



Inside Spain 58

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Foreign Policy

Moratinos Makes First Official Visit by a Spanish Minister to Gibraltar...

Miguel Ángel Moratinos, the Foreign Minister, became the first serving Spanish Minister to officially visit Gibraltar since it became a British colony under the Treaty of Utrecht of 1713 (today it is an overseas territory) after agreement was reached to put aside the controversial issue of the demarcation of part of the Rock's waters as Spanish under EU environmental protection laws.

The dispute over the waters (see *Inside Spain*, Newsletter 57, 16 June, 2009) threatened to scuttle the ministerial meeting on 21 July of the Tripartite Forum in Gibraltar, over which Spain still claims sovereignty. As we go to press, Moratinos was due to hold discussions on other issues with David Miliband, the UK Foreign Secretary, and Peter Caruana, Gibraltar's Chief Minister. The last two meetings of the Forum were held in Cordoba (2006) and London (2008).

Caruana described the European Commission's demarcation decision as a 'banana skin thrown by Spain'. The UK does not recognise the validity of the adopted site and Gibraltar lodged an appeal in the European Court in Luxembourg to have the decision reversed. It was not yet known whether London would back Gibraltar's move: failure to do so would irk the Rock. Spain's position is that Gibraltar cannot have territorial waters, which were not provided for under the Treaty of Utrecht.

A statement by the three sides said 'all relevant matters' had been resolved, clearing the way for the meeting. There was no hint, however, of how the demarcation dispute would be resolved.

Caruana told the *Gibraltar Chronicle* that any co-operation relating to the waters could only take place on the basis of the *status quo ante*, legal speak for the circumstances being as they were before Spain slipped its demarcation into the European Commission books.

The conservative Popular Party called on Moratinos to cancel his visit.

... and Visits Equatorial Guinea

Moratinos made a three-day visit to Equatorial Guinea, the former Spanish colony, with a group of businessmen in search of contracts in the oil-rich but impoverished island ruled by Teodoro Obiang Nguema Mbasogo since 1979.

Figure 1. Equatorial Guinea



Source: *The Economist*.

Moratinos was accompanied by the 86-year-old Manuel Fraga who, as Information and Tourism Minister during the Franco regime, signed the act that granted the island independence on 12 October 1968. His presence epitomised the desire to pursue a non-partisan policy towards the government, one of the most corrupt in the world (ranked 171st out of 180 countries in the latest Transparency International index).

Equatorial Guinea is the third-largest oil producer in sub-Saharan Africa after Nigeria and Angola and supplies 4% of Spain's oil needs. The country's oil industry is in the hands of US, Japanese, Chinese and French companies.

Rodríguez Zapatero to Attend G-20 Summit in the US...

The Prime Minister, José Luis Rodríguez Zapatero, will attend the G-20 summit in Pittsburgh in September. Although Spain is not a G-20 member, Rodríguez Zapatero attended the summit in Washington last November during the presidency of George W. Bush and the one in London after Barack Obama took office. He was thus widely expected to be invited to the next one.

Rodríguez Zapatero is not the only head of government of a non G-20 country invited to Pittsburgh. Jan Peter Balkenende, the Dutch Prime Minister, will also be there.

Elena Salgado, the Economy and Finance Minister, will attend the preparatory meeting of ministers before the summit.

Rodríguez Zapatero's invitation from the White House coincided with the announcement that Alan D. Solomont would be the next US Ambassador to Spain. He is the Chairman and CEO of Solomont Bailis Ventures, a health and eldercare company. Solomont, a former National Finance Chairman of the Democratic National Committee, raised funds for the campaigns of Obama and John Kerry. The Madrid post has been vacant since January when the Republican Eduardo Aguirre, also a political appointee, returned to the US. His appointment is still subject to ratification by the US Senate.

... and Offers €240 Million to West Africa

Rodríguez Zapatero held Spain's first summit with the Economic Community of West African States (ECOWAS) and promised €240 million of aid over the next three years to develop agriculture and combat famine.

Thousands of illegal immigrants arrive in Spain every year from these countries, usually in rickety boats to the Canary Islands and sometimes with tragic results.

Rodríguez Zapatero has upgraded Africa's importance and is using development assistance to try to reduce irregular migration. Last year Spain spent €1.4 billion on humanitarian programmes, including vaccines for one million children, bed nets for more than 12 million children and improving gender equality.

