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Foreign Policy

Central Government Rejects Kosovo Independence, Basque Government Welcomes it
The outgoing Socialist government rejected Kosovo's secession last month from Serbia as an 'illegal unilateral declaration', while the Basque government, seeking greater autonomy if not independence, welcomed the move.

Spain is one of three EU countries that have so far rejected Kosovo's independence, a move supported by the US. The others are Rumania and Slovakia. Miguel Ángel Moratinos, the Foreign Minister at the time, said Spain would not recognise the secession because it 'does not respect international law', adding that to be legal, secession required either an agreement between the parties or a UN Security Council resolution. The opposition Popular Party, which lost Spain's 9 March general election, supported the government's decision.

The province (see Map 1) has been administered by the UN since 1999, following a conflict fuelled by ethnic division and repression. Madrid's decision was undoubtedly influenced by the movements for independence in the Basque Country, where the terrorist group ETA has been waging a 40-year campaign (see story below) and, to a lesser extent, in Catalonia where the Republican Left Party openly advocates independence.

Map 1. Kosovo



Source: BBC.

Miren Azkarate, the spokeswoman for the Basque government, led by the Basque Nationalist Party (PNV), said that the right of self-determination was 'the key' which could pave the way for resolving the region's 'political conflict with the support of the international community'.

Madrid's rejection of Kosovo's independence did not affect the decision for a Spanish colonel, Juan Montenegro Álvarez de Tejera, to assume command of the NATO force in the new country as of March for a year.

Spain, Eighth Largest Official Foreign Aid Contributor

Spain's net Official Development Assistance (ODA) continued to rise in 2006, but at 0.32% of GDP was still less than half the 0.7% target set by the United Nations for wealthy countries, according to the latest figures issued by the OECD's Development Assistance Committee (see Figure 1).

Figure 1. Net Official Development Assistance as % of GDP and in US\$bn, 2006

Country	% of GDP	US\$ billion
Sweden	1.02	4.0
Norway	0.89	3.0
Ireland	0.54	1.0
UK	0.51	12.5
France	0.47	10.6
Switzerland	0.39	1.6
Germany	0.36	10.4
Spain	0.32	3.8
Australia	0.30	2.1

Source: OECD.

Spain's net ODA rose by 20.7% in real terms, due to large contributions to the UN and other multilateral agencies as well as an increase in disbursements by the Spanish Co-operation Agency. In 2005, ODA represented 0.27% of GDP. Spain has adopted a holistic perspective to implementing the Paris Declaration, linking it to a comprehensive reform process of its aid system.

Iraq, from where the previous Socialist government pulled out the 1,200 peacekeeping troops sent in 2003 by the Popular Party government, is among the top five recipients of Spain's foreign aid (see Figure 2).

Figure 2. Main donors for whom Iraq is among the top five recipients, 2005-06 average, gross disbursements

Country	% of total Official Development Assistance	Rank
Australia	7.9	3
Austria	33.7	1
Belgium	6.2	3
Canada	5.4	1
Finland	8.9	1
France	5.9	2
Germany	10.2	2
Italy	15.5	1
Spain	5.0	1

Source: OECD.

Domestic Scene

Socialists Win Second Term, Popular Party Advances

The Socialists were returned to office, but again did not win an absolute majority, while the Popular Party (PP) increased its number of voters and seats in parliament.

Had José Luis Rodríguez Zapatero not been re-elected he would have gone down in Spain's history as the only prime minister not to win a second term since the end of the Franco dictatorship in 1975 and the restoration of democracy. His victory showed that he was not an 'accidental' prime minister catapulted into office in 2004 as a result of the bomb blasts by radical Islamists which killed 191 people on commuter trains as the PP effectively claimed. The Socialists won almost 35,000 more votes than they did four years ago (see Figure 3).

