

Inside Spain 42

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Foreign Policy

Government Reaffirms Support for Turkey's EU Membership

José Luis Rodríguez Zapatero, the Prime Minister, reaffirmed his support for Turkey's full membership of the EU during a visit to Spain in January by his counterpart, Recep Tayyip Erdogan. He called it 'one of the most important decisions for the future of the European Union and for international stability'.

Rodríguez Zapatero's support for Turkey is in striking contrast to the position of France and Germany, whose Presidents either reject Turkey's membership or are lukewarm about it. Nicolas Sarkozy's successful presidential campaign in France included strong opposition to Turkish membership. The previous Popular Party government of José María Aznar also supported Turkey's EU membership.

Turkey became an associate member of the then European Community in 1963, but accession negotiations were not opened until October 2005 because of the country's failure to meet the basic criteria for full membership.

During Erdogan's visit the Spanish government hosted the First Alliance of Civilisations Forum, which brought together an influential network of political leaders, media heads, youth and civil society leaders, corporate and film industry executives, and religious figures. The Alliance was established in 2005, at the initiative of the governments of Spain and Turkey, under the auspices of the United Nations. It is seen as an alternative to the 'clash of civilizations' mind-set of the political scientist Samuel Huntington which has characterised much post-9/11 thinking about the relationship between Islam and the West.

A US\$100 million investment in a Global Youth Employment Initiative and a multi-million dollar Media Fund were among the key initiatives launched at the forum.

A recent Gallup poll for the World Economic Forum showed that more than half of the people surveyed in Spain (the site of the Madrid bombing in 2004 by Islamist radicals) believed that interaction between the Muslim and Western worlds is getting worse, and close to 70% said greater interaction is a threat (the second-highest figure after Denmark). The poll surveyed about 1,000 people in each of 21 countries, mostly in mid-2007. Spain was ranked 18th in the Gallup Muslim-West Dialogue Index which measures perceptions of the state of dialogue in 21 countries and is based on responses to nine questions about the state of Muslim-West relations. Countries are ranked in terms of citizens' optimism about the state of dialogue; the lower the score, the more pessimistic the country about the future of Muslim-West relations (see Figure 1).

¹ The PDF of William Chislett's new book on Spain is available at http://www.realinstitutoelcano.org/materiales/Spain_Going%20_Places%20_Chislett.pdf

Figure 1. The Gallup Muslim-West Dialogue Index

Country	Score
Bangladesh	50
Saudi Arabia	46
Netherlands	44
Canada	44
Singapore	43
Iran	43
Israel	42
Belgium	42
Indonesia	40
US	40
Palestinian territories	39
Egypt	39
Malaysia	39
Sweden	38
Italy	37
Denmark	37
Turkey	36
Spain	33
Pakistan	30 (1)
Brazil	26 (1)
Russia	25
Overall	37

100 points =most optimistic.

(1) Indicates a high percentage of 'Don't know' responses.

Source: World Economic Forum, www.weforum.org/pdf/C100/Islam_West.pdf.

Spain Commits €150 million to Africa

Miguel Ángel Moratinos, the Foreign Minister, visited several African countries and committed €150 million to them over the next three years. The funds fall within the scope of the Africa Plan which provides for various actions to foster the continent's development in a bid to stem the flow of illegal immigrants to Spain.

The countries and amounts are: Mali (€30 million), Guinea-Bissau (€15 million), Democratic Republic of the Congo (€60 million) and Ethiopia (€30 million). The African Union will receive an amount yet to be determined.

Spain and Portugal Hold First Meeting of Defence and Security Council

Portugal became the second country after France with whom Spain has created a mechanism to strengthen military and defence industry relations. José Luis Rodríguez Zapatero and José Sócrates, Portugal's Prime Minister, held the first meeting of the Council in the Portuguese city of Braga, together with their respective Foreign and Defence Ministers and military chiefs.

