

## Inside Spain 32

William Chislett

### Foreign Policy

#### *Spain Hosts Nato Conference, Refuses to Send More Troops to Afghanistan*

Spain stood shoulder to shoulder with France, Italy and Germany at the meeting of Nato's Defence Ministers in Seville and refused to send more troops to Afghanistan and engage in fighting against the Taliban. The US and UK governments had pressured these countries to do more to help its allies prepare for an expected spring offensive by the increasingly active Taliban.

Spain's and Italy's troops are mainly in the west of Afghanistan, Germany's in the north and France's in Kabul. The great bulk of the fighting is in the south and east where American, British and Canadian troops are stationed. General John Craddock, Nato's top military commander, said 4,000 more troops were needed.

José Antonio Alonso, Spain's Defence Minister, left open the door for a greater military presence after he visited Spanish troops before the Nato meeting, but it was quickly closed by José Luis Rodríguez Zapatero, the Prime Minister, who believes that Spain is making an appropriate contribution to the fight against terrorism in Afghanistan.

Spain agreed to slightly ease the tight restrictions on its troops in Afghanistan at last November's Nato summit in Riga, Latvia, but Washington and London continued to press for more troops. Spain, Germany, France and Italy have more than 6,500 of the total 35,600 troops in Afghanistan (see Figure 1) and restrict where, when and how their troops can be used. They negotiated dozens of so-called 'red cards', which were offered in exchange for their assistance in the security and reconstruction programme

**Figure 1. International Security Assistance Force (ISAF) Troops in Afghanistan**

Country	Number	Country	Number	Country	Number
US	14,000	Belgium	300	Estonia	90
UK	5,200	Sweden	180	Finland	70
Germany	3,000	Hungary	180	Slovakia	60
Canada	2,500	Greece	170	Slovenia	50
Netherlands	2,200	Poland	160	Latvia	30
Italy	1,950	Portugal	150	Albania	30
France	1,000	Czech Republic	150	Azerbaijan	20
Turkey	800	Lithuania	130	Ireland	10
<b>Spain</b>	<b>690</b>	Croatia	130	Luxembourg	10
Australia	500	Macedonia	12	Iceland	5
Denmark	400	Bulgaria	100	Austria	5
Norway	350	New Zealand	100	Switzerland	5

Figures at 7 February 2006; total 35,600.

Source: Nato and ISAF.

These countries want Washington to place more emphasis on reconstruction rather than on combat with the Taliban. Their views were summed up by Franz-Josef Jung, Germany's Defence Minister, who said: 'When the Russians were in Afghanistan they had 100,000 troops and didn't win... We are liberators, not occupiers'.

Meanwhile, a second Spanish soldier was killed in Afghanistan. Idoia Rodríguez Buján died when the ambulance she was driving hit a land mine. She was the first Spanish female soldier to be killed in an overseas mission. Her death led to calls on the left for the withdrawal of Spain's troops.

#### *Argentina Requests Extradition of Former Argentine President*

Buenos Aires has asked Madrid to extradite Isabelita Perón, Argentina's President in 1974-76. She is accused of involvement in the disappearance of an opposition politician and in the murders committed by the Triple A death squads during the 1970s.

She came to Spain in 1981 after spending several years under detention in Argentina, following the overthrow of her government by a military coup. A former cabaret dancer, Isabelita took over the presidency at the age of 43 from her 78 year-old husband, Juan Domingo Perón.

### **Domestic Scene**

#### *Madrid Bombings Trial Begins*

The trial began of 29 people allegedly involved in placing bombs on four trains in March 2004, which killed 191 commuters and injured more than 1,700. The bombs blasted the conservative Popular Party (PP) out of office in the general election held four days later and ushered in the Socialists who withdrew Spain's peacekeeping troops from Iraq.

The prosecution says the attacks were carried out by a Spain-based cell whose members were inspired by Osama bin Laden, the al-Qaeda leader, and in retaliation for Spain's support for the US and UK-led invasion of Iraq.

