.65 million.

Tourism has replaced construction as the engine of job creation (13.7% of total employment), although 35% of these jobs are temporary and in some cases just for a few days or even hours.

Job automation risk varies considerably in Spain

The share of jobs at high automation risk varies the most within Spain among developed countries, with 12 percentage points of difference between the highest (Murcia) and lowest risk regions (Castilla-La Mancha), according to the Paris-based OECD think tank (see Figure 6).

Figure 6. Share of jobs at risk of automation across OECD regions: % of jobs at high risk of automation, highest and lowest performing regions, 2016



Source: Job Creation and Local Economic Development 2018



Source: OECD.

Between 2011 and 2016, 12 regions experienced a reduction in the share of jobs at high risk of automation –see Type A and Type C in Figure 7–. In three other regions (Aragón, Andalucía and Murcia) most of the jobs created were in occupations at high risk of automation (construction, manufacturing and transport) and two other regions (Castilla-La Mancha and Castilla y León) registered a loss of jobs at low risk of automation.

Figure 7. Trends in the jobs at risk of automation in Spain

A. Creating jobs, predominantly in less risky occupations	B. Creating jobs, predominantly in riskier occupations	C. Losing jobs, predominantly in riskier occupations	D. Losing jobs, predominantly in less risky occupations
Valencia	Aragón	Galicia	Castile-León
Balearic Islands	Andalucía	Asturias	Castile-La Mancha
Canary Islands	Murcia	Cantabria	
		Basque Country	
		Navarre	
		La Rioja	
		Madrid	
		Extremadura	
		Catalonia	

Note: type A and Type C regions experienced an increase in the share of jobs at low risk of automation with respect to occupations at high risk of automation. Type B and Type D regions experienced an increase in the share of jobs at high risk of automation. In both Type A and Type B regions aggregate employment grew, while in the Type C and Type D regions employment declined.

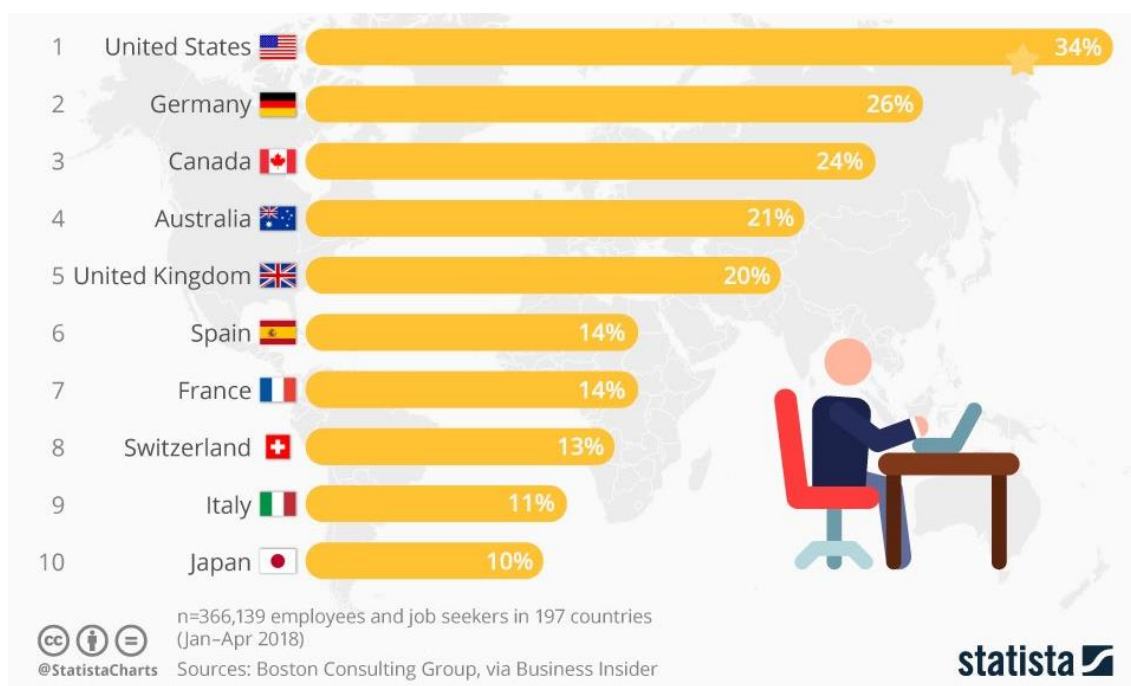
Source: OECD.

Spain, sixth most attractive country to work in

Spain is the world's sixth most popular destination for foreign workers, according to a survey by the Boston Consulting Group of 366,000 people in 197 countries.

As a result of Brexit, the UK is no longer the favourite country in Europe. Germany replaced it and came second with a share of 26% (see Figure 8).

Figure 8. The most attractive countries for the world's workers: share of people willing to move to the following countries for work



Source: Statista Charts.

