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Foreign Policy

Spain likely to play a more active role in Afghanistan, hopes this will help to heal rift with US

The government is likely to move its troops in Afghanistan to the more conflictive western part of the country, enabling Nato to play a greater role and the Socialists to mend some bridges with the United States following the withdrawal last year of Spanish troops in Iraq.

Nato needs more forces in order to carry out the second phase of its stabilisation mission, which it was due to start last December. Spain would provide troops for a provincial reconstruction team (PRT) in the west of Afghanistan. Around half of the troops for it would come from its 540-strong contingent in the relatively calm Kabul and the other half would man a forward support team, to protect the four PRTs in the area. Spain would not send any more troops.

Washington views the Spanish move positively. The rhetoric on both sides has been toned down, but President Bush continues to mark a distance with José Luis Rodríguez Zapatero, the prime minister, and the window of opportunity for them to meet at the Nato meeting in Brussels on February 22 is unlikely to be used. The Spanish government, keen to establish a constructive relationship, is putting a brave face on the cool relations, insisting, in the words of Miguel Ángel Moratinos, the foreign minister, that the relationship is 'normal and fluid'.

The main issue dividing Spain and the United States is Madrid's refusal to go along with the decision taken at last July's Nato summit in Istanbul to involve the alliance in the military training activities of the Iraqi forces. Nato cannot launch the plan because five countries –Spain, France, Germany, Belgium and Greece– are not allowing their officers working at Nato headquarters to participate in the mission. Washington is furious because it believes their position is undermining Nato's multinational military structure. This is part of the wider US-European divide on Iraq. Zapatero said after the Nato meeting that 'the government does not envisage participating at all in the process going on in Iraq'.

However, the government is studying the idea of training Iraqi police forces, magistrates and other civil servants in Spain. Moratinos said this would 'help to consolidate the rule of law' following elections in Iraq which the government viewed 'very positively'.

Zapatero makes first tour of Latin America

José Luis Rodríguez Zapatero, Spain's prime minister, made his first official trip to Latin America, visiting Brazil, Argentina and Chile, three countries where Spanish companies have made substantial investments. Venezuela was to have been included in the trip but was discounted because of the tense relations between President Hugo Chávez and President Álvaro Uribe of neighbouring Colombia over the capture of a Colombian rebel leader by bounty hunters on Venezuelan soil. Chávez visited Spain last year and Uribe was due in Madrid. Zapatero did not want to be seen to be taking sides in the dispute. However, the latter's visit has been suspended due to illness.

Mexico's president Vicente Fox will be in Madrid on February 9th.

Latin America is one of the Socialists' foreign policy priorities. Zapatero has distanced himself from the United States and moved closer to Europe and Latin America.

One of the main topics of discussion in the three countries was the promotion of Spanish investment, which so far amounts to more than €63 billion (around 80% of the total Spanish investment in Latin America). The main Spanish multinationals –Repsol YPF (oil), Telefónica (telecoms), Endesa (electricity) and the banks Santander Central Hispano and BBVA– have all invested heavily in these countries. Repsol, which bought Argentina's YPF in 1999 for US\$14.9 billion, said it would invest €20 million in Argentina this year, 35% more than in 2004.

On the political front, Spain supports the Alliance against Hunger initiative launched by President Luiz Inacio 'Lula' da Silva in 2004 with the backing of Chile and is also part of the Brazilian-led UN peacekeeping force in Haiti.

Spanish is also set to be an obligatory subject in Brazilian schools in order to eventually make the country bilingual.

The Argentine economy has recovered from its devastating meltdown earlier in the decade to a greater extent than many thought possible, but it has yet to restructure its debt upon which it defaulted and has still not agreed rate rises for Repsol and Telefónica.

Zapatero backs Argentina's current efforts to restructure US\$104 billion in debt and will push for the resumption of a loan accord with the International Monetary Fund, headed by former Spanish finance minister Rodrigo Rato. 'The Spanish government is putting all of its efforts and all of its support behind Argentina's debt exchange so that it can be satisfactory for them', Zapatero said. Argentine government officials toured the US and Europe in January to garner support for the exchange, a condition for a US\$13.3 billion IMF loan accord put on hold last July.