The trial, expected to last until the summer, could finally lay to rest the conspiracy theory, vigorously promoted by some leaders of the PP and the right-wing press, linking the Basque terrorist group ETA to the attacks. Investigating magistrates, the police and a parliamentary commission say only radical Muslims were involved, but the PP has continued to push the theory which, if confirmed during the trial, would benefit it politically.

#### *Constitutional Court Battle over Catalan Autonomy Statute*

The Constitutional Court's decision forbidding one of its members to take part in the key vote later this year on whether to declare the government's autonomy statute for Catalonia unconstitutional threatens to trigger a political crisis with the region. The new charter for Catalonia was approved last year by Spain's parliament, in a watered-down version, and by Catalans in a referendum. The conservative Popular Party (PP), however, voted against the statute and took its battle to the Constitutional Court where its views on this issue now hold sway.

Pablo Pérez Tremps became the first judge in the Court's history to be barred from voting on an issue. The PP, which named six of the 12 judges (the other six including the Court's President who has a casting vote were appointed by the Socialists), challenged Tremps' impartiality on the grounds that when he was a law professor he had prepared a report on the possible powers of Spain's regions in international matters, one of his specialities. The Court clearly rejected the challenge in January 2006 when it was first presented (in a bid to prevent the bill entering parliament), but accepted it the second time because three of the PP-appointed judges changed their minds, following an intense campaign.

José Montilla, the Socialist Premier of the three-party Catalan coalition government, accused the PP of 'winning in the courts what it lost in the ballot box'. Josep-Lluís Carod Rovira, head of the Republican Left Party and Deputy Premier, said that if the Catalan statute was declared unconstitutional the only path left open would be to push for independence.

The crisis in the Constitutional Court was compounded by it coinciding with the appointment of Mariano Fernández Bermejo, a *bête noire* of the PP, as the new Justice Minister. He replaced Juan Fernando López Aguilar who will campaign on the Socialist ticket in the regional elections in the Canary Islands. Fernández Bermejo, the chief public prosecutor in Madrid between 1992 and 2003, had several confrontations with the PP (which governed between 1996 and 2004), most notably over the PP's quick trials law. He was removed from his post by the PP. Fernández Bermejo chastised the PP for 'not accepting their defeat in the ballot box' and for 'transferring to the judiciary what only belongs to the sphere of political debate'.

His appointment, denounced by the PP, and the crisis in the Court cast a spotlight on a growing problem in Spain: the politicisation of the judiciary system with both main parties blaming one another for the situation. Part of the problem lies in the composition of the Consejo General del Poder Judicial, the governing body of the judiciary, and the Constitutional Court as their members are appointed by the main political parties. And if a party has an overall parliamentary majority, it also has effective control of the judiciary. This applies at the national and regional level (each region has its own High Court). There is a similar system in Germany, but it has not generated the tensions it has in Spain.

In a separate development but one related to the judiciary, the number of cases presented to Spain's courts in 2006 exceeded 8 million for the first time. During the year 7.9 million cases were resolved and this year began with a record backlog of almost 2.3 million. Some cases take up to four years before they are heard. The spokesman for the Consejo General said the system was 'saturated'.

#### *Andalusia Approves New Autonomy Statute on Very Low Participation*

Andalusians overwhelmingly approved a new charter which gives the region in southern Spain more autonomy, but voter turnout was the lowest since democracy was restored some 30 years ago.

The statute was approved by 87.4% of those who voted and the abstention rate was almost 64%. 'No' votes polled 9.5% and blank votes 3.1%.

The Socialists, who have long governed Andalusia, and the conservative Popular Party (PP), in a rare spirit of cooperation, voted in favour and the 'no' vote was defended by the Andalusian Party on the grounds that the new charter did not go far enough.

#### *Court Reduces Sentence for Hunger-Striking ETA Member*

Spain's Supreme Court reduced from 12 to three years the sentence imposed on José Ignacio De Juana Chaos, a former leader of the ETA terrorist group, who went on hunger strike last November to protest his continued imprisonment.

