

## Inside Spain 27<sup>1</sup>

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### Foreign Policy

*Spain to Contribute up to 1,100 Troops to UN Peacekeeping Mission in Lebanon*  
Spain is to send more than 1,000 troops to Lebanon as part of the UN's peacekeeping mission and it pledged €31 million of the €735 million raised by donor countries at the conference in Stockholm (see Figure 1).

**Figure 1. UN Troop Pledges**

Country	Commitment
France	Leadership and 2,000 troops
Italy	2,000 to 3,000 troops
Bangladesh	Two battalions (up to 2,000 troops)
Malaysia	One battalion
<b>Spain</b>	<b>Up to 1,100 troops</b>
Indonesia	One battalion
Nepal	One battalion
Turkey	600 to 1,200 troops
Denmark	At least two ships
Poland	500 troops
Finland	250 troops
Belgium	400 troops
Germany	Maritime and border patrols but no combat troops
Norway	100 troops

Source: United Nations.

Reflecting the country's large contribution, Spain will take charge of a brigade with troops from Poland, Belgium, Finland and Portugal.

Spain currently has 2,005 peacekeeping troops stationed abroad in Afghanistan, Bosnia, the Congo, Kosovo and Lithuania. Under a law approved at the end of last year it cannot have more than 3,000 at any one time and each deployment has to be approved by parliament (expected for Lebanon this week).

Spain was one of the first European countries to call Israel's reaction to the kidnapping of two Israeli soldiers disproportionate and, as a result, relations between Madrid and Tel Aviv dipped. At one political rally, Prime Minister José Luis Rodríguez Zapatero was photographed with a Palestinian-style scarf around his neck which someone had placed around him. A leading member of Spain's Jewish community then called Zapatero anti-Semitic, provoking a public reprimand from Miguel Ángel Moratinos, the Foreign Minister. Israel's position over Lebanon was backed by the conservative opposition Popular Party. Its former leader and prime minister, José María Aznar, said Israel should be a member of Nato and, if it were, he would not have seen anything wrong with Nato bombing Lebanon.

<sup>1</sup> The previous *Inside Spain* appeared on 6 July.

### *Spain Seeks Greater EU Involvement to Stem the Tide of Immigrants*

The government launched a diplomatic offensive to halt the unprecedented flow of immigrants to Spain. In August alone over 4,850 mainly African immigrants arrived in the Canaries in packed fishing boats, more than in the whole of last year (see Figure 2).

**Figure 2. Illegal Immigrants Detained in the Canary Islands**

1999	2000	2001	2002	2003	2004	2005	2006*
875	2,410	4,112	9,875	9,388	8,426	4,751	21,500

At September 4, 2006.

Source: *El Pais*.

María Teresa Fernández de la Vega, the Deputy Prime Minister, visited Helsinki, the capital of Finland, which is the current rotating president of the EU, and Brussels where she appealed to the European Commission for a greater coordination and resources to combat the problem. She expressed disappointment at the delay of more than two months in the full deployment of EU surveillance ships and planes to patrol the Canary Islands and the coast of western Africa, agreed in May, and urged the seven Mediterranean countries which are EU members and Portugal to draw up a coordinated plan to be presented at the EU summit in December. The seven countries are Spain, France, Italy, Greece, Cyprus, Malta and Slovenia. The Commission agreed to extend the controls to the end of the year.

Among the immigrants are more than 700 unaccompanied children. The authorities of the Canary Islands, overwhelmed by immigrants, do not have the resources to cope with them. Under Spanish law, they are obliged to care for and educate young arrivals until they reach the age of 18.

More than 21,000 illegal immigrants have arrived on the islands, the favoured entry point into Spain, this year. Detention centres in the Canaries only have capacity for about 5,500. To cope with the overflow, the national government has transferred thousands to the mainland and distributed them around the country. Close to 53,000 illegal immigrants have been repatriated so far this year.

