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Foreign Policy

Spain May Win Right to EU Funds in Next Budgetary Period

Spain, which will be the main loser of EU funds in the next six-year budgetary period as a result of the Union's enlargement, may receive a much smaller amount for a couple of years. The government has been fighting hard against the first plan presented last year by the European Commission under which it would have lost all cohesion funds overnight. Luxembourg, the current president of the EU, has accepted, in principle, that Spain should be given a transition phase.

The enlargement 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, thereby disqualifying the country as a whole from receiving cohesion funds as the threshold for them is 90%. Eleven of Spain's regions also receive structural funds (where the qualifying threshold is per capita income below 75% of the EU average). Most of these regions will cease to receive these funds.

Spain is currently the largest recipient of EU funds in absolute terms (they represent around 1.2% of GDP a year and have been a major factor behind GDP growth consistently above the EU average). The cohesion funds assigned for 2000-06 amount to €11,600 million. It was always on the cards that it would become a net contributor. The only question was when and whether it would happen suddenly or gradually.

The plan, however, is fiercely contested by the EU's richest countries including Denmark, Sweden, the United Kingdom and France.

The government says the plan is still insufficient. It is seeking a four-year transition period, two years more than the one proposed by Luxembourg.

Spain Considered as US Centre for Special Anti-terrorist Forces

The US base at Rota in Spain is one of two sites being studied to house all Washington's anti-terrorist units in Europe, particularly those against al-Qaeda, some of

whose supporters sought refuge in sub Saharan Africa after the fall of the Taliban regime in Afghanistan. The other site is Sigonella, Sicily.

The United States has already had a small team at Rota for many years –the base faces the North African coast– specialising in commando missions and clandestine operations. Their presence was only regularised for the first time in 2002 when the US-Spain bilateral agreement was reformed by the previous Popular Party government.

In what looked like a concerted action to win friends and influence and get relations with Washington fully back on track, following Spain's sudden withdrawal of its peacekeeping troops from Iraq a year ago, four ministers made official visits to Washington. Miguel Ángel Moratinos, the foreign minister, met with his counterpart, Condoleezza Rice, and said the 'misunderstandings' had been cleared up. José Antonio Alonso, the interior minister, met with Porter Gross, the head of the CIA, Alberto Gonzales, the attorney general, and Michael Chertoff, the National Security secretary to forge closer anti-terrorist links. José Bono, the defence minister, met with his counterpart Donald Rumsfeld and Juan Fernando López Aguilar, the justice minister, also crossed the Atlantic. This was Bono's third meeting with Rumsfeld and the two seem to have established a close working relationship. Bono said Spain was prepared to cooperate more closely with the US troops in Afghanistan (see *Inside Spain*, Newsletter 10, February 2, 2005).

There were no signs, however, that José Luis Rodríguez Zapatero, the prime minister, would be received this year in the White House by George W. Bush, who took the Spanish withdrawal as a personal affront. The Socialists would like the photo opportunity.

Domestic scene

Basque Election Results Conundrum

The elections in the Basque country looked as if they had dealt a blow to the aspirations of centre-right nationalists campaigning for an 'associated free state' with Spain and strengthened the hand of the Socialist central government in Madrid which says the plan is illegal. However, the results threw up a wild card in the form of the Communist Party of the Basque Lands (EHAK) which acted as a proxy for Batasuna (EH), a political party outlawed two years ago because of its ties to the terrorist separatist group ETA.

The Basque Nationalist Party (PNV), which has ruled the three Basque provinces for 25 years, won 29 seats, four less than in 2001, while the Socialists gained five more and the Communists came from nowhere to win nine seats (two more than Batasuna in 2001 when it was a legal party). The Popular Party (PP), which takes an even stronger line than the Socialists against greater autonomy for the Basque Country, lost four seats.

As a result, it was not clear how the PNV, which was nine seats short of the 38 needed to govern alone, would form a government that enjoyed sufficient support from the Basque parliament. It faced several options, the most worrying of which, for the central government, would be some kind of alliance with EHAK in order to move ahead with its plan for a referendum on the 'free state' issue. This would make it very difficult for the new Basque government to negotiate with Madrid. The central government was studying whether there were reasons to also ban EHAK because of its links with

Batasuna, something quickly demanded by the PP which accused the Socialists of allowing ETA to survive politically.