Co-operation with the key origin countries in Africa in migration-related matters, especially Morocco and Senegal, has also been expanded and the Spanish Labour Ministry co-operates directly with the Ministry of Labour in these countries in recruiting labour migrants, in exchange for help in preventing unauthorised departures.

The 15-nation summit was held in Abuja, Nigeria, and afterwards Rodríguez Zapatero held bilateral talks with the country's President, Umaru Yar' Adua. Zapatero said he supported Nigeria's bid to be a non-permanent member of the UN Security Council.

Spain to Take Some Guantánamo Prisoners

Spain is prepared to take a small number of the 232 prisoners from the US detention centre at Guantánamo Bay in Cuba to help the US Administration close the controversial facility for suspected terrorists.

Daniel Fried, the US special envoy for the closure of Guantánamo, met with representatives of the government. Miguel Ángel Moratinos, the Foreign Minister, said that although the prisoners would be free in Spain, as there were no charges pending against them, they would be under surveillance.

Something similar happened in 2002 during the government of José María Aznar when Spain accepted three Palestinian prisoners.

Parliament Curbs the Reach of Justice

Spanish deputies voted to change a controversial law that has allowed judges to indict figures such as Augusto Pinochet and Osama bin Laden under the principle of 'universal jurisdiction' regardless of where the crime took place. The new law requires judges to demonstrate a clear link with Spain.

The National Criminal Court had 13 cases under investigation, including Israeli air force bombings in Gaza and alleged abuses in Tibet and Guantánamo.

The government denied it was bowing to international pressure, despite the diplomatic tension that high profile cases have caused, most recently with Israel, the US and China.

Amnesty International said the government was ‘more concerned with not offending certain powerful governments than with ending the impunity enjoyed by criminals’.

King Juan Carlos Visits Australia, Opens the Country’s first Cervantes Institute...

King Juan Carlos and Queen Sofia made a three-day state visit to Australia, their second one in 21 years, and opened the first Cervantes Institute in the country.

The Cervantes Institute for the teaching of the Spanish language and the promotion of Hispanic culture now has 73 centres around the world. The new centre is the first one in Oceania.

The monarchs met Kevin Rudd, Australia’s Prime Minister, and inaugurated a Spanish-Australian business gathering aimed at increasing the number of Spanish companies established in Australia.

... and Condemns the Coup in Honduras

The King, normally reticent about commenting on political matters because of his position, condemned the coup in Honduras and the military’s sending into exile of President Manuel Zelaya, who was arrested in his pyjamas and put on a flight to neighbouring Costa Rica.

‘We are all against the coup,’ he declared after attending a meeting of the Higher Centre for National Defence Studies (Ceseden) and wearing the uniform of a Captain General of the armed forces.

In 1981, the King quelled a coup in Spain that threatened the country’s successful transition to democracy. The Spanish ‘model’ was widely held up as particularly pertinent for dictatorships in Latin America, a region with which Spain has strong historic and cultural ties. The King attends the annual Ibero-American summit.

Domestic Scene

Eta Assassinates Police Officer, European Court Confirms Ban of Two Basque Political Parties

The Basque terrorist group ETA assassinated a senior anti-terrorist police officer in its first attack since the Socialists took control of the Basque regional government in May in an historic change.

Eduardo Puelles García was killed on 19 June inside his car in Bilbao after a bomb placed underneath it exploded.

ETA, whose violent four-decade campaign for a sovereign Basque state has cost more than 800 lives, formally ended a ceasefire two years ago. It declared last March’s election in the Basque region undemocratic as two parties were banned from taking part because of their links to the group. This helped the Socialists and the conservative Popular Party (PP) increase their share of the vote.

Police arrested three suspected members of ETA’s military command in the south-western French town of Pau on 2 July, the fourth such swoop in three weeks, bringing to 18 the number of alleged members captured. Asier Borrero, Iurgi Garitagoitia and

Itziar Plaza had been on the run for between six months and a year and a half, according to the Interior Ministry.

In a significant move backing the government's tougher policy towards ETA's supporters, the European Court of Human Rights (ECHR) unanimously agreed with the decision to ban Batasuna and Herri Batasuna, political allies of the terrorist group that lodged appeals in 2004 against their outlawing in 2003 by the PP government of José María Aznar. The ECHR said their dissolution was 'proportional to the legitimate end pursued' as they were 'instruments of ETA's terrorist strategy'.