Figure 3. Results of General Elections, 2008 and 2004 (seats, millions of votes and %)

	2008			2004		
	Seats	Votes	%	Seats	Votes	%
Socialists	169	11.06	43.64	164	11.02	42.59
Popular Party	153	10.16	40.12	148	9.76	37.71
Convergence & Union (Catalan)	11	0.77	3.05	10	0.83	3.23
Basque Nationalist Party	6	0.30	1.20	7	0.42	1.63
Catalan Republican Left	3	0.29	1.17	8	0.65	2.52
United Left	2	0.96	3.8	5	1.28	4.96
Galician National Bloc	2	0.20	0.82	2	0.20	0.81
CC-PNC (Canary Islands)	2	0.16	0.65	3	0.23	0.91
Progress and Democracy Union	1	0.30	1.2	–	–	–
Nafarroa-Bai (Navarra)	1	0.06	0.24	1	0.06	0.24

Source: Interior Ministry.

Spain is increasingly becoming a two-party country: the two main parties won between them 83.7% of the vote compared to 80.2% in 2004 and 74.5% in 1982 when the Socialists first entered office (see Figure 4).

Figure 4. Socialist and PP percentage share of the total vote in the General Elections, 1982-2008

	1982	1986	1989	1993	1996	2000	2004	2008
Socialists	48.1	44.1	39.6	38.8	37.6	34.2	42.6	43.6
Popular Party	26.4	25.9	25.8	34.8	38.8	44.5	37.6	40.1
Combined share	74.5	70.0	65.4	73.6	76.4	78.7	80.2	83.7

Source: Interior Ministry.

The main losers were the Catalan Republican Left (ERC), which wants independence for Catalonia and won five fewer seats than in 2004, and the United Left (IU) which gained three fewer seats. The quirks of the D'Hondt proportional representation system were exemplified by the other Catalan party, the conservative Convergence & Union (CiU), winning 11 seats (one less than in 2004) although it obtained a smaller percentage of the votes than United Left (3.05% against 3.8%). This electoral system tends to give a party a weight in national politics out of proportion to the share of the votes it wins (most of them tied to a particular region). The Socialists will have to do some horse trading with the CiU (a high price can be expected as it is the main opposition party in Catalonia to the Socialist-led coalition government) and other parties in order to secure a majority in parliament on a permanent basis. The other alternative is to strike *ad hoc* deals when needed.

The PP's defeat was to some extent due to its relentless strategy of confrontation with the Socialists whose victory in 2004 it never really accepted: the only issues they could agree on during the last government were a law setting up a nationwide support system for those unable to care for themselves and one against domestic violence (74 women were killed by their husband or partner in 2007). The PP attacked the Socialists over virtually everything else, particularly Zapatero's attempt to reach some kind of deal with the Basque terrorist separatist group ETA to end its 40-year campaign of violence. Spaniards became fed up with this *crispación*, reflected in the all-time low levels of public confidence in both the leader of the opposition (Mariano Rajoy) and the Prime Minister. Nevertheless, voter turnout of 75.3% was high by European standards and only a fraction below the level in 2004.

Just as the bombs in 2004 propelled Spaniards to vote (particularly disenchanting leftists who normally abstain and the young first-time voters), so too did ETA's brutal murder of a former Socialist town councillor (see separate story) less than 48 hours before the polls opened. According to political analysts, people deserted United Left

for the Socialists as they wanted to enhance its chances of victory. A lower turnout and a higher vote for United Left would have benefited the PP.

The PP's defeat was also a blow for Spain's belligerent and staunchly conservative Catholic Church hierarchy, which crossed a red line during the campaign by fiercely attacking the government for its abortion, gay marriage and education policies and implicitly calling for Catholics to vote for the PP (see *Inside Spain*, Newsletter 41, 17 January 2008). Had the PP won, the timid advances towards a more secular state would probably have ground to a halt.

The Socialists, however, cannot take too much comfort from their victory. Not only are the 169 seats they won seven short of the 176 needed for an absolute majority (in 2004 they were 12 short), but the PP gained five more seats and also a record number of votes. The difference between the number of votes won by the Socialists and the PP dropped from close to 1.3 million in 2004 to 890,000 and the number of seats separating them remained unchanged at 16. Both José María Aznar, the PP's former Prime Minister, and Felipe González, the former Socialist Prime Minister, won absolute majorities in their second terms.