Figure 1. Basque Elections*

Party	Seats	Votes	% of Vote
PNV-EA	29 (33)	463,873 (604,222)	38.6 (42.7)
PSE-EE	18 (13)	272,429 (253,195)	22.6 (17.9)
PP	15 (19)	208,795 (326,933)	17.3 (23.1)
EB-IU	3 (3)	64,931 (78,862)	5.4 (5.5)
EHAk	9 (0)	150,188 (0)	12.5 (0)
Aralar	1 (0)	28,001 (0)	2.3 (0)
EH	0 (7)	0 (143,139)	0 (10.1)

(* 2001 results in brackets.
Source: Interior Ministry.

The Basque plan was overwhelmingly rejected in the national parliament earlier this year, but Juan José Ibarretxe, the outgoing Basque premier, said that what counted was that it had been approved by the Basque parliament (very narrowly). The two sides thus appeared to be on a collision course.

The Basque country already enjoys by far the greatest degree of autonomy in Spain, including controlling its tax revenues, education, police and health care. The plan, if approved in a referendum, would give the region the right to sign foreign treaties, its own representation in the European Union, Basque identity cards and its own judiciary.

ETA has not killed anyone for more than two years and there is renewed talk of a ceasefire. The government is adamant that ETA must first lay down its arms and not seek to negotiate anything that goes against Spain's constitution. José Luis Rodríguez Zapatero, the prime minister, is prepared to reform some of the Basque country's autonomy statutes provided the changes are widely approved in the Basque and national parliaments.

In a separate move, but linked to the issue of devolution of power, the three party coalition government of Catalonia, headed by the Socialists, proposed that it collect all the taxes in the region and transfer a maximum of half of the revenues to the central government. This would be done by setting up its own Tax Agency. At the moment taxes in Catalonia are collected by the central government's Tax Agency which transfers between 33% and 40% to Catalonia, depending on the type of tax. Many Catalan politicians have long complained that the region –one of the engines of the Spanish economy– contributes too much and does not receive enough in return.

The Basque and Catalan moves are opening up a Pandora's Box of demands and complaints among Spain's many regions and threaten the principle of 'solidarity' between the rich and poor regions that has guided the system of financing for the regions since the 1978 constitution.

Spain Legalises Same-sex Marriage, Upsets Roman Catholic Authorities

The government's legalisation of same sex marriage has angered the new papacy of Benedict XVI which has called on municipal officials to refuse to officiate at gay wedding ceremonies, even at the cost of losing their jobs.

Relations between the Socialists and John Paul II, the previous pope, were fraught because they made divorce and abortion easier and allowed stem-cell research. Hardly had the new pope been installed than relations plunged even lower. Cardinal Alfonso López Trujillo of Colombia, head of the Vatican's Council on the Family, called the new law 'iniquitous'. Ricard María Carles, the cardinal archbishop of Barcelona, responded to a call by the FELGT homosexual and lesbian federation for officials to put the law before their conscience by saying that such an attitude 'leads to Auschwitz'. The federation responded by saying many homosexuals died in Auschwitz.

Some hard-core elements of the opposition Popular Party also raised their voices against the legalisation. José Luis Rodríguez Zapatero, the prime minister, challenged them to 'look into the eyes of homosexuals, and tell them they are second-class citizens'.

Trial of 9/11 Terror Suspects Begins

The alleged head of an al-Qaeda cell in Spain and 23 other people went on trial in Madrid charged with helping to plan the attacks in 2001 in New York and Washington.

They are part of a group of 41 indicted suspects. The prosecution says Spain was a key base for hiding, helping, recruiting and financing al-Qaeda members in the lead-up to the attacks.

The main defendant is Syrian-born Inmad Yarkas. Another suspect, Ghassub al-Abrash Ghaylun allegedly filmed the World Trade Centre and other US targets and Tayseer Alouni, a journalist from the Arabic TV station al-Jazeera interviewed Bin Laden after the attacks.

Prosecutors called for more than 60,000 years in jail –25 for each of the more than 2,000 people killed–.

Spain's Population Reaches 44 million, Foreigners Account for More than 8%

The sharp rise in immigrants, as opposed to births, continued to push up Spain's population, which stood at almost 44 million at the beginning of 2005, according to the National Statistics Office (INE). The number is based on those registered with their local town hall and was some 770,000 more than a year earlier.

