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*William Chislett*

### Foreign Policy

#### *Spain Sends Peacekeepers to Chad*

Spain sent 100 peacekeeping troops to Chad and two aircraft pursuant to a UN Security Council Resolution, which authorised the EU to launch an operation to protect civilians, especially those displaced by the conflict in the Darfur region of neighbouring Sudan. This is Spain's largest UN-backed military mission in Africa so far.

The Spanish parliament also approved the sending of a naval patrol boat, with 90 troops on board, for Lebanon. This unit is part of the maritime task force of the United Nations Interim Force in Lebanon (UNIFIL) and will stay for an initial period of six months, extendable for a further six months.

Six members of Spain's UNIFIL contingent were killed last June by a remote-control bomb that destroyed their armoured vehicle.

Spain currently has close to its legal limit of 3,000 troops in foreign missions (see Figure 1).

**Figure 1. Spanish Troops Abroad**

<b>Country</b>	<b>Number</b>
Lebanon	1,100
Afghanistan	745
Kosovo	621
Bosnia-Herzegovina	323
Chad	100
Kyrgyzstan	52
<b>Total</b>	<b>2,941</b>

Source: Ministry of Defence.

#### *Signs Anti Terror Cooperation Accord with Saudi Arabia*

Spain and Saudi Arabia are to strengthen cooperation against international terrorism, as announced by Miguel Ángel Moratinos, the Foreign Minister, at the end of a visit to Persian Gulf countries by King Juan Carlos. Both countries have suffered attacks from al-Qaeda terrorists.

The agreement includes the exchange of information and the transfer of prisoners to their countries of origin (the first of its kind signed by Saudi Arabia). Given the two countries' very different legal systems, it will not be easy to implement the agreement on prisoners to the satisfaction of both sides. Relations between Spain and Saudi Arabia, however, have long been cordial because of the friendship between the two Royal houses.

### *Socialists Seek Consensus on Foreign Policy*

Miguel Ángel Moratinos, the Foreign Minister, offered the Popular Party (PP), the main opposition party, a 10-point framework for agreeing a common foreign policy. The PP reacted favourably to the idea, but called for a much tougher policy towards Cuba and Venezuela.

The points are:

- Ratify the Lisbon Treaty and agree the priorities for Spain's Presidency of the EU next year.
- Make more progress on a common immigration policy in the EU.
- Allocate 0.7% of GDP to Official Development Assistance (ODA).
- Support the reform of the UN and the modernisation of multilateral institutions.
- Contribute to the UN's peace-keeping operations and foster a European security and defence policy.
- Develop the Barcelona Process, framed in the Mediterranean Union.
- Support the Middle East peace process and resolve the conflict in the Sahara with an agreement that respects the right of self-determination.
- Consolidate the Latin American Community of Nations and back the process of reforms in Cuba 'through mutual respect and constructive dialogue'.
- Combat climate change.
- Strengthen Spain's foreign service.

Gustavo de Arístegui, the PP's foreign affairs spokesman, urged the government to pursue a 'critical, firm and demanding dialogue with the Cuban dictatorship and with populist regimes' in reference to Hugo Chávez, the President of Venezuela. The Socialists reversed the previous PP government's policy towards Cuba of isolating its government and re-established almost full co-operation.

There was no mention of relations with the US in the list. Rodríguez Zapatero is still virtually the only EU head of government who has not set foot in the White House since coming to office in 2004. Although George W. Bush and Zapatero hardly speak to one another, because of the Socialists' withdrawal of Spain's peace-keeping troops from Iraq (sent there by the PP), US-Spain relations at all other levels work well. The stand-off between the two leaders has certainly not affected the growing direct investment in the US by Spanish companies (see the items below in The Economy section). The Socialists are pinning their hopes on a victory in the US presidential election by the Democrats which they believe will re-establish a dialogue at the top level.

### **Domestic Scene**

#### *Police Deal Major Blow to ETA with the Arrest of its 'Top Leader'*

In the southern French city of Bordeaux Spanish and French police arrested Javier López Peña, the alleged leader of the separatist Basque terrorist group ETA, who had been on the run for 25 years, and three other activists. He is believed to have assumed the leadership of ETA after the arrest of its previous head, Mikel Albizu, in 2004.