Spanish politics became highly polarised and parliamentary life very vicious during the last Socialist government and it looks as if this will remain so unless both parties bury their differences. Mariano Rajoy, the PP's leader, is in a difficult position: on the one hand, he can point to having won more votes and seats, on the other, this was the second time he lost the election.

Having presided over the last phase of a 15-year economic boom (during which Spain's per capita income overtook Italy's), the Socialists are now going to have to adroitly manage a downturn and in the worst-case scenario a recession, depending on how fast the property market collapses (see separate story). This, in turn, is going to create problems among Spain's more than 4.5 million immigrants (10% of the total population), many of whom work in the construction sector and are beginning to lose their jobs, and runs the risk of generating tensions with the local population that has so far been remarkably tolerant. Pedro Solbes, the experienced Economy Minister, remains in his post.

In the regional sphere, the Socialists face an overdue decision by the Constitutional Court over the enhanced autonomy statute for Catalonia (the PP presented a case saying it is unconstitutional) and the Basque regional Premier, Juan José Ibarretxe, intends to push ahead with a referendum later this year on making the Basque Country a 'freely associated' state with Spain, overruling the national parliament's rejection in 2005 of such a move.

However, Ibarretxe's Basque Nationalist Party (PNV) lost more than 100,000 votes, mainly to the Socialists who won a record 38.1% of the votes cast in the region (27.2% in 2004), making a referendum much more problematic. The surge in the non-nationalist vote to well over half the total number of votes is a significant new factor in the troubled Basque Country, particularly as it occurred when Basque separatists called for an election boycott as their parties were barred from running because of their links with ETA (see Figure 5).

Figure 5. Votes for Parties in General Elections in the Basque Country, 2008 and 2004

Nationalist parties	2008			2004		
	Nr votes	% votes	Seats	Nr votes	% votes	Seats
EAJ-PNV	303,246	27.14	6	420,980	33.72	7
EA	50,121	4.49	0	80,905	6.48	1
ARALAR	29,784	2.67	0	38,560	3.09	0
EB-B	50,123	4.49	0	102,342	8.20	0
Total	433,274	38.79	6	642,787	51.49	8

Non-nationalist	2008			2004		
	Nr votes	% votes	Seats	Nr votes	% votes	Seats
Socialists	425,567	38.09	9	339,751	27.22	7
Popular Party	206,702	18.50	3	235,785	18.89	4
UPyD	10,481	0.94	0	–	–	–
Total	642,750	57.53	12	575,536	46.11	11

Source: Interior Ministry, prepared by Fernando Grafe.

The general election also coincided with regional elections in Andalusia, where the Socialist Premier Manuel Chaves won his sixth consecutive victory. Chaves has ruled the region, a Socialist fiefdom, for 22 years. The PP substantially increased its share of the vote in Andalusia, from 32.2% to 38.4%, while the Socialists' share dropped from 51% to 48.3%.

ETA Assassinates Former Socialist Town Councillor on Eve of Elections

The Basque terrorist group ETA brutally interrupted the campaign for Spain's general election by killing a former Socialist town councillor two days before people went to the polls. It was the group's fifth murder since formally ending its ceasefire in June 2007. ETA has killed 822 people since 1968 (480 of them members of the security forces and 342 civilians) in its 40-year campaign for an independent Basque Country. Isaiás Carrasco was shot several times when he left his home in Mondragón.

The previous Socialist government, after ETA declared its ceasefire in March 2006 and with the permission of parliament, opened a peace process with the group that was virulently opposed by the Popular Party (PP), although it, too, had done something similar when it was last in office (1996-2004). The negotiations got nowhere, as the government made no concessions. Both political parties toughened their positions during the electoral campaign.

