

## Inside Spain 25

William Chislett

### Foreign Policy

#### *Canary Islands Swamped by Illegal immigrants, Government Mounts Diplomatic Offensive*

The arrival in the Canary Islands of a record-breaking 974 illegal African immigrants in 15 flimsy fishing boats over one weekend, followed by 580 people in eight boats in one day almost a week later, led the government to mount a diplomatic offensive and obtain more help from the European Union to stem the human tide.

Under the government's Africa Plan (see [www.mae.es/NR/rdonlyres/C4C81869-0E32-470D-8D5F-7A49AD84D5C0/0/planafrica.pdf](http://www.mae.es/NR/rdonlyres/C4C81869-0E32-470D-8D5F-7A49AD84D5C0/0/planafrica.pdf)) aerial and maritime surveillance is being stepped up and embassies are to be opened in Mali, the Sudan and Cape Verde to help control the flow of illegal immigrants along the route, which now starts in the Atlantic ports of Mauritania and Senegal, and can take more than a week for the 1,000km crossing. In an unprecedented move, nine EU countries will help Spain patrol the coasts of West Africa. About 1,000 people are believed to have drowned over the past six months while making the perilous crossing.

The crackdown on illegal immigrants crossing the Straits of Gibraltar (just 14km at its narrowest point) from Morocco and entering Spain on its southern coast has made the Canary Islands the favoured spot for entering Europe from Africa (see Figure 1). More than 7,400 people have arrived in the Canary Islands so far this year, more than in the whole of 2005.

Figure 1.



Source: The BBC.

This is the government's third and most comprehensive plan to combat illegal immigrants from Africa since last October when Spain reinforced the fences and barriers around its two North African enclaves, at Ceuta and Melilla, after they were successfully stormed by several hundred immigrants (see *Inside Spain*, Newsletter 17, 6 October 2005). Further measures were taken in March after the Canary Islands began to be heavily targeted from Mauritania. The government agreed measures with the Mauritanian government to stem the flow from this country. Miguel Ángel Moratinos, the Foreign Minister, met ministers from Guinea-Bissau, Cape Verde, Guinea-Conakry, Sierra Leone and Cameroon with a view to negotiating ways to regulate the flow including repatriations. Abdulaye Wade, Senegal's President, said his country would accept the repatriation of its citizens if Spain financed the building of reservoirs.

'The terrible truth is that there are millions of people who leave their countries looking for a better life', Deputy Prime Minister María Teresa Fernández de la Vega. Spain, which less than 30 years ago was 'exporting' people, now looms like an El Dorado for poverty-stricken Africans (see Figure 2). Spain gained 4 million immigrants between 1990 and 2005 when the number of them (4.8 million) was the 10<sup>th</sup> largest in the world. Most of them came from North Africa and Latin America (see *Inside Spain*, Newsletter 24, 4 May 2006).

**Figure 2. Human Development Indicators of Spain and African Countries (1)**

	Per Capita Income (US\$) (2)	Life Expectancy (years)	Adult Literacy Rate (%)
<b>21. Spain</b>	<b>22,391</b>	<b>79.5</b>	<b>97.7</b>
124. Morocco	6,397	69.7	50.7
152. Mauritania	1,766	52.7	51.2
155. Gambia	1,859	55.7	37.8
157. Senegal	1,648	55.7	39.3
163. Ivory Coast	1,476	45.9	48.1
174. Mali	994	47.9	19.0

(1) Ranking out of 177 countries.

(2) In purchasing power parity terms.

Source: Human Development Report 2005.

### *Bolivia's Energy Nationalisation Sparks Crisis with Spain*

The nationalisation of Bolivia's oil and natural gas sectors has plunged Spain's relations with South America's poorest country into crisis as it affects Repsol YPF, the energy group, and the bank BBVA.

Madrid said it was 'deeply concerned' by the nationalisation law introduced on 1 May by Evo Morales, Bolivia's left-wing President, and complained about the 'way the changes were promulgated'. It said the nationalisation would have 'consequences [for] the bilateral relationship', an specified threat that could lead to the ending of promised debt relief.

Juan Fernando López Aguilar, the Justice Minister, said the government did not rule out 'legal or judicial' measures to defend the interests of Spanish companies and citizens in Bolivia. For the moment, steps are confined to the diplomatic sphere.

