



## **Inside Spain 39**

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### **Foreign Policy**

#### *Royal Visit to Ceuta and Melilla Raises Storm in Morocco*

King Juan Carlos and Queen Sofía went ahead with their first visit to Spain's North African enclaves of Ceuta and Melilla amidst rebukes by Morocco, which claims the territories. Rabat recalled its Ambassador in Madrid for consultations, raising the spectre of a severing of diplomatic relations.

Taeib Fassi-Fihri, Morocco's Foreign Minister, denounced the visit as a 'totally inadmissible and inopportune provocation'. Fuad Ali Himma, the head of the Moroccan parliament's Foreign Affairs Committee and close to Mohamed VI, went on TV to further reproach Spain including the decision by a judge to investigate an alleged genocide in the Sahara and the eviction of Moroccan immigrants from shanty dwellings on the outskirts of Madrid.

The Royal visit coincided with the 32nd anniversary of the 'Green March' organised by Hassan II, the father of Mohamed VI, to force Spain to hand over its mineral-rich protectorate of the Western Sahara to Morocco. Under a treaty, the Spanish Sahara was divided between Morocco and Mauritania. The highly complex issue, in which the UN has been long involved, has still not been resolved to the satisfaction of all parties, particularly the Algerian-backed Polisario Front which wants independence for the territory or a referendum on the issue.

The Spanish government was surprised at the vehemence of Rabat's response, as relations with Morocco (the home of more than 500,000 of Spain's 4.4 million immigrants) have greatly improved under the Socialists. Relations between Spain and Morocco were so bad under the previous government of the Popular Party that Rabat withdrew its Ambassador to Madrid for more than a year, and in 2003 Morocco invaded and briefly held the uninhabited (apart from goats) islet of Perejil, which belongs to Spain but is very close to the Moroccan coast.

Rabat's tone was much tougher than when José Luis Rodríguez Zapatero, the Prime Minister, visited Ceuta and Melilla in 2006, the first visit by a Spanish Prime Minister since 1981.

*Foreign Minister Moratinos Meets Condoleezza Rice*

Miguel Ángel Moratinos, the Foreign Minister, met Condoleezza Rice in Washington to discuss the holding of a Middle East conference proposed by George W Bush and the meeting in Madrid at the end of November of the Organisation for Security and Co-operation in Europe (OSCE), of which Spain is the current President.

No date has yet been set for the Middle East conference. One reason for this is the lack of agreement on which countries should be invited. It was not clear whether Spain would be one of them. Moratinos, in his fourth official visit to Washington, said Spain would do everything it could to make the conference a success.

Rice's last meeting with Moratinos in Madrid in June was overshadowed by continued disagreements over Cuba. Spain's Socialist government has been at the forefront of EU countries working for closer relations with Cuba, while the US has showed no sign of easing its tough policy towards the Castro regime. In September, Spain re-established official co-operation with Cuba after a four-year break (see *Inside Spain*, Newsletter 38, of 9 October 2007).

The government drew comfort from last month's unprecedented UN resolution demanding an unconditional lifting of the US's 45-year-old economic and commercial embargo against Cuba.

*Spain Makes the Most Progress in Commitment to Development Index*

Spain made the most progress in the 2007 Commitment to Development Index (CDI), drawn up by the Centre for Global Development, an independent think-tank based in Washington that works to reduce global poverty and inequality by encouraging policy change in rich countries. It was ranked 15<sup>th</sup> out of 21 countries and its score rose the most since the CDI was first launched in 2003 (see Figure 1).

Spain's highest rank (3<sup>rd</sup>) came in the migration component, reflecting the large number of immigrants from developing countries in the country. Its lowest rank was in the environment; there has only been a small decrease in Spain's greenhouse gas emissions rate.

Spain currently spends around 0.4% of its GDP on official development assistance, below the 0.7% figure that developed countries are committed to.