Frontex, the EU's external border security agency, is spending €3.2 million to finance the patrols, which include Finnish and Italian aircraft, Portuguese and Italian boats and Spanish vessels and helicopters. The operation is co-financed by Spain.

The bodies of close to 600 immigrants who died during the trip have been found so far this year on Spanish and African beaches.

Spain's migration policy, which over the last 10 years has resulted in more than 3.3 million immigrants arriving in the country, was the main reason for the gain it made in the latest Commitment to Development Index by the magazine *Foreign Policy* and the Centre for Global Development, the largest since 2003 when 21 countries began to be ranked. Migration is one of the components of the index. Between 2003 and 2006 Spain improved by 0.9 points to a score of 4.8. The next biggest gain was 0.5 points by the UK to a score of 5.1

## Domestic Scene

### *Government Wants non-EU Citizens to be Able to Vote in Municipal Elections*

In a move aimed at integrating Spain's fast-growing community of non-EU immigrants, the Socialist government, backed by the centre-right Popular Party (PP), would like them to be able to vote in next May's municipal elections. EU citizens living in Spain are able to vote in these elections and since 1992 stand as candidates. However, there may not be enough time to authorise the move for all the countries involved.

Up to 2 million non-EU immigrants with residency permits, out of a total of 2.8 million immigrants at the end of June, could benefit from the move, but it cannot go ahead, according to Spain's constitution, unless there are reciprocal agreements that allow Spaniards resident in these countries to vote. So far the only country with which there is such an agreement is Norway, and the number of Norwegians in Spain is insignificant.

The growth in non-EU immigrants has been such that the number of councillors in some town halls has risen, because the arrival of more immigrants has swelled the population, and yet they are deprived of a vote. In some municipalities these immigrants already account for more than 25% of the population. The country with the largest number of legal immigrants in Spain is Morocco (see Figure 3).

**Figure 3. Non-EU Citizens with Residency Permit or Authorisation**

<b>Country</b>	<b>Number</b>
Morocco	503,966
Ecuador	339,618
Colombia	211,122
Rumania	189,966
China	92,915
Peru	86,602
Argentina	82,074
Bulgaria	55,268
Dominican Republic	53,576
Ukraine	50,444
Bolivia	47,898
Algeria	36,499
Brazil	28,409
Senegal	26,972
Venezuela	25,530
Pakistan	25,756
Uruguay	23,636
Russia	23,310
Nigeria	18,549
Gambia	15,504

At 30 June 2006.

Source: INE.

Their votes will be keenly sought by all political parties as they could well be the deciding factor in many areas. While the two main political parties support the move, Josep Antoni Duran, a leader of the centre-right nationalist CiU party in Catalonia, said non-EU immigrants should first demonstrate a 'knowledge of the Catalan language, culture and identity' before being allowed to vote, something not required of immigrants from EU countries.

The significant contribution made by immigrants to the Spanish economy was highlighted in a report by Caixa Catalunya, the Catalan savings bank, which estimated that without them the country's per capita income would have declined 0.64% a year

between 1995 and 2005 instead of rising 2.6% annually (see Figure 4). The simulation was based on an increase in Spain's population of 4.17 million during this period (+10.7%), proportionately much faster than any EU country except for Ireland, of which 80% were immigrants.

**Figure 4. Impact of Immigrants on Per Capita Income in Europe, 1995-2005, Selected Countries**

Country	Per Capita Income Growth with Immigrants (%)	Without Immigrants (%)
France	1.61	-0.62
Germany	1.28	-1.52
Ireland	5.87	1.07
Italy	1.01	-1.17
<b>Spain</b>	<b>2.6</b>	<b>-0.64</b>
UK	2.39	-0.15
Euro zone	1.67	-0.25

At 1995 prices.

Source: Caixa Catalunya.