He was close to being released from prison, where he had been since 1987 for killing 25 people in a series of attacks, when he was found guilty of writing newspaper articles that were deemed terrorist threats. Under sentencing guidelines then in force he had to serve only 18 years. The court's decision, six weeks after ETA's December 30 car bomb at Madrid's airport, which killed two people and ended its nine-month cease-fire, opened the way for De Juana to be released from prison. Protests demanding his release have been held regularly in the Basque Country.

In a related development, ETA scored a propaganda coup with a photo in *The Times* of London of an apparently emaciated De Juana Chaos strapped to his hospital bed and an interview with him in which he said, in written answers, that the bomb blast made 'resolution of the conflict more necessary than ever'. His case recalls Bobby Sands's fatal IRA hunger strike in 1981 whose death triggered a surge in IRA activity. The government is most anxious not to give ETA a martyr for its cause of an independent Basque Country. Hospital staff are force-feeding De Juana Chaos via a drip.

The photo and interview raised an outcry, particularly in the Popular Party whose former leader and Prime Minister (1996-2004), José María Aznar, wrote to the newspaper expressing his 'astonishment and deep regret' and the 'free publicity' given. PP leaders joined the protest organised by the Association of Terrorism Victims (ATV) to demand that De Juana serve out the three year sentence and not be released on humanitarian grounds. Some protesters called for a campaign of civil disobedience.

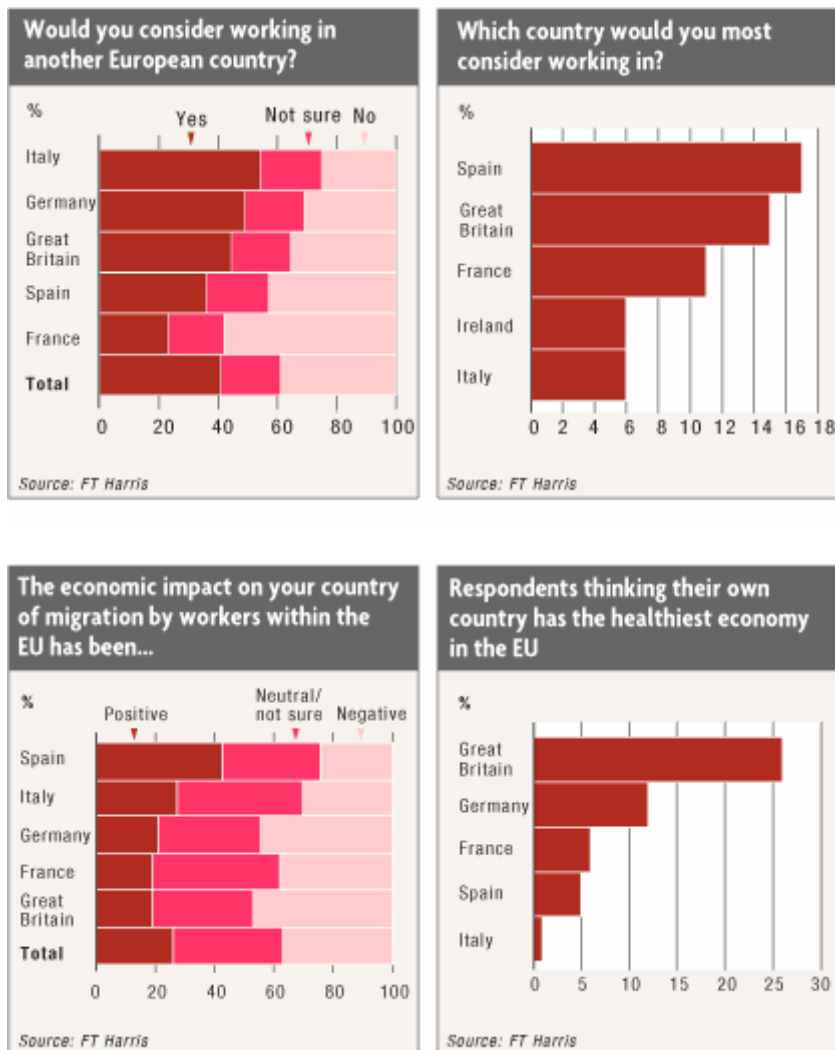
#### *Spain is Favourite Destination for EU Migrants*

Spain is the preferred work destination for EU migrants, according to an FT/Harris poll which shows that the country is more relaxed about immigration than other countries and more optimistic about the future.