**Figure 1. Commitment to Development Index, 2007**

Country Ranking	Aid	Trade	Investment	Migration	Environment	Security	Technology	Overall (Average)	Change since 2003
1. Netherlands	10.7	5.7	8.0	4.8	7.3	5.4	5.2	6.7	-0.1
2. Denmark	12.0	5.4	5.8	4.6	6.1	5.9	5.4	6.5	-0.4
3. Norway	10.5	0.7	7.5	4.9	8.4	7.1	5.6	6.4	+0.4
4. Sweden	11.6	5.4	6.9	5.2	6.1	4.2	5.3	6.4	+0.3
5. Finland	4.9	5.5	6.5	2.9	7.7	5.7	6.2	5.6	+0.5
6. New Zealand	3.6	6.7	3.4	7.1	6.8	6.5	5.0	5.6	-0.3
7. Canada	4.1	7.1	8.0	5.1	4.3	4.3	6.7	5.6	+0.4
8. Australia	3.1	6.7	7.6	6.5	4.3	6.8	4.6	5.6	-0.3
9. UK	4.8	5.5	8.1	3.0	7.5	5.2	4.3	5.5	+0.3
10. Ireland	6.9	5.3	2.8	6.2	7.9	4.8	3.1	5.3	+0.6
11. Austria	2.9	5.4	3.9	10.4	6.2	3.8	4.4	5.3	0.0
12. Germany	2.6	5.4	8.0	6.0	6.5	3.6	4.3	5.2	-0.1
13. France	4.0	5.4	6.5	2.7	6.5	3.4	6.9	5.1	+0.2
14. US	2.2	7.0	7.0	4.7	2.9	6.4	4.9	5.0	+0.3
15. Belgium	5.7	5.4	6.2	2.9	7.0	2.4	4.5	4.9	+0.2
<b>16. Spain</b>	<b>2.9</b>	<b>5.5</b>	<b>7.1</b>	<b>7.1</b>	<b>3.3</b>	<b>2.7</b>	<b>6.0</b>	<b>4.9</b>	<b>+1.1</b>
17. Switzerland	4.5	0.0	6.7	9.3	4.8	3.3	4.9	4.8	-0.6
18. Portugal	2.4	5.5	6.5	1.3	5.8	5.6	5.2	4.6	+0.2
19. Italy	2.7	5.6	6.1	2.7	4.8	3.8	5.0	4.4	+0.3
20. Greece	2.0	5.4	4.9	1.9	5.1	5.1	3.0	3.9	+0.2
21. Japan	1.2	1.5	5.9	1.7	4.7	1.7	6.3	3.3	+0.7

Source: Center for Global Development.

## Domestic Scene

### *Court Finds 21 People Guilty of Involvement in the 2004 Madrid Bombings*

A court sentenced 21 people to more than 100,000 years in jail for their part in the bomb blasts on four packed commuter trains that killed 191 people and injured more than 1,800. Seven other defendants including an Egyptian accused of masterminding the attacks were acquitted. The verdicts came after a four-month trial in which all pleaded ‘not guilty’. Of the three most serious attacks by jihadist terrorist groups in recent years –in New York, London and Madrid– only Spain has tried those responsible, and it did so without reducing essential liberties.

The 28 defendants, 19 mainly Moroccan Arabs and nine Spaniards, were mostly part of a local Islamist militant group inspired by al-Qaeda. In his summary, Judge Javier Gómez Bermudez said there was no evidence at all of involvement by the terrorist group Eta, a charge the then ruling Popular Party (PP) made in the aftermath of the blasts, even though evidence pointed elsewhere, and which some of its leaders continued to push over the last three years (asking more than 500 questions in parliament). The Eta theory, heavily pushed by media close to the PP, particularly the *El Mundo* newspaper, even reached court, with lawyers for those victims’ associations supportive of the PP raising the idea of a connection between Islamist and Basque terrorism.

The bombs, widely believed to have been placed in retaliation at Spain’s support for the invasion of Iraq and the sending of 1,300 troops after the invasion, are regarded as the main factor that robbed the PP of a third term in office. The Socialists led by José Luis Rodríguez Zapatero won the 2004 election three days after the blasts and Zapatero quickly fulfilled a campaign promise and pulled Spain’s troops out of Iraq. Had Eta been responsible for the blasts, the PP would almost certainly have won the election.

The prison sentences were symbolic (the maximum for each person killed) as under Spanish law the maximum imprisonment is 40 years. One of the three Spaniards found guilty, José Emilio Suárez Trashorras, a former miner who supplied stolen dynamite

used in the attack in return for hashish, was given a nearly 35,000 year sentence for 192 counts of murder, including a policeman who died when seven suspects in the bombings blew themselves up as police moved in on an apartment on the outskirts of Madrid. Their deaths dashed any hope of finding out the complete history of the attacks.

