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Foreign Policy

EU backs Spain's plan to combat illegal immigration

The recent storming of Spain's North African enclaves of Ceuta and Melilla by hundreds of sub-Saharan Africans spurred the government to seek concerted EU action to control illegal immigration more effectively and involve Morocco, in particular, more actively (see *Inside Spain*, Newsletter 17, October 6, 2005).

Prime Minister José Luis Rodríguez Zapatero launched an initiative at the informal EU summit in London to step up the controls and vigilance on the EU's external borders, sign readmission agreements with the countries the immigrants come from and give more EU funding to immigration policies. Specific measures are expected to be spelled out at the EU's summit in December.

TV and newspaper pictures of desperate sub-Saharanans with their faces pressed against wire fences separating Ceuta and Melilla from Morocco horrified Spaniards, as did the way those who stormed the fences and gained a foothold in Europe were treated.

Amnesty International accused Spanish and Moroccan security forces of using excessive force and violating immigrants' rights. Amnesty said it would appeal for an independent, international investigation of the violence that left at least 11 people dead as security forces opened fire on those who climbed over –or attempted to– the razor-wire fences. Morocco abandoned hundreds of them in remote desert areas without food or water. As a result of international pressure, they were rescued and shipped out of Morocco in buses.

Immigrants now account for 8.4% of Spain's 44 million population, a higher percentage than in France, and the rapid rise in their number is straining the education and health systems. Spain was the EU country that recorded the greatest increase in the immigrant population during 2004, according to Eurostat (EU statistics office). Of the 1.8 million people who arrived in the EU, a third came to Spain.

A poll, for Cadena Ser, the leading private sector radio network, found that 54% of Spaniards (31% six months ago) named immigration as the country's biggest political problem, outflanking hardy perennials such as unemployment and terrorism. An

overwhelming majority of respondents said Madrid ought to be putting more pressure on Morocco to crack down on illegal migrants.

Miguel Ángel Moratinos, the foreign minister, went to Rabat after the storming of the fences to offer greater political and economic help and to agree a series of bilateral measures to stem the tide of migrants. The agreement with Morocco on the repatriation of illegal immigrants, which has been dormant since it was signed in 1992, was activated. The two sides agreed the immediate return to Morocco of those who crossed the fences, and Morocco cleared the area near the fence with Melilla of trees where migrants hid and made makeshift ladders from branches with which to climb over the fences.

The border between Spain and Morocco is the scene of the greatest difference in per-capita income between neighbouring countries in the world, a proportion of 15 to one. Morocco has calculated that its territory hosts about 40,000 people from sub-Saharan Africa who are trying to enter the EU. Madrid is promoting a Euro-African ministerial conference on immigration.

Ibero-American summit in spat with United States, also marks turning point

The two-day summit of Ibero-American leaders, hosted by Spain, called on the United States to abide by UN resolutions to end its economic blockade against Cuba. The drawing up of the statement prompted the US Embassy in Madrid to object to the word 'blockade' instead of 'embargo' as it said it could be interpreted as 'a kind of support for the dictatorship in Cuba'. Spanish officials countered that the word 'blockade' had been used in UN resolutions as well.

This was the first time the word 'blockade' has been used in an Ibero-American summit resolution and the final version differed only in the title and by qualifying the word 'blockade' with the adjectives 'economic, trade and financial'. Strictly speaking, the US measures against Cuba are not a blockade as under international law this means the physical stopping of all trade with a country, which was the case briefly during the 1962 Cuban missile crisis but not now.

Prime Minister Jose Luis Rodriguez Zapatero said he had no intention of contributing to a false controversy and nothing should be read into any change in the final phrasing. Nevertheless, the spat left a bitter taste in Madrid and Washington. Relations have improved considerably since the nadir reached when Zapatero withdrew Spain's 1,300 peacekeeping troops from Iraq last year, but there are serious differences over how to handle Cuba and Venezuela. Mariano Rajoy, the leader of the centre-right Popular Party (PP), which follows the US line on Cuba, accused the Socialists of being 'servile' towards the Cuban regime. The Cuban leader Fidel Castro did not attend the meeting in Salamanca, ostensibly to coordinate the response to the hurricane that hit his country, but he still managed to achieve what he wanted. Hugo Chávez, the Venezuelan president and a firm ally of Castro, did and it was noticeable that Zapatero managed not to be photographed with him.