President Nestor Kirchner of Argentina and Zapatero announced a 'strategic association' of frequent consultations to deepen their trading and political relationship.

King Juan Carlos makes state visit to Morocco, sealing the improved relations

King Juan Carlos and Queen Sofia made their second state visit to Morocco, the first under Mohammed VI. The visit followed one by José Luis Rodríguez Zapatero, the prime minister, last year and sealed the greatly improved relations between the two countries under the Socialists (see *Inside Spain*, Newsletter 5, September 8, 2004).

Juan Carlos thanked Morocco for its cooperation and support in the fight against terrorism and expressed the wish for further progress in efforts against illegal immigration. Most of those arrested over last March's Madrid train bombing are Moroccans, and Morocco is also the home of the majority of Spain's illegal immigrants. Mohammed VI called on Spain to upgrade its bilateral relations to the higher level of a strategic association.

As part of the visit Magdalena Álvarez, the Spanish development minister, met her Moroccan counterpart, Karim Chellab, to discuss the 30-year old idea of building a 38km tunnel linking the two countries beneath the Strait of Gibraltar. The renewed spirit of cooperation has raised hopes about the tunnel.

A route for the tunnel was agreed last December and plans for it have been included in the Spanish government's transport infrastructure plan. The tunnel would run from Punta Paloma on Spain's southern coast to a terminal east of Tangier to take advantage of the shallower waters. At its deepest point the tunnel, assuming it is ever built, could be 400 metres below sea level and 300 metres beneath the seabed.

Relations between Spain and Morocco were strained during the previous government and reached a low ebb in 2003 when Moroccan troops invaded Parsley island, an uninhabited rock.

EU, led by Spain, restores relations with Cuba

European Union foreign ministers agreed to temporarily restore normal diplomatic relations with Cuba, a move spearheaded by Spain (see *Inside Spain*, Newsletter 9, January 12, 2005). This ended a freeze on high-level contacts imposed by the EU after Havana cracked down on dissidents in March 2003.

Ministers agreed to end the 'cocktail wars' which blew up when Europe decided to invite opponents of the Cuban government to EU embassy parties in Havana in protest at the crackdown on dissent. Under the new rules, neither dissidents nor Cuban officials will be invited to receptions.

The EU insisted it would continue to raise human rights issues. It demanded the 'urgent' and 'unconditional' release of all dissidents, including the 75 given prison terms of up to 28 years in the 2003 clampdown.

Most Cuban dissidents criticised the EU for the move, which will be reviewed in July.

Spaniards set to approve new European constitution, but with expected low voter turnout

Spain will approve the new European constitution in the February 20 referendum, but the government is nervous about the possible high number of No votes and a low voter turnout. The referendum will be the first in the European Union on the issue and so will be closely watched in other EU countries.

According to a poll by the European Commission, 56% support the constitution and only 7% oppose it, although, as in all the EU countries, almost nine out of ten Spaniards said they knew nothing or little about the draft treaty.

The Socialists and the Popular Party (PP), the main opposition, are campaigning for a Yes vote, but such is the disgruntlement of the PP with the government that many party members and supporters could use the referendum to express their anger instead of voting on the issue itself.

The government wants a big show of support and has embarked on a € million media blitz (compared to the UK government's miserly budget of €8,000), enlisting the support of former soccer heroes Emilio Butragueño and Johan Cruyff and Pedro Duque, Spain's only astronaut.

Domestic Scene

Parliament rejects Basque plan for greater independence, regional government brings forward election

The parliament resoundingly rejected the controversial plan for an 'associated free state' with Spain and in response the Basque regional government brought forward the date of the regional election by several weeks to April 17. Juan José Ibarretxe, the Basque premier, also called for the ban on the leftwing nationalist Batasuna party taking part in elections to be lifted. Batasuna is the political ally of the Eta terrorist group, which has been fighting for an independent Basque country for more than 30 years, and refuses to condemn the separatist violence.