Spain sold 12 C-295 aircraft in 2006 for €74 million and hopes to sell three A400M aircraft and three three-dimensional Lanza radars. Analysts said Spain's relations with Portugal, historically fraught, did not necessitate such a body and that it had been created out of deference to Portugal.

Domestic Scene

Political Parties Shower Voters with Tax Cut Promises

The campaign for the 9 March general election moved into high gear with the incumbent Socialists and the conservative Popular Party (PP), the main opposition, showering voters with promises of lower taxes.

With growth slowing down and unemployment rising (see separate story), both parties are fighting the election on the economy. While José Luis Rodríguez Zapatero, the Prime Minister, promised a €400 tax rebate for 13 million wage-earners and pensioners (regardless of how much they earn), the PP proposed that working women should pay less tax than men as a way to boost the number of women in jobs.

The proposals drew fire from all sides: Comisiones Obreras, the largest trade union, said the rebate smacked of ‘a one-off payment for voting Socialist’ and lawyers said the PP’s idea was unconstitutional.

Both parties promised to raise minimum pensions and create some 2 million jobs over the next four years. The PP also brought immigration (increasingly one of the main concerns of Spaniards) into the political arena for the first time and said if it won it would introduce a points system for the hiring of immigrants in certain countries on the basis of their capacity to meet various conditions –such as speaking Spanish and professional qualifications–. According to a survey by Metroscopia, 56% of respondents backed the idea.

Opinion polls in the newspapers *ABC* (sympathetic to the PP) and *El País* (pro-Socialist) gave the Socialists a slight edge over the PP. The track record of polls in Spain, however, is not very good: few predicted the Socialists’ victory in 2004, perhaps because it was held in such extraordinary circumstances (three days after bomb blasts on commuter trains in Madrid killed 191 people).

One problem for pollsters this time is that the percentage of people admitting to having voted PP in 2004 is lower than the percentage of people who did vote for the PP. There are two interpretations for this, according to experts: PP voters do not trust pollsters and some people are reluctant to own up to voting for the PP in the last election.

The PP has a more solid bloc of loyal voters than the Socialists as leftist votes also go to the United Left (IU) party (which is more left wing). This weakens the Socialists chances of winning an absolute majority –which the party did not get in 2004 (they were 11 seats short) and it had to govern with the parliamentary support of the IU and, at times, other parties–.

Regional parties are another factor that has to be taken into account in the electoral equation, particularly Catalonia’s conservative nationalist Convergence and Union (CiU) and the pro-independence Republican Left of Catalonia (ERC).

The elections are taking place at a time when the confidence of Spaniards in their politicians is at an all-time low. While confidence in the government reached a high of almost 70% in 2004 and another record of 50% in the opposition, both levels have steadily declined since then and today two out of three Spaniards consulted in surveys have little or no confidence in Rodríguez Zapatero and three out of every four little or no confidence in the PP leader Mariano Rajoy.

Roman Catholic Church Steps Up its Offensive Against the Government

The bitter relations between the ultra-conservative hierarchy of Spain’s Roman Catholic Church and the ruling Socialists deteriorated when the Church issued a note which the government construed as urging people not to vote for it in the March election.

The Church said voters should bear in mind ‘the esteem which each party, each programme and each leader gives to the moral dimension of life’. In 2000 the Church said no party deserved the Catholic vote (the PP did not change the abortion law) and in 2004 it implied people should vote for the lesser of two evils which, at that time, meant the PP as the Socialists planned to widen the abortion law.

The Church also included in its note a reference that was widely interpreted by the Spanish media and the government as a criticism of Prime Minister Jose Luis Rodríguez Zapatero’s failed peace talks with the separatist Basque terrorist group ETA. It said, ‘A society which wants to be free and fair cannot explicitly or implicitly recognise a terrorist organisation as a political representative of any sector of the population, and can’t have it as a political interlocutor’.

The Socialists responded with a statement pointing out that all of Spain’s past prime ministers had talked with ETA, including the PP’s Jose María Aznar, who even used a bishop as an intermediary. ‘This is the first time a general consideration on dialogue or not (with Eta), on its legitimacy or not, has been given in a note before elections’, said an angry Zapatero.

