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Foreign Policy

Spain Seeks to Forge New Common EU Position on Cuba

Spain will use its Presidency of the EU during the first half of next year to try to change the common position on Cuba, agreed 13 years ago, and forge a new one that is more accommodating of the communist regime. This was announced in Luxembourg by Miguel Ángel Moratinos, Spain's Foreign Minister, after he visited Havana.

The common position, approved in 1996 on the urging of the then Spanish Prime Minister, José María Aznar, of the conservative Popular Party (PP), seeks to encourage a transition to pluralist democracy and respect for human rights and fundamental freedoms, via constructive engagement with the Cuban Government.

The crackdown on Cuba's peaceful opposition in March 2003, which included 75 people being sentenced for up to 28 years following summary trials, made engagement with the Cuban government more difficult, particularly during 2003-05 when the Cuban Government 'froze' contact with EU embassies in response to a series of measures taken by the EU to express discontent with the arrests.

Since 2004, when the Socialist José Luis Rodríguez Zapatero defeated the PP in the general election, Spain has spearheaded a drive to improve relations with Cuba. It is the best-placed country to do so because of its historical ties and common language and culture, and the government wants to position itself ahead of the change that could come after the deaths of Fidel and Raul Castro (the latter assumed the duties of President in 2006 after his elder brother became ill). Even during the right-wing dictatorship of General Franco, Spain maintained commercial and diplomatic relations with Cuba. Moratinos became the first EU Foreign Minister in April 2008 to visit Cuba since 2003, and he made a second trip last month.

Agreeing a new position on Cuba will not be easy as it has to be unanimously supported. The UK, Sweden –which currently holds the EU's rotating Presidency– and some of the former communist states of Central and Eastern Europe oppose Spain's overtures to Havana and want to maintain a tough line. These countries want concessions from the Cuban regime before adopting a more flexible position, particularly on the release of political prisoners. The Italian Gabriele Albertini, head of the Foreign Affairs Committee of the European Parliament, told Moratinos at a meeting in Madrid there were 'significant obstacles' to improving relations with Cuba.

There are indications, however, of a change of stance, reflected in the visit to Havana in March by Louis Michel, the European Commissioner for Development and Humanitarian Aid, following an agreement in October 2008 for the formal resumption

of co-operation in this field between the EU and the island. The Obama Administration has also relaxed the US's longstanding boycott of Cuba, lifting all restrictions as of April on the ability of individuals to visit relations in Cuba, as well as to send them remittances. The move represents a significant shift in a policy that had remained largely unchanged for nearly half a century.

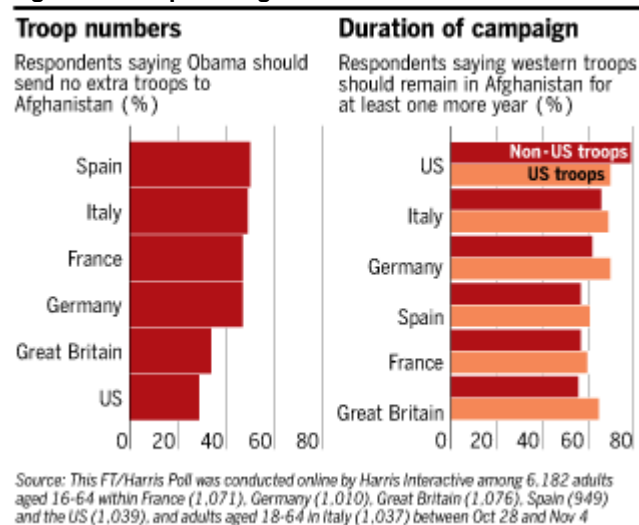
Thirty-seven Cuban dissidents, 33 of whom are in prison, released an open letter after Moratinos' visit to Cuba last month, criticising him for 'the refusal to meet with the opposition, listen to its opinions and become aware of the suffering of political prisoners and their families'.

Half of Spaniards in Poll Oppose Extra Troops in Afghanistan

Spain is the country most opposed to the sending of more soldiers to Afghanistan, according to a Financial Times/Harris poll conducted in six countries. The poll shows that close to 50% of people in France, Germany and Italy believe the US should send no more troops, while half of Spaniards take that view (see Figure 1). President Barack Obama is weighing up the pros and cons of dispatching up to 40,000 more soldiers.