The PP tried to include in the statement by political parties condemning the killing two issues: a rejection of any negotiations with ETA and a repeal of the parliamentary vote allowing the government to seek a solution.

The murder was preceded by a report by Spain's security forces, published in *El País*, which concluded that ETA was militarily very weak, but still able to deal deadly blows.

The police and the paramilitary civil guard have made many arrests and seized arms and explosives since the December 2006 bomb blast at Madrid's airport, which – accidentally in ETA's view – killed two people.

The report said ETA’s activists increasingly lack the resources, logistical support and security needed to carry out their attacks. The gunmen and women hiding in France – after or before they commit acts of violence in Spain– were being detained ‘very quickly’.

A total of 394 alleged members of ETA were arrested while the last government was in office (see Figure 6).

Figure 6. Arrests of alleged ETA Members, 2004-08

	Detained In Spain	Detained in France	Detained in Other Countries	Total
2004	79	63	4	146
2005	55	32	1	88
2006	17	26	–	43
2007	79	40	6	125
2008 (1)	18	12	–	30

(1) Until February 20.

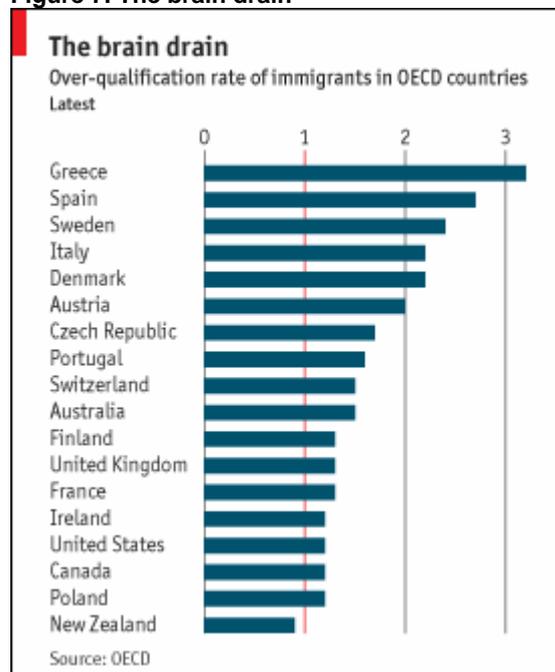
Source: Interior Ministry.

The report also said that the 560 ETA convicts in Spanish jails felt ‘abandoned’ by the group’s leadership as ‘not only were they not consulted but they were also not informed about the development of the conversations and peace process’.

Spain’s Immigrants Very Over-qualified for their Jobs

Spain’s immigrants are the second most over-qualified for their work after Greece, according to a study of immigration in developed countries by the OECD (see Figure 7). They are more than twice as likely to be over-qualified for their jobs as native-born workers.

Figure 7. The brain drain



The study (*A Profile of Immigrants in the 21st Century*) does not identify the country of origin of the over-qualified immigrants, but it is reasonable to assume they come from the East European countries that are EU members, as the PISA studies show they are generally better educated than Spaniards, particularly in sciences.

Spain has received more than 4 million immigrants since 2000 and they now account for over 10% of the total population. The Popular Party threw immigration into the political arena during the campaign for the 9 March general election, calling for greater controls and a system for non EU-immigrants based on their capacity to adapt to Spanish customs (a concept that was not defined). This drew jokes in many quarters and was amusingly depicted by the cartoonist El Roto in *El País* when he showed an immigrant couple dancing the *jota* at an 'integration control' point.

High-Speed Train from Madrid to Barcelona Finally Running

The high-speed train between Madrid and Barcelona is now operating, four years later than initially expected. The investment, which ended up at more than €7 billion, was authorised in 1995 and the track took 12 years to build. Spain's high-speed train network of 1,579 km is the third largest in the world after Japan and France.

The Economy

Bank of Spain Detects Faster Slowdown in the Economy

The Bank of Spain said the economy was slowing down at a faster pace than detected at the beginning of the year, reflecting the downturn in the construction sector which generates a hefty 18% of GDP (compared with around 10% in Germany and France).