José Luis Rodríguez Zapatero, the Prime Minister, sought to draw a line under the tragedy by saying justice had been done. He called on the country's political parties to unite in the fight against terrorism. But far from laying 11-M, as the tragedy is called, to rest the sentences sparked yet another political battle between the Socialists and the PP; the next general election is only five months away. The PP's leader, Mariano Rajoy, continued to sow doubts by saying he would support further investigations. Alfredo Pérez Rubalcaba, the Interior Minister, called on Rajoy to 'repeat with me: it was not Eta'. In response, Eduardo Zaplana, the PP's parliamentary spokesman, said Zapatero should recognise that Spain's support for the invasion of Iraq was not the reason for the 11-M attack. The judges' summation of the trial made no specific mention of such a link, although it is widely believed that this was the case.

Of the three people accused of masterminding the blasts, the Egyptian Rabei Osman el Sayed, was acquitted and two others were given prison sentences of 12 and 15 years, respectively. Osman, a convicted terrorist, is already in jail in Italy. The relatives of victims said they would appeal against these sentences as they regarded them as too lenient.

In a separate development, police arrested four Algerians and two Moroccans in Burgos for allegedly raising money over the Internet for jihadist terrorism. More than 375 people have been arrested in Spain since 2001 for their alleged involvement in jihadist terrorism.

#### *Parliament Approves Controversial Historical Memory Law*

Parliament finally approved the Law of Historical Memory, the thorniest issue tackled by the Socialist government, which rehabilitates victims of the 1936-39 Spanish Civil War and of General Franco's 36-year dictatorship.

The law condemns the Franco regime, provides public funds to help associations locate mass graves and identify and bury the dead, declares the dictatorship's political trials illegitimate, but does not repeal them outright, bans Francoist symbols on public buildings and political acts, such as the annual homage to Franco on the 20 November anniversary of his death at the underground basilica at the *Valle de los Caídos* (Valley of the Fallen) where he is buried.

The Popular Party (whose Honorary President and Senator, Manuel Fraga, was a former Minister in the dictatorship) opposed most parts of the law because it said it broke the post-Franco political consensus and was divisive as, in its view, the demons of the Francoist past were exorcised more than 30 years ago by the transition to democracy and the 1978 Constitution. The pro-independence Catalan Republican Left (ERC) also opposed the law, but on the grounds that it did not go far enough.

The Socialists, backed by the Basque and Catalan nationalist parties, felt that the *pacto de olvido* (agreement to forget, or overlook), incorporated into the transition, had gone on long enough and that instead of consciously turning its back on the past the country

should face up to it. An amnesty ensured that none of Franco's officials were prosecuted. According to the human rights organisation Equipo Nizkor, Spain is the only country in Europe that has become a democracy without breaking judicially with its former dictatorship.

José Luis Rodríguez Zapatero has a personal interest in the law. His paternal grandfather, Capt. Juan Rodríguez Lozano, remained loyal to the elected Republican government when it fought against the military rebels who had risen against it. He was imprisoned and shot in 1936, one month after the start of the Civil War.

During the dictatorship Republican sympathisers, particularly in the 1940s, suffered summary execution, internment in concentration camps or long jail terms. Thousands of civilians and former Republican army conscripts were used as slave labour. The law paid tribute to the estimated half a million dead, including priests and nuns, murdered by Republican supporters during the war, 498 of whom (out of an estimated 8,000 clergy killed by anti-clerical Republican forces) were beatified in St. Peter's Square in the Vatican on 28 October 2007, the same day as the 25<sup>th</sup> anniversary of the Socialists' sweeping victory in the 1982 elections. Those beatified were all killed by Republicans; some priests, particularly in the Basque Country, which sided with the Republic, were also assassinated by Franco's forces but none of them were among the 498 honoured in the Church's act of selective memory. Many churches in Spain still bear plaques that display the yoke and arrows symbol of Franco's Falange party and commemorate those who died (on his side) for 'God and the country'.