Corporate scene

Hyperloop chooses Spain for supersonic rail development centre

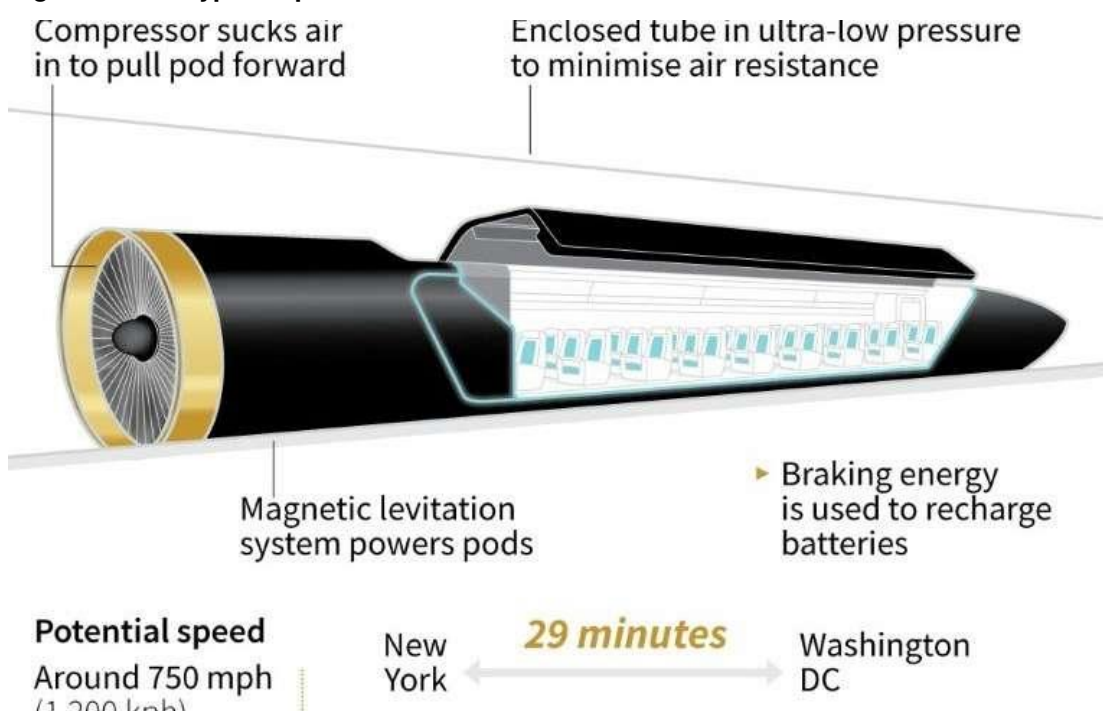
Virgin Hyperloop One, a US start-up backed by British tycoon Richard Branson that is developing a near-supersonic rail transit system, reached an agreement with the state-owned rail infrastructure company Adif to build a US\$500 million research centre in southern Spain, its first in Europe.

The centre will develop and test components for hyperloop systems to improve their safety. It will receive €126 million in public aid in the form of loans and grants.

Spain has the world's second-largest high-speed rail network and the province of Málaga has the country's second-biggest aerospace cluster.

A hyperloop travels on magnetic rails in a tube (see Figure 9).

Figure 9. The hyperloop



Source: Phys.org.

Spain, sixth global construction power

Listed Spanish construction companies generated €67.1 billion of revenue in 2017, making Spain the world’s sixth-largest construction power, according to a report by the consultancy Deloitte (see Figure 10).

Figure 10. Top-10 largest construction powers, 2017 (€ bn) (1)

Country	Number of companies	Revenue (€ bn)
1. China	10	440.5
2. Japan	14	149.9
3. France	3	88.4
4. US	11	84.9
5. South Korea	7	70.1
6. Spain	7	67.1
7. UK	12	48.6
8. Sweden	4	29.0
9. Austria	2	17.8
10. Netherlands	4	16.2

(1) Listed companies.

Source: Deloitte, Global Powers of Construction.

Based on international sales alone, the Spanish company ACS led the ranking with €30.7 billion, 87% of its total revenue, and Ferrovial was ranked 8th (see Figure 11).

Figure 11. Top-10 largest international contractors, 2017 (€ bn)

Company	Country	International revenue (€ bn)	% of total revenue
1. ACS	Spain	30.5	87
2. Vinci	France	16.6	41
3. CCC	China	13.9	23
4. Skanska	Sweden	12.2	75
5. Bouygues	France	11.9	36
6. Strabag	Austria	11.3	84
7. CSCEC	China	11.1	8
8. Ferrovial	Spain	9.3	77
9. Fluor	US	8.4	48
10. Doosan	South Korea	7.8	56

Source: Deloitte, Global Powers of Construction.