

Inside Spain 20

William Chislett

Foreign Policy

Spain to remain a net recipient of EU funds until 2013

The government claimed a big victory at the Brussels summit on how to carve up the 2007-13 budget. Despite the smaller EU budget than initially envisaged, Spain will remain a net recipient of funds even though its per capita GDP surpasses the threshold for cohesion funds. It will also receive substantial aid to develop R&D, a sector where Spain is a laggard, and will be the main beneficiary of a fund to combat the growing problem of illegal immigration to the European Union.

The Socialists were jubilant because the first proposal for Spain regarding the 2007-13 period, made in February 2004, envisaged an abrupt loss of cohesion funds and no gradual transition for a country that is the largest net recipient in absolute terms. As a result of the statistical effect of enlargement last year, which pushed Spain's per capita GDP over the 90% threshold, the country, strictly speaking, no longer qualifies for cohesion funds. These are the funds that go to the country as a whole as opposed to structural funds which go to regions and whose qualifying requirement is a per capita GDP of 75% or less. When Spain formed part of the EU-15 in 1986 its per capita GDP was 72% of the Union's average, while it is now at an estimated 98.5% of the EU-25 in purchasing power standards. At some stage during 2007-13 its income per head will surpass the average and yet it will still be a net recipient.

Spain will receive a total of €27.3 billion in structural funds, of which €3.2 billion are cohesion funds (as against €2 billion proposed by the Luxembourg presidency in June 2005) and €2 billion from an R&D fund specifically established for Spain (see Figure 1). Spain will be the second-largest net recipient of structural and cohesion funds after Poland. It will also receive €4.1 billion in funds from the Common Agricultural Policy (CAP), the second largest amount after France, and an additional €100 million for the Canary Islands and €50 million for the North African enclaves of Ceuta and Melilla. All in all not bad for the world's eighth largest economy!

Figure 1. Spain's Funds from the European Union (€million)

	2000-06	2007-13
Structural funds	54,000	27,300
CAP funds	43,967	44,129
Other funds	8,033	19,017
Total payments from EU	106,000	90,446*
Total payments to EU	61,285	74,265
Net balance	48,715	16,181

(*) Including payments from the 2000-06 period.

Source: European Commission and Spain's Presidency.

The all-important net figure –the difference between what Spain pays and receives– is estimated at just over US\$16 billion including payments in 2007, 2008 and 2009 derived from the 2000-06 budgetary period, compared with €48.7 billion for the current period (see Figures 2 and 3). The net balance for 2007-13, based on commitments as opposed to payments, is around €9 billion (€3.8 billion under the first proposal in February 2004).

Figure 2. Spain's Net Funds from the European Union (€million)*

Year	Amount
2007	4,524
2008	3,710
2009	2,249
2010	1,835
2011	1,544
2012	1,326
2013	993

(*) Including payments from the 2000-2006 period.

Source: European Commission and Spain's Presidency.

Between 1986 and 2005 Spain was a net recipient of €3.3 billion, equivalent to a transfer of 0.83% of its GDP every year. The net funds it will receive in 2007-13 represent an annual transfer of 0.2% of GDP.

Figure 3. Net Balances, 2007-13*, and Per Capita GDP

	Net Balance (€million)	Per capita GDP in 2004 (EU-25 = 100)
Austria	-5,577	123.2
Bulgaria	13,142	30.5
Belgium	15,873	118.9
Czech Republic	22,522	70.6
Cyprus	13	83.6
Denmark	-4,717	121.7
Estonia	3,548	51.5
Finland	-3,139	112.8
France	-49,071	109.8
Germany	-73,230	109.1
Hungary	24,877	60.4
Ireland	3,170	137.7
Italy	-35,908	103.4
Greece	25,148	81.8
Latvia	5,561	43.1
Lithuania	8,739	48.0
Luxembourg	6,974	227.2
Netherlands	-12,614	125.0
Malta	644	69.4
Poland	70,322	49.1
Portugal	16,829	72.5
Rumania	20,073	31.3
Spain	9,032	98.0
Sweden	-7,782	117.9
United Kingdom	-40,448	116.8

(*) In terms of commitments.

Source: Calculations based on European Commission figures.

Rodríguez Zapatero formed an alliance with France and Germany at the summit. France, in particular, and Spain refused to budge on the thorny issue of CAP funds which Tony Blair, the UK prime minister, wanted to reform in return for a much more substantial cut in the equally contentious UK rebate (won in 1984 by Margaret Thatcher) than the one he agreed to. All that Blair could muster from Jacques Chirac was a commitment to review farm spending in 2008. In 2003 the richest 18% of farmers in Spain received 76% of the CAP subsidies.