Francisco Vázquez, Spain’s Ambassador to the Vatican, lodged a formal protest. Miguel Ángel Moratinos, Spain’s Foreign Minister, called the Church hierarchy ‘fundamentalist’ and ‘neoconservative’ and said it ‘it not represent the feelings of the majority of Spanish Catholics’.

Socialist leaders threatened to change the relation with the Church if it won the election.

Anti-terror Judge Bars Two Basque Parties from Running in the Elections

Judge Baltasar Garzón suspended the activities of the Communist Party of the Basque Lands (PCTV) and Basque Nationalist Action (ANV) for three years as a result of their ties to Batasuna, the party proscribed in 2003 that supports the terrorist group ETA and its fight for an independent Basque country.

His ruling ordered authorities to shut down the parties’ offices, freeze their bank accounts and, critically, cut off funding they receive from the government.

Javier Balza, the Interior Minister of the Basque government, said before the ruling that outlawing PCTV and ANV would not help the anti-terror fight as ‘we want to win over the *abertzale* left in the elections’.

The Supreme Court also banned the two parties, but stopped short of approving a request by state lawyers to suspend all their activities which left already elected deputies unscathed.

The PCTV won nine seats in the 75-member Basque regional parliament in 2005 and ANV took part in municipal elections last year. Though half its candidates were barred over alleged links to Batasuna, those remaining won 337 seats in towns and villages in the Basque Country, and another 100 in neighbouring Navarre.

The Popular Party (PP) accused the government, which sought the ban, of electioneering. Mariano Rajoy, the PP's head who called for the outlawing of the two Basque parties more than three years ago, said the government could have moved against them much earlier. The Socialists' response was that only recently did sufficient proof against the parties come to light.

In a separate move, the Supreme Court banned Juan María Atuxa, the former President of the Basque parliament, from holding office for two years for disobeying the Court and not dissolving in 2003 the political group in the parliament close to Batasuna. The verdict also affected two other former members of the parliament.

Fourteen Terrorist Suspects Arrested

Police arrested 14 suspected Islamist terrorists in Barcelona for allegedly preparing suicide attacks on the Barcelona metro. Three large bags containing four timers and substances that could be used to make bombs were seized from five homes in the Raval neighbourhood, home to many Arabic-speaking and Muslim immigrants.

The Interior Minister, Alfredo Pérez Rubalcaba, said the suspects –12 Pakistanis and two Indian nationals– appeared to form part of a well-organised Islamic militant group.

Their arrests brought to more than 70 the number of people detained in Catalonia for alleged links to jihadism.

National Anthem Lyrics Provoke Discord, Not Harmony, and are Withdrawn

The Spanish Olympic Committee's attempt to give athletes words to accompany the national anthem ended in acrimony when the chosen lyrics generated controversy and were withdrawn.

The Royal March, composed in 1761, was wordless except during the regime of General Franco. The lyrics were dropped after the dictator's death in 1975.

The Committee launched a competition in 2007 to find suitable lyrics, which attracted 7,000 entrants. The winning lyrics were penned by Paulino Cubero, a 52-year-old unemployed resident of Madrid. The main objection to them, five days after they were adopted, particularly among Catalans and Basques, whose regions enjoy a large degree of autonomy, was the opening line, 'Viva España!' (long live Spain), words included in the Franco regime's anthem.

The next line, 'We all sing together with different voices and one heart' was not sufficient to calm regional passions.

Brussels Sets Spain 'Ambitious but Reachable' Climate Change Targets

Spain has to substantially increase its use of renewable energies and cut its emissions of greenhouse gas by 2020, according to binding targets set by the European Commission. Use of renewable energies in the energy mix has to more than double to 20% and greenhouse gas reduction is set at 10% (see Figures 2 and 3).