According to the latest forecasts by the European Commission, growth this year will be 2.7% (compared with 3.8% in 2007 and the 3% forecast made last November for 2008, see Figure 8).

Figure 8. European Commission GDP growth forecasts (%)

	November 2007 Forecast	February 2008 Forecast
France	2.0	1.7
Germany	2.1	1.6
Italy	1.4	0.7
Spain	3.0	2.7
UK	2.2	1.7
Euro zone average	2.2	1.8

Source: European Commission.

While the Commission revised its growth forecast down for Spain, it revised its inflation forecast up (from 2.9% to 3.7%). Lower growth and higher inflation are an unhappy mix for the new government which has to tackle an economy in decline after a boom lasting more than a decade. Year-on-year inflation in February remained at a 13-year high of 4.4%.

Not all was bad news, however. Last year's general government surplus of 2.23% of GDP set a new record. This figure was the result of a central government surplus of 1.29% of GDP, a deficit of 0.17% by regional governments and 0.14% by town halls and a surplus of 1.25% generated by the social security system (largely due to the steep rise in the number of contributors, particularly immigrants).

Corporate earnings also continued to grow strongly in 2007. The net profits of companies that form the Ibex-35 index of the Madrid Stock Exchange rose 15.7% on average, although this was half the growth rate in 2006. Property companies, however, are beginning to feel the pinch. The hardest hit is Astroc which moved from a profit of €43.8 million in 2006 to a loss of €261 million in 2007.

EADS-CASA to Benefit from €26 billion Pentagon Contract

EADS-CASA, the Spanish arm of the European defence contractor EADS, will benefit significantly from the US Air Force's decision to acquire €26.3 billion worth of refuelling tankers.

Spain Progresses Towards Meeting the Lisbon Criteria for 2010

Spain is just about on track to fulfil the Lisbon targets for creating a more competitive economy laid down by EU heads of state and government in Portugal in 2000, according to the European Growth and Jobs Monitor of Allianz Dresdner (see Figure 9). The country was ranked 10th out of the 14 countries covered, the same position as a year ago.

Figure 9. European Growth and Jobs Monitor (1)

Current Country ranking overall	Overall Economic score	Economic growth	Labour productivity	Employment ratio	Employment by tertiary education (equipment) level	Investment activity (equipment)	Public finance
1 Finland	1.69	1.53	3.05	1.05	1.17	0.71	2.64
2 Ireland	1.44	1.88	2.13	1.03	0.99	0.60	2.04
3 Denmark	1.41	0.73	1.73	1.08	0.91	1.29	2.72
4 Sweden	1.40	1.06	2.02	1.08	0.86	1.12	2.28
5 Poland	1.38	2.18	2.60	0.88	0.40	1.00	1.21
6 UK	1.25	1.05	2.44	1.02	0.94	0.91	1.12
7 Greece	1.23	1.38	2.87	0.94	0.52	1.12	0.52
8 Germany	1.19	1.05	2.14	1.02	0.60	0.91	1.44
9 Netherlands	1.10	1.33	-0.12	1.01	0.90	1.35	1.61
10 Spain	1.10	1.02	1.13	1.09	0.90	0.87	2.13
11 Belgium	1.08	0.92	1.23	0.93	1.13	1.11	1.18
EU15	1.05	0.98	1.35	0.99	0.66	1.03	1.31
12 France	0.94	0.63	1.35	0.97	0.74	1.05	0.91
13 Austria	0.88	1.13	0.65	1.05	0.23	0.90	1.33
14 Italy	0.66	0.74	0.53	0.92	0.04	1.14	0.60
EU-15 average	1.05	0.98	1.35	0.99	0.66	1.03	1.31

(1) 3rd quarter of 2007.

Source: Allianz Dresdner Economic Research.