Despite the tense relations between the Catholic Church hierarchy in Spain and the Socialist government over various of its laws, the Vatican ceremony was attended by Miguel Ángel Moratinos, the Foreign Minister, and José Montilla, the Premier of the Catalan government. The government was keen to ensure the PP could not politically capitalise on the ceremony which was also attended by a Socialist deputy, José Andrés Torres Mora, whose great uncle, a 24-year-old seminarian, was among those beatified.

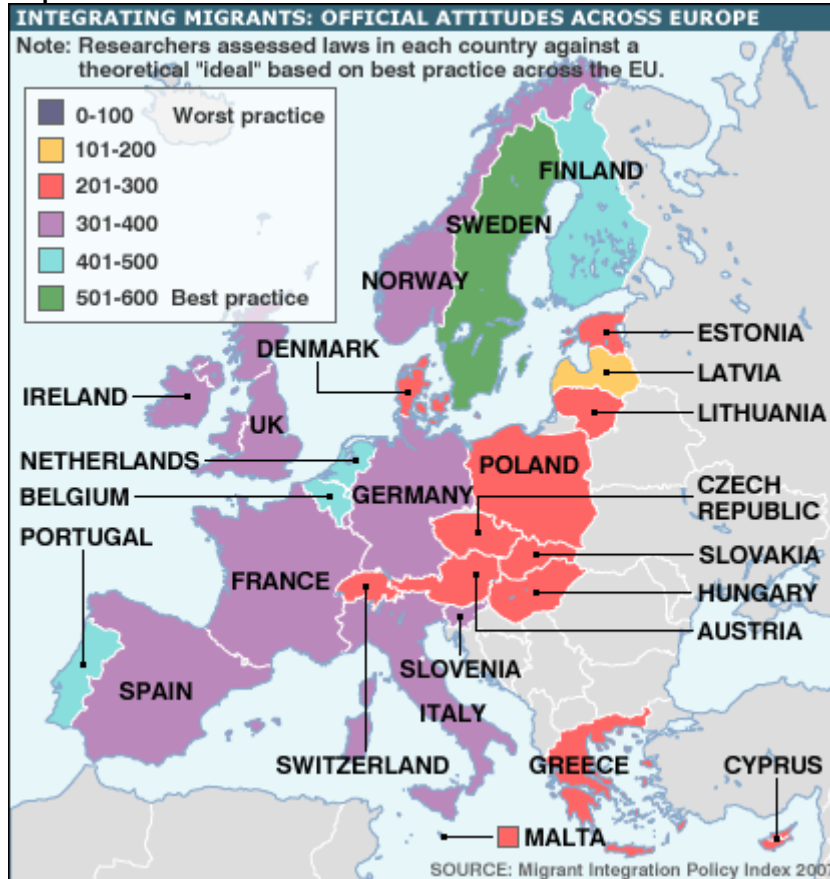
The Church supported Franco's uprising against the democratically elected Republican government, and also the dictatorship that followed the civil war. The nearest it has got to apologising its backing was in December 1971 when a joint assembly of bishops and clergy, convened by the moderate Cardinal Vicente Enrique y Tarancón, Archbishop of Madrid, a man of great charisma and wisdom who later played a key role in the transition to democracy, approved a document. It said: 'We humbly recognise and beg pardon because we have not always known how to be true ministers of reconciliation in the sphere of our people, divided by a fratricidal war'. The vote on this was 123 in favour and 113 against, with 10 abstentions; since it failed to win the approval of two-thirds of the congregation, the text was not included in the assembly's formal conclusions. Since then the Church's hierarchy has become increasingly conservative.

The *Redes Cristianas*, a leftist network of Catholic groups, said the beatification was 'inopportune and discriminatory'. While the new law bans Francoist symbols and plaques on public buildings, nothing has yet been done about the anomalous situation of streets in the Basque Country that bear the name of Eta terrorists who died while 'fighting' for their cause of a separate Basque state. Eta has murdered more than 800 people in the last 40 years.

### *Spain 'Doing Well' in Migrant Integration Policy*

Spain has very quickly become a major destination for migrants and is generally coping well, according to the Migration Integration Policy Index (MIPI) drawn up by the British Council and the Migration Policy Group. Along with the other four EU states with the largest immigrant populations –the UK, Germany, Italy and France– it is in the top half of the ranking (see Map 1).

Map 1.