#### *Sharp Fall in Illegal Immigrants in Spain*

Spain had just over 1 million illegal immigrants in 2005, down from 1.6 million in 2004, according to the National Statistics Office (INE) which compared the number of those registered with their local town hall (2.95 million) and the number with residency permits (1.95 million). The Socialist government said the figure was lower (700,000) and the centre-right Popular Party (PP) said it was higher (1.6 million). The true figure, impossible to calculate accurately because of various factors, is somewhere between the two.

As Spain is an EU country, citizens from other parts of the world need a residence permit in order to live and work legally in the country.

Close to 650,000 foreigners registered with their town halls during 2005, enabling them to use the public health and education systems, and a government amnesty granted residency papers to more than 600,000 after they met various conditions. While the PP said almost 500,000 more people, who did not renew their town hall registration, should have been included in the calculation the government said the number was overestimated as it included people whose situation was legal although they did not have their residency permit (for example, 250,000 in the process of renewing their permits).

Spain's population was 44.4 million at the end of 2005, of which 3.8 million (8.7%) were foreigners (EU and non-EU citizens). Moroccans accounted for almost 14% of total foreigners (see Figure 5). Spain's immigrant population, lured by sectors of the booming economy such as construction that need labour, has increased fourfold in the past six years.

**Figure 5. Foreigners by Nationality**

Country	Number	% of Total
Morocco	535,000	13.7
Ecuador	399,600	10.2
Rumania	382,000	9.8
UK	274,000	7.0
Colombia	238,600	6.1
Germany	150,200	3.8
Argentina	136,000	3.5
Bolivia	132,400	3.4
Italy	115,400	2.9
China	98,100	2.5
Bulgaria	93,800	2.4
France	89,700	2.3
Peru	86,900	2.2
Others	1,150,000	30.2

Source: INE.

### *Spain 'Failing to Comply' with some of the OECD's Anti Money-Laundering Recommendations*

The Spanish authorities are not doing enough to control the money-laundering activities of lawyers, public notaries, construction companies, jewellers and casinos, according to the latest evaluation by the OECD's Financial Action Task Force (see <http://www.fatf-gafi.org/dataoecd/45/39/37068687.pdf>).

The report came at a time when some of these sectors are under close scrutiny as they are involved in various corruption scandals, particularly the crisis at the Marbella town hall (see *Inside Spain*, Newsletter 23, 6 April 2006). One reason why it took so many years before the anti-corruption squad were able to pounce on the town hall, although the goings on were an open secret, was that councillors and their associates knew they were able to use these sectors for illicit purposes with little risk they would be found out.

One reason why Spain is becoming a paradise for money-laundering (not for nothing does the country have by far the largest number of €500 notes in circulation, see *Inside Spain*, Newsletter 24, 4 May 2006) is that SEPBLAC, the Spanish financial intelligence unit, only has two inspectors to monitor the activities of these sectors. Spain was also reported to be non compliant in correspondent banking as it has not implemented adequate measures regarding cross-border relationships.

### *Controversial Bill to Compensate Victims of Franco Regime*

The Socialists fulfilled another of their electoral pledges and approved a draft law which includes measures to help families of the victims of the 1939-75 Franco regime dig up mass graves and compensate political prisoners who worked in labour battalions.

The Bill drew criticism from the centre-right Popular Party (PP) for reviving the 1936-39 civil war and from the left for not going far enough, as it does not annul the tens of thousands of summary death sentences handed down by the regime. Campaigners had hoped for a bolder law from José Luis Rodríguez Zapatero, the Prime Minister, whose paternal grandfather was shot during the war for supporting the Republic, which would have banned any kind of apology for the Franco regime. A recommendation for town halls and regional governments, many of them controlled by the PP, to remove Francoist symbols from buildings and streets was eliminated at the last minute. In a highly symbolic move, the Defence Ministry removed the equestrian statue of Franco

from the entrance to the military academy at Zaragoza, which was headed by Franco before the civil war.

Individual cases of those executed or imprisoned will be considered by a commission to be set up by the Spanish Parliament. The committee will deliver an unspecified form of 'moral rehabilitation' to the victims' families. Families of victims of the Republicans during the civil war can also take their cases to the commission.

