



## Inside Spain 35

*William Chislett*

### **Foreign Policy**

#### *Cuba Disagreement Overshadows Condoleezza Rice's First Visit to Madrid*

Condoleezza Rice, the US Secretary of State, made an official visit to Madrid during which the two countries' differences over Cuba were at the forefront. Rice chided the Spanish government's new policy of engagement with Fidel Castro's regime.

After meeting Miguel Ángel Moratinos, the Spanish Foreign Minister, Rice said: 'I have real doubts about the value of engagement with a regime that is anti-democratic and that is trying to secure the transition of one regime to the next anti-democratic regime'.

Her visit, the highest by a US official since the Socialists took office in 2004, was interpreted, despite her criticism, as sealing the normalisation of relations between Spain and the US, following the abrupt withdrawal of Spanish troops from Iraq which greatly angered Washington.

The Cuban and Spanish governments agreed to establish a dialogue on human rights following a visit by Moratinos to Havana in April. Last month, in a rare concession, Spanish diplomats were allowed to visit Cuban jails for the first time (see separate story below). 'I hope that, over time, we will convince Ms Rice that our tactics can deliver results', Moratinos told Rice.

Speaking to reporters during her flight to Madrid Rice implied that Moratinos should have met with dissidents during his visit to Cuba and not left contact to be made by a senior diplomat over the telephone. When the issue of dissidents was raised by an American journalist at the press conference in Madrid Moratinos bristled at the suggestion that Spain was not doing enough to promote human rights. 'We have no difficulty talking to dissidents', he said. 'The Spanish embassy in Havana is in contact with them. Our diplomats visit Cuba and talk to dissidents. We worry about them and we have even secured the release of some of them. Who has talked more to them? Who?', he asked. Moratinos said the strategies pursued by the US and Spain were complementary and not contradictory.

Even during the staunchly anti-communist dictatorship of General Franco (1939-75) Spain never severed its relations with Cuba, a Spanish colony until 1898.

Rice also met Mariano Rajoy, the leader of the conservative Popular Party (PP), whose policy toward Cuba is fully in agreement with Washington's. The PP under the former government of José María Aznar was a prime mover behind the EU's tougher policy towards Cuba in 2003 after the summary execution by firing squad of three people who had hijacked a ferry in an attempt to escape the island and the roundup of 75 dissidents.

On Venezuela, there was some agreement. Both Rice and Moratinos expressed concern at the recent closure of a television station in Caracas that was critical of Hugo Chávez, the Venezuelan President. The Spanish government was initially very warm towards Chávez but has distanced itself for more than a year as a result of his increasingly authoritarian policies.

No announcement was made on whether President George W. Bush and Spain's Prime Minister, José Luis Rodríguez Zapatero, would meet. Zapatero is one of the very few EU-25 leaders not to have been received in the White House.

#### *Madrid and Havana Hold First Talks on Human Rights*

The Spanish and Cuban governments discussed the situation of human rights under the mechanism set up earlier this year when Madrid reached an agreement outside of the EU's common policy and re-established full political co-operation with the government of Fidel Castro (see *Inside Spain*, Newsletter 33, 8 May 2007).

The joint communiqué made no mention of political prisoners or improving the situation of human rights and limited itself to saying there had been a wide-ranging discussion of many issues in a cordial atmosphere. Havana does not accept that there are political prisoners in the country. In the words of Felipe Pérez Roque, the Cuban Foreign Minister, they are all 'mercenaries paid by the US government'. Amnesty International, in its annual report issued last month, said grave restrictions and repressive acts continue.

Nonetheless, Spanish diplomats believe that the mere fact that the two sides sat down to 'frankly' discuss human rights was in itself an achievement, and that this vindicates the more pragmatic approach toward a country where Spain expects to play a prominent role after Castro, in power since 1959, has gone. Spanish companies have some significant interests in Cuba, particularly in tourism.