Of the 43,975,400 people, close to 3.7 million are foreigners (8.4% of the total compared with 7% in January 2004). The largest community are Moroccans (see Figure 2). The region with the most foreigners is Catalonia (795,800), followed by Madrid (766,700).

For the first time just over 2 million of the total number of foreigners (4.75% of the population) are legal residents (ie, they have their papers in order). The total figure for foreigners of 3.7 million is, however, only an approximation because it assumes that all those registered and so included in the census are living in Spain and this is not necessarily the case. Also, there are illegal immigrants who do not want to register – although it gives them public education and health rights– and EU-15 citizens who do not see why they should (as they have an automatic right to live in Spain).

Figure 2. Foreigners in Spain by Nationality, Number and % of Total*

Country	Number	% of Total Foreigners
Morocco	505,400	13.7
Ecuador	491,800	13.3
Rumania	314,300	8.5
Colombia	268,900	7.3
United Kingdom	224,800	6.1

(*) At January 1, 2005.

Source: INE.

More than 500,000 Immigrants Benefit from Spain's Amnesty

The largest ever amnesty for illegal immigrants in Europe, which ended on May 7, saw more than 500,000 people regularise their situation. Those with some form of employment contract and proof they had lived in Spain for six months were able to request legal status. The largest number was Ecuadoreans (see Figure 3).

Figure 3. Requests by Country of Origin*

Country	Number
Ecuador	118,846
Rumania	77,041
Morocco	54,029
Colombia	46,832
Bolivia	30,184
Bulgaria	18,521
Argentina	16,830
Ukraine	16,154
Uruguay	7,816
Pakistan	6,892
China	6,506
Senegal	4,920
Venezuela	4,895

(*) Presented between February 7 and April 28, 2005.

Source: Labour Ministry.

The controversial move, begun on February 7 and criticised by the centre-right opposition Popular Party and by some EU countries (as it means they can move freely within the most of the rest of the Union), was aimed at ending the exploitation of migrant labour and increasing tax and social security revenues. The pace of requests quickened as the three-month process drew to an end and queues got longer and longer –it began with a daily average of 1,814 in the first week and on April 28 alone there were 17,954 requests–. Less than 2% of them were rejected.

The Socialists inherited a chaotic situation. They believed their policy was the most humane and economically effective as it flushed out those working illegally, ended their precarious situation and helped to integrate immigrants into a society that has so far been very tolerant of them. One reason for this is that they are doing the jobs that Spaniards are no longer prepared to do and are not yet an employment threat (see unemployment item below).

The Roman Catholic Church, backed by immigrant associations and some political parties, called for the amnesty to be extended, but the employers' association and trade unions rejected this.

Given the still high demand for unskilled labour in Spain and the country's proximity to impoverished nations such as Morocco, the amnesty will not stop the flow of immigrants and is unlikely to be the last of its kind.

Worst Drought in 60 Years

Spain is suffering from its worst drought in 60 years. The government says the situation is 'very severe' (reservoirs were at 60% of their level in April compared with 75% a year earlier), but believes the water supply is assured. This may prove to be an optimistic assessment as the last drought in the 1990s saw water rationing in various parts of the country.

The previous centre-right government planned to resolve Spain's historic drought problem (roughly every 10 years) by transferring water from the 'wet' northeast of the country to the 'dry' south through a massive infrastructure scheme, but the Socialists pulled the plug on it last year.

The drought will step up the pressure on the government to move ahead with an alternative scheme. It is also raising food prices as some crops (olives, for example) have been hit.

The Economy

Unemployment Falls to Lowest Level in 25 years

Spain's stated jobless rate reached a 25-year low of 10.2% at the end of the first quarter. There were 2,099,500 people unemployed, close to 60,000 fewer than in the same period of 2004. The decline was due to the economy continuing to grow at a faster pace than the EU average (2.7% forecast for this year vs. the EU-25's 2%) and to further changes in the way the unemployment statistics are drawn up.

The National Statistics Office (INE) said the new labour force survey detected more accurately who was working sporadically, on a part time base or helping out in family-run businesses. Anyone over the age of 16 who worked more than an hour a week and was paid in cash or in kind was regarded as employed.