#### *Galicia Ravaged by Forest Fires*

Forest fires in the north-western region of Galicia, the worst in years, destroyed an estimated 77,000 hectares of land and killed or injured 10,000 cattle and horses.

Some 1,750 fires broke out in Galicia in the first two weeks of August, a figure authorities said was well above average. Four people died. Thirty people were arrested on suspicion of arson.

#### *Cervantes Institute Opens in China*

Prince Felipe, heir to the Spanish throne, opened a branch of the Cervantes Institute, the world's largest institution dedicated to the teaching of Spanish and to the promotion of the cultures of Spanish-speaking countries, in Peking. Another one will be opened in Shanghai in 2007.

The Prince visited China in July along with Miguel Ángel Moratinos, the Foreign Minister. Spain and China signed a strategic alliance agreement last November (see *Inside Spain*, Newsletter 19, 2 December 2005).

### **The Economy**

#### *European Commission and Spain Facing Showdown over E.on's Bid for Endesa*

The European Commission and Spain are headed towards a showdown over the conditions set by the national energy regulator for allowing the €27 billion bid by Germany's E.on for Endesa, the largest Spanish power company. The Commission said the government's stance was probably illegal and could trigger legal action.

The Commission cleared the bid without conditions in April, but the government imposed 19 conditions in July in the interest of security of supply. They include the obligation to sell or divest control of Endesa's operations in the Balearic and Canary islands and in the Spanish enclaves in North Africa; to divest one nuclear power station and cede day-to-day operational control of a further three nuclear plants owned in joint ventures with other companies; and to divest in three plants powered by subsidised Spanish coal. These assets were deemed 'strategic' by the regulator under powers granted to it by the government after E.on announced its offer last September.

The government favours an earlier, much lower bid by the Barcelona-based Gas Natural which valued Endesa at the time at about €22 billion and would enable a national champion to be created. Under the government's conditions, E.on must sell 7.6 gigawatts of Endesa's Spanish generating capacity –3.3GW more than that required of Gas Natural–.

As we went to press, the Commission's deadline of 4 September for the government to defend its actions expired. Joan Clos, the new industry minister, said he hoped that an understanding could be reached with Brussels which would strike a balance between freedom of the market and Spain's strategic interests. Negotiations are underway with Germany and with the EU.

*Another Record Year in Housing Starts, Fears that Bubble may Burst More Strongly*  
Spain is set to notch up another record in housing starts this year, but fears are growing that the real estate bubble may burst more sharply. According to the research department of BBVA, Spain's second largest bank, 850,000 new homes will be started this year bringing the total to around 3 million over the last five years.

The continued huge number of homes being built coupled with a slowdown in demand and a further strong rise in prices (+10.8% year-on-year in the second quarter compared to a 3.9% increase in inflation) is leading some analysts to forecast a sharp rather than a gradual adjustment. So far, however, such predictions have been wrong. Indeed, BBVA had to correct its previous forecasts regarding price rises.

Meanwhile, the Housing Ministry has calculated that Spain had 23.3 million flats and houses at the end of 2005, one for almost every two of the country's 44 million inhabitants.

Foreigners seeking second homes and, at the other end of the social scale, immigrants living in Spain are the driving forces of the construction sector.

#### *GDP Growth Accelerates to 3.7%*

Spain's economy grew at an annual rate of 3.7% in the second quarter, the fastest pace in five years and 1.3 percentage points above the Euro zone average, according to the National Statistics Office (INE). Inflation, however, was 3.8% year-on-year in August, well above the Euro zone average.

The driving forces behind the stronger growth were construction and household consumption. Exports were slightly stronger and imports weakened a little.

#### *FCC Acquires UK Waste Disposal Company*

There seems to be no let up in Spain's invasion of corporate England. Hardly was the ink dry on Ferrovial's deal to acquire BAA (see *Inside Spain*, Newsletter 26, 4 July 2006) than FCC, the construction and services group, agreed to pay €2 billion for the waste disposal unit of WRG.