The poll conducted in the UK, France, Germany, Italy, Spain and the US, as regards migration, simply confirmed the reality –more than 4 million immigrants have arrived in Spain in the past five years, increasing the population by some 10%–.

Of the 6,561 adults polled, 17% said they would most like to work in Spain, ahead of the UK (15%) and France (11%). A total of 42% of Spaniards believed immigration was good for the economy, compared with 19% in the UK and France. A large majority of Spaniards (71%), however, called for tighter border controls, and 62% thought there were 'too many foreigners' in the country, reflecting the growing concern about the influx of illegal immigrants from Africa. That compares with 54% and 43%, respectively, in France.

Surprisingly, only 5% of Spaniards cited their economy as the healthiest in the EU, despite it growing at a faster pace than the EU average for 13 straight years (in 2006 it expanded close to 4%, its strongest pace in five years).



Immigration is making Spain's population increasingly of mixed race: almost 18% of total births in 2005 had a foreign father or mother, according to the National Statistics Institute, more than double the rate in 2000 (see Figure 2). This is a striking twist to the history of Spain: it conquered Latin America in the 15<sup>th</sup> and 16<sup>th</sup> centuries and created the term *mestizo* –people of mixed European and indigenous Amerindian ancestry– and today Latin Americans, who account for the largest share of Spain's immigrants (roughly 1.5 million), are, in their own way, 'conquering' Spain and marrying Spaniards.

The economic repercussion is also significant, both for the home economy and the economies of origin. But for the large number of immigrants Spain's economy would have grown much more slowly over the past decade. And Spain topped the European league in 2004 (latest available year) for remittances to third countries which at €3.2 billion represented 0.4% of its GDP (see Figure 3).

**Figure 2. Births Where Father or Mother is Foreign**

	1998	1999	2000	2001	2002	2003	2004	2005
% of total	5.6	6.4	7.9	10.1	12.6	14.4	16.2	17.6

Figures rounded up to nearest decimal.

Source: INE.

**Figure 3. Workers' Remittances from the EU to Third Countries, 2004**

Country	US\$ Million	% of GDP
<b>Spain</b>	<b>3,258</b>	<b>0.4</b>
Germany	2,038	0.09
France	1,398	0.08
Italy	782	0.06
Netherlands	451	0.09
Portugal	405	0.28
Greece	241	0.14
Belgium	227	0.08
Ireland	90	0.06
Slovenia	56	0.22
Cyprus	30	0.24
Hungary	5	0.01
Poland	3	0.00
Lithuania	1	0.01

Figures rounded up to nearest decimal.

Source: European Commission.

### *Ranked 5<sup>th</sup> in child well-being, way ahead of the UK and US*

Spain was ranked 5<sup>th</sup> out of 21 developed countries in Unicef's league table of child well-being based on 40 indicators from the years 2000-03 including poverty, family relationships, and health (see Figure 4). It was the first study of childhood across the world's industrialised nations.

**Figure 4. Child Well-being According to Unicef**

Ranking					
1. Netherlands	4. Finland	7. Norway	10. Belgium	13. Greece	16. France
2. Sweden	<b>5. Spain</b>	8. Italy	11. Germany	14. Poland	17. Portugal
3. Denmark	6. Switzerland	9. Ireland	12. Canada	15. Czech Rp.	18. Austria
					19. Hungary
					20. US
					21. UK

Source: Unicef.

Spain did well in many of the categories, but while all northern European countries have brought child poverty down below 10%, it remained at 15% in the three southern European countries –Portugal, Spain and Italy– and in the UK, Ireland and the US. Child poverty is a relative measure that shows how far their standard of living has fallen below the national average. One reason for Spain's relatively good showing is that the family structure has not broken down to anywhere near the same extent that it has in the UK. A large proportion of families, for example, sit down regularly together for meals.