Repsol YPF has invested around €800 million in Bolivian gas production. It controls 26% of Bolivian gas production through its 50% stake in Andina. The 21 foreign oil companies operating in Bolivia have been given 180 days to revise their contracts with YPF, the state energy company.

BBVA, Spain's second largest bank, complied with an order to hand over its shares in three local oil and gas companies held by its pension fund administrator AFP Prevision. BBVA manages around half of Bolivia's private pension funds.

Grupo Santander, Spain's largest financial group, sold its subsidiary bank in Bolivia (Banco Santa Cruz) in January one week before Morales came to power.

Antonio Brufau, Repsol's chairman, reacted angrily to the nationalisation, the timing of which, but not the move itself, took the markets by surprise. 'We were told there would be time for negotiations, but obviously this was not the case', he said. Repsol has already reduced its reserves this year by a quarter because of law changes in Latin American countries and if its role in Bolivia was reduced to that of a service contractor, the company would have to lower them further. 'I hope we can reach a good agreement', Brufau said. 'If not, we will go to court. We are trying to convince all the parties involved that the best scenario is one of co-operation.'

In an apparently related move, Brufau said Repsol was considering spinning off part of its Argentine unit YPF, acquired in 1999 for US\$15 billion, in a public offering. If Argentina followed the Bolivian road, a separate YPF listing would give Repsol an objective market price upon which to negotiate compensation claims.

Bolivia said the contracts for the energy companies 'expressly violate' Article 59 of the constitution, since they were never individually approved by Congress. It called the privatisation process of 1996-97 'an act of treason against the country that put into foreign hands control and direction of a strategic sector, damaging our sovereignty and national dignity'.

Under the new policy, the state will buy enough shares to give it control of three former state companies privatised in 1996: Andina, controlled by Repsol; Chaco, part-owned by BP of the UK; and Transredes, a pipeline company controlled by Royal Dutch Shell, the Anglo-Dutch group.

The Bolivian government also turned the spotlight on two other Spanish companies, Abertis and AENA, which have managed the country's three main airports since 1997. According to the trade union for the airports, the companies have broken the terms of the contracts for running the airports (until 2022).

Meanwhile, Iberdrola, Spain's second largest electricity producer, said it had reached an agreement with the Bolivian government over its concessions in the country. Ignacio Sánchez Galán, the CEO, said Iberdrola would supply electricity at a cheaper price to lower-income families, in exchange for renewing the concessions.

Spain was one of the first countries that Morales, a close ally of Venezuela's Hugo Chávez and Cuba's Fidel Castro, Washington's *bête noires*, visited after he took office. José Luis Rodríguez Zapatero, the Prime Minister, went out of his way to be friendly towards the new leader (as he has with Chávez) despite his radical discourse. Morales called Spain a 'strategic ally'.

### *Spain to Send Troops to the Congo under EU Flag*

Spain will contribute up to 200 troops to an EU force in the Congo which will support UN peacekeepers during the Central African country's first democratic elections on July 30.

## **Domestic Scene**

### *Government to Combat Corruption in Town Halls*

The government is drawing up measures to combat corruption in town halls, following the massive scandal in Marbella whose town hall is now being run by administrators after the arrest of the mayor and several town councillors (see *Inside Spain*, Newsletter 23, 6 April 2006).

Among the measures are to apply the same regime of incompatibility to local politicians as to senior officials working for the central government and to prevent 'turncoats' from leaving the political party for which they were elected and running for or joining another party. 'The aim is to boost democracy in town halls and make life more difficult for the corrupt minority', said Jordi Sevilla, the Minister for Public Administrations.

Courts in Marbella, the jet set resort on the Costa del Sol, have more than 70 pending cases for breaking town planning rules, mostly committed by local officials and often involving the classification of land for building after bribes have been paid. Meanwhile, the town hall has debts of around €500 million.

In a separate move, the Andalucian government said it would demolish the half-built hotel at El Algarrobico beach, near Carboneras, in the south-eastern province of Almeria, which was built illegally on one of the country's few unspoilt Mediterranean beaches. The 22-floor hotel was one of eight planned for the site, along with a golf course and 1,500 flats. The regional government is hoping this will send a strong signal that such practices will no longer be tolerated. Bulldozers will almost certainly also be sent in to knock down illegal homes in Marbella.