Most people in Spain, however, like those in the UK, France, Germany and Italy, want troops to stay at least another 12 months.

Figure 1. Troops in Afghanistan



José Luis Rodríguez Zapatero told Obama last month during his official visit to the White House that Spain was prepared to increase the number of its peacekeeping troops in Afghanistan from around 800 to about 1,000.

The brunt of the fighting against the Taliban is being borne by US, British, Canadian and Dutch troops in the southern part of the country, although violence is escalating throughout the whole country, including the area where Spain's peacekeeping troops are stationed. A Spanish soldier died last month after his vehicle ran over a land mine. This brought to 88 the number of Spanish army members killed since 2002 in Afghanistan (62 of them in a plane crash in Turkey in 2003 when returning to Spain and 17 in 2005 in a helicopter crash in Afghanistan).

Domestic Scene

Political Parties Hit by Graft Scandals

Political parties are reeling from a string of scandals involving corruption, money laundering, bribery and tax fraud. As a result, the political class is the fourth main worry for Spaniards –ahead of the terrorism perpetrated by the Basque separatist group ETA– in the latest survey by the government’s Centre of Sociological Research (CIS). More than 13% of Spaniards expressed concern at the state of the political class in October compared with 7% a year earlier (see Figure 2).

Figure 2. The Main Problems in Spain (%)

	October 2009	July 2009	April 2009	January 2009
Unemployment	73.0	74.4	75.7	64.9
Economic problems	46.8	48.7	54.1	51.9
Immigration	15.1	18.4	16.1	19.3
Political class/parties	13.3	10.8	10.1	9.0
Terrorism (ETA)	12.6	19.1	16.0	22.2

Source: CIS.

The conservative Popular Party (PP) is caught in a web of bribes and kickbacks to some of its politicians, known as the Gürtel case, in return for contracts to run party events and other concessions. According to court documents made public, at least 64 people, including businessmen and PP politicians, are suspected of links to a network that won more than €17 million worth of contracts from the party and the regional governments it controls in Valencia, Madrid, Castille-León and Galicia in exchange for bribes and favours. The businessmen Francisco Correa was remanded in prison, pending investigation, for allegedly leading the bribery ring and the PP’s treasurer, Luis Bárcenas, resigned from the party.

Meanwhile, in Catalonia, Judge Baltasar Garzón jailed five politicians of the Catalan Socialist Party (PSC) and the centre-right Convergence and Union (CiU) on corruption charges involving the reclassification of land that allegedly enriched them to the tune of €45 million. The two CiU politicians, Lluís Prenafeta and Macià Alavedra, were ministers in the governments of Catalonia during the 1980s and 1990s. The other three are Bertomeu Muñoz, the mayor of Santa Coloma, Manuel Dobarco, the councillor in charge of the town’s planning, and Luis García Sáez, a former Socialist deputy in the Catalan parliament who has a construction company. The total number of politicians at the national, regional and local levels (mainly the latter) under investigation on corruption charges is around 800, according to press reports.

In the latest annual Corruption Perceptions Index, published by the Berlin-based Transparency International, Spain was ranked 32nd out of 180 countries, compared with 28th in last year’s ranking (see Figure 3). It scored 6.1 (6.5 in 2008), compared with 7.1 in 2004, its best-ever result. The closer to 10, the cleaner the country.

Figure 3. Corruption Perceptions Index, Selected Countries (1)

Country ranking	Score
1. New Zealand	9.4
3. Sweden	9.2
14. Germany	8.0
17. UK	7.7
24. France	6.9
32. Spain	6.1
63. Italy	4.3

(1) The closer to 10, the cleaner the country and ranking out of 180 nations.

Source: Transparency International.

Spain Ranked 17th in Gender Gap Index...

Spain was ranked 17th out of 134 countries in the latest Gender Gap Index, the same position as in 2008, when 130 nations were ranked, according to a report by the World Economic Forum.