Only Sweden scored high enough in the MIPI to be classed as a nation entirely favourable to promoting integration. Spain scored particularly well in labour market access (90%), reasonably in long-term residence (70%) and family reunion (66%), but not very well in political participation (50%), anti-discrimination (50%) and access to nationality (41%).

Spain, the study noted, could meet best practice on labour market access with slight improvements to its eligibility rules and labour market integration measures, which both received the second-highest score of the 28 countries surveyed. It attained best practice on security of employment and rights associated. Most work permits are renewable and migrants can stay in Spain to look for a new job if their contract is terminated.

As regards political participation, the Spanish constitution allows third-country nationals to vote and stand in local elections on the basis of reciprocity. Currently, this only applies to Norwegians. The government has proposed granting all non-EU nationals the same voting rights as EU nationals, which would enfranchise up to 2 million people.

Spain scores badly in anti-discrimination because its specialised equality body is not yet operational and its mandate, powers, and legal standing are still ill-defined, according to the study.

## The Economy

### *Spanish Banks Buck Downward Trend in Profits, Santander Buys Two More Banks*

The five largest banks in Spain –Santander, BBVA, the savings banks La Caixa and Caja Madrid, and Banco Popular– increased their combined net profits by 19% in the first nine months to €15,350 million, bucking the downward trend among banks in other developed countries, particularly the US, hit by the fallout from the sub-prime mortgage crisis (see Figure 2).

**Figure 2. Net Attributable Profit of Spanish Banks**

	€Million	% Rise over First 9 Months of 2006
Santander	6,572	32.8
BBVA	4,756	6.7
La Caixa	1,826	1.3
Caja Madrid	1,267	44.4
Banco Popular	929	15.0

Source: Banks.

As a result of its participation in the Royal Bank of Scotland-led consortium that won control of the Dutch bank ABN Amro in October, Santander will substantially strengthen its presence in Brazil and Italy as it is to acquire Amro’s subsidiaries Banco Real and Banca Antonveneta. Santander’s share of the €70 billion offer for Amro was €9.8 billion.

The combination of Santander’s Banespa and Real creates the second-largest bank in Brazil in terms of deposits and the third by network size (with a market share of 12%). In the south/south east, the source of two-thirds of the Brazilian GDP, the market share of the combined bank is 16%. Real provides a presence in areas where Santander is underrepresented, such as Rio de Janeiro and Minas Gerais, while Santander is strong in regions where Real is weaker, such as Rio Grande do Sul. Santander and Real also have a complementary business mix: Real is stronger in areas such as mass market, consumer loans and SMEs, whilst Santander is stronger in affluent banking and business/corporate banking. Santander’s market share in Latin America as a whole will increase to between 10% and 15% in all major products.

In Italy, ownership of Banco Antonveneta has added a retail banking franchise to Santander’s consumer finance (Finconsumo and Unifin) and private banking operations (KBL Fumagalli Soldán). Antonveneta has an overall market share of loans and deposits of around 3%, but it has a stronger position in some of the affluent regions in the north of the country. The Italian banking market, which has proved difficult for Spanish banks to break into, shares some behavioural patterns with Spain and has underdeveloped areas, such as retail mortgages.

The Spanish stock market was one of the best performers among developed countries in the first 10 months of the year (see Figure 3).

**Figure 3. Performance of Main Stock Markets**

Index	%
Dax (Frankfurt)	21.5
Nasdaq	18.3
<b>Ibex-35 (Madrid)</b>	<b>12.3</b>
Dow Jones	11.7
FTSE 100	7.8
Nikkei (Tokyo)	-2.8

Source: Stock Markets.

#### *Mapfre Buys US Insurer*

Mapfre, Spain's biggest insurer, is to pay €1.53 billion for Commerce, based in Massachusetts, strengthening its position in the US where it has companies in Florida, New Jersey and in Puerto Rico.

#### *EU Probe on Tax Relief Scheme*

Neelie Kroes, European Union Competition Commissioner, opened a formal investigation into Spain's tax scheme for foreign acquisitions as a result of receiving complaints from European companies that had lost out to Spanish companies.

Spanish companies are allowed to deduct the goodwill –the value ascribed to some of a business's intangible assets– arising from foreign acquisitions against tax over a period of 20 years. Goodwill is the difference between the book value of assets and the actual price paid.