Meanwhile, the Tax Agency is investigating 18 companies who divided up €10 million for work related to the Terra Mítica theme park in Valencia, which was never done. The park, partly funded by the Valencian government run by the centre-right Popular Party, went into administration in May 2004 with debts of €300 million.

### *Split over New Autonomy Charter Triggers Early Elections in Catalonia*

Pasqual Maragall, the premier of Catalonia, sacked the pro-independence Republican Left of Catalonia (ERC) party from his coalition government and said he would call early elections before the end of the year, a year ahead of schedule.

The move followed ERC's decision to urge a 'no' vote in the referendum on 18 June in the region on the new charter because it does not go far enough. The charter is a watered-down version of the original statute agreed upon by the Catalan parliament, which was later amended in negotiations with the central Socialist government. The Spanish parliament has approved the charter. ERC abstained in this vote and the centre-right Popular Party (PP) voted against it. Parliament rejected the PP's request for a national referendum on the Catalan issue, following the presentation of 8 million signatures supporting the move.

Maragall's Socialists and the conservative nationalist Convergence and Union (CiU), the main opposition party in Catalonia, back the charter.

## **The Economy**

### *Spain's Largest-Ever Fraud Raises Questions about the Effectiveness of Spain's Watchdogs*

Around 400,000 Spaniards who invested over €5 billion were swindled by two stamp-trading companies in a pyramid scheme with international ramifications. The headquarters of Forum Filatélico and Afinsa in Madrid were sealed by 300 police officers and 11 people were arrested on charges of fraud, criminal insolvency, money laundering, tax evasion and embezzlement.

Afinsa, the world's largest stamp dealer, founded in 1980, is also the biggest shareholder in the Escala Group, a Nasdaq-listed auction house and stamp and coin dealer in the US. Its shares fell heavily on news of the raids. Nearly three-quarters of Escala's profits come from Afinsa.

As the companies are not banks, the investments are not covered by the deposit insurance scheme. José Luis Rodríguez Zapatero, the Prime Minister, however, promised to protect the 'rights, interests and expectations' of investors, most of them modest savers, but did not specify how this would be done. Compensating them through the national budget would be controversial and set a dangerous precedent. The difference between the amount invested and the amount at the disposal of the companies to pay back investors was initially estimated to be as high as €3.5 billion.

In a typical purchase, an investor bought stamps for a fixed term of three to 10 years. The companies paid an annual return of 5% to 10% and also vowed to return the principal at the end of the term. The stamps were held in safe-keeping for the duration of the term. 'Potential investors were offered high returns from the purchase and management of a stamp fund, which was apparently made up of overvalued –or even fake– stamps and whose returns did not apparently come [from the fund] but from money received from new clients', said Spanish police in a statement.

The US financial weekly *Barron's*, last May, and the *Financial Times*, last September, questioned the schemes in extensive reports. They said that the unregulated companies' guarantee of such returns (compared to Spain's benchmark government bonds yielding just 3.5%), backed by assets of uncertain quality and value, was alarming regulators, insurers, consumer groups and philatelists.

The scandal raised questions about the effectiveness of Spain's two main watchdogs, the Bank of Spain and the National Securities Market Commission. The Commission posted a general 'caveat emptor' warning on its website about companies paying well above market rates, while the central bank stayed on the sidelines as its mandate does not cover collectables, although the companies were operating like banks. The Association of Bank and Insurance Consumers (Adicae), following the collapse of Bafinsa, urged the two institutions and the Economy Ministry in 2002 to tighten controls on companies like Afinsa and Forum dealing in 'tangible goods' and were told that this could not be done as they did not sell financial products, savings plans or make loans.

Rodrigo Rato, the Finance Minister in the previous government of the Popular Party and the current Managing Director of the International Monetary Fund, and his Socialist successor, Pedro Solbes, accused one another of being responsible for the legal vacuum. Rato said he advised Solbes on the issue when the Finance Ministry job changed hands, Solbes said no mention was made when his team was briefed on pending aspects of a new law governing investment protection.

The Bank of Spain's unit for the prevention of money-laundering (Sepblac) investigated Forum in 2001 and 2003, with no known results, and again in an ongoing investigation following the smashing in Marbella in March 2005 of Europe's largest-money laundering ring (see *Inside Spain*, Newsletter 12, 6 April 2005). Police found €10 million in €500 notes in the home of one of those arrested in connection with the stamp fraud: it was in a wall behind freshly placed cement. This find was particularly interesting as it came shortly after the Tax Agency opened an investigation into why Spain is awash with €500 banknotes (see *Inside Spain*, Newsletter 24, 4 May 2006). The Agency began to discover irregularities at Forum and Afinsa after it began routine inspections in 2003.