Trinidad Jiménez, in charge of Latin American affairs for the Spanish Foreign Ministry, defended Madrid's stance by telling *The Miami Herald*, before the meeting in Havana, 'Sometimes we ask ourselves what the US policy of isolation toward Cuba has accomplished. Cuba hasn't budged an inch in its position toward the United States... Some people should cast ideological postures aside to try and obtain more effective results'.

#### *Zapatero Shows Support for Sarkozy's EU Treaty Proposal*

Nicolas Sarkozy, France's new President, visited Madrid and appeared to have won the backing of José Luis Rodríguez Zapatero, Spain's Prime Minister, for a 'mini' European Union treaty to break the two-year impasse over the constitution triggered when French and Dutch electorates rejected it in referendums.

Spain was the first country to vote in favour of the constitution for the enlarged EU in its referendum in February 2005.

Madrid is keen to put the constitutional process back on track. The mini-treaty would have around 70 as opposed to 400 articles. Both Sarkozy and Zapatero publicly backed the idea of a full-time EU President for a certain period instead of the current system of a rotating President every six months. They also agree on the post of EU foreign policy

chief having ministerial status and that more issues should be decided by the system of a qualified majority based on population and other factors.

The two main countries which have to be won over to the idea of a mini-treaty are Britain and Poland. The Netherlands and the Czech Republic also have some objections. Poland and Spain fought together during the drafting of the constitution against the new EU voting system, which gives more votes to the biggest countries –Britain, France, Italy and Germany– while leaving their share almost unchanged. Madrid has since dropped its objections to this.

Sarkozy and Zapatero also discussed immigration –Spain is the main recipient of immigrants in the EU–. When he was Interior Minister Sarkozy rebuked Zapatero in 2005 for granting an amnesty to 560,000 illegal immigrants as it encouraged clandestine immigration by creating a ‘magnet effect’. He said the matter should have been discussed with the EU as it is a Europe-wide problem.

The issue of Turkey’s entry into the EU, which Spain actively backs and Sarkozy is vehemently against, was left off the agenda.

#### *Spain Seeks to Remove Panama from Tax-Haven List*

The government is seeking a deal with Panama which would enable it to remove the country from its list of tax havens and open the door to Spain’s construction companies winning lucrative contracts for the €4 billion expansion of the Panama Canal.

Both sides are working on an arrangement ahead of the expected visit by José Luis Rodríguez Zapatero in July. In 2002 the OECD improved Panama’s status to that of ‘cooperating tax haven’ after it introduced various measures to combat money-laundering more effectively. Each country then had to subscribe a bilateral agreement with Panama, but Spain has not done this and as a result companies are barred from participating in projects such as that of the canal. And, under Panamanian law, Panama applies to a country the same situation as that applied to it.

Spain’s big construction companies –ACS, Sacyr Vallehermoso, Acciona, Ferrovial, OHL and FCC– have won a lot of business in Latin America.

### **Domestic Scene**

#### *Popular Party Wins Most Votes in Municipal Elections, Socialists Most Councillors*

The conservative Popular Party (PP) won the most votes in the municipal elections, thanks to a spectacularly large victory in Madrid, but the Socialists gained the largest number of councillors (see Figure 1). The PP won 7.9 million votes nationwide (35.6% of those cast) and 23,347 councillors and the Socialists 7.7 million votes (34.9% and 24,026 councillors). The participation rate of 63.8% was four percentage points lower than in 2003.

**Figure 1. Municipal Elections, Main Parties 2007 and 2003**

	2007		2003	
	Votes	%	Votes	%
Socialists	7,758,093	34.9	7,999,178	34.8
Popular Party	7,914,084	35.6	7,875,761	34.3
United Left	1,216,443	5.4	1,394,871	6.0
Convergència I Unió	722,653	3.2	789,871	3.4
Republican Left	347,460	1.6	419,961	1.8
Galician Nationalist Block	315,449	1.4	325,331	1.4
Basque Nationalist Party	309,625	1.4	408,317	1.8

Source: Interior Ministry.

