



Inside Spain 30

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Foreign Policy

Zapatero Proposes Peace Plan for the Middle East

Spain has won the support of France and Italy for a new Middle East peace plan which will be presented at the EU summit later this month. José Luis Rodríguez Zapatero, the Prime Minister, hopes to also gain the backing of Germany and Britain.

The peace initiative would involve an exchange of prisoners, talks between Israeli and Palestinian leaders, the formation of an internationally-recognised Palestinian unity government, an international mission to monitor the proposed ceasefire and a peace conference.

Spain has committed up to 1,100 troops to Lebanon as part of the UN's peacekeeping mission.

Victor Havel, Israel's ambassador to Spain, criticised the Spanish government for not informing his government of the plan before it was announced at last month's summit in Gerona, Spain, between Zapatero and Jacques Chirac. Miguel Ángel Moratinos, Spain's Foreign Minister, said he had expected an initial 'negative' response, but 'there was nothing (in the plan) that Israel could reject'. Israel views Madrid as too favourably disposed towards Palestine. Spain was one of the first European countries to call Israel's invasion of Lebanon, in response to the kidnapping of two Israeli soldiers, disproportionate.

Rodríguez Zapatero's most high-profile international initiative so far is the 'alliance of civilisations' project, co-sponsored by Turkey (see next item), a project that dovetails with his Middle East peace plan.

Spain and Turkey Present Their 'Alliance of Civilisations' Report

Spain's and Turkey's Prime Ministers presented the findings of a report by a cross-cultural group of 20 prominent world figures to UN Secretary General Kofi Anan in Istanbul last month. The initiative, aimed at healing the rift between Western and Muslim countries, is co-sponsored by the two countries and backed by the UN.

The 'Alliance of Civilisations' initiative, launched by Anan a year ago, includes Anglican Archbishop Desmond Tutu and former Iranian President Mohammed Khatami. The report says the main causes of the rift are not religion or history, but political developments, notably the Israeli-Palestinian conflict (see www.unaoc.org/repository/HLG_Report.pdf).

José Luis Rodríguez Zapatero took advantage of his visit to Istanbul to express support for the full EU membership of the mainly Muslim Turkey at a time when the country's lack of progress towards accession was heavily criticised in the European Commission's latest report (see www.realinstitutoelcano.org/analisis/1069.asp).

Spain has been one of the very few EU countries that has consistently and actively supported Turkey's membership which, if it happens, will be a real alliance of civilisations. Madrid joined London and Rome in saying the Commission's proposal to bar Turkey from opening detailed membership talks in eight out of the 35 policy areas, as a punishment for Ankara's failure to honour its promise to open its ports to shipping from Cyprus, an EU member, was too harsh. They argued that no more than three 'chapters' in the membership negotiations should be put off limits. EU Foreign Ministers will take a decision on the issue later this month.

Equatorial Guinea's Dictator Visits Madrid

Teodoro Obiang, the President of Equatorial Guinea, a Spanish colony until 1968, who has ruled since 1979 when he seized power in a coup, made a low profile visit to Madrid, his first in more than 10 years.

The country (pop. 540,000) has large offshore oil reserves (with an output of 400,000 b/d) but despite the massive economic impact of the windfall revenue on the small country (per capita income is more than US\$20,000) it ranks 120th in the UN's latest human development indicator and 151st in Transparency International's corruption league. Its gap between per capita income and human development is the widest in the world.

Figure 1. Equatorial Guinea



Miguel Ángel Moratinos, the Foreign Minister, visited Equatorial Guinea a couple of weeks before Obiang's trip to Madrid, accompanied by the Chairman of Repsol YPF, the oil and natural gas conglomerate, and representatives of the power company Endesa and the bank BBVA. Repsol is interested in expanding its activities in the country.

Obiang's controversial visit to Madrid was accorded 'working visit' status which meant that there were very few public appearances, no speeches and he did not visit the Spanish Parliament.

The Foreign Ministry justified the visit on the grounds that the human rights situation in Equatorial Guinea is improving, as some political prisoners have been released, and that as the only former Spanish colony in Sub-Saharan Africa Spain needs to keep open a dialogue. The opposition to Obiang, some of it based in Spain, criticised the visit.