FCC has a strong presence in waste management in Europe, and the UK move fits into its strategy of diversifying away from Spain's construction sector whose decade-long boom looks like petering out. WGR manages close to 40% of urban waste.

#### *Repsol YPF Buys Stake in Gulf of Mexico Oil Field*

Repsol YPF paid US\$2.15 billion for British Petroleum's 28% stake in the Shenzi oil field in the Gulf of Mexico off the coast of Louisiana. Antoni Bufrau, Repsol's chairman, said the purchase was aimed at re-balancing its reserves in areas of little political risk.

In January, Repsol announced a 25% write-down in proved reserves, or about 1.25bn barrels of oil equivalent, following a reassessment of its operations in Bolivia whose oil and gas sectors were nationalised in May. Repsol controls 26% of Bolivian gas production through its 50% stake in Andina. Foreign oil companies in the country were given six months to revise their contracts with the government.

The field, in hurricane-prone waters, is expected to produce its first oil by the middle of 2009. It will have the capacity to produce up to 100,000 barrels of oil and 50 million cubic feet of gas a day. Analysts say Repsol paid a very high price for the stake and will need to discover further reserves in the field to make the deal profitable.

In a separate development, Repsol accused the Bolivian government of 'repeated and unjustified acts' following a raid on 27 August on Andina, its Bolivian subsidiary and the arrest of one of the company's lawyers. Repsol is accused of defrauding the government by signing a hedging contract with Petrobras in 2002, but Repsol claims the deal complied with Bolivian law. The government nationalised its natural gas industry in May and gave foreign companies 180 days to revise their contracts. Repsol controls 26% of Bolivian gas production through its 50% stake in Andina. Both Repsol and the Bolivian government threatened to take their respective cases to an international court.

#### *Santander to Open 400 More Bank Branches in Latin America*

Santander, Spain's largest bank and the biggest in the Euro zone by market value, plans to expand its business in Latin America over the next three years at a cost of around €4 billion. The plan includes the opening of 400 more branches, 1,000 ATMs and launching a consumer credit business in Brazil.

Between 2003 and 2006, according to Francisco Luzón, a director of Santander and head of the Latin America division, the bank doubled the volume of its loans, deposits and managed funds to €174 billion.

Santander owns the third-largest bank in Mexico, the largest one in Chile and also has significant market shares of banking business in Brazil, Venezuela and Colombia. Its overall share of Latin America's banking business (loans + deposits + mutual funds) is 9.2% (weighted average of the market share in each of the countries where it operates). Additionally it has a 12% market share in pension funds.

Having concentrated more on Europe and the US over the last two years (buying Abbey in the UK and a stake in Sovereign Bancorp in the US), Santander has decided to beef up its increasingly successful business in Latin America but organically rather than through further acquisitions. The region, despite problems in some countries, is economically more stable and growing as a whole at more than 4%.

Other Spanish companies are also planning to invest more in Latin America. Telefónica said it would invest €8,000 by 2009 in its mobile and broad band businesses and Repsol YPF €7,000 billion in Argentina, Brazil and Bolivia.



*Rome Blocks Abertis' Merger with Italy's Autostrade*

The Italian government blocked the proposed €25 billion merger between Spain's Abertis and Autostrade, the company that operates most of Italy's motorways, on the grounds that under the terms of its 1999 privatisation no construction companies could enter Autostrade's shareholding.

The merger, announced in April, would have created the world's largest motorways company, present in 16 countries with 6,700km of toll roads and 20,000 employees. The main shareholder would have been Schemaventotto, an Italian investment company linked to the Benetton family, with 24.9%, while Grupo ACS, Abertis' main shareholder, would have held 12.5%.

The European Commission said the move might have violated Brussels' exclusive powers to review pan-European mergers and takeovers and called on Rome to explain its stance.