In a statement condemning terrorism and urging countries to cooperate and not give refuge to terrorists, the leaders also expressed support for Cuba and Venezuela's attempts to get Washington to extradite to Caracas Luis Posada Carriles, a Venezuelan identified as a CIA agent who is wanted for a terrorist attack against a Cuban plane in

1976. The US administration refuses to extradite him.

The wrangling over Cuba grabbed the headlines and hid the more important achievements of the 15th such summit, which until now has been little more than a talking shop. The summit was held after the creation of a permanent general secretariat (SEGIB), headed by Enrique Iglesias, the former chairman of the Inter-American Development Bank (IDB) and a high profile personality. It is hoped that SEGIB will maintain the momentum between summits and try to ensure agreements are followed through. Miguel Ángel Moratinos, Spain's foreign minister, said no one could now accuse the summits of being a 'mere rhetorical exercise'.

The leaders agreed to develop a Spanish proposal for countries to cancel their debts with Spain in favour of investment in education. Other issues being worked on include a (wildly ambitious) plan to eradicate illiteracy in Latin America by 2015, the establishment of a humanitarian aid fund and a social security agreement. Three forums were also held in parallel with the summit, for the first time, on business, civic society and parliaments.

Spain to send troops to earthquake-hit Pakistan

Spain is to send 370 troops to Pakistan, following a request from NATO for help for the victims of the earthquake. The contingent will form part of a multinational force under the NATO flag.

Under a new law, which has not yet come into force as it is still going through the Senate, José Bono, the defence minister, obtained parliament's approval for the mission. The law requires parliament's approval for the sending of troops abroad.

Judge orders arrest of three US soldiers over killing of Spanish cameraman

A Spanish judge, in a controversial move bound to anger Washington, issued an international arrest order for three US soldiers over the killing of José Couso, a TV cameraman, who died in 2003 when a Baghdad hotel was hit by tank fire.

Couso's death is something of a rallying point for Spanish leftists opposed to the war in Iraq.

Judge Santiago Pedraz said he had issued the order because of a lack of judicial co-operation from the United States in the case. Colin Powell, the US Secretary of State at the time, said a US review of the incident had found the use of force was justified.

The order, however, might not be issued because another judge is to appeal against the ruling on technical grounds.

Domestic Scene

Socialists agree to change key points of controversial reform of Catalan autonomy charter

The proposed new charter for greater autonomy for Catalonia, approved by the region's parliament, is becoming a monumental headache for the national government. The Socialists, to some extent divided over the issue, have agreed to substantially modify the reform when it comes before the parliament in Madrid and the PP aggressively opposes most of the project. But the Socialists do not have sufficient support to soften the

reforms as they do not have an absolute majority and their parliamentary ally is the pro-independence Catalan Republic Left (ERC). Either the ERC agrees to concessions (possible) or the PP supports the government (unlikely as it wants much greater changes and believes it has the Socialists on the run).

The most controversial article of the proposed statute is the one that describes Catalonia as a 'nation' within a 'many-nation state'. The Socialists' constitutional experts say this and other features, such as the creation of Catalonia's own tax agency, are unconstitutional. One suggestion put forward is to call Catalonia a 'national entity' instead of a 'nation', a term which could open the door to independence. The debate has already had a rather ridiculous effect: the minority Andalusian Party, which has five seats in the Andalusian parliament, said it would include the term nation in its proposal for reforming that region's charter.