The WEF measures progress in the areas of politics, education, economy and health for the report in order to determine the extent of equality between men and women. The top spots are occupied by the Nordic countries. Spain was ranked just above France and well ahead of Italy, which at number 72 continued to hold one of the lowest positions among European countries (see Figure 4). It dropped three spots relative to 2008 due to persistently poor scores in economic participation.

Figure 4. The Global Gender Gap Index, Selected Countries

	2009 rank	2008 rank	2007 rank
Iceland	1	4	4
Finland	2	2	3
New Zealand	5	5	5
Germany	12	11	7
UK	15	13	11
Spain	17	17	10
France	18	15	51
US	31	27	31
Italy	72	67	84

Source: Global Gender Gap Report, World Economic Forum.

Spain scored particularly well in political empowerment. It was ranked 6th in women in ministerial positions (half the ministers in the current government are women) and 11th in women in parliament. Its worst ranking was in wage equality for similar work, where it was placed 120th.

And 19th in the Prosperity Index

Spain is among the top 20 countries in the latest Prosperity Index drawn up by Legatum, the London-based think-tank (see Figure 5). This index of 104 countries takes into consideration nine factors including health, freedom, security and political governance and not just material wealth.

Figure 5. Legatum Prosperity Index, Overall Ranking and Rankings in Selected Categories

	Economic fundamentals	Education	Health	Personal freedom
1. Finland	10	3	7	7
2. Switzerland	2	22	3	11
9. US	14	7	27	8
12. UK	13	21	23	19
14. Germany	23	19	6	17
17. France	17	15	14	15
19. Spain	11	12	17	13
21. Italy	25	17	11	40

Source: Legatum Institute.

This holistic approach follows the creation of a commission by Nicolas Sarkozy, the French President, which proclaimed that a country's GDP is an insufficient measure of well being.

Education Minister Sparks Debate on Raising School Leaving Age to 18

Ángel Gabilondo, the Education Minister, has suggested that Spain's school leaving age should be raised from 16 to 18 as a way to reduce the country's early school-leaver rate, which at 31% is double the EU-27's average (see Figure 6).

Figure 6. Early School Leaving Rates in Selected EU Countries (% of population aged 18-24) (1)

Country	Rate
Portugal	36.3
Spain	31.0
Italy	19.3
EU-27	14.8
France	12.7
Germany	12.7
Finland	7.0
Poland	5.0

(1) Figures for 2007 and those in this age group who, at the most, have completed lower secondary education and do not participate in any other educational or vocational training activity.
Source: Eurostat.

The EU countries where 18 is the legal school leaving age are Belgium, the Netherlands, Germany, Poland and Hungary. The UK is considering introducing the change by 2013. All of these countries have substantially lower drop-out rates than Spain.

Opinions are divided over whether the move would motivate students –who otherwise would have stopped their education– or not and the impact it might have on keener students.

Excavation Begins to Locate the Body of Federico García Lorca

Seventy three years after the assassination of the famous poet and playwright Federico García Lorca by supporters of General Franco at the start of Spain's civil war, excavation work has begun at the spot in woods near Granada where he is believed to have been killed and buried.

The unearthing is the most high-profile case under the 2007 Law of Historical Memory which, among other things, allows people to search for loved ones killed during and after the conflict and whose bodies were never found. So far, just over 100 graves have been excavated amid constant legal obstacles. The conservative Popular Party opposed most parts of this law.

Lorca was arrested in Granada and killed along with two anarchist *banderilleros* (bullfighting assistants) and a Republican schoolmaster who was lame in one leg. In addition to Lorca himself, as many as 3,000 more victims of Franco's firing squads are said to lie in pits and mass graves in the immediate vicinity.

For years the Lorca family blocked exhumation work as they preferred to let the remains lie in peace and did not want to turn the possible discovery of his remains into a media spectacle. However, it has indicated that it might provide DNA samples to identify the remains.

The Economy

Spain Remains in Recession for the Sixth Consecutive Quarter

The economy remained in recession in the third quarter, while the euro zone as a whole grew during this period for the first time since the first quarter of 2008, according to Eurostat, the European Commission's statistical arm (see Figure 7). The country is still feeling the impact of the collapse of its property boom and the excessive concentration of activity in the construction sector.

The Spanish economy's year-on-year shrinkage (-4%), however, was slightly better than the euro zone's average (-4.1%). Of the 16 euro countries, the only major ones that were still on recession were the UK and Spain.