Spain to Ease Restrictions on its Troops in Afghanistan

Spain agreed to ease the caveats that keep its troops out of the most dangerous areas of Afghanistan but on a case-by-case basis and only the Spanish command can decide when this would happen. And it will not increase the number of troops it has there.

This was the basic position adopted by the government at the Nato summit in Riga, Latvia, where US President George W. Bush berated some countries for their reluctance to send troops to Afghan hotspots (see Figure 2). Commanders have requested 2,500 extra troops for the battle in southern Afghanistan.

Figure 2. Main Flashpoints in Afghanistan



Source: The BBC.

Spain, Germany, France and Italy, which together have more than 6,000 of the total 32,795 troops (see Figure 3), restrict where, when and how troops can be used. These countries negotiated dozens of so-called 'red cards', which were offered in exchange for their assistance in the security and reconstruction programme. France and Germany also agreed to make small adjustments, but, like Spain, they are not prepared to move troops to the south, where Nato faces fierce fighting with the Taliban.

Figure 3. Nato-led Troops in Afghanistan

US	11,800	Denmark	300	Czech Republic	100
UK	6,000	Sweden	200	Estonia	90
Germany	2,700	Australia	200	Finland	90
Canada	2,500	Hungary	200	Slovakia	60
Netherlands	2,000	Greece	170	Slovenia	50
Italy	1,800	Poland	160	Albania	30
France	975	Bulgaria	150	Latvia	30
Rumania	750	Portugal	150	Azerbaijan	20
Spain	650	Lithuania	140	Iceland	10
Turkey	460	Macedonia	120	Luxembourg	10
Belgium	340	New Zealand	100	Ireland	10
Norway	320	Croatia	100	Austria + Switz.	10

Source: United Nations.

Around 90% of the casualties suffered by troops in Afghanistan have involved just four countries: the US, Britain, Canada and the Netherlands.

José Antonio Alonso, the Defence Minister, said Spanish troops would be prepared to help out their colleagues when they were in difficulties, but they could not be taken into account when planning military operations. Helicopters piloted by Spaniards have already been deployed from Herat to evacuate injured soldiers in the south. Under no circumstances, Alonso said, would command of the Spanish troops be cede; the chief of the general staff would continue to control the troops and decided what constituted an emergency situation.

Public opinion polls in Spain show support for peacekeeping and reconstruction missions, but not for military engagement.

Spain to Begin Flights to Gibraltar

Flights from Spain to the UK overseas territory of Gibraltar, under the historic deal struck between Madrid, London and the Rock in September, will begin later this month.

The deal was the first one under the tripartite forum established in 2004 to air longstanding grievances which until then had been dealt with through megaphone diplomacy. Spain, however, has not dropped its sovereignty claim, but is not pursuing it aggressively (see *Inside Spain*, Newsletter 28, 4 October, 2006). The three sides agreed a series of measures to ease border crossings and improve transport and telecommunications links.

Until the agreement Spanish governments had refused to give way to Gibraltar's claims to the same travel rights applicable in the rest of the European Union, including a refusal to use its airspace.

Gibraltarians approved a new constitution on 30 November which gives the Rock greater autonomy. The new charter was approved by 60.2% of those who voted and rejected by 37.7%. Turnout was 60.4%, much lower than the last referendum in 2002 when almost 100% of the electorate of around 20,000 turned out to vote against sharing sovereignty with Spain. The new constitution does not alter Britain's sovereignty over Gibraltar. Britain recognises the colony's right to self-determination but under a 1713 treaty Spain can regain sovereignty if Britain decides to give it up.

Domestic Scene

Government and Political Parties Admit Peace Process with Eta is 'Stuck'

The peace negotiations with the Basque terrorist group Eta, more than eight months after it declared a ceasefire, are getting nowhere. 'The process is not getting off the ground', Alfredo Pérez Rubalcaba, the Interior Minister, admitted. The Basque Nationalist Party (PNV), which governs the region, and the Basque Socialist Party (PSE), the main opposition party there, shared this view, while the conservative Popular Party (PP), the main national opposition party which refuses to support the Socialists' initiative, hardened its position and brought supporters out into the streets to demonstrate against the government.