The European Growth and Jobs Monitor is an annual ranking which measures the performance of 14 European countries (and the EU-15 average) according to criteria derived from the original Lisbon Agenda. The Lisbon Indicator is the main indicator in the survey. It determines a country's overall performance on the path to reaching the so-called Lisbon objectives. This indicator, in turn, is based on each country's performance in six individual sub-indicators, each looking at a different type of economic and/or social performance. A performance benchmark is set in each area. And, once countries have been measured and ranked against the benchmark in each area, the six sub-indicators are brought together into one overall indicator (each sub-indicator is given equal weighting in compiling the overall indicator). A score of one (Spain's is 1.10 compared to 0.93 a year earlier) indicates that a country is on track to fulfil the criteria for 2010. Scores of less than one mean that a country will probably miss its target.

Spain was above the EU-15 average in economic growth, the employment ratio, employment by tertiary education level and public finance but not in labour productivity and investment in equipment.

EU Court Rules against Madrid over Conditions Placed on Energy Company

The European Court of Justice ruled that Spain breached European law by imposing conditions on the failed acquisition last year by Germany's E.on of Endesa, Spain's largest electricity company.

The European Commission took its case to the court after the Spanish authorities modified some but not all of the conditions. E.on, which spent €288 million on its battle for Endesa, withdrew and struck a deal with Spain's Acciona and Italy's Enel which acquired Endesa in controversial circumstances.

Brussels argued that the Spanish government usurped its prerogative to impose conditions.

Pedro Solbes, the Economy Minister in the previous and new Socialist government, expressed his dissatisfaction with the ruling. He said that while EU legislation allowed member states to put forward 'national strategic reasons' for imposing conditions in practice the 'Commission's interpretation' does not allow it. The ruling 'opens a very important crack' for future EU energy policy, he added.

Eighteen Spaniards in the Forbes List of Billionaires

Amancio Ortega, the Galician fashion entrepreneur who founded the Inditex group, was again ranked Spain's richest individual in the latest *Forbes* list of billionaires. However, he moved from 8th to 22nd place out of 1,125 billionaires and his net worth declined from US\$24 billion to US\$20.2 billion (see Figure 10).

Figure 10. Spaniards in the Forbes list of billionaires

Name	Rank	Net worth (US\$bn) (1)	Company/Sector
Amancio Ortega	22 (8)	20.2 (24.0)	Inditex
Rafael del Pino & family	194 (79)	5.3 (8.6)	Ferrovial
Alicia Koplowitz	198 (158)	5.2 (5.0)	FCC
Manuel Jove	307(249)	3.5 (3.5)	Fadesa
Esther Koplowitz	334 (137)	3.3 (5.6)	FCC
Isak Andic	368 (264)	3.0 (3.4)	Mango
Rosalía Mera	368 (264)	3.0 (3.4)	Inditex
José María Aristaín	446 (557)	2.6 (1.8)	Steel
Emilio Botín	573 (432)	2.1 (2.2)	Banco Santander
Florentino Pérez	677 (538)	1.8 (1.9)	ACS
Juan Abelló	707 (336)	1.7 (2.7)	Investment
Gabriel Escarrer	785 (349)	1.5 (2.6)	Sol Meliá
Enrique Bañuelos	897 (95)	1.3 (7.7)	Astroc
Luis Portillo	962 (237)	1.2 (3.7)	Colonial
Alberto Cortina	962 (-)	1.2 (-)	Investment
Alberto Alcocer	962 (-)	1.2 (-)	Investment
José Manuel Loureda	1,014 (407)	1.1 (2.3)	Sacyr
Luis del Rivero	1,014 (407)	1.1 (2.3)	Sacyr

(1) Previous year's figures in brackets.

Source: Forbes.

There were 18 Spaniards in the list, two less than in 2007 when 11 Spaniards entered for the first time, nine of whose fortunes were due to construction/property, a sector which is now in the doldrums. The combined fortune of the Spanish businessman in this sector dropped from US\$40.3 billion in the 2007 list to US\$23.8 billion in the latest list.