The government said that since tax policy has not been harmonised across the EU, Brussels had no right to interfere with its tax incentives. Santander showed goodwill arising from its acquisition of Abbey, the UK bank, of €10 billion at the end of 2004 and €8.9 billion at the end of 2006, according to its annual reports.

#### *Gas Natural Acquires Five Power Plants in Mexico*

As a result of the purchase by Gas Natural for US\$1.44 billion of five power plants in Mexico belonging to Electricité de France, three Spanish companies now control two-thirds of that country's private sector electricity generating business. The other two companies are Iberdrola and Unión Fenosa.

#### *Tax Burden Continues to Rise*

Spain's total tax revenues as a percentage of GDP reached 36.7% in 2006, according to provisional figures released by the OECD (see Figure 4). It continued to rise not because of higher tax rates but because of a booming economy and strong corporate earnings.

**Figure 4. Total Tax Revenue (% of GDP)**

	1975	2006
France	35.4	44.5
Germany	34.3	35.7
Italy	25.4	42.7
<b>Spain</b>	<b>18.4</b>	<b>36.7</b>
UK	35.3	37.4
EU-15	32.1	39.8

Source: OECD.

#### *Spain Slips in Globalisation Index, Stands Still in Global Competitiveness Index*

Spain was ranked 29<sup>th</sup> out of 72 countries in the 2007 Globalisation Index drawn up by A.T. Kearney and published in the US magazine *Foreign Policy*, four places lower than



in 2006. The index measure countries on their economic, personal, technological and political integration and is based on data from 2005 (see Figure 5).

Among the large EU economies –France, Germany, the UK and Italy– only the UK’s position (12<sup>th</sup>) remained unchanged. France (25<sup>th</sup>) dropped two places, Germany (22<sup>nd</sup>) four places and Italy (34<sup>th</sup>) seven places. For the fourth time in seven years, Singapore tops the list as the most globalised country in the world.

**Figure 5. Spain’s Rankings in the Components of the Globalisation Index (1)**

	<b>Rank</b>
<b>Dimension</b>	
Economic	40
Personal	30
Technological	25
Political	18
<b>Economic integration</b>	
Trade	52
FDI	28
<b>Personal contact</b>	
Telephone	26
Travel	23
Remittances and personal transfers	39
<b>Technological connectivity</b>	
Internet users	24
Internet hosts	32
Secure servers	21
<b>Political engagement</b>	
International organisations	5
UN peacekeeping	23
Treaties	14
Government transfers	25

(1) Out of 72 countries.

Source: A.T. Kearney and *Foreign Policy*.

In the World Economic Forum’s Global Competitiveness Index, Spain remained in 29<sup>th</sup> place (see Figure 6).

**Figure 6. Global Competitiveness Index Selected Rankings (1)**

	<b>GCI Rank in 2007</b>	<b>GCI Rank in 2006</b>
US	1	1
Germany	5	7
UK	9	2
France	18	15
Chile	26	27
<b>Spain</b>	29	29
China	34	35
Italy	46	47
Poland	51	45

(1) Out of 131 countries in 2007 and 121 countries in 2006.

Source: World Economic Forum.

#### *Spending on the Family, lowest in EU-25*

Spain’s spending on the family and children is the lowest in the EU-25, according to the latest comparative figures (see Figure 7). The country spends a mere 0.7% of GDP, compared with 14% in Denmark, 3% in Germany and 2.5% in France.

**Figure 7. Social Spending on Families and Children (% of GDP), Selected EU-25 Countries (1)**

	<b>% of Total Social Spending</b>	<b>% of GDP</b>
Luxembourg	17.4	3.8
Ireland	15.5	2.5
Denmark	13.0	13.9
Hungary	12.1	2.5
Germany	10.5	3.0
France	8.5	2.5
EU-25	7.8	2.1
UK	6.7	1.7
Italy	4.4	1.1
<b>Spain</b>	<b>3.5</b>	<b>0.7</b>

(1) Figures for 2004.

Source: Eurostat.

The latest figures support the government's assertion that more needs to be done to support the family. Its budget for 2008, an election year, includes tax breaks for single parents and families with newborn children. There is a €2,500 tax rebate (or lump sum payment) for every child born after July 2007 (dubbed 'baby cheques' by the media) and an extra €1,000 per child for single mothers.