Elections were also held at the same time in 13 of Spain's 17 regions (all but Andalusia, the Basque Country, Catalonia and Galicia). The two parties held onto the main regions they have governed for a long time. The main change was in Navarra where the new nationalist party Nafarroa Bai (Na-Bai), led by Patxi Zabaleta, a former leader of the banned Batasuna, was the second most voted party, and the PP's sister party Unión del Pueblo Navarro (UPN) lost its absolute majority. The PP also lost its absolute majority in the Canary Islands. Coalition governments were being formed in these two regions. Although the Socialists won fewer votes overall they gained the most votes in seven of the 13 regions (five in 2003), in 22 provinces (17 in 2003) and in 16 provincial capitals (12 in 2003). They also won the largest share of the vote in 80 more municipalities than in 2003.

In Madrid, the PP's mayor, Alberto Ruiz-Gallardón, won 875,571 votes, 55.5% of those cast, compared with 486,826 (30.8%) for the Socialists' Miguel Sebastián, the former head of the Prime Minister's Economic Office. Madrid's premier, Esperanza Aguirre of the PP, also significantly increased her share of the vote from 48.4% in 2003 to 53.1%. Both Ruiz-Gallardón and Aguirre achieved the largest number of votes by a Madrid mayor and premier since the restoration of democracy in 1975 after the death of General Franco.

While the PP won 156,000 more votes than the Socialists in the municipal elections in the whole of Spain, in Madrid they were close to 400,000 votes ahead. But for the Socialists' massive defeat in Madrid where it won 138,000 fewer votes than in 2003, the difference in votes between the two main parties would probably have been insignificant. Including the votes of the communist-led United Left party, the left won the most votes overall.

Emboldened by the results, the PP believes its prospects for winning the general election, scheduled to be held in 2008, have improved. The latest opinion poll by the government-run CIS (carried out before the May elections), however, gives the Socialists a three-point lead over the PP.

#### *New Land Law Aims to Curb Rampant Urban Development and Corruption*

Parliament approved a bill aimed at restraining near out-of-control urban development and corruption in the real estate sector. The new law replaces one passed in 1998 by the conservative Popular Party (PP), which the Socialists say basically made all land that was not protected open for development. It was supported by all political parties except the PP.

Housing Minister María Antonia Trujillo said the new legislation would help guide the property market to a soft landing, rather than a crash. Property prices have shot through

the roof more because of the jump in the cost of land than because of a surge in the price of building materials and labour costs (pushed down in real terms by the influx of immigrants). Between 1997 and March 2007 the average cost per square metre of land rose from €703 to €2,024. Affordable housing has become one of the main demands of young Spaniards, tens of thousands of whom have taken to the streets in various cities to protest the issue.

Corruption has flourished during the property boom, with numerous reports in the press of under-the-table commission payments. In the biggest case, nearly 60 people were arrested on charges relating to real-estate fraud in the southern jet-set resort town of Marbella, including a former mayor, several councillors, developers, art dealers and a well known singer. Reclassifying land, which is in short supply in urban and coastal areas and is controlled by local governments, for building purposes and the granting of building permits are the main sources of corruption.

Under the new law owners of land in the five years previous to its urban development will be listed in official documents, senior local government officials have to declare their assets and there will be tougher checks on housing developments increasing a town's population by more than 20%. Under the old law municipalities received 10% of the land re-zoned for building purposes and could sell some of it, thereby encouraging them to keep land prices high. This regulation, equivalent to a tax, earmarked land for the construction of subsidised housing, public spaces and other infrastructure. The new law changes the compulsory land grant that municipalities receive when land is re-zoned to between 5% and 15% and stipulates that 30% of the residential land must be used for subsidised housing. The process of urbanisation will also be more transparent: town halls have to post on their website housing development plans.

Most senior executives and all lawyers recently surveyed by the Instituto de Empresa, a leading business school, said the real estate sector was the most corrupt part of the Spanish economy and that politicians did not have the will to end the problem.

