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Foreign Policy

Spain and Ecuador Agree Plan for Return of Immigrants

The Spanish and Ecuadorean governments plan to launch a pioneering scheme to help Ecuadorean immigrants return to their country. The move, agreed during a tour in August of six Latin American countries by María Teresa Fernández de la Vega, Spain's Deputy Prime Minister, came in response to a call by Rafael Correa, Ecuador's President, for better treatment of the more than 400,000 Ecuadoreans legally in Spain and an unknown number illegally.

Correa, who visited Madrid in July, first called for an amnesty for Ecuadoreans illegally in Spain and then suggested an easing of the procedures so that direct family members living in Ecuador could join their relatives in Spain.

Both governments would provide facilities for the return of immigrants to Ecuador including payment of air tickets and exemption from customs duties on goods shipped home.

Close to 40% of the US\$770 million of total remittances sent by Ecuadoreans abroad during the second quarter of 2007 came from Spain.

On the latest leg of her tour of Latin America, Fernández de la Vega met the Argentine President Nestor Kirchner and called for a stable legal framework for Spanish companies in the country. Spanish banks including Santander and BBVA and companies including Telefónica and Repsol were hard hit by Argentina's financial meltdown in 2002 and relations between some of them and the government over the freezing of tariffs since then have been tense.

Last year a total of 210,052 immigrants were hired by Spanish companies abroad and brought to Spain with work permits, 36% of them from Rumania (which like Bulgaria joined the EU this year but whose citizens do not yet have the automatic right to work in other EU countries). In the first half of 2007, the number requesting to work in Spain under the same system was 178,753.

Zapatero and French PM Herald Blow Against Eta

José Luis Rodríguez Zapatero, the Prime Minister, and his French counterpart, François Fillon, met in Madrid to discuss the crackdown on the Basque terrorist organisation Eta, which has waged a violent campaign since the 1960s for an independent state in northern Spain and south-western France.

¹ The last Inside Spain appeared on 17 July.

Since 5 June when the group formally ended a 15-month ceasefire, French and Spanish police, working closely together, have arrested more than 25 suspected Eta members including the group's alleged logistics chief and its leading bomb maker (see Figure 1). French police also found 40 kilogrammes of explosives, two mines and 150 detonators in a rented garage in the resort city of Biarritz.

'We have hit Eta hard', said Fillon. 'With its cooperation, France reiterates its total determination to stand by Spain', Zapatero said. 'The French government has showed it takes this very seriously'.

Luis Ignacio Iruretagoyena, Eta's leading bomb-making expert according to the Spanish Interior Minister Alfredo Pérez Rubalcaba, was arrested along with three other people in a house in a suburb of Cahors (see Map). The Minister said they were involved in the attack at Madrid's airport on 30 December 2006 which killed two people. He said the house was an 'operational base' for Eta.

Map 1.



Source: BBC.

The redoubling of efforts against Eta, particularly in the Basque region of France which is used as a haven by Eta members and for hiding weapons, is led by France's new Interior Minister, Michelle Alliot-Marie, a former Mayor of San Juan de Luz, a town near the border with Spain.

Figure 1. Arrests of Suspected Eta Members

	2004	2005	2006	2007 (1)	Total
In Spain	79	55	17	48	199
In France	63	32	26	26	247
Other countries	4	1	0	6	11
Street violence	19	27	14	28	88

(1) Up to August 6.

Source: Spanish Interior Ministry.

Eta returned to violence on a significant scale on 24 August when a van packed with explosives was detonated outside a Civil Guard station in Durango. Two police officers were injured. The blast was the biggest since the one at Madrid's airport. Eta did not formally suspend its ceasefire it announced in March 2006 until June as it said the two deaths at the airport were unintended.

Spain Presents a Candidate to Head Nato's Military Committee for First Time

The government has put forward General Félix Sanz Roldán, Chief of the Defence Staff, for the top European military job as head of Nato's Military Committee. The other two candidates for the three-year job so far, which will be decided in November, are Italy's Admiral Giampaolo di Paola and Poland's General Franciszek Gągor.

The supreme commander of Nato is always an American. Despite the abrupt withdrawal of Spain's 1,200 peacekeeping troops from Iraq in 2004, shortly after José Luis Rodríguez Zapatero took office and fulfilled an election promise, Washington apparently has no strong objections to General Sanz, whose move into Spain's top military post coincided with the pull out.