## **The Economy**

### *BBVA Acquires US Bank for €7.3 billion*

BBVA, Spain's second-largest bank, agreed to buy the US bank Compass Bancshares, a franchise covering six states, for €7.3 billion. This is a major push into the US as BBVA's purchases so far had been of small banking franchises in Texas and California. Compass Bancshares has US\$34.2 billion of assets and 417 branches.

BBVA acquired Laredo National Bancshares in 2005 for US\$850 million and State National Bancshares and Texas Regional Bancshares in 2006 for US\$2.7 billion.

BBVA and its main rival in Spain, the larger Grupo Santander, have both been on the acquisition trail in the US.

Santander paid US\$651million for 90% of Drive Financial, a Texas-based vehicle financing company, last year and it owns 25% of Sovereign.

*And Santander Buys Stake in Italy's Capitalia*

Grupo Santander, Spain's largest financial group, acquired a 2% stake in Italy's Capitalia bank for an undisclosed price. Last year Santander sold about half of its 8.4% stake in San Paolo IMI after this bank agreed to merge with Intesa, dashing Santander's hopes of buying San Paolo.

The Italian market has proved tricky for Spanish banks: in 2005 BBVA, the second-largest bank, lost out to BNP Paribas, its French rival, in the battle for control of Banca Nazionale del Lavoro.

Meanwhile, Spain's five largest banks generated €17,415 million of net income in 2006, 31.5% more than in 2005, 43% of which came from Santander and €4,736 million (27%) from BBVA. Santander's profits were the seventh-largest among international banks.

*Iberdrola Wins €467 million Contract to Upgrade Mexican Nuclear Plant*

Iberdrola, Spain's second-largest power company, beat groups led by General Electric and Siemens and won the tender to upgrade the Laguna Verde nuclear plant in the state of Veracruz, Mexico.

*Acciona Wins Contract to Build the US's Largest Desalination Plant*

Acciona, one of the big construction companies, won a €232 million contract to build a desalination plant in Carlsbad, California. It will be the largest in the US and will produce 204,000 cubic metres of drinking water a day, almost double the capacity of the plant in Tampa (Florida), which Acciona helped to remodel.

*Italy's RCS Buys Recoletos Media Group*

The RCS Media Group of Italy, which owns *El Mundo*, Spain's second-largest selling daily, bought Grupo Recoletos for €828 million. Recoletos owns the sports daily *Marca*, the business daily *Expansión* and other interests.

Pearson, publisher of the *Financial Times*, sold its 79% stake in Recoletos to a management team in 2005 and the remaining 21% was de-listed from the Madrid stock exchange.

*Italy's Enel Enters Battle for Endesa, Gas Natural Pulls Out*

Enel of Italy entered the protracted 18-month battle for Endesa, Spain's largest electricity company, by buying a 9.9% stake, while Gas Natural, the Barcelona-based gas utility, withdrew after spending €111 million on its bid, an amount equal to 13% of its 2006 net profit of €855 million. The entry of Enel, which plans to raise its stake in Endesa to almost 25%, threatens to derail the take-over bid by Germany's E.ON, which the government has never liked.

Enel –30% owned by the state–, Acciona –a Spanish infrastructure and energy group and Endesa’s largest shareholder with a 21% stake– and Sepi –the Spanish state holding group (3%)– could join forces and oppose E.on’s move to lift a 10% cap on voting rights, which Endesa’s shareholders will vote on later this month. The bylaws can only be changed if 50% of the capital with voting rights approves. E.on’s offer for 100% of Endesa is contingent on the removal of voting restrictions.

Enel’s purchase, believed to have the government’s blessing, and at a slightly higher price than E.on’s offer, opens the way for a ‘Spanish solution’ to the take-over of Endesa.

E.on trumped Gas Natural’s September 2005 bid for Endesa (worth €22 billion) in February 2006, favoured by the government, with one valuing the company at €27 billion. This was increased to €36.5 billion in September and its final bid last month was worth €41 billion.

Madrid put obstacles in the way of E.on’s bid, but was forced into a climb-down by the European Commission which took legal action against the government (see *Inside Spain*, Newsletter 30, 1 February 2007).