The government was particularly pleased with the aid it won for R&D. This sweetener, agreed at the eleventh hour, helped to win its support for the deal. It also made Poland, Portugal and Italy green with envy. According to one well-placed Spanish official, these countries raised the idea of vetoing the overall package because of Spain's success with this fund.

Mariano Rajoy, the leader of the centre-right Popular Party (PP) who has adopted a policy of maximum hostility towards Rodríguez Zapatero, predictably attacked the deal. He said Spain 'ended up footing the bill of (EU) enlargement' and that Rodríguez Zapatero could have obtained a lot more money. The PP took as the 'cost' for Spain of the EU enlargement the figure of €39,684 million given for the drop in Spain's net balance of funds, conveniently forgetting that Spain would have lost a significant amount of funds (put at €24,583 million by the government) regardless of the enlargement because of the larger size of its economy (7.1% of the EU-15 GDP in 1999 and 8.4% in 2004) and the greater per capita income.

Rodríguez Zapatero seeks to protect Spanish interests in Bolivia

José Luis Rodríguez Zapatero, Spain's prime minister, received Evo Morales, Bolivia's president elect, during his world tour and sought to allay fears that the planned nationalisation of Bolivia's oil and gas reserves would affect the interests of Spain's Repsol YPF, which has invested around €20 million in the country since 1997, and other companies.

The jersey-clad Morales, the first indigenous president of South America's poorest country, said the contracts negotiated by the previous government with oil companies were illegal. The state would exercise its right to own its natural resources, he said, but nationalisation did not mean that companies would be expropriated. Bolivia has the second-largest gas reserves in South America after Venezuela. He said he wanted to combine a secure legal framework for foreign investors with greater social progress.

Before coming to Madrid Morales sealed an accord with Hugo Chávez, Venezuela's firebrand president, to help rewrite Bolivia's constitution and bankroll forthcoming radical reforms to its economy and energy sector. He also visited Cuba. Bolivia has joined the expanding club of left-wing governments that are at odds with the US administration. Zapatero has forged closer links with Venezuela and Cuba since coming to office in 2004, to the annoyance of Washington.

Rodríguez Zapatero makes surprise visit to Afghanistan

José Luis Rodríguez Zapatero, Spain's prime minister, made a surprise visit to Afghanistan. It coincided with the inaugural session in Kabul of the first parliament in more than 30 years, and it was the first time he had visited Spanish troops abroad.

Spain currently has 540 peacekeeping troops in Afghanistan out of a total of 2,500 abroad and it is the second-largest contingent after Kosovo (722). At one stage the number reached about 1,000 when a contingent helped oversee Afghanistan's parliamentary elections last September. One hundred and thirty two of the troops form a provincial reconstruction team (PRT) in the western part of the country under the auspices of Nato.

Rodríguez Zapatero pulled Spain's peacekeeping troops out of Iraq in May 2004, soon after taking office, but he has strengthened the presence in Afghanistan 'for the same reasons that we pulled out of Iraq, in order to defend peace, the United Nations and international law'. Last year 17 soldiers were killed when their helicopter crashed.

Spain is due to take over the rotating command of Nato's 10,000 troops in Afghanistan in August, which will require a larger Spanish contingent.

Foreign minister visits six sub-Saharan countries

Miguel Ángel Moratinos, Spain's foreign minister, launched a more active policy towards sub-Saharan Africa with a visit to Ghana, Angola, Mozambique, Nigeria, Niger and Mali (see www.realinstitutoelcano.org/analisis/874.asp). Spain's relations with these countries have so far been marginal to say the least.

Sub-Saharan Africa is one of the main sources of illegal immigration to Spain (more than 7,000 people over the last 18 months according to official figures), and also a source of friction because most of these countries refuse to accept the repatriation of their citizens. Of the 7,000 who were detained when they crossed from North Africa in rickety boats, only 1,556 were repatriated.

Around 500 sub-Saharans benefited from the government's 'regularisation' of illegal immigrants during 2005. More than 100,000 of them now live in Spain.

Spain intends to boost development aid to these countries and is prepared to write off a portion of their debts with Madrid.

Spain helps train new Iraqi army

Spain is helping to train the new Iraqi army, but not in Iraq. Several Spanish officers participated in a course organised by Germany in the United Arab Emirates (UAE) for a battalion of Iraqi engineers and 20 Iraqi officers were given a course in Spain. The courses in Spain are part of a Nato training programme.

Spain, together with Germany, France and Belgium, refuses to train Iraqi soldiers in Iraq and will only do so in Spanish territory or in neighbouring countries such as the UAE. The participation is little more than symbolic but it does represent closer involvement in the stabilisation of Iraq and thus helps the United States to reduce its military presence in the country.