Spain joined NATO in 1982 under the post-Franco UCD (*Unión de Centro Democrático*) government and membership was confirmed in a controversial referendum in 1986 by the Socialists after they won a landslide victory in 1982. Spain did not become part of the integrated military structure until 1999.

Domestic Scene

Catalonia Hit by Power Cuts, Train Delays and Traffic Jams

Barcelona, Spain's second-largest city, suffered a massive power cut which affected 350,000 homes for two days, brought the metro system to a halt and gridlocked road traffic. In other incidents suburban trains came to a halt on several occasions and a 75-km traffic jam in Catalonia led the authorities to open two toll roads to all traffic free of charge to try to ease the congestion but to no avail. The loss to businesses was estimated at more than €60 million.

The collapse of a single power cable produced an overload which triggered a short circuit in several transformer stations, one of which was burnt to a crisp. Feinsa-Endesa, the local electricity company, and Red Eléctrica, the state company responsible for the transmission network and for operation of the electricity system, blamed one another for the outrage, the worst in many years. Thousands of furious Catalans took to the streets and protested by banging saucepan lids.

Miguel Valls, the head of the Barcelona Chamber of Commerce, said Catalonia accounted for 19% of Spain's electricity consumption but Red Eléctrica only assigned 8% of its total investment to the region. His remarks echoed growing resentment, particularly among pro-independence Catalan politicians who complain that the central government's investment in infrastructure in the autonomous region does not reflect its importance in the Spanish economy as a whole.

Josep Carod, leader of the pro-independence ERC party and deputy premier of the Catalan coalition government, said 2014 was the year when Catalonia should decide to push for independence.

Manuel Pizarro, the Chairman of Endesa, said Spain could not expect 'German quality with third world prices', in a reference to what he said were low tariffs for power, while Luis Atienza, the Chairman of Red Eléctrica, admitted there was a need to invest more in electricity.

Infrastructure in some parts of Spain is feeling the pinch from an economy that has been growing at a brisk pace for a decade and a population that has risen by around 10%, largely as a result of the massive influx of immigrants.

Supreme Court Ruling on Spanish Flag Revives Unity Issue

The Supreme Court ruled that the Spanish flag must fly outside all public buildings. The ruling came in response to an appeal by the Basque regional government, which had been ordered by a lower court to fly the flag outside the academy of its police force (*Ertzainza*).

The Court dismissed the Basque government's argument that it did not need to do so as the flag had not flown outside the headquarters of the *Ertzaintza* for more than 20 years. This, said the Court, did not exempt it from doing so and the flag must be hung 'permanently' in 'a preferential place, inside or outside the building'.

Spain's 17 autonomous regions and the two autonomous cities of Ceuta and Melilla on the North African coast have their own ensigns but they are not a substitute for the national flag which must fly alongside them. A new national flag –red and yellow with the Spanish coat of arms– was adopted in 1981, six years after the death of General Franco who ruled Spain for 36 years after winning the Civil War in 1939. Ardent nationalists in the Basque Country and Catalonia still associate it with the dictatorship which repressed their languages and culture.

Flags have become a symbol of division not unity in Spain. While the political allies of the Basque terrorist organisation Eta, which is still fighting for an independent Basque Country, exalt the *ikurriña* and burn the Spanish flag, right-wing extremists sometimes carry the Spanish flag used during the Franco regime and leftists often bear the red, purple and gold standard in use during the Second Republic (1931-36). To the fury of those in favour of Basque independence, the *Ertzaintza* is responsible for protecting the Spanish flag when protesters try to burn it.

In another potentially divisive issue, moves are afoot to put words to Spain's national anthem. A Francoist paean to the fatherland was dropped after the dictator's death in 1975 and since then Spain's athletes have been wordless when the anthem is played at international competitions. Spain's Olympics Committee has asked Spaniards to produce new lyrics and parliament will choose the best one. It is a moot point whether the word *España* will figure among the lyrics.

Basque Premier Challenges Madrid with Fresh Call for Self-Determination Referendum

Juan José Ibarretxe, the nationalist Premier of the Basque Country, said he would call a referendum on making the region an 'associated free state', putting himself on a collision course with the central government as such a move is unconstitutional.

Ibarretxe first raised the idea in 2004 and it was rejected by the Spanish parliament in 2005.

His call comes at a time when the Basque terrorist group Eta is on the offensive (see the Foreign Policy section) and is in marked contrast to the tougher stance towards Eta taken by Josu Jon Imaz, the President of the Basque Nationalist Party (PNV). Ibarretxe said the referendum should be held regardless of whether Eta stopped its violent activities, reversing his previous position.