The decision was a severe blow not only to radical Basque parties but also the centre-right Basque Nationalist Party (PNV) which lost March's election after ruling the region for 28 years.

Juan José Ibarretxe, the former Basque Premier, attacked the banning in February, ahead of the election, of Democracia 3 Millones and Askatasuna, two pro-ETA parties, for denying a vote to part of Basque society. He said Spanish democracy was of 'very poor quality'.

Had these two parties not been banned, the PNV would most probably have continued in power as it would have counted on their seats in the Basque parliament to enable it to continue to form a stable government. Around 100,000 blank votes were cast in the March election in protest at the banning of the two parties.

Spy Chief Resigns in Expenses Row

Alberto Sáiz, head of the National Intelligence Centre (NIC), quit his post amid allegations by the newspaper *El Mundo* that he had used taxpayers' money to shoot and fish in various countries.

He denied any wrongdoing and said he had resigned to prevent further damage to the reputation of the intelligence agency and the government. Sáiz also faced a rebellion within the NIC as a result of the many changes he made to the organisational chart.

Sáiz, who was appointed in 2004, was replaced by General Felix Sanz Roldán, a former military chief of staff. The last time a military personality ran the NIC was in 2002.

Government Approves Immigration Reforms

The government, battling with the EU's highest unemployment rate (18%), agreed tighter measures for immigrants.

At the last official count, Spain had 5.6 million foreigners (12% of the total population and the highest proportion among the big EU countries) from EU and non-EU countries, a growing number of which are losing their jobs, particularly in construction, as a result of the country's recession. The unemployment rate among immigrants in Spain was 27.1% in the first quarter compared with 15.2% for natives.

Among the measures to be approved by parliament are:

- The maximum number of days which an illegal immigrant (ie, without the

necessary papers in order) can be held is increased from 40 to 60. The calculation is suspended if the person requests asylum or *habeas corpus*.

- The system under which direct family members can come to Spain after one of them obtains legal residency is limited to people over the age of 65. The person requesting the family re-grouping must have lived in Spain for five years. There has been a significant influx of people under the previous more liberal system.
- Female immigrants living in an irregular situation in Spain who denounce domestic violence or obtain a protection order will be granted provisional residency and work permits until the case is decided in a court.

The government is encouraging jobless non-EU immigrants to go back home under a scheme applicable only to those countries with whom Spain has social security agreements. In return for not coming back to Spain for at least three years, these immigrants are offered their unemployment benefit in full. Around 4,000 Latin Americans have so far reportedly returned home under this system. Past experience shows that these schemes have only a limited impact.

A similar plan is being considered for more than 70,000 unemployed people from Rumania, which joined the EU in January 2007. Rumanians began to move to Spain before then and today there are officially close to 800,000 of them in the country, the largest number from any country.

Jobless immigrants who do not want to return home are being pushed into the unrecorded economy. There are no official figures for its size, but a rough approximation can be obtained by comparing the difference between the number of immigrants registered in the latest labour force survey and those in the social security system –almost one million–.

Spain Drops in Governance Indicators...

Spain's ranking in the World Bank's Worldwide Governance Indicators is worse than it was a decade ago, according to the latest annual report (see Figure 2). The report covers 212 countries and six dimensions, in most of which Spain is below the OECD average and among EU-27 countries only Italy, Greece and Cyprus are ranked worse.

In political stability and lack of violence, Spain dropped from the 63rd percentile to the 43rd, largely because of the continued violence of the Basque terrorist group ETA.

The aggregate indicators combine the views of a large number of enterprise, citizen and expert survey respondents. The individual data sources underlying the aggregate indicators are drawn from a diverse variety of survey institutes, think tanks, non-governmental organisations and international organisations.

Figure 2. Spain's Ranking in World Bank's Governance Indicators (1)

Indicator	1998	2008
Voice and accountability	88	87
Political stability & lack of violence/terrorism	63	43
Government effectiveness	80	91
Regulatory control	88	89
Rule of law	85	89
Control of corruption	85	88

(1) The rankings are not in absolute terms but in percentile ranks. The best country would have a rank of 100 and the worst 0.