## **The Economy**

### *Santander in Battle for Control of ABN Amro*

The consortium led by Royal Bank of Scotland, including Grupo Santander, Spain's largest bank, offered €71 billion for the Dutch bank ABN Amro. The offer, the largest yet in the banking industry, is €11.5 billion more than that by the British bank Barclays.

While Barclays plans to keep ABN Amro as it is, the consortium, whose other member is Fortis, the Belgo-Dutch group, wants to carve the Dutch bank into three.

The consortium's offer depends on resolving a dispute with Bank of America over ownership of LaSalle, ABN Amro's US subsidiary. BoA filed a lawsuit in New York claiming ABN had breached its contract by halting the separate sale to it of LaSalle.

### *France's Suez Doubles its Stake in Gas Natural*

The French utility Suez spent €1 billion on doubling its stake in the Barcelona-based Gas Natural to just over 11%, making it the third-largest shareholder after the Catalan bank La Caixa and Repsol, Spain's biggest oil company.

The defensive move followed Gas Natural's withdrawal from the fierce battle to take over Endesa, Spain's largest electricity company, in order to create a national champion and the uncertainty surrounding Suez's proposed merger with state-controlled Gaz de France. Endesa went to Italy's Enel and Spain's Acciona.

Suez already works with La Caixa via the joint venture that owns Aguas de Barcelona, the city's water utility.

#### *US Auto Components Company to Close its Plant*

GDX, the US auto components manufacturer, is to close its plant in Barcelona by 2008, laying off 740 workers. The move made, according to the company, because the plant has been making a loss for four years, follows the closure of a smaller GDX plant last year in Tarragona. The company specialises in vehicle sealing, glass encapsulation and anti-vibration components.

Earlier this year another US auto components producer in Spain, Delphi, announced that it was closing its plant in Puerto Real, Cadiz, and laying off 1,600 workers. Several others have moved to countries with cheaper labour costs over the past few years.

#### *Economic Growth Accelerates*

Spain's GDP grew 4.1% year-on-year in the first quarter year, higher than the government's initial estimate and above the figure for the whole of 2006 (3.9%), according to the National Statistics Institute (INE).

There were signs of a slowdown in the construction sector, one of the economy's engines. It grew 4.9% in the first quarter, the lowest growth in three years, compared with a 5.1% rise in industry. This raised hopes of a soft as opposed to an abrupt landing in the construction sector. For the first time since the year 2000 industry grew more strongly than construction.

Domestic demand contributed 4.8 percentage points to GDP growth in the first quarter, only slightly lower than the 4.9 points registered in the fourth, while the negative contribution from the external sector narrowed to 0.7 points in the first quarter from a negative 0.9 points in the fourth.

#### *Storms Wreck Crops in Several Regions*

Torrential rain destroyed grapes, some fruits and cereals in the regions of Castilla-La Mancha, Extremadura and Castilla y León. The affected area was estimated at more than 400,000 hectares and the value of the lost crops put at €300 million.

The worst affected area was Alcázar de San Juan where more rain fell in one day than in the whole of 2005. The town's dike was on the point of bursting and around 450 people had to be evacuated.

The rain dramatically ended the country's drought which began in the summer of 2005. Madrid's reservoirs were at 85% of their capacity at the end of June, up from 58% a year earlier.

### *Spain Inches Up the IMD Competitiveness League*

Spain rose in the IMD's competitiveness scoreboard to 30<sup>th</sup> position out of 55 countries from 31<sup>st</sup> in 2006. The IMD defines competitiveness as the 'ability of a country to create added value and thus increase national wealth by managing assets and processes, attractiveness and aggressiveness, globality and proximity, and by integrating these relationships into an economic and social model'.

The rankings are based on four input factors: economic performance, government efficiency, business efficiency and infrastructure. Spain's position improved in the first three and deteriorated in infrastructure (see Figure 2). The main challenges to improve competitiveness, according to the Spanish Confederation of Employers, are to enhance the technological capability, improve the educational system, especially professional training, guarantee the efficiency of the national and European energy market, an in-depth reform of labour market regulations and lower corporate taxation (the latter was reduced as of 2007).