Known as *Thierry*, López Peña is accused of being behind the car bombing at Madrid airport in December 2006 that killed two people, ending an ETA ceasefire announced earlier that year, and of directing ETA's operations after the formal end to the truce on 5

June 2007. A former Socialist town councillor was shot dead two days before Spaniards went to the polls in March this year and last month a bomb placed in a van exploded outside a Civil Guard barracks, killing one and injuring four. The terrorist group has killed 835 people since its first murder 40 years ago this month.

In a related move, police arrested José Antonio Barandiarán, the former mayor of Andoain, for cooperating with ETA. Barandiarán, a member of the pro-ETA party Euskal Herriarrok, admitted having spoken to López Peña in France two days before he was arrested.

José Luis Rodríguez Zapatero, the Prime Minister, met Juan José Ibarretxe, the Basque Premier, in Madrid where they discussed putting the latter's plan to end ETA violence and to promote self-determination to a referendum in October. Zapatero again rejected the plan as unconstitutional. Elena Salgado, the Minister of Public Administrations, said the government would lodge an appeal against holding the referendum if it was approved by the Basque parliament where nationalist parties have a majority of the seats.

'The Spanish government cannot support any initiative that doesn't respect two conditions', said Zapatero: 'first, consensus in the Basque country involving all parties agreeing to a shared civil society they have collectively framed; second, of course, that all democratic citizens take for granted that any initiative taken is done within the legal framework established by our constitution'.

Ibarretxe believes a 'yes' vote in the referendum would undermine ETA. 'It's simply unacceptable that subjects the Prime Minister has discussed and negotiated with ETA, he will not discuss and negotiate with me, the legitimate democratic representative chosen by the Basque citizens', said Ibarretxe referring to Zapatero's attempt in 2006 to negotiate an end to ETA's violence. Socialist and PP politicians believe a referendum would play into ETA's hands.

In another development, a judge ordered the Ertzaintza, the Basque police force, to remove a plaque and a monolith in a municipal park in Hernani in honour of José Manuel Ariztimuño, an ETA leader killed in 1981. The park was named after Ariztimuño in 1982. The case against Hernani's Mayor, Marian Beitialarrangoitia of the Basque Nationalist Action Party, was brought by a group calling itself Dignity and Justice.

#### *Popular Party Embroiled in Discord Ahead of Key Congress*

Mariano Rajoy's leadership of the Popular Party (PP) will be put to the test later this month at the party's congress. Since losing last March's general election for the second time, Rajoy has come under mounting pressure.

Discontent with Rajoy bubbled to the surface soon after the PP's electoral defeat, but it was not until María San Gil, the party's leader in the Basque Country, expressed her lack of confidence in him last month and said she would step down from her post and leave parliament that the party's crisis deepened. She accused him of 'changing the party's principles' though she gave no hard evidence of this. San Gil was backed by José Antonio Ortega Lara, a former prison officer who was kidnapped by the Basque terrorist group ETA in 1996 and held underground for 535 days in a very confined

space. Ortega Lara's departure from the PP was important as he is a symbol of resistance to ETA terrorism. Several hundred of San Gil's supporters demonstrated in favour of her outside the PP headquarters in Madrid.

Other prominent PP members have also sniped at Rajoy, particularly Esperanza Aguirre, the Premier of the Madrid regional government, who said that the departure of San Gil and Ortega Lara was 'bad news' and that the leadership was 'doing something very bad' for this to happen.

Although the PP lost the election, it won more votes and more seats than in 2004, something that emboldens Rajoy to stay on (see Figure 2). The party gained 40% of the vote, 44% of the seats in Congress and 47% of the seats in the Senate. But, unlike the Socialists, it did not do well in the Basque Country or Catalonia, the two regions where conservative nationalistic parties are strong. In order to win a general election, the PP needs to win more votes in these regions, according to analysts.