José Luis Rodríguez Zapatero, the Prime Minister, told Batasuna, the outlawed party which shares Eta's political ideals and is held responsible for the increasing street violence in the Basque country, that 'with violence, you will get nothing'. In the most serious incident, a policeman was covered in petrol and narrowly escaped being burned.

In its latest internal bulletin Eta said the street violence was the 'logical response' to the 'attacks' by the judiciary and the police against Batasuna.

Meanwhile, the French authorities officially confirmed that Eta was responsible for the theft of 350 firearms from a warehouse in southern France, and French police arrested three alleged members of the group including Zigor Garro Pérez, the logistical head.

The Association of Terrorism Victims (ATV), backed by the PP, called a demonstration in Madrid, including José María Aznar, the former PP Prime Minister, which was attended by 130,000 people, according to the government, and 1.3 million according to the ATV and the PP. *El País* independently calculated the number at close to 120,000 and specified, unlike the ATV and the PP, how it had arrived at the figure. The ATV is not the only association of victims, but it is the most strident.

The PP wants Eta to lay down its arms before there are contacts with the group. In response to the PP's accusations that the government will make concessions to Eta in return for a definitive end to its almost 40 years of violence, the Socialists released a video showing the PP's stance towards Eta when it was in power (1996-2004) and during Eta's 1998 ceasefire. At that time the Socialists, in opposition, supported the PP's attempts to resolve the Eta problem. The video inflamed the PP and led Eduardo Zaplana, the party's spokesman in Parliament, to say that it had 'dynamited all possible bridges' with the government.

The Roman Catholic Church, still very influential in Spain, also entered the debate with a pastoral letter issued by the Episcopal Conference which groups all the bishops. It said Eta was no one's 'legitimate political representative' but if it 'definitively renounced violence' the government 'could adopt in some cases measures of indulgence'. It urged political parties to 'put union before their political differences or strategy'.

Spain Rises in UN's Human Development Index

Spain was ranked 19th out of 177 countries in the latest UN Human Development Index (HDI), up from 21st position in the 2005 index, although because of periodic revisions of data or changes in methodology by international agencies, statistics presented in different editions of the report are not always comparable.

The HDI is a composite index that measures the average achievements in a country in three basic dimensions of human development: (1) a long and healthy life, as measured by life expectancy at birth; (2) knowledge, as measured by the adult literacy rate and the combined gross enrolment ratio for primary, secondary and tertiary schools; and (3) a decent standard of living, as measured by GDP per capita in purchasing power parity (PPP) US dollars (see Figure 4).

Figure 4. UN Human Development Index for Selected Countries

Ranking (1)	Human Development Index (HDI) Value (2004)	Life Expectancy at Birth (2004)	GDP per Capita (PPP US\$) 2004
1. Norway	0.965	79.6	38,454
5. Sweden	0.951	80.3	29,451
8. United States	0.948	77.5	39,676
16. France	0.942	79.6	29,300
17. Italy	0.940	80.2	28,180
18. United Kingdom	0.940	78.5	30,821
19. Spain	0.938	79.7	25,047
21. Germany	0.932	78.9	28,303
38. Chile	0.859	78.1	10,874
53. Mexico	0.821	75.3	9,803

(1) Out of 177 countries.

Source: United Nations Human Development Report, 2006.

And is Ranked above the US and the UK in the EIU's Democracy Index

Spain is ranked 16th out of 167 countries in a new democracy index drawn up by the Economist Intelligence Unit (EIU), higher than the United States and the United Kingdom. The ranking was published almost 31 years to the day after the death of General Franco, Spain's dictator between 1936 and 1975 (see Figure 5).