The plan was rejected in the national parliament in Madrid by 313 to 29 votes, with two abstentions. The ruling Socialists and the centre-right Popular Party, the main opposition, joined forces and rejected the plan because it is unconstitutional. José Luis Rodríguez Zapatero, the prime minister, offered talks on improving the degree of Basque sovereignty (within the framework of the constitution), but Ibarretxe rejected this and vowed to put his plan to a referendum in the Basque country (not in the rest of Spain). Zapatero is seeking to be more conciliatory than his predecessor, José María Aznar, who took a very hard line and did not even talk to Ibarretxe for two years. This is partly because Zapatero owes his working majority in parliament to the votes of a left-wing Catalan nationalist party.

The government says a referendum on the plan would be illegal. José Bono, the defence minister, warned that the Basque Country's self-government status could be suspended and troops sent in.

Ibarretxe, who heads the Basque National Party (PNV), took the plan to Madrid after the Basque parliament narrowly approved it but only thanks to the votes of three ex-

Batasuna deputies. It would introduce Basque citizenship, an independent judicial system, own laws on political organisations, a Basque penal system and the right to sign foreign treaties with other countries.

The Basque Country already enjoys one of the highest degrees of autonomy of any region in Europe. For example, it collects its own taxes, teaches in the Basque language, which is co-official with Castilian Spanish in the region, runs its own schools and has its own police force.

The positions of Ibarretxe and virtually all of Spain’s other political parties are far apart and it is difficult to see how there could be any compromise on either side or what more Madrid could cede in the way of self-government. ‘We will only remain part of Spain if we wish’ is the defiant stance of Ibarretxe, while Zapatero, under pressure for greater self-government from other regions, particularly Catalonia, is adamant that the relationship between the Basque Country and Spain will be decided by all Spaniards and not just Basque nationalists.

Spain ranked low in 2005 Environmental Sustainability Index

Spain was ranked 76th out of 146 countries in the 2005 Environmental Sustainability Index (ESI), drawn up by the Yale Center for Environmental Law and Policy and the Center for International Earth Science Information Network (CIESIN) at Columbia University (see Figure 1). The country’s position underscored the extent to which economic growth has been based on a wasteful and unsustainable use of natural resources.

The ESI ranks countries on 21 elements of environmental sustainability covering natural resource endowments, past and present pollution levels, environmental management efforts, contributions to protection of the global commons and a society’s capacity to improve its environmental performance over time.

Spain’s greenhouse emissions in 2004 were three times higher than the ceiling set under the Kyoto Protocol. They were 45% higher than in 1990, the reference year, according to the Environment Ministry.

Figure 1. Environmental Sustainability Index, Selected Countries

Country	Score
1. Finland	75.1
2. Norway	73.4
6. Canada	64.4
9. Argentina	62.7
31. Germany	56.9
37. Portugal	54.2
45. United States	52.9
66. United Kingdom	50.2
76. Spain	48.8
95. Mexico	46.2
133. China	38.6
146. North Korea	29.2

Source: 2005 Environmental Sustainability Index.

Spain’s score of 48.8 contrasts with an average ESI score of 55.4 for its peer group (based on per capita income).

The government approved the definitive allocation of CO2 emission rights for 2005-07 as part of Spain's effort to comply with the Kyoto Protocol. The final allocation contained some relief for coal-powered electricity generation plants; their allocations were increased by 4.5 million tonnes compared with the plan submitted in December.

The Economy

Nine Spanish regions could be disqualified for continued EU structural funds

Only two of the 11 regions which today receive EU structural funds look like qualifying for continued aid during the next budgetary period (2007-13). The per capita income threshold for these funds is 75% of the EU average, and according to the latest figures (2000-02) only Andalusia and Extremadura would qualify (see Figure 2). Galicia may scrape through as it is revising its population figures.

The EU-25 will base its decision on the figures for 2001-03, but there is unlikely to be any significant change.

The enlargement last May of the EU from 15 to 25 members produced a 'statistical effect' and pushed up Spain's per capita GDP from 87% of the EU-15 average to 95% of the EU-25 average. As a result, Spain no longer qualified, in theory, for EU cohesion funds as it surpassed the threshold of 90% of the EU average. Spain is the largest net recipient of funds in absolute terms.