Source: World Bank.

.... *Has More Prisoners than the EU Average...*

Spain had 146 prisoners per 100,000 inhabitants in 2007 compared with the EU's average of 123 and the US's 758, according to the latest comparative figures from Eurostat (see Figure 3). The largest prison populations are all in the former communist countries that joined the EU in 2004: Bulgaria (185), Estonia (302), Lithuania (232) and Poland (228).

Figure 3. Prisoners per 100,000 Inhabitants (average of 2005-07)

Country	Prisoners
EU-27 average	123
Poland	228
Spain	146
UK: England & Wales	146
France	95
Germany	93
Italy	84
US	758

Source: Eurostat.

... *and is Ranked Low in Happy Planet Index*

Spain was listed 76th out of 143 countries in the latest global ranking drawn up by the UK-based New Economics Foundation for combining a happy and long life with limited environmental degradation (see Figure 4). Among the EU-27 countries it was ranked 15th. Costa Rica was rated the happiest country and Zimbabwe the unhappiest.

The rankings, based on measures of life expectancy, happiness and ecological footprint, were surprising as eight of the top 10 countries were Latin American. This region is best known for its inequality and military coups. Honduras, whose President was sent into exile earlier this month after a coup, was ranked 10th. The top ranked developed country was the Netherlands, in 43rd place.

The report said Latin America scored highly in the index ('Why good lives don't have to cost the Earth') because of non-material aspirations, solid social networks of friends, families and neighbourhoods and a rich natural capital.

Figure 4. The Happy Planet Index, Ranking of Selected Countries

Rank	Country
1	Costa Rica
10	Honduras
43	Netherlands
51	Germany
69	Italy
71	France
74.	UK
76	Spain
114	US

Source: New Economics Foundation.

The Economy

Unemployment Falls in June for Second Month Running

There were 55,000 fewer people registered as unemployed in June in INEM's offices, offering further confirmation that the government's plan to create short-term jobs was working. This decline followed one of 25,000 in May and brought the total jobless number to 3.56 million, according to the Labour Ministry. June's fall was the largest monthly reduction since the same month of 2001. The stated number of unemployed, according to the last quarterly labour force survey, was just over 4 million at the end of March.

The unemployment rate of more than 18%, the highest in the rich world, will, however, remain at close to double the EU average this year and next, according to the latest forecasts by the OECD (see Figure 5). Only when the Spanish economy is growing strongly and on a sustained basis does the jobless rate approach the EU average. Once it enters into a downturn, it rises much more quickly than any other country. In the year to June it rose by more than 8 percentage points. The total number of jobless in Spain is close to the combined figure for France and Italy.

Figure 5. Unemployment Rates in Selected Countries (%)

	2006	2007	2008	May 2009
Spain	8.5	8.3	11.4	18.7
Ireland	4.5	4.6	6.3	11.7
EU-27	8.2	7.1	7.0	8.9
France	9.2	8.3	7.8	9.3
Italy	6.8	6.1	6.8	7.4 (1)
Germany	9.8	8.4	7.3	7.7
UK	5.4	5.3	5.6	7.2*
US	4.6	4.6	5.8	9.4

(1) March.

Source: OECD.

This exposes the shortcomings of Spain's economic model, excessively based on construction (see Figure 6) and tourism, and of the dual labour market, split between workers on temporary contracts (one-third of the total), who are easy to hire and fire, and those on permanent contracts who are much more costly.

Figure 6. Construction Sector, First Quarter of 2009 (% of GDP)

Country	% of GDP
Rumania	11.2
Spain	10.3
Poland	6.9
France	5.9
EU-27	5.8
Italy	5.7
UK	5.4
Germany	3.9

Source: Eurostat.

Octavio Granado, the Secretary of State for Employment, said the labour market's rigid rules forced ministries to hire people for partial employment on a full-time basis. 'As we cannot hire anyone on a part time basis, we hire someone to work eight hours a day knowing that for four of them they will be twiddling their thumbs', he said.

Faced with a dramatic rise in the number of unemployed whose benefits and other subsidies are coming to an end, the government plans to extend aid for a year.

The government, trade unions and employers are attempting to forge some kind of social pact. Miguel Ángel Fernández Ordóñez, the Bank of Spain governor, continues to insist on the need to reduce the cost of firing people on permanent contracts, something opposed by the unions who are a bedrock of support for the ruling Socialists. Employers are demanding a reduction in their social security contributions.