The proportion of temporary jobs in total employment increased in 2004 for the first time since 1998, according to a study by the two main trade unions based on INE's survey. Temporary jobs (ie, those without an indefinite contract) accounted for 32.5% of total salaried jobs, up from 31.8% in 2003. This level is more than twice the EU-25 average.

The main reason for the change of trend was the influx of immigrants (see separate item above). The government committed itself to reducing temporary employment when it took office a year ago. It is currently working on a plan to make permanent employment contracts more attractive by reducing employees' social security contributions for them and raising them for temporary contracts, as well as increasing the incentives for hiring people.

Spain's Productivity Among the Lowest in the EU-15

Spain's productivity per hour worked is the third lowest in the EU-15, ahead of Greece and Portugal, but behind all other countries (see Figure 4). Boosting the country's productivity is one of the priorities of the government's economic policy.

Figure 4. Productivity per Hour Worked, Selected Countries

Country	EU-15 = 100, 2003
Czech Republic	37.1
France	118.8
Germany	102.6
Italy	88.9
Poland	43.6
Portugal	59.0
Spain	87.2
Sweden	96.5
United Kingdom	95.4

Source: Eurostat.

Spain's Pensions Among the Most Generous in the OECD

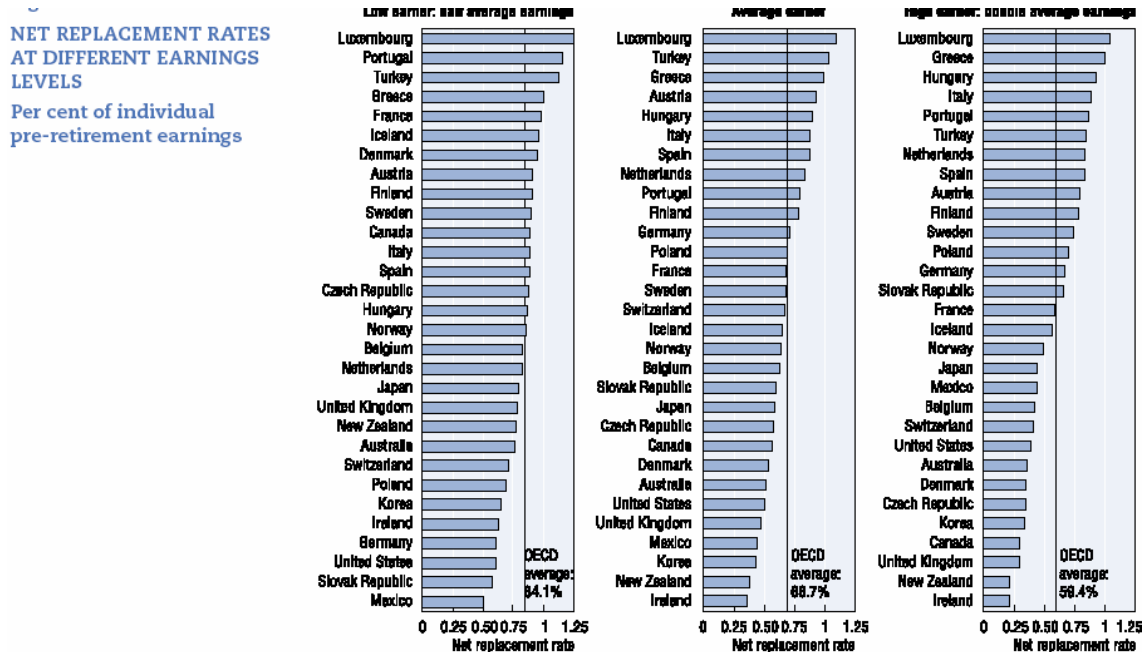
Spain provides one of the most generous pensions to full-career workers on average earnings, according to a report by the OECD. It is one of five countries including Italy with replacement rates in excess of 75% (see Figure 5).

By contrast, Ireland, which has only basic and targeted pensions and no earnings-related scheme, has the lowest replacement rate at average earnings (30.6%).

The actual cost to governments of pensions depends not only on the level of pensions paid, but also how long they are paid for: that depends both on a person's age at retirement and life expectancy at that age.

Spain's pension system is currently in reasonable shape but will be under threat as of 2015-20, because of the consequences of population ageing, if the generosity remains unchanged.

Figure 5.



Source: OECD pension models.