The government is hoping to negotiate a gradual rather than a sudden decline in its funds, which in 2000-06 amount to €56.2 billion. According to a study commissioned by the European Parliament, the amount of EU funds that Spain receives in 2007-13 could be 45% lower than for 2000-06. The richest EU countries tend to favour allocating funds in 2007-13 to just the new members, something which Spain will fight against as hard as it can, although it is a losing battle.

Figure 2. Per Capita Income of Spain's Regions (EU-25 = 100)*

Region	Score	Region	Score
Spain	92.9	Castilla-La Mancha	74.1
Northwest	77.7	Extremadura	60.1
Galicia	74.9	East	103.1
Asturias	78.9	Catalonia	111.7
Cantabria	89.5	Valencian Community	88.9
Northeast	109.2	Balearic Islands	109.7
Basque Country	115.5	South	70.5
Navarra	115.1	Andalusia	69.2
La Rioja	103.7	Murcia	77.0
Aragón	96.8	Ceuta	82.0
Madrid	125.7	Melilla	81.2
Centre	77.1	Canary Islands	87.6
Castilla y León	86.7		

(*) Average for 2000-02 and in purchasing power parity terms.

Source: Eurostat.

Spain attains top debt rating from the three main international rating agencies

Fitch, one of the three main international rating agencies along with Standard & Poor's and Moody's, has affirmed the Kingdom of Spain's long-term foreign and local currency ratings at AAA, the maximum classification. Standard & Poor's gave Spain the top rating last December and Moody's in 2003.

Despite the general government budget moving from a surplus of 0.4% of GDP in 2003 to a deficit of around 0.6% in 2004 and a deficit of 0.4% forecasted by Fitch this year,

the rating agency said this did not represent a worrying deterioration. Some of the 2004 deficit was related to one-off measures such as assuming debts of Renfe, the public rail company.

Fitch, however, warned that the government would have to be cautious in view of the lower economic growth, which is still high by Euro-zone standards (2.6% in 2005) but below the 4% averaged in 1997-2001.

The agency also highlighted Spain's limited competitiveness as illustrated by a current account deficit of around 4% of GDP in 2004 compared with an average surplus of 3.5% for all AAA-rated countries.

Jobless rate falls in 2004 to lowest level since 2001

The stated unemployment rate fell to 10.4% in 2004, thanks to a drop of 120,000 in the number of unemployed and a rise in the labour force smaller than the increase in those with jobs. During the year 461,300 new jobs were created for a total of 17.3 million, with Spain's unemployment rate not that far now from the Euro-zone average of 8.9%.

The proportion of workers on short-term contracts, however, was still very high, at 30.8% of the total number of those employed. The figure was slightly higher than in 2003. Lowering Spain's very high level of job precariousness is one of the government's key labour market reform objectives, but nothing has been done about it yet.

Immigrants paying Social Security surpass 1 million

The number of immigrants paying Social Security surpassed one million in 2004 for the first time and accounted for close to 6% of the total of 17.3 million. More than 80% of them came from non-EU countries, principally Morocco. Contributions from immigrants –whose overall total in Spain is more than 3 million– have helped the Social Security to generate a surplus.

Santander sells stake in Royal Bank of Scotland

Banco Santander Central Hispano has sold its 2.6% stake in the Royal Bank of Scotland (RBS), the UK's second largest bank, for €2.03 billion. The move ended a 16-year alliance and was the final chapter in its €3 billion takeover of Britain's Abbey National (see *Inside Spain*, Newsletter 5, September 8, 2004). One reason for selling the stake was to avoid accusations of a conflict of interest. RBS is expected to sell its 2.8% stake in Santander.

Foreign Investment in Spain

GE to invest €400 million in new plant

US conglomerate General Electric (GE) opened its €600 million Lexan plastic resin factory in Cartagena, in the eastern region of Murcia. The company has invested €1.7 billion in Murcia since 1989 and plans another plant at a cost of €400 million.