Rajoy has not spelled out his policy, but from his declarations it would seem that he is less adverse to negotiating with nationalist parties and with the Socialist central government. This would be in marked contrast to the PP's very hostile relations with all other parties during the previous Socialist government (2004-08). This confrontational strategy was not successful, as the PP lost the election –which, ultimately, is what counts in politics–.

**Figure 2. Socialist and PP Share of the Total Vote in 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
<b>Popular Party</b>	<b>26.4</b>	<b>25.9</b>	<b>25.8</b>	<b>34.8</b>	<b>38.8</b>	<b>44.5</b>	<b>37.6</b>	<b>40.1</b>

Source: Interior Ministry.

José María Aznar, the former PP leader who also twice lost a general election before winning in 1996 and 2000, had to negotiate with regional parties in 1996 before he could form a government. It would seem that the mere suspicion of being more accommodating towards the Basque Nationalist Party (PNV), in particular, was one step too far for San Gil and other hard core elements.

While Aguirre has called on the PP to 'defend our principles without making radical changes that no one will understand', Rajoy talks of 'emphasising our role of reformist centre' and 'dialogue is good'. 'I want a Popular Party that is moderate, open and inclusive, and not one of doctrinaires'. Rajoy, personally appointed by Aznar as party leader after he decided not to run for a third term, has begun to reshape the party by getting rid of some people from the previous era in high profile party posts, such as Ángel Acebes, the party's former Secretary General, and Eduardo Zaplana, the PP's spokesman in the last parliament. These people would probably not have remained in the front line of opposition politics had it not been for the trauma of the 2004 bomb blasts in Madrid (at that time Acebes was Interior Minister) three days before the general election which the PP lost, much to its surprise.

In the view of Alberto Ruiz-Gallardón, the ambitious Mayor of Madrid, 'the centre cannot be a parenthesis in the PP. If this happens, it will be very difficult for it to return to government. The party must be optimistic, tolerant and aconfessional'. The latter was a veiled allusion to the conservative hierarchy of the Catholic Church which is

increasingly entering the political arena (in matters regarding the family and education) and alienating some PP supporters. Ruiz-Gallardón is more secular than Aguirre, who is closer to the Church. Although he is viewed as a social democrat in the PP's neo-con quarters, Ruiz-Gallardón is the person that the octogenarian Manuel Fraga, the PP's founding Chairman and a former Minister during the Franco regime, would like to succeed Rajoy.

In an article critical of Rajoy's leadership published in *El Mundo*, Gabriel Elorriaga, a member of the PP's national executive committee, said the 'vast majority of PP supporters view the resurgence of old battles overcome years ago with astonishment and we do not understand it'. He called the ideological debate a 'false' one and said the congress should concentrate on strategy.

No one stepped forward to challenge Rajoy, who still enjoys the support of most of the party's barons in the regions, but this does not necessarily mean he will lead the PP into the 2012 general election.

#### *Plenty of Rain on the Plain Eases the Drought*

Heavy downfalls of rain in many parts of Spain significantly pushed up the level of the country's reservoirs and brought respite from the drought, particularly in Barcelona where restrictions on the use of water were eased.

The capital city of Catalonia, hard-hit by the worst drought in 60 years, received its first giant tanker of water last month. This was part of a contingency plan ahead of the building of a controversial pipeline carrying water from the River Ebro to the city, due to begin operating in October and which the central government cancelled in early June after having reportedly spent €10 million on it (see *Inside Spain*, Newsletter 45, 12 May 2008).

The reservoirs providing water to Barcelona's more than 5 million inhabitants were at more than 50% of their capacity, more than double the level in April when the decree law was approved to build the pipeline. The River Ebro was so high in Zaragoza that it almost flooded the site of the city's Expo, opened this month and dedicated, appropriately as it would seem, to sustainable development and water.

Nature came to Barcelona's rescue, but Spain's increasingly serious water problem has yet to be resolved on a sustained as opposed to an *ad hoc* basis.

#### *Spain Signs the Council of Europe Convention against Trafficking in Human Beings*

Spain, one of the European countries most affected by human trafficking, finally signed the Council of Europe Convention which obliges countries to pursue a policy of zero tolerance.

Of the 47 states that make up the Council of Europe, 37 had signed the Convention, which was approved on 16 May 2005, when it came into force on 1 February 2008.