#### *Delphi to Close Plant, 1,600 Job Losses*

US car components manufacturer Delphi is to close its plant in Puerto Real, Cadiz. The plant, the largest of Delphi’s six plants in Spain, employs around 1,600 people directly and up to 4,000 indirectly in auxiliary industries. The parent company, which has been operating under bankruptcy protection since November 2005, said it was closing the plant because of high costs and the lack of new contracts. It said the Puerto Real plant had accumulated losses of €150 million over the last five years.

The future of another three of Delphi’s Spanish plants –in the cities of Pamplona, Belchite and Tarazona– is also uncertain. The Socialist regional government of Andalusia said the plant’s closure was illegal and it suspended a package of €8.3 million of aid.

#### *Regions Begin to Feel the Pinch from Reduction in EU Funds*

Spain’s 17 regions and the North African enclaves of Ceuta and Melilla are starting to feel the impact of the reduction as of this year in EU funds which have played a major role in developing Spain’s infrastructure.

The country will remain a net recipient of funds until 2013 and it will receive aid for R&D from a special fund, under the deal struck by the government at the EU summit in December 2005 for the 2007-13 budgetary period (see *Inside Spain*, Newsletter 20, 12 January 2006). But the volume of structural and cohesion funds will fall from close to €55,500 in 2000-06 to nearly €31,000 in 2007-13 (see Figure 5).



**Figure 5. European Union Structural and Cohesion Funds**

	2000-06	2007-13	% Change
Andalusia	11,951	10,937	-8
Asturias	1,841	591	-68
Canary Islands	2,743	1,309	-52
Castile-La Mancha	3,134	2,050	-35
Castile and León	4,702	1,209	-74
Ceuta	117	66	-44
Extremadura	3,095	2,275	-26
Galicia	5,407	3,418	-37
Melilla	117	61	-48
Murcia	1,685	714	-58
Valencia	4,388	1,965	-55
Others	5,192	3,125	-38
Total	44,372	27,720	-40
Cohesion funds	11,100	3,250	-71

Source: European Commission.

As a result of the statistical effect of EU enlargement in 2005, which pushed Spain's per capita GDP over the 90% threshold, the country, theoretically, should not qualify for cohesion funds. But it will until 2013. These are the funds that go to the central government for distribution 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 of the EU average (on the basis of a three-year average and gradually phased out).

The hardest-hit region is Castile and León whose structural funds have been cut by 74%. This region is governed by the conservative Popular Party and was the springboard of José María Aznar, a former Premier of the region before becoming Spain's Prime Minister in 1996. This region and others controlled by the PP, such as Valencia, are calling on the Socialist central government in Madrid to narrow the shortfall in funds by granting them extra money.

EU funds have played a big role in some projects. For example, 72% (€3,516 million) of the total cost of the high-speed train track between Madrid and Barcelona, which is nearing completion, came from Brussels.

When Spain formed part of the EU-15 in 1986 its per capita GDP was 72% of the Union's average, and in 2004 (the latest year for definitive figures) it was 100.7% of the EU-27 (the EU-25 plus Bulgaria and Romania which joined this year) in purchasing power standards, according to Eurostat. Only Extremadura remained below the 75% threshold that year (see Figure 6). The richest region is Madrid at 132.1% of the EU-27 average.

**Figure 6. Regional GDP in the European Union**

GDP per Inhabitant, 2004 PPS, EU-27 = 100	
Andalusia	77.6
Aragon	107.4
Asturias	87.0
Balearic Isles	114.3
Basque Country	125.4
Canary Islands	92.8
Cantabria	98.1
Castile-La Mancha	79.1
Castile and León	94.9
Catalonia	120.5
Ceuta	90.4
Extremadura	67.1
Galicia	81.0
La Rioja	109.4
Madrid	132.1
Melilla	87.9
Murcia	84.4
Navarra	126.7
Valencia	93.9

Source: Eurostat.

#### *2006 Trade Deficit Balloons to 9% of GDP*

Spain's trade deficit widened by 15.3% in 2006 to €89,687 million. The government said exports grew 10.6% to €169,872 million –the largest rise in six years– and imports increased by 12.2% to €259,559 million.