Spain's ambassador to Iraq, Ignacio Rupérez, took up his post in Baghdad shortly before last month's parliamentary elections in Iraq.

Domestic Scene

Senior army officer fired for his comments on new Catalan autonomy

José Bono, the defence minister, fired Lt.Gen. José Mena Aguado, in command of the Spanish Army's land forces, after he said the military might have to intervene if Catalonia went too far in its efforts towards greater self-government.

Mena warned in a speech to fellow officers in Seville at a high profile military parade of the 'serious consequences for the armed forces, as an institution, and its members if the Catalan charter is approved in its current terms'. He cited a clause in the Spanish constitution that calls on the armed forces to intervene if needed to guarantee the unity, independence and sovereignty of Spain. He was placed under house arrest for eight days. Mena, aged 63 and due to retire in March, felt the need to speak out although he knew he would be discharged for his remarks.

Mena's remarks came at a very sensitive time as the government is negotiating a new and controversial deal for Catalonia which is fiercely opposed by the centre-right Popular Party (PP), the main opposition (see *Inside Spain*, Newsletter 12, December 2, 2005). Progress has been made on some fronts with the parties backing the move, but sticking points remain in the area of finance and taxation among other issues. All parties condemned Mena's remarks. The PP said they were 'inevitable' given the tensions created by Catalonia's demands.

Spain has a long history of military involvement in government –General Franco ruled Spain between 1939 and 1975 after rebelling against the democratically-elected republican government in 1936 and triggering a civil war– and since his death and the restoration of democracy all governments have been acutely sensitive to the slightest rattling of sabres. There was an attempted coup in 1981.

European Parliament censures Valencian government's urban development policy

The parliament of the region of Valencia pressed ahead with its controversial new urban development law, despite a call by the European Parliament for changes.

The move came after the European Parliament voted in favour of a moratorium on the voracious reclassification of land carried out under a law approved in 1994. The non-binding resolution, approved by 550 votes to 45, followed complaints from around 15,000 home owners, many of them foreigners, of expropriation of land and damage to the environment. This law allowed land to be confiscated in order to 'urbanise' rural areas by adding infrastructure such as roads, lighting and sewage. In many cases property owners were charged for the infrastructure even if they did not need it. A damning report on the so-called 'land-grab' law said it 'brought a grave violation of the basic rights of many thousands of European Union citizens' and the law to replace it was also not appropriate.

The European Commission had threatened to take Spain to the EU Court of Justice if Valencia did not bring the new urban development law, replacing the 1994 law, into line with EU directives.

The Popular Party (PP), which has governed Valencia since 1995, tried to water down the resolution in the European Parliament. Not only did it face opposition from other parties, but also some PP MEPs voted in favour of the resolution. The 1994 law was

approved by a Socialist government of Valencia and energetically applied after the PP became the governing party. The reclassification of land for building purposes is one of the areas where corruption flourishes.

The resolution cast a spotlight on Spain's seemingly never-ending building boom, particularly in regions such as Valencia (which includes Alicante) and the region of Murcia. Cristina Narbona, the environment minister, said the plans of the Valencian government would turn the coastline into a 'wall of cement'. Last year there were around 800,000 new housing starts in Spain as a whole, reportedly more than France and Germany combined. Spain's water authorities warned there is no guarantee there will be enough water for 450,000 homes planned for the regions of Valencia and Murcia and the province of Almería (part of Andalucía). The country is currently suffering from one of its periodic droughts and one of the driest areas is precisely where these houses are being built.

According to the institution that represents Spain's architects, Spain's level of new housing starts is unsustainable and is creating a property bubble. The level of genuine demand based on housing needs lies somewhere between 250,000 and 300,000 properties per annum. Spain already has Europe's highest level of home ownership (1.5 per household in 2004 compared with a European average of 1.11) and the highest level of new housing starts relative to the population, with 18.1 new properties per thousand compared with the European average of 5.6.

The construction sector generates around 16% of GDP and is one of the engines of Spain's decade-long high rate of economic growth. It is also the favoured sector for investing 'black' money and laundering money from illegal activities. Spain's housing prices are still among the fastest rising in Europe.

Drought enters its second year

Spain's drought entered its second year and the effects could be worse than in 2005, according to Jaime Palop, the government's water chief.

All of Spain continues to suffer from drought except the northern part of the country, traditionally the wettest. The rain that fell during the autumn made very little difference to the water levels of reservoirs. Their average level on December 20 was 45.3% of their maximum capacity, compared with 56.5% a year earlier and a 10-year average of 56%. The figure for the Mediterranean area was 40.3%, down from close to 50% a year earlier.