Figure 2. Renewable Energy Targets (% of energy mix), Selected EU-27 Countries

	Levels in 2005	Target in 2020
France	10.3	23
Germany	5.8	18
Italy	5.2	17
Poland	7.2	15
Portugal	20.5	31
Spain	8.7	20
Sweden	39.8	49
UK	1.3	15
EU-27	8.5	20

Source: European Commission, Eurostat.

Figure 3. Greenhouse Gas Reduction, Targets (1)

	% Change between 2005-2020
France	-14
Germany	-14
Italy	-13
Poland	+14
Portugal	+1
Spain	-10
Sweden	-17
UK	-16
EU-27	-10

(1) Growing nations allowed to increase emissions.

Source: European Commission, Eurostat.

The targets are tough, but Cristina Narbona, the Environment Minister, believes they can be attained. Spain is currently far from its target for electricity production from renewable energy sources, although the country is the world's second-largest producer of wind power after Germany and the fourth in the world in the use of solar energy.

The deal for Spain, however, is considerably better than that for the UK and Belgium; they have to increase their renewable energy shares from 1.3% to 15% and from 2.2% to 13%, respectively, as they are effectively penalised for starting from low levels. In greenhouse gas emissions, the richer countries are hit the hardest as they have to cut their emissions, while the poorer nations are allowed to increase them.

Spain has benefited from the new system for setting the targets as the reference year is 2005 (when emissions were 52% more than in 1990) and the size of the population is taken into account (Spain's has grown by some 5 million over the last eight years, due to the influx of immigrants).

Spanish Mediterranean Sea Level Rises

The temperature and the level of the Spanish part of the Mediterranean has risen significantly, according to the first-ever study on the impact of climate change in this area.

The Spanish Institute of Oceanography said that at the current rate of increase (8cm between 1943 and 2005) the sea level would rise by between 25 and 30cms between 2005 and 2050. The temperature of the water rose by 0.028°C between 1970 and 2005.

'Worst' Drought in Decades

Spain is suffering its worst drought in decades, according to Jaime Palop, the government's Director General of water. He said the drought affected the entire Mediterranean coastline from Catalonia to Algeciras. Catalonia is preparing water-rationing measures and its port city, Barcelona, is expected to receive water shipped in tankers.

Spaniards are ‘Bigger but Fatter’

Spaniards born since 1988 are significantly taller, but also fatter, according to a study by five hospitals. The average male is between 1.4 and 3.4 centimetres taller and the average female between 2.6 and 4.2. This is testimony to the much improved living conditions. Only German, Swedish and Dutch males are significantly taller than Spaniards (Americans are smaller, see Figure 4).

Figure 4. Average Height of Males and Females in Selected Countries/Cities (centimetres)

	Male	Female
Netherlands	184.0	170.6
Sweden	180.4	167.5
Germany	179.9	167.0
Paris	178.9	163.7
Spain	177.3	163.9
São Paulo	176.7	164.9
US	176.7	164.9
UK	176.4	163.6
Mexico	168.0	155.3

Source: Growth study.

Spaniards, however, have thickened out as well as shot up. The body mass index of the average Spaniard is the second-highest after the US among the nine countries studied.

The Economy

Unemployment Up, Those on Temporary Contracts Down

Spain's jobless rate stood at 8.6% at the end of 2007, up from 8% in 2006, but the proportion of workers on temporary contracts eased a little to 30.9%, the lowest figure since 1990 though still by far the highest level in the EU-15 (see Figure 5).

Last year 475,100 jobs were created (687,000 in 2006 and 894,000 in 2005) and the total number of employed reached 20.4 million. The number of jobs lost in the fourth quarter of 2007 was 33,700, the largest quarterly fall since 1994, and 132,000 were shed in January 2008, the worst monthly figure in 30 years. Car sales, another key indicator confirming the downward trend in the economy, were 12.7% lower in January than in the same month of 2007. Underscoring the downturn, the Real Estate Agency (API) estimated that half the 80,000 real estate offices existing at the beginning of 2007 had closed by the end of the year.