**Figure 2. Competitiveness Input Factors**

	2003	2004	2005	2006	2007
Economic performance	22	21	24	32	27
Government efficiency	24	22	27	34	29
Business efficiency	27	32	39	36	33
Infrastructure	24	26	27	26	29
Overall ranking	26	28	32	31	30

Source: IMD World Competitiveness Yearbook, 2007.

### *Spain's Minimum Wage, Second Fastest Growing in European Union*

Spain's minimum wage corrected for purchasing power rose 18% between 2003 and 2006, the second largest increase after the UK (18.8%), according to a study by the European Trade Union Confederation. In absolute terms the increase was by far the highest in Ireland (€220, more than the entire minimum wage in the Baltic countries or Slovakia), the UK (€163), Luxembourg (€134) and Spain (€105).

The government's policy since it took office in 2004 has been to raise the minimum wage every year by more than the inflation rate and it has set a target of €600 a month in 2008.

### *OECD Urges Spain to do More to Reduce Youth Unemployment and Precariousness*

Spain needs to do more to improve young people's chances of getting a job, the OECD urged in a special report. The proportion of young people aged 16-24 who have a job has risen by more than 50% over the past decade –in sharp contrast to the OECD average which was stable over the same period– but the youth jobless rate at almost 18% in 2006 was still more than 3 percentage points above the OECD average (see Figure 3).

**Figure 3. Scoreboard for Young People Aged 16-24<sup>a</sup>, Spain, 1996 and 2006**

	1996			2006 <sup>b</sup>		
	Spain	EU	OECD	Spain	EU	OECD
Unemployment rate (% of the labour force)	28.3	38.8	43.6	43.3	37.8	42.9
Relative unemployment rate youth / adult (25-54)	39.9	19.5	16.2	17.9	17.1	14.5
Ratio unemployed to population (% of the age group)	2.1	2.4	2.4	2.4	2.6	2.7
Incidence of long-term unemployment rate (% of unemployment)	18.8	8.7	7.8	9.4	7.1	6.5
Incidence of temporary work (% of employment)	50.3	32.3	24.9	15.2	26.7	21.4
Incidence of part-time work (% of employment)	75.5	27.1	28.0	66.0	37.3	32.4
NEET rate (% of the age group)	12.6	14.5	19.5	19.8	20.5	23.6
Relative unemployment rate low skills/high skills <sup>c</sup>	17.9	14.2	14.5	13.4	11.5	12.7
School drop-outs (% of the age group)	0.9	2.6	2.5	1.0	2.2	2.4
	27.5	14.4	17.4	27.9	11.0	13.6

NEET: Neither in education nor in employment or training.

(a) Young people aged 16-24 for Iceland, Norway, Spain, Sweden, the UK and the US; young people aged 15-24 for all other countries in the EU and OECD averages.

(b) Unweighted averages for EU-19 and OECD countries. NEET rate and school drop-outs refer to 2004; the incidence of part-time work refers to 2005; the OECD average for the incidence of long-term unemployment and temporary work refers to 2005.

(c) The skill level is defined using the International Standard Classification of Education (ISCED) and the ratio corresponds to: (<ISCED3)/(>ISCED3) for 1997 and 2004.

Note: the report was finalised before 2006 data became available.

Source: 'Jobs for Youth: Spain', OECD.

While the incidence of temporary work among young people with jobs has tended to decrease, it was still over 66% in 2006, twice the OECD average. As in other OECD countries, many young people enter the labour market with a temporary contract. However, Spain is unique in that young people tend to stay on temporary contracts for a very long period of time, interspersed with frequent spells of unemployment when moving from one contract to the next.

The OECD made a number of recommendations including increasing the participation in early childhood education, ensuring the availability of apprenticeships in firms for all students attending vocational education (apprenticeships are much less developed in Spain than in other OECD countries) and developing short-cycle university degrees.