Figure 5. Economist Intelligence Unit Democracy Index 2006

	Rank	Overall Score	I Electoral Process and Pluralism	II Functioning of Government	III Political Participation	IV Political Culture	V Civil Liberties
Full democracies							
Sweden	1	9.88	10.00	10.00	10.00	9.38	10.00
Iceland	2	9.71	10.00	9.64	8.89	10.00	10.00
Netherlands	3	9.66	9.58	9.29	9.44	10.00	10.00
Norway	4	9.55	10.00	9.64	10.00	8.13	10.00
Denmark	5	9.52	10.00	9.64	8.89	9.38	9.71
Finland	6	9.25	10.00	10.00	7.78	8.75	9.71
Luxembourg	7=9	10	10.00	9.29	7.78	8.75	9.71
Australia	8=9	09	10.00	8.93	7.78	8.75	10.00
Canada	9	9.07	9.17	9.64	7.78	8.75	10.00
Switzerland	10	9.02	9.58	9.29	7.78	8.75	9.71
Ireland	11=	9.01	9.58	8.93	7.78	8.75	10.00
New Zealand	11=	9.01	10.00	8.57	8.33	8.13	10.00
Germany	13	8.82	9.58	8.57	7.78	8.75	9.41
Austria	14	8.69	9.58	8.21	7.78	8.75	9.12
Malta	15	8.39	9.17	8.21	6.11	8.75	9.71
Spain	16	8.34	9.58	7.86	6.11	8.75	9.41
US	17	8.22	8.75	7.86	7.22	8.75	8.53
Czech Rep.	18	8.17	9.58	6.79	7.22	8.13	9.12
Portugal	19	8.16	9.58	8.21	6.11	7.50	9.41
Belgium	20=	8.15	9.58	8.21	6.67	6.88	9.41
Japan	20=	8.15	9.17	7.86	5.56	8.75	9.41
Greece	22	8.13	9.58	7.50	6.67	7.50	9.41
UK	23	8.08	9.58	8.57	5.00	8.13	9.12
France	24	8.07	9.58	7.50	6.67	7.50	9.12
Mauritius	25=	8.04	9.17	8.21	5.00	8.13	9.71
Costa Rica	25=	8.04	9.58	8.21	6.11	6.88	9.41
Slovenia	27=	7.96	9.58	7.86	6.67	6.88	8.82
Uruguay	27=	7.96	10.00	8.21	5.00	6.88	9.71

Source: The Economist Intelligence Unit.

The democracy issue, says Laza Kekic, the report's author, is not only of academic interest. For example, although democracy-promotion is high on the list of American foreign-policy priorities, there is no consensus within the American government on what constitutes a democracy.

The EIU's index is based on five categories: (1) electoral process and pluralism; (2) civil liberties; (3) the functioning of government; (4) political participation; and (5) political culture. The five categories are interrelated and form a coherent conceptual whole. At present, the best-known measure is produced by the US-based Freedom House organisation. The average of its indexes of political freedom and civil liberties is often taken to be a measure of democracy. The 167 countries in the EIU index are divided into full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Although Spain was ranked in the middle of the full democracies, its score (8.34) is below the average (8.6) for Western Europe. Spain's democracy is still very young compared to almost all the others in the list of full democracies, while the quality of much older ones, such as the UK and France, has deteriorated.

UN Special Advisor Denounces Spain's Housing Crisis

Spain's housing market is suffering from 'unbridled speculation' and an 'extreme' level of corruption, Miloon Kothari, a UN special advisor, concluded at the end of a 12-day trip to investigate the situation. The government invited him to visit Spain after the Office of the High Commissioner for Human Rights was flooded with complaints.

Kothari said this situation was preventing many people from entering the housing market. He said the government should have greater control over urban development and that no more land should be reclassified for development until the new law on land was in place.

Parliament Approves Dependency Law

In a rare spirit of consensus, the Socialists and the opposition Popular Party joined forces and approved the government's law which gives dependent persons the right to seek attention from the state, depending on their condition and economic means.

The Socialists have attached particular importance since taking office in 2004 to bringing Spain more into line with the EU-15 countries in social advances.

The Economy

Scottish Power Backs €17 billion Bid from Iberdrola

Iberdrola, Spain's second-largest electricity company, pressed ahead with its €17.2 billion bid for Scottish Power which would create Europe's third-biggest integrated power utility. Scottish Power, with more than 5.2 million UK customers, supports the deal which could trigger rival bids. The acquisition requires shareholder and regulatory approval.

This latest move on corporate UK by Spanish companies follows Ferrovial's purchase of airports operator BAA in June and earlier in the year Telefónica took over mobile phone firm O2, while Abbey was acquired by Grupo Santander in 2004.

Scottish Power has electricity generation and storage facilities in the UK, the US and western Canada and is Britain's biggest generator and developer of wind energy. Iberdrola is one of the world's biggest producers of renewable energy and has interests in various countries including the US.