Figure 5. Spain’s Unemployment Rate (%), 1977-2007

	1977	1980	1985	1991	1994	2000	2004	2007
Unemployment rate	5.7	12.4	21.5	16.9	23.9	13.4	10.6	8.6

Source: National Statistics Office.

Year-on-year inflation rose slightly in January to 4.4%, according to advance figures. While the economy is slowing down this year (3.1% growth according to the government, compared with *The Economist*'s consensus forecast of 2.4%), Spain's growth (in the latter scenario) will still be almost one percentage point above the IMF's forecast for the Euro zone (1.6%), and far from a recession (defined as two consecutive quarters of negative real GDP growth).

The Spanish stock market, however, is one of the hardest-hit bourses so far this year (see Figure 6). Its fall of 13% in January was the worst in its 130-year history.

Figure 6. Stock Market Indices, % Drop (1)

Index	% Drop
Dax (Frankfurt)	-16.4
Euro Stoxx 50	-16.4
Ibex-35 (Spain)	-15.7
Nikkei (Tokyo)	-14.9
FTSE 100 (London)	-11.6
Dow Jones	-7.7

(1) Between 1 January and 11 February.

Source: Markets.

Confidence in the economy is substantially lower than it was before the last general election in 2004: according to the latest survey by Metroscopia 46% of respondents said the economic situation was bad or very bad compared with 25% four years ago.

Spain's Two Banks Dodge Subprime Bullet, Report Big Profits

Spain's main commercial and savings banks, untouched by the subprime crisis that has hit so many banks in other countries, posted very high profits in 2007 (see Figure 7). The attributable profit of Santander, the biggest bank, was 19.3% higher at €9,060 million which, for the first time, put it in fifth place in the world by profits. BBVA's profit rose by 29% to €6,126 million.

Particularly noteworthy was Santander's profit excluding capital gains and the income generated by Banco Real in Brazil (which it acquired in 2007) –that is on a like-for-like basis with 2006–. This 'ordinary' profit was 22.3% higher at €8,051 million.

The impressive results reflect prudent credit risk policies and constant vigilance by the Bank of Spain, whose conservative policies dissuaded banks from joining its international colleagues in such ventures as structured investment vehicles (SIVs), which introduced much more risk into the international markets.

Figure 7. Profits of Main Commercial and Savings Banks

	Profits (€million)	% Increase over 2006
Santander	9,060	+19.3
BBVA	6,126	+29.0
Caja Madrid	2,861	+177.0
La Caixa	2,488	+17.8 (1)
Banco Popular	1,260	+22.8
Banco Sabadell	782	-13.9 (2)

(1) Recurrent income increased 33.5%.

(2) Recurrent income rose 37.4%.

Source: Banks.

La Caixa Acquires Morgan Stanley's Private Bank in Spain

La Caixa, the big savings bank based in Barcelona, agreed to buy Morgan Stanley's private banking unit in Spain for an amount yet to be determined and estimated to be less than €600 million. Morgan Stanley has around €9 billion of assets under management and is Spain's sixth-biggest wealth manager.

Repsol YPF Makes Big Natural Gas Discovery in Peru

Repsol YPF, Spain's oil and gas conglomerate, made a significant discovery of natural gas in Peru's south-eastern jungle.

Repsol and its partners Petrobras of Brazil and ConocoPhillips' Burlington Resources discovered more than 2 trillion cubic feet (56 billion cubic metres) of gas in Block 57 bordering the Camisea gas fields. Repsol, which is the field's operator, owns 41% of the

project and Petrobras 35.15%. Both of them are in the process of buying Burlington Resources' 23.85% stake.

The find came at a good time for Repsol, which suffered from declining production and capped prices in Argentina, and forced sell-outs in Bolivia and Venezuela. As a result, it stepped up efforts to find oil and gas outside Latin America. The total amount of gas expected in the field is equal to about two years of natural-gas consumption in Spain.