Reinsurance syndicates at Lloyds of London declined to renew policies worth €1.2bn each for the companies earlier this year after questions were raised about the value of the stamps that underpinned the reinsurance policies.

The stamp investment schemes were very popular among small investors and pensioners and tended to work on a family basis. One member would recommend it to another and so on. The case of the village of Dosbarrios was not untypical: half of its population of 2,400 invested their savings in Afinsa.

#### *Labour Market Reform Seeks to Reduce the Very High Level of Short-Term Contracts*

The government, employers and trade unions agreed a package of reforms whose central plank is yet another attempt to reduce the European Union's highest level of short-term contracts. One in every three salaried workers in Spain –more than 5 million workers– is on temporary contracts, more than double the EU average.

Employers' abuse of temporary contracts, chaining one such contract after another for the same employee, will be halted: any employee that has held two or more temporary contracts totalling more than 24 months, within a 30-month period, automatically has the right to be given a permanent contract. Meanwhile, companies transferring temporary workers onto permanent contracts by December 31 will be given subsidies (around €800) for two or three years.

This is the sixth labour market reform since 1984 when the door was opened to temporary contracts in a bid to reduce unemployment (then around 18%) and compensate employers for the very rigid and paternalistic firing laws of the Franco regime which remained in force after the General's death in 1975.

The jobless rate has come down to around 9%, but at the cost of massive use of temporary contracts which has made the labour market increasingly segmented and precarious. Short-term contracts particularly affect the young; they generally preclude them from obtaining mortgages, for example. They also discourage companies from investing in training and productivity in a country with a serious problem in the latter sphere.

The government has trumpeted the reform, but many analysts are sceptical that it will make much difference. Employers can always find ways around it. It is also difficult to reduce the level of temporary employment in Spain for structural reasons. The two linchpins of the economy – construction and tourism (which between them generate around 30% of GDP)– demand a lot of temporary, and in the latter’s case also seasonal, employment. Agriculture also relies on short-term labour.

The reform leaves Spain’s rigid collective bargaining system, in which wages are set by industry, rather than at company level, intact. This is one of the main gripes of employers and a constant criticism in reports on the Spanish economy by international institutions such as the OECD and the IMF.

#### *Madrid Faces Legal Challenge by the European Commission on Endesa*

The European Commission followed its unconditional approval of E.on’s take-over bid for Endesa (see *Inside Spain*, Newsletter 24, 4 May) with a formal legal challenge against the government for hindering the move.

The main target of its challenge is a law that increases the powers of the Spanish energy commission to scrutinise and authorise foreign take-over bids for energy companies. The law was introduced shortly after E.on trumped the rival bid from Gas Natural and offered €29.1 billion for Endesa, Spain’s largest electricity producer.

‘The Commission is concerned that these provisions may unduly restrict the free movement of capital and the right of establishment as enshrined in EU treaty rules’, Brussels said.

José Montilla, the Industry Minister, defended the Spanish law, claiming it filled a ‘legal vacuum’ concerning bids by foreign companies to join the Spanish domestic energy market. ‘The European Commission has the right to take us before the courts, just as we have the right not to pay any heed’, he said.

Spain has until July to explain and defend the law. If Brussels is not satisfied with Madrid’s reasons, it could take Spain to the European Court of Justice for violating EU law.

#### *European Commission approves Ferrovial’s Bid for BAA*

The European Commission approved Ferrovial’s hostile bid for BAA, the UK airports group, which operates seven airports including Heathrow and Gatwick. Ferrovial raised its bid to €4.3 billion from €2.8 billion but it was again rebuffed by the BAA board for being too low.

#### *Iberdrola Enters the US Energy Market*

Iberdrola, Spain’s second largest electricity producer and the world’s largest wind-farm owner and operator, reached an agreement to acquire Community Energy for €23.8 million.

Community Energy, based in Wayne, Pennsylvania, has projects for 2,000 MW of wind capacity on the east coast of the US.

Separately, Iberdrola is studying installing 1,000 MW of wind capacity in northern China by 2010, after signing a preliminary agreement with the Bayannaer government.