The take-over would create Europe's third-largest utility after France's EdF and Germany's E.on which is embroiled in a long-running saga to take over Endesa, Spain's largest power company and Iberdrola's main rival in the country.

The European Commission moved against the Spanish government yet again at the end of November when it issued a 'preliminary assessment' finding illegal a series of new conditions imposed by Madrid on the €37 billion German bid. The government relented in October and lifted most but not all of the 19 restrictions imposed on E.on in July, which Brussels had declared illegal, and, according to the Commission, added new ones (see *Inside Spain*, Newsletter 29, 7 November 2006). Although E.on accepted the new terms, the Commission is adamant that Madrid has no right to interfere in a deal that was approved by the Brussels regulator more than seven months ago.

The Commission has already opened two separate infringement procedures against the government: one for breaching internal market rules and one for violating Brussels' exclusive power to rule on big, pan-European mergers.

BBVA to Acquire Stakes in Two Chinese Banks

BBVA, Spain's second-largest bank, is to enter China's financial sector after agreeing to spend close to €1 billion on stakes in two banks controlled by the Citic conglomerate. It will pay €501 million for 5% of Citic Bank, China's seventh-largest lender, and €488 million for 15% of the Hong Kong-listed Citic International Financial Holdings.

The investment, the largest by a Spanish company in mainland China, was preceded by Telefónica's failed attempt to acquire 8% of PCCW, Hong Kong's leading fixed-line operator. Telefónica acquired 5% of China Netcom, China's second-largest fixed-line operator, in 2005 and has the option to raise it to 10%.

BBVA beat off bids for Citic from several banks including Grupo Santander, its main rival in Spain. As a result of this and other acquisitions, the bank carried out a €3 billion capital increase to strengthen its core capital to more than 6%. Since its last capital increase in 2004, BBVA has spent €4.6 billion on two Texan banks, add-on acquisitions in Latin America and the stakes in China Citic Bank and its international unit CIFH.

Both BBVA and Telefónica have large investments in Latin America and have been diversifying to varying degrees into Asia, the United States and Europe over the last two years.

Repsol Boosts its Presence in the Gulf of Mexico

Repsol YPF has acquired a 28% stake in the US Gulf of Mexico oil field Genghis Khan for US\$378 million. This followed its purchase in July for US\$2.15 billion of a 28% stake in the adjacent Shenzi oil field off the coast of Louisiana.

The company holds 28% of the consortium which acquired the field with two other companies for US\$1.35 billion from Anadarko Petroleum Corporation.

The acquisitions are part of Repsol's policy of re-balancing its reserves in areas of low political risk, following a reassessment of its operations in Bolivia, whose oil and gas sectors were nationalised in May. Repsol agreed a deal with the Bolivian government last month which enables it to stay on.

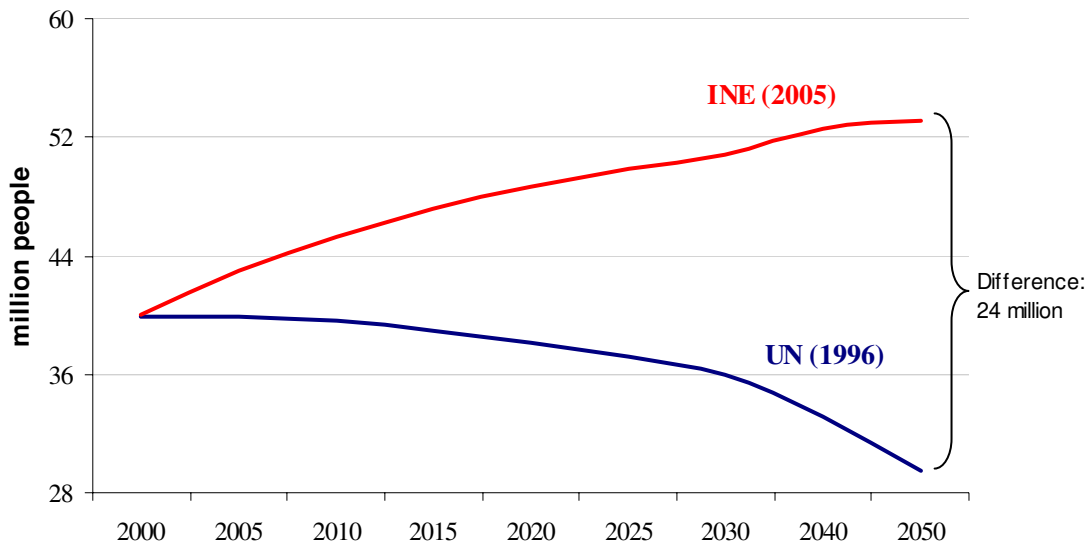
Immigrants Boost Spain's Per Capita Income

The influx of immigrants into Spain has increased per capita income, made the labour market more flexible, generated a surplus in the social security accounts and reversed the decline in the country's population.

The positive impact of the arrival in Spain of some 3 million people between 2000 and 2005 (from EU and non-EU countries) is emphasised in a report drawn up by Miguel Sebastián, the chief economic advisor to José Luis Rodríguez Zapatero, the Prime Minister, who recently left his post to run on the Socialists' ticket for mayor of Madrid (see www.la-moncloa.es/NR/rdonlyres/0A0CB2F0-97AB-4F7D-8915-136A678022AE/78630/INMIGRACIONYECONOMIAESPA%C3%91OLA15noviembre.pdf).

Ten years ago the United Nations Population Division forecast that Spain's population would sharply fall by 2050 to around 28 million because of its declining birth rate. As a result of the inflow of immigrants and their higher birth rate, the population, according to the National Statistics Office, will reach just over 52 million (see Figure 6). Spain's annual population growth rate in 2001-05 for those aged between 15 and 64 was 1.5%, its highest ever in recorded history (1.2 points of which was due to immigrants).

Figure 6. Spanish Population Forecasts



Source: National Statistics Office (INE) and United Nations Population Division.

Immigrants, who are generally doing the menial jobs that Spaniards do not want, were responsible for 50% of Spain's average annual GDP growth of 3.1% between 2001 and 2005 compared with 12% of the 4.1% growth between 1996 and 2000. Without these immigrants, per capita income in 2001-05 would have been €623 lower (€124 a year).

The economy is expected to grow by close to 4% this year, the 14th straight year of expansion higher than that of the Euro area.

Minimum Wage in 2007 to Rise by more than 5%

Spain's minimum monthly wage in 2007 will be €570, 5.4% more than in 2006 and again higher than the rate of inflation. The government promised when it took office in 2004 that by the end of its term of office in 2008 the wage would be around €600.

The country's minimum wage is the second-lowest among the EU-15 countries after Portugal. This wage directly affects around 130,000 people but, more importantly, it is used as a benchmark for various concepts in collective bargaining agreements. The Labour Ministry estimates that more than 800,000 people benefit from the rise in the minimum wage.

Creation of Small Companies Bogged Down in Red Tape

The creation of small companies in Spain takes the longest time among all OECD countries except for Portugal, according to the Institute of the German Economy. While it only takes two days in Australia and eight days in France in Spain it takes 47 days and involves 10 different offices or departments (see Figure 7).

Figure 7. Creation of Small Companies in Selected OECD Countries

	Number of Days	Number of Offices or Departments for Procedures
United States	5	2
France	8	7
Italy	13	9
United Kingdom	18	9
Germany	24	9
Japan	31	11
Spain	47	10
Portugal	54	11

Source: Institute of the German Economy, Cologne.

The length of time it takes is one of the main complaints of established and potential foreign investors in Spain, an issue aired at the *Economist's* roundtable with the government last month.

Tax Burden Rises, but Still Below EU Average

Spain's tax burden (tax receipts including social security as a percentage of GDP) rose to 35.6% in 2005, the first full year of Socialist government, from 34.5% in 2004 (see Figure 8).

Figure 8. Tax burden (% of GDP)

	2001	2002	2003	2004	2005
Spain	33.48	33.91	33.93	34.53	33.59
EU-15 average	40.50	39.80	39.90	39.70	40.20

Source: Economy Ministry.

The increase, half the total rise of 2.1 pp over the last five years, was due not to higher tax rates (corporate and income tax rates will begin to decline as of next year) but to much higher corporate earnings and overcoming the impact of the last tax reform in 2003.