While the PP is spending €500,000 on publicity denouncing the Catalan plan and is calling for a referendum on the issue, Socialist 'barons', such as Juan Carlos Rodríguez Ibarra, the premier of another and much poorer region, Extremadura, for the past 22 years, have attacked the Catalan Socialist Party (PSC), which governs the region, for its role in the whole issue. Felipe González, the former Socialist prime minister (1983-96), is, privately, very angry about how his party is handling the matter. The PSC governs Catalonia with the support of the ERC and a Green party. Jaime Caruana, the governor of the Bank of Spain, also expressed concern that the new charter as it stands could limit the Spanish economy's capacity to grow and 'affect the well-being of all Spaniards'.

On the matter of tax, the national government has put its foot down on the demand for full control of income tax and VAT, a proportion of which would be transferred to Madrid. The Socialists are, however, prepared to grant Catalonia a larger share of income tax receipts. A justice system totally autonomous of Madrid is also rejected.

Prime Minister Jose Luis Rodriguez Zapatero will have to show the political skills of a Houdini to satisfy all sides. According to one opinion poll in October slightly more voters now support the PP than the Socialists. It was the first time a poll showed such a shift since elections in March 2004.

Spain stands still in corruption league

Spain remained in 23rd position in the 2005 corruption perceptions index, well above Italy but below the other big EU-25 countries (see Figure 1). Spain's score (out of 10) dropped from 7.1 in 2004 to 7.0.

Spain's continued weak points are the lack of sufficient transparency in the bidding process for contracts, the financing of political parties and the housing sector.

Figure 1. Transparency International Corruption Perceptions Index, 2005, Selected EU-25 countries

	Score (1)	Ranking out of 159 Countries
Finland	9.7	1
France	7.5	18
Germany	8.2	16
Italy	4.8	40
Spain	7.0	23
United Kingdom	8.6	11=

(1) The CPI score relates to perceptions of the degree of corruption as seen by business people, academics and risk analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

Source: Transparency International.

Some rain on the plain but nowhere near enough

October's modest rainfall, apart from some freak flash floods in Catalonia, has increased the drought-stricken levels of Spain's reservoirs a little for the first time since May.

The rise, however, is a drop in the ocean compared to what is needed to put an end to the country's worst drought in 60 years (see *Inside Spain*, Newsletter 16, September 5, 2005).

Cristina Narbona, the environment minister, said it needs to rain until the end of the year in order for reservoirs to recover their pre-drought levels. On average, reservoirs are at around 39% of their capacity. The agriculture ministry estimates production of cereals will be close to 50% lower than in 2004.

Crown Princess Letizia gives birth to baby girl, prompts move to change the constitution

Crown Princess Letizia's first child, Leonor, is the second in line to the throne and is expected to become queen of Spain after her father Crown Prince Felipe.

As it stands at the moment the 1978 constitution allows a female heir to the throne only if she has no brothers. The government, very much supported by the Royal family, wants to change the constitution under which the eldest male is automatically the heir to the throne. Felipe's older sisters, Elena and Cristina, are after him in the line of succession.

The Economy

Telefónica to acquire UK's O2 for €26 billion in biggest-ever Spanish acquisition

Telefónica, Spain's leading telecoms group, made an agreed offer of €26 billion for O2, the UK's second-largest mobile operator. If completed, the deal would make Telefónica the world's fourth-largest mobile operator by number of clients (see Figure 2).

O2 will add 24.6 million clients in the UK, Ireland and Germany to Telefónica's 90 million-strong subscriber base, which is mainly in Latin America and Spain. O2 has close to one-quarter of the UK market, behind Vodafone.

Figure 2. World's Main Mobile Telephone Operators

	Millions of clients
China Mobile	224
Vodafone	165
China Unicom	121
Telefónica+O2	116

Source: company reports.

The changed geographical spread would see Europe grow from 7% to 23% of total revenues, Latin America decline from 40 to 33% and Spain drop from 53% to 44%.

The purchase of O2 is the largest-ever acquisition of a foreign company by a Spanish firm.

Santander acquires stake in US bank

Santander, Spain's largest bank, never fails to surprise. A year after buying the UK bank Abbey for €13 billion, it agreed to acquire 20% of the Philadelphia-based Sovereign Bancorp, the 18th largest bank in the United States by assets.