Figure 7. Quarter-on-Quarter and Year-on-Year Growth in the Euro Zone and Spain

	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	YoY
Euro zone	0.8	-0.3	-0.4	-1.8	-2.5	-0.2	+0.4	-4.1
Spain	0.4	-0.0	-0.6	-1.1	-1.6	-1.1	-0.3	-4.0

Source: Eurostat.

The stated unemployment figures in the latest quarterly survey showed a small improvement. INE, Spain's statistical institute, said the number of jobless dropped by 14,100 over June to 4.12 million at the end of September (17.9% of the work force). The unemployment rate for Spaniards was 16.1% and for foreigners 27.5%. On a seasonally adjusted basis, Spain's unemployment rate was 19.3%, almost the highest in the euro zone, according to Eurostat (see Figure 8).

Figure 8. Euro Zone Seasonally Adjusted Unemployment Rates (%), September

Country	Unemployment rate
Latvia	19.7
Spain	19.3
France	10.0
EU-27	9.2
UK (1)	7.8
Germany	7.6
Italy (2)	7.4

(1) July.

(2) June.

Source: Eurostat.

The number of unemployed rose by 2.36 million between 2007, the last year of strong growth, and September 2009 (see Figure 9). The number of households in which all members are unemployed reached 1.13 million, almost 500,000 more than in September 2008.

Figure 9. Working Population, Jobholders and Unemployed (million)

	2001	2007	3Q09
Working population	17.93	22.12	22.99
Jobholders	16.07	22.06	18.87
Unemployed (1)	1.85 (10.3)	1.76 (7.9)	4.12 (17.9)

(1) Jobless rate in brackets.

Source: National Statistics Institute (INE).

The government has spent the equivalent of 2.3% of GDP via its measures to stimulate the economy, lifting the budget deficit to more than 10% of GDP this year. The European Commission has given the government an extra year to reduce the deficit to its ceiling of 3%. The government originally said it would do this by 2012 and it has

now been given until 2013. The government will either have to substantially boost revenue from tax receipts, which will depend on the strength of the economic recovery, or take a scalpel to spending, which is politically much more difficult.

The Commission's latest forecasts show public debt reaching 74% of GDP in 2011, double the level in 2007 and above the recommended level of 60% under the stability pact (see Figure 10).

Figure 10. General Government Balance and Gross Debt (% of GDP)

	2007	2008	2009	2010	2011
General government balance	1.9	-4.1	-11.2	-10.1	-9.3
General government gross debt	36.1	39.7	54.3	66.3	74.0

Source: Eurostat.

The pace of annual decline of consumer inflation decelerated in October to minus 0.7% from minus 1% in September.

No Spanish Company Among Top 100 R&D Investors

The long distance that Spain has to travel if it is to become a more knowledge-based economy is shown in the latest report by the European Commission on R&D investment by companies. No Spanish company is among the world's top 100 investors and only eight make it into the top 1,000, behind smaller countries such as the Netherlands, Finland, Sweden, Denmark and Belgium.

The first ranked company is Telefónica, which in 2008 invested €668 million, putting it in 40th place in the EU and 130th in the world.

Car Sales Rise for Second Consecutive Month

Green shoots are appearing in the motor industry, thanks to the scrappage scheme. Sales rose 26.4% in October year-on-year to 98,202 units, following an increase of 18% in September. October's sales, however, were the lowest since the same month in 1997 and the total for the first nine months declined 24.4% to 775,378 units over the same period of 2008.

Iberia and British Airways to Merge

Iberia, Spain's flagship carrier, and British Airways finally reached a merger agreement in principle that would create Europe's third-largest airline by revenue. The two companies, both of which are making large losses and suffering industrial unrest, had been in negotiations for more than a year. The merged airline would be 55% owned by BA and 45% by Iberia.

Ferrovial Complies with UK Competition Commission and Sells Gatwick Airport

Ferrovial, one of the world's leading infrastructure companies, sold Gatwick Airport in the UK for £1.5 billion, thereby complying ahead of time with the final ruling of the UK Competition Commission that it should dispose of its second most important asset after Heathrow Airport.