Spain will not meet Kyoto pledge to cut greenhouse gases

Spain is one of 10 EU countries that will miss the Kyoto targets unless it takes urgent action, according to a report by the Institute for Public Policy Research (IPPR). Only the UK and Sweden are on course to meet their commitments. France, Greece and Germany will not reach targets unless they put planned policies into action. Under Kyoto commitments, the countries are supposed to cut their emissions to 8% below 1990 levels by 2008-12.

Spain sends Croatian war-crimes suspect to the Hague to face trial

Spanish police arrested a former Croatian general, Ante Gotovina, in Tenerife who had been on the run for four years after he was indicted by an international war crimes

tribunal in the Hague. He faces war-crimes charges in connection with the murder of 150 civilians and the expulsion of thousands of Serbs from Croatia. Gotovina had visited Argentina, Chile, China, Mauritius, Tahiti, the Czech Republic, Russia and Spain before he was arrested.

Smoking ban in the workplace comes into force

The Spanish parliament approved a law banning smoking as of January 1 in the workplace and imposed restrictions in bars and restaurants and other public places. The legislation also forbids the sale of tobacco to people under 18 and extends a ban on cigarette advertising to include the media, billboards and product promotions.

More than 50,000 Spaniards die each year as a direct result of smoking, and 700 from passive smoking, the Health Ministry said, adding that the habit killed more people than AIDS and workplace and traffic accidents together. More than 30% of Spaniards smoke, the Ministry said.

Siesta laid to rest

The government laid to rest the venerable tradition of the *siesta*, the extended lunch break that often includes a snooze, in the public sector. A new law decreed that lunch breaks are limited to one hour to allow civil servants to clock off at 6pm. It was hoped that private sector companies would follow suit.

Jordi Sevilla, minister for public administration and a father of three, said the working hours of civil servants were 'chaotic' and made it difficult to reconcile work and family life. 'Henceforth, lunchtime will be from 12 to 1pm, like the rest of Europe, instead of between 2 and 4pm. This will allow civil servants to leave work at six, instead of eight or nine in the evening', he said.

The Economy

Repsol YPF brings on stream world's largest LNG plant

The world's largest liquefied natural gas (LNG) plant in Trinidad and Tobago, 20% owned by Repsol YPF, Spain's oil and natural gas giant, has started production. Other shareholders in the US\$1.2 billion plant include the UK's BP (34%) and British Gas (26%).

Trinidad and Tobago accounts for 20% of Repsol YPF's total oil and gas production volumes, of around 1.2 million barrels daily. The Caribbean is one of its key areas for exploration and production activities.

Spain among the lowest high-tech exporters

Spain's high-tech exports accounted for a mere 5.7% of its total exports in 2004, well below the EU-25 average of 18.2% (see Figure 4).

The government is seeking to remedy this situation by doubling spending on R&D to 2% of GDP by 2010. Even if it is successful, Spain's R&D expenditure in 2010 would still only be in line with the current average of the EU-25.

As well as the lack of funds, another obstacle is the deterioration of the country's education system, as measured by various international tables. One in every three

Spanish students do not complete their upper secondary education compared with one in every five for OECD countries as a whole.

Figure 4. High-tech Exporting Countries, 2004

Country	% of Total Exports
Ireland	29.1
United Kingdom	22.7
France	20.0
EU-25	18.2
Finland	17.7
Netherlands	16.9
Germany	14.8
Czech Republic	13.5
Portugal	7.5
Italy	7.1
Spain	5.7

Source: Eurostat.

Minimum monthly wage rises 5% to €540

The minimum monthly wage in 2006 is almost €540, and the government intends to increase it to €600 in 2008. The wage was €460 when the Socialists won the March 2004 general election. The increases have been above the inflation rate.

Third straight year of double-digit gains for Madrid stock market

The IBEX-35, the main index of the Madrid stock market, rose 18.2% in 2005, the fourth largest increase among the main markets in the developed world (see Figure 5). The index has risen 75% since the end of 2002.

The main drivers were low interest rates, plenty of liquidity and good corporate earnings. The macroeconomic situation was also good: GDP growth of around 3.5%, more than double the EU-25 average, and a general government budget surplus of 1% of GDP, the first since 1975. Spain's harmonised consumer prices, however, rose 3.8%, according to preliminary figures. This was more than a percentage point above the Euro zone average.

Figure 5. Main Stock Market Indices

	% Rise in 2005
Nikkei	40.2
Dax	27.0
Cac-40	23.4
IBEX-35	18.2
FTSE	16.2
S&P MIB	15.5
S&P 500	3.0
Nasdaq	1.3
Dow Jones	-0.6

Source: respective stock markets.