Sovereign will use the proceeds from the sale to finance the take-over of Independence Community Bancorp of New York and as of 2008 Santander has the option to buy the whole group. Santander is using the funds from the sale of its stake in Auna to France Telecom to finance its purchase (see *Inside Spain*, Newsletter 16, September 5, 2005).

Until its purchase of Abbey in 2004, Santander largely concentrated on buying banks in Latin America (where it currently has a 12% share of the region's entire market). Abbey, the UK's eighth-largest bank, represented a strategic shift in its strategy and its latest purchase is another new departure.

After the take-over of Independence Community Bancorp, Sovereign Bancorp will have around 788 branches and 10,000 employees. Santander's current US presence consists of a representative office in New York and a private banking operation in Miami. Having a retail bank will enable it to pursue business with the estimated 8.5 million Hispanics in north-eastern states. BBVA, Santander's big rival in Spain, bought two small US banks last year.

The Sovereign investment marks a re-entry for Santander in the US market. In 1991 it acquired a stake in First Fidelity which it sold in 1996.

BBVA buys Colombian bank

BBVA, Spain's second-largest bank, won the auction for a 98.8% stake in Colombian state-owned mortgage lender Granahorrar with a US\$424 million bid.

The acquisition will immediately make BBVA the biggest mortgage lender in Colombia.

BBVA failed in its bid to acquire Italy's BNL earlier this year, and it was expected to respond to this setback. BBVA owns the largest bank in Mexico.

National Express buys Alsa private coach firm

The UK-based bus and rail operator National Express agreed to buy Alsa, Spain's largest private coach firm, which has a fleet of 1,400 vehicles, for €387 million.

Alsa also operates services in Portugal and Morocco, and runs long-distance services across Western Europe. The deal does not include Alsa's coach and bus operations in China and South America.

Government's labour reform proposals upset unions and employers

The government's reforms to make it easier and cheaper to fire workers and reduce the vast number of people on temporary contracts are being opposed by both employers and trade unions.

The unions are not happy with the proposal to reduce the firing costs for those hired on permanent contracts from 45 to 33 days' pay for every year worked. The measure would

not be retroactive and would only apply to new contracts. This formula emerged in the 1997 reforms as a way to encourage the hiring of people under the age of 29, those over the age of 45, women working in certain sectors and the long-term unemployed.

Employers, meanwhile, are resisting the government's proposal that workers on temporary contracts should be moved to fixed contracts if they spend more than 24 months in a three-year period in that situation. They also want a much larger reduction than the proposed cut of 0.1 percentage points in the contribution that employers make to the national salary guarantee fund (which guarantees salary payments by companies in financial difficulties).

Unemployment rate below EU level for first time since 1986

Spain's jobless rate of 8.4% in September was the lowest level since 1979 and the first time it was below the EU average since the country joined the Union in 1986. Almost 180,000 jobs were created during the third quarter, more than a third of which were immigrants who had benefited from the amnesty granted to illegal immigrants earlier this year (see *Inside Spain*, Newsletter 13, May 10, 2005).

One in every three jobs created in the EU this year was in Spain. Job precariousness, however, continued to rise: 34.4% of salaried employees are on temporary contracts (5.4 million people), three percentage points higher than in September 2004 and compared with a European average of 12%.

Government expects first budget surplus in 30 years

Pedro Solbes, the economy minister, expects this year's general government balance to be in the black for the first time since General Franco died in 1975. It is forecasting a surplus equivalent to 0.2% of GDP, double its initial estimate. The main reason for this is the surplus in the social security accounts.

Figure 2. General Government Balance, % of GDP, 1998-2005*

	1998	1999	2000	2001	2002	2003	2004	2005
Spain	-3.0	-1.2	-0.9	-0.5	-0.3	0.0	-0.1	0.2
EU-25	-1.7	-0.8	0.8	-1.3	-2.3	-3.0	-2.6	N.A.

(*) The difference between the revenue and expenditure of the general government sector.

Source: Eurostat apart from 2005 which is a Spanish government estimate.