Human Rights Watch Denounces Situation of Unaccompanied Migrant Children from Africa

Human Rights Watch (HRW) urged the government to close four emergency centres in the Canary Islands set up to deal with a flood of unaccompanied migrant children from Africa and provide adequate care. It said they were at risk of violence and ill-treatment.

Its report documents the situation of these children in often 'overcrowded and poor conditions' (see <http://hrw.org/reports/2007/spain0707/spain0707web.pdf>). 'These children should be protected by the Spanish authorities, not left to suffer beatings and abuse', said Simone Troller, HRW's European children's rights researcher. More than 900 children, mainly boys from Senegal and Morocco, have arrived in the past year, usually in makeshift boats. The Canary Islands regional authorities opened four centres for them. Some 500 were transferred to mainland Spain but this did not substantially ease the pressure on the Islands' child protection services.

HRW called on the government to identify a durable solution and enable children to apply for asylum as they are entitled to the provisions in the Convention on the Rights of the Child, which Spain ratified in 1990.

The Canary Islands' government denied the accusations and said the HRW report was not rigorous. HRW said its task was to present the testimony and it was the responsibility of the office of the public prosecutor to open an investigation.

The number of immigrants known to have arrived illegally in the Canary Islands and the Straits of Gibraltar in the first seven months of 2007 was 7,934, 55% fewer than in the same period of 2006. In August, fewer than 1,000 arrived in the Canary Islands as against more than 7,000 in the same month of 2006. The three main reasons given for the sharp decline were: greater vigilance in the Atlantic by EU migratory authorities (Frontex), a significant increase in the number of people repatriated and greater cooperation between Spain and the sub-Saharan countries from where most of the immigrants come from.

Vatican Backs Bishops' Offensive Against Education for Citizenship Course

The Vatican threw its weight behind the offensive mounted by Spain's Catholic Church against a new course, Education for Citizenship, which will begin to be taught in secondary schools as of this month (see *Inside Spain*, Newsletter 36, 27 July 2007). Archbishop Angelo Amato, secretary of the Doctrine of the Faith, said during a visit to Madrid that the state 'should not impose religious and ethical convictions, but one's own conscience'.

Mariano Fernández Bermejo, the Justice Minister, earlier warned Spain's bishops not to continue 'inciting' parents to declare themselves against the course on the grounds of conscientious objection. Some Catholic schools have sent letters to parents urging them to do this. The rule of law, he said, took precedence over faith. The course was approved last year by all parties in parliament except the conservative Popular Party.

The Church lost absolute control over religious education after the end of the Franco dictatorship in 1975 and the advent of democracy and since then has fought with most governments over matters of education and other issues such as the legalisation of divorce, abortion and same sex marriage.

New Framework Mandate for State-Run TV and Radio Group

The new nine-year mandate for RTVE guarantees the independence of the state-run TV and radio group from party politics, after more than 30 years of being at the service of the government of the day, and requires it to contribute to the ‘construction and identity of Spain’.

As a result, RTVE will broadcast in Spanish and the other official languages in the regions where they are spoken and the content will reflect the plurality of Spanish society, making sure that nobody feels discriminated against because of their age, disability, race, religion, sex or sexual orientation.

RTVE will also have to offer detailed coverage of the official activities involving King Juan Carlos, Prince Felipe, the Prime Minister and Ministers, as well as the Parliament and Senate, the political parties represented and regional governments.

The government began to reform RTVE in 2006. The current head of it was appointed by parliament and not by the government and the state has assumed its massive debt in return for much stricter adherence to budgetary targets which, if not met, can trigger the sacking of its board.

The Economy

Unemployment and Inflation Fall, Economy Slows Slightly

The unemployment rate dipped below 8% at the end of June, the lowest level since 1978, and July’s inflation rate of 2.2% year-on-year was the lowest rate in three years. Meanwhile, the economy grew 4% year-on-year in the second quarter, down from 4.1% in the first quarter, and the current account deficit widened to €45,519 billion in the first five months from €35,183 billion a year earlier.

Construction, which accounts for about 18% of GDP and is one of the main growth engines, continued to slow down. Investment in the sector rose an annual 4.8%, against 5.2% in the first quarter. At the height of the decade-long property boom, annual growth rates were more than 15%. House prices are generally regarded as overvalued.