Meanwhile, the inexorable rise in government spending and plummeting revenues is pushing up the budget deficit. According to the OECD's latest forecasts, Spain's deficit will reach 9.1% of GDP this year (-3.8% in 2008) and 9.6% in 2010, the third largest among developed countries (see Figure 7). This projection is in line with the Bank of Spain's and almost two percentage points higher than that of Elena Salgado, the Economy and Finance Minister. She said the aim was to cut the deficit to 3% of GDP by 2012 and so meet again the EU's currently widely abused deficit limit.

Fernández Ordoñez said there was no further room for deficit spending beyond the plans already announced and that 'public-sector debt must be prevented from becoming an obstacle once the Spanish economy is better placed to grow' (see his speech presenting the Bank's annual report at www.bde.es/prensa/intervenpub/gobernador/mfo160609e.pdf). Public sector debt could exceed 60% of GDP by the end of 2010, up from 40% (much lower than the EU average) in 2008.

The ballooning budget deficit is forcing the government to find ways to stem it. Among the revenue measures being discussed are to end as of 2010 the €400 tax rebate for everyone, granted in 2008 and widely regarded as an unwise move, and to lift personal income tax rates for the better off.

Figure 7. Government Budget Deficits, 2009 and 2010 (% of GDP)

Country	2009	2010
UK	12.8	14.0
Ireland	11.5	13.6
US	10.2	11.2
Spain	9.1	9.6
OECD average	7.7	8.8
France	6.7	7.9
Italy	5.3	5.8
Germany	3.7	6.2

Source: OECD.

Spain's annual inflation rate of -1% in June was the third lowest in the Euro zone (see Figure 8).

Figure 8. Annual Inflation (%) in June 2009

Ireland	-2.2
Portugal	-1.6
Spain	-1.0
France	-0.3 (1)
Euro area	-0.1
Germany	0.0
Italy	0.6

(1) May.

Source: Eurostat.

Net Foreign Direct Investment Sets New Record in 2008

Net foreign direct investment (gross less disinvestments) rose 26.7% in 2008 to a record €5.54 billion, according to the Foreign Investment Registry of the Ministry of Industry, Tourism and Trade. Gross FDI was €7.71 billion (+0.4%) and disinvestments were down 69.5%.

Spain was in seventh place for FDI reception in the world, and fourth in Europe according to the provisional data of UNCTAD for 2008. Spain's share of the world-wide capture of FDI increased from 3.5% in 2007 to 3.9% in 2008.

New Regional Financing Model Established

The government's reform of the regional financing model, which will provide Spain's regions with an extra €1 billion over the next four years, is expected to be approved by parliament after the summer. The bill received the green light from the multi-regional Financial Policy Committee.

The new model, which replaces one introduced seven years ago, is based on population changes, geographic spread and age. It increases fiscal co-responsibility. The government said it would not release the details of how much each region would receive until all of them had accepted the new model.

The conservative Popular Party (PP), which controls a significant number of regions including Madrid, is not happy with the deal, claiming that it unfairly channels more funds to the northern region of Catalonia so that the ruling Socialists can win support for its 2010 budget, without which there could be an early election. The Socialists rely on the backing of various regional parties for a working majority in parliament.

Elena Salgado, the Economy and Finance Minister, said Spain's ballooning fiscal deficit would be unaffected by the new model as the shortfalls of some regions would be offset by surpluses in others.

Government Extends Nuclear Plant for Four Years

The government granted a four-year reprieve to a nuclear power plant, despite an election promise to start winding down the nuclear industry. The closure was opposed by electricity companies, local authorities and workers at the plant, the country's oldest commercial nuclear plant. Miguel Sebastián, the Industry Minister, said it was 'not an easy decision, but it was carefully thought through'.

The plant at Santa María de Garoña in northern Spain, which provides only 1.4% of the country's electricity, had originally been expected to have a life span of 40 years ending in July 2011, but the CSN nuclear regulator said it could safely be extended for 10 years if certain security measures were met. The plant will now close in 2013, one year after the next scheduled general election.