The victims in Spain are mainly women aged between 18 and 25 from Bulgaria, the Ukraine, Russia, Rumania, Brazil, Ecuador, Colombia and Nigeria, according to the Spanish Network to Combat Human Trafficking (RED).

### *Slips Down the Global Peace League*

Spain was ranked 30<sup>th</sup> in the Global Peace Index out of 140 countries, seven places lower than in 2007. Kenya and Turkey registered the steepest falls and Indonesia and Angola the largest rises (see Figure 3).

**Figure 3. Global Peace Index, Selected Countries 2008**

<b>Country Ranking (1)</b>	<b>Score (2)</b>	<b>Change from 2007 Ranking (3)</b>
1. Iceland	1.176	New
14. Germany	1.475	0
28. Italy	1.653	+7
<b>30. Spain</b>	<b>1.683</b>	<b>-7</b>
36. France	1.707	-1
49. UK	1.801	+2
97. US	2.227	+7
140. Iraq	3.514	0

(1) Out of 140.

(2) Scores from 1 to 5.

(3) The comparison is based on the 121 countries in the 2007 GPI and excludes countries included for the first time in the 2008 ranking.

Source: Global Peace Index.

The index is based on many indicators ranging from the number of homicides and jailed population per 100,000 people to military spending as a percentage of GDP and data on democracy, education and material wellbeing.

### *Makes the Shortlist to Host the 2016 Olympics*

Madrid, which three years ago lost out to London to host the 2008 Olympics, is one of three cities that made the shortlist to host the 2016 Games. The other three cities are Chicago, Rio de Janeiro and Tokyo.

## **The Economy**

### *Transport Strikes Threaten Food and Petrol Supplies*

José Luis Rodríguez Zapatero, the Prime Minister, faced his first big protests since coming to power in 2004. Thousands of lorry drivers blocked roads leading into cities and distribution points in protest at soaring petrol prices. Fishing fleets also went on strike. Some stations ran out of petrol very quickly when motorists began panic buying and shelves began to empty in supermarkets.

Meanwhile, salaried workers and pensioners will receive an extra €200 this month and a further €200 in stages under the government's plan to help families cope with the downturn in the economy. The self-employed will benefit from the measures via their annual tax return.

The aid was a pledge made by José Luis Rodríguez Zapatero, the Prime Minister, during his campaign for the 9 March general election.

Pedro Solbes, the Deputy Prime Minister for the Economy, who was never very happy with the idea, warned that the aid and other factors such as the fall in tax receipts were 'almost exhausting the leeway' in the budget for taking other steps to counter the economy's slowdown. For the first time, his department admitted that the general government accounts would end the year more or less in balance and not with a surplus as initially hoped for (in 2007 it was 2.2% of GDP).

Annual consumer price inflation in May was 4.7%, the highest level in 13 years and the number of registered unemployed rose (by 15,058) for the first time that month since 1979. May is traditionally a good month for employment. Spain's jobless rate (9.6%) is rising the fastest in the EU, albeit from a relatively low level for the country.

While loathe to use the word 'crisis', although all the figures indicate that this is the case, Solbes continued to revise downwards the GDP growth forecast for the year. He now expects it to be around 2%, compared with the 2.3% projection made at the end of April. The Organisation for Economic Cooperation and Development (OECD) lowered its forecast for this year from 2.5% to 1.6% which, if fulfilled, would make Spain's growth lower than the Euro zone and OECD averages (1.7% and 1.8%, respectively) for the first time in the past decade. Spain's situation is deteriorating at a faster pace than other EU countries (see Figure 4).

**Figure 4. Output, Prices and Jobs (% change on a year ago)**

	GDP, First Quarter <sup>1</sup>	Industrial Output <sup>2</sup>	Consumer Prices <sup>2</sup>	Unemployment
Britain	+1.6	+0.2 March	3.0 April	5.2 March
France	+2.6	+1.0 March	3.0 April	7.2 1Q
Germany	+6.1	+4.6 March	3.0 May	7.9 May
Italy	+1.6	-2.5 March	3.6 May	6.0 4Q07
<b>Spain</b>	<b>+1.2</b>	<b>+11.3 April</b>	<b>+4.7 May</b>	<b>9.6 April</b>
Euro area	+3.2	+2.0 March	3.6 May	7.1 April
US	+0.9	+0.2 April	3.9 April	5.0 April

(1) % change on previous quarter, annual rate.