Ferrovial led a consortium in 2006 which paid £10.3 billion, excluding debt, for airports operator BAA which owns various airports. Ferrovial pre-empted the Commission's ruling that it sell Stansted airport, together with either Edinburgh or Glasgow, and Gatwick. By doing this, it avoided bunching up the asset disposals.

Gatwick was sold to Global Infrastructure Partners, the infrastructure fund backed by Credit Suisse and General Electric, for less than Ferrovial had suggested (between £1.8 billion and £2 billion) when it went up for sale a year ago.

The Gatwick sale helps Ferrovial to reduce its very high net debt, accumulated as part of the acquisition of BAA.

Telefónica Boosts Presence in Germany

Telefónica, the telecoms giant, acquired Hansenet, the German broadband subsidiary of Telecom Italia for €900 million, strengthening its activity in a country where until then its main business was mobile telephone via O2. The purchase enables Telefónica to compete more aggressively against Deutsche Telekom and Vodafone.

Prisa Moves Further into US Hispanic Market

Grupo Prisa, Spain's biggest media group, took a 12% stake in V-me Media, the US-based company that owns Spanish-language network V-me, that could increase to a majority position within 12 months. The broadcaster reaches 70% of Hispanic homes in the US and ranks behind only Univision and Telemundo's channels in national household distribution.

Prisa, which has publishing and radio interests in the US, is understood to have traded its controlling stake in a Bolivian company, that includes the newspapers *La Razón* and *Extra*, for the stake in V-me.

Spain's Main Banks Report Healthy Profits

Santander, the euro zone's largest bank by market value, and BBVA, Spain's second-biggest bank, reported profits for the first nine months that compare very well with those of its international peers. Both banks, however, substantially increased their provisions for loan losses ahead of a difficult 2010 because of the ongoing property crisis.

Santander's net profits, excluding extraordinary items, fell 3% year-on-year to €6.7 billion, while BBVA's were 3.3% lower at €4.2 billion.

Santander decided to assign all non-recurring income –the €1.4 billion gain from the listing of its Brazilian bank and €823 million in extraordinary gains from debt exchanges– to provisions. Its non-performing loans (NPLs) as a percentage of the total were 3.03% at the end of September, up from 1.71% a year earlier, and BBVA's NPL ratio was 3.4%, double that of a year earlier.

The UK government, which owns 70% of the crisis-hit Royal Bank of Scotland (RBS), will allow Santander to bid for a handful of RBS's 312 branches when they are put up for sale if it so wishes. Santander currently has 14% of the UK retail banking market through its wholly-owned subsidiaries Abbey, Alliance & Leicester and Bradford & Bingley, close to the limit of 15% that the government has set.

Ikea Plans to Create 20,000 New Jobs

Ikea, the Swedish home furnishings retailer, plans to invest €2 billion and create 20,000 new jobs over the next six years by opening 12 new stores and doubling the size of its network in Spain. It currently has 11 stores in the country.

Brussels Tells Madrid to Abolish Corporate Tax Break and Refund Some of the Money

The European Commission ordered Madrid to scrap a controversial tax break that gives Spanish companies an unfair competitive advantage in mergers and acquisitions. The provision allows companies to reduce their tax bills by writing off part of the acquisition costs.

Neelie Kroes, the EU's competition commissioner, said the tax break, adopted in 2002, was illegal under EU state aid rules, and she called on Madrid to collect the savings from some of the companies involved.

Companies wrote off the difference between the price they paid for a European company and the value of its underlying assets, an accounting practice known as amortising goodwill.

Germany's Deutsche Telekom made a formal complaint to Brussels after Telefónica's acquisition in 2006 of O2, the UK's leading provider of mobile phones and broadband, which it had been eyeing. Iberdrola's purchase of Scottish Power in 2007 also raised complaints and nearly 70% of Santander's £9.5 billion acquisition of Abbey in 2005 was accounted as goodwill.

However, in a concession the purchases of these three Spanish companies, which helped to put them in the global league, will not be affected by the European Commission's ruling as only those companies that made acquisitions after December 2007 will be liable to refund the tax break. Santander purchased the UK bank Alliance & Leicester in 2008 and so will probably have to return any tax deducted.