The decision to extend its operating permit could set a precedent for future government decisions on four larger nuclear power plants in 2010 and 2011. Greenpeace España, the environmental group, claimed the Garoña plant was obsolete and unsafe. The Popular Party is in favour of nuclear energy. Nuclear power generates around one-fifth of Spanish electricity, compared with 70% in France.

Rise in Car Sales...

The government's €2,000 scrapping bonus introduced in May, which encourages consumers to trade in old cars for new ones, helped to lift the number of cars sold in June by 14.5% over the same month of 2008 to 61,500. Sales for the first half of the year, however, were 38.3% lower at 433,077. Spain's car market has been one of Europe's worst performers.

... and Sharp Drop in Tourists in 2009: Spain Falls to Third Place in 2008 Global Ranking

The number of tourists who came to Spain in the first six months of the year was 11.3% lower year-on-year at 23.6 million, according to Frontur. Tourism generates around 11% of GDP and is a major provider of jobs.

In 2008 Spain dropped from second to third place in tourist arrivals, but maintained its position as the second biggest earner (see Figure 9). The US regained the second spot in arrivals that was lost after 11 September 2001.

Figure 9. Global Ranking of International Tourists Arrivals (million) (1)

	1995	2007	2008
1. France	60.0 (27.4)	81.9 (54.3)	79.3 (55.6)
2. US	43.5 (63.4)	56.0 (96.7)	58.0 (110.1)
3. Spain	34.9 (25.4)	58.7 (57.6)	57.3 (61.6)
4. China	20.0 (8.7)	54.7 (37.2)	53.0 (40.8)
5. Italy	31.1 (28.7)	43.7 (42.7)	42.7 (45.7)
6. UK	21.7 (20.5)	30.9 (38.6)	30.2 (36.0)

(1) Receipts in brackets in US\$ bn.
Source: World Tourism Organisation.

Sacyr Vallehermoso Wins €2.2 Billion Panama Canal Contract....

The consortium led by Spain's Sacyr Vallehermoso won the €2.2 billion contract to build the third set of locks for the Panama Canal. The other companies are Impregilo (Italy), Jan de Nul (Belgium) and Constructora Urbana (Panama).

... And Telefónica an Exclusive Palm Pre Deal

Telefónica, Spain's leading telecoms group, beat off competition from Vodafone and signed an exclusive deal to be the mobile network supplier for the Palm Pre in Germany, Spain, the UK and Ireland. The Palm Pre handset is regarded as a serious challenger to Apple's iPhone.

The smartphone, a mobile phone made by the US company Palm which doubles up as a mini-computer, is expected to go on sale in October.

Telefónica is the mobile leader in Spain and the UK and is in third place in Germany.

Spain Loses Per Capita Income Convergence with the EU

Spain's per capita income convergence with the EU lost ground in 2008 for the first time in more than a decade, according to Eurostat. Its GDP per inhabitant declined from 105.4% of the EU-27 average in 2007 to 103.9% (see Figure 10), while Germany's rose. The biggest falls were suffered by Luxembourg and Ireland, tiny countries. Spain remained above Italy, however. It overtook that country on a per capita income basis in 2006 amidst much trumpeting by the government.

Figure 10. GDP per Inhabitant in Purchasing Power Standards (EU-27 = 100)

Country	2007	2008
Luxembourg	267.2	252.8
Ireland	150.2	139.5
UK	119.0	117.2
Germany	114.7	115.8
France	108.9	107.3
Spain	105.4	103.9
Italy	101.9	100.5

Source: Eurostat.

Spain's convergence with the EU came to a halt last year because the country's population growth (1.8%) was three times higher than the euro zone average, due to the continued influx of immigrants, while GDP growth (1.2%) was not much higher than the average (per capita income is calculated by dividing GDP by the population). In the previous decade, GDP growth was generally higher than the rise in the population.

Recession Takes its Toll on the Rich

The number of Spaniards with net assets of at least US\$1 million, excluding their primary residence and consumables, dropped by almost 20% in 2008 to 127,100, according to the latest World Wealth Report issued by Merrill Lynch and Capgemini (see Figure 11). The fall was the first one since the report began to be issued.

Figure 11. Number of Rich Spaniards, 2002-08

	2002	2003	2004	2005	2006	2007	2008
Number	110,000	129,000	141,000	148,000	157,000	161,000	127,000

Source: Merrill Lynch and Capgemini.