(2) Latest.

(3) National definitions.

Source: National Statistics Offices and central banks.

#### *Abertis Wins €8.26 billion US Toll-Road Project*

A consortium led by Abertis won the largest ever US toll-road deal after offering €8.26 billion to lease the Pennsylvania Turnpike for 75 years. The company said the project, shared with Citigroup (41.6% stake) and Criteria CaixaCorp (8.3%), the industrial holding company of La Caixa, Spain's biggest savings bank, would make it the world's largest infrastructure operator.

The Pennsylvania Turnpike network totals 801km of roads, linking Philadelphia, Scranton, Harrisburg and Pittsburgh. Its turnover was US\$607 million in 2007.

Abertis is part of ACS, Spain's largest construction company, and its assets abroad include British airports and Eutelsat, the European satellite dish operator, of which it is the main shareholder (see Figure 5).

**Figure 5. Abertis: Main International Activities**

	Motorways	Airports	Car Parks	Telecoms Infrastructure
Argentina	√			
Bolivia		√		
Canada	√			
Chile	√		√	
Colombia	√	√		
France	√			√
Italy	√		√	
Morocco			√	
Portugal	√		√	
Sweden	√			
UK	√	√		

Source: ACS.

The state legislature, which rejected previous privatization plans, has to approve the deal.

*Iberdrola to Invest €5 billion in US Renewable Energy Business*

Iberdrola, the world's biggest renewable energy operator, is to invest €5 billion in renewable energy activities in the US. Last month it acquired Caledonia Energy Partners, which owns a natural gas storage facility in Mississippi, for €184 million and said it would pay €430 million for 200 wind turbines from General Electric to be used in projects. Iberdrola hopes to increase its share of the US market to 15%.

The company sold its gas plant in Salt Lake City for €6.5 million.

In a separate development and underscoring the company's fast-growing internationalisation, Iberdrola signed an accord with the Abu Dhabi group Taqa on joint investment in energy projects. The deal marked Iberdrola's entry into the exploration and production of hydrocarbons, enabling it to have more control over its supplies of gas for its power stations.

*Criteria CaixaCorp to Invest in the Americas via Mexico's Inbursa*

Criteria CaixaCorp, the investment vehicle of La Caixa, is to take a 20% stake at a cost of €1.5 billion in Grupo Financiero Inbursa, the financial services group controlled by Mexican billionaire Carlos Slim, as a way to expand its businesses in the Americas.

Criteria was spun off from La Caixa, Spain's biggest savings bank, last October and has an equity portfolio worth about €24 billion. It has significant investments in infrastructure and the energy sector.

Inbursa, with more than US\$170 billion under management, is one of Mexico's largest financial services groups.

*BBVA Lifts its Stake in China's Citic*

Banco Bilbao Vizcaya Argentaria (BBVA) is to double its stake in China's state-owned Citic Group to 10.1% at a cost of US\$1.24 billion. The bank has an option to increase it to 15% within two years. BBVA's holding in Citic International Financial Holdings, also controlled by Citic Group, is to be raised to about 30% from 15%.

*Spain's Broadband Ratio Still Below the OECD Average*

Spain had 18 broadband subscribers in 2007 per 100 people, below the OECD average of 20, according to the latest figures for the 30 countries (see Figure 6).

**Figure 6. OECD Broadband Subscribers per 100 Inhabitants, December 2007**

<b>Rank (1)</b>	<b>Subscribers</b>
1. Denmark	35.1
2. Netherlands	34.8
6. Finland	30.7
11. UK	25.8
13. France	24.6
14. Germany	23.8
<b>21. Spain</b>	<b>18.0</b>
22. Italy	17.2
30. Mexico	4.3
OECD average	20.0

(1) Out of 30.  
Source: OECD.