Despite the slight deceleration, the economy ministry revised upwards its GDP growth forecast for the full year from 3.4% to 3.8% and projected growth of 3.3% in 2008 (see Figure 2).

Figure 2. Macroeconomic Picture 2006-08 (% annual change)

	2006	2007 (1)	2008 (1)
GDP	3.9	3.8	3.3
Gross fixed capital formation	6.3	5.8	4.6
Capital goods and other products	7.2	6.9	5.7
Construction	5.9	5.1	3.8
Domestic demand	4.6	4.3	3.7
Exports	6.2	5.4	5.0
Imports	8.4	0.8	6.0
External contribution	-1.1	-0.8	-0.6

(1) Forecasts.

Source: Economy Ministry.

According to David Vegara, the Secretary of State for the Economy, the impact of the sub-prime mortgage crisis in the US on Spain's economy as a whole and on the financial sector in particular will be minimal. He said a total of 69 insurance firms and pension fund management funds were involved in the international funds blocked as a result of the credit squeeze, and that the proportion of their funds affected was below 1% in each case.

Mortgage holders, however, are beginning to feel the pinch from higher interest rates. It is estimated that one in every four families with a mortgage is paying 23% more a month than in 2005 as a result of the increase in Euribor, the benchmark interest rate. Household indebtedness as a percentage of disposable income rose from 70.7% in 2000 to 115% in 2006.

The exposure of Spanish banks to the sub-prime market (for borrowers, who do not qualify for the best interest rates because of their deficient credit history) is negligible, and the quality of their loan books is excellent.

Non-performing loan ratios are low and coverage of bad debts is high. Nevertheless, the share prices of the main banks –Santander and BBVA– took a heavy knock during August from the fall out from the sub-prime fiasco. Santander owns 9% of the US auto finance company Drive Financial, which has a 4% share of the sub-prime customer segment, and BBVA owns several small banks in Texas and other states.

Spain's stock market rose 2.36% in the first eight months of the year, slightly higher than London but well below Frankfurt (see Figure 3).

Figure 3. Main World Stock Market Indices (1)

Index	
Ibex-35 (Spain)	+2.36
Euro Stoxx 50	+4.24
FTSE 100 (London)	+1.33
Dax (Frankfurt)	+15.78
Dow Jones	-2.20
Nikkei (Tokyo)	-3.81

(*) Percentage change in first eight months of 2007.

Source: Markets.

Thanks to the Bank of Spain's very prudent approach, Spain's commercial and savings banks have not been provided with the lending facilities that banks have in other countries. And they have been obliged to build up loan-loss provisions to be used when the country's buoyant economic situation comes to an end.

New Take-over Code Comes Into Effect

The last-minute and winning offer by Italy's Enel and Spain's Acciona to the shareholders of Endesa, Spain's largest electricity company, after the period for contesting bids had expired, would not have been allowed had the new Take-over Code come into effect before April, when the protracted wrangle for Endesa was resolved, instead of in August.

This is one of the changes to the take-over climate, modelled on a European Union directive of 2004 which the government has been slow to implement. While the changes came too late for Germany's E.on, which entered the struggle for Endesa in February 2006, they give the UK's Imperial Tobacco a slight advantage in its €16.2 billion bid for

the Franco-Spanish Altadis made in July of this year. The initial bidder is allowed to make a revised pitch to shareholders if its offer is less than 2% below that of a competitor in a sealed bid.

Companies are also now allowed to buy up to 30% of a target's shares in the open market after announcing an offer and the legislation has put an end to the so-called 'partial' take-over, under which the big industrial, financial and family groups were able to gradually build minority control of one another with little regard for minority shareholders.

Prisa Buys Chile's Largest Network of Radio Stations

Grupo Prisa, the largest education, information and entertainment business group in Spanish-speaking markets and the publisher of *El País*, Spain's main daily, bought Iberoamerican Radio Chile (IARC), Chile's largest network of radio stations, for €54.5 million. The 231 stations in Chile join Prisa's Unión Radio network (see Figure 4).

Figure 4. Prisa's Radio Stations in the Americas

	Number of stations
Argentina	77
Chile	231
Colombia	171
Costa Rica	3
Ecuador	32
Guatemala	32
Mexico	89
Panama	13
Peru	63
United States	49*
Total	760

(1) Two own (Miami and Los Angeles) and 47 associated.
Source: Prisa.

Roca Becomes Russia's Largest Ceramic Bathroom Equipment

Roca, the family-owned bathroom specialist, agreed to acquire Russia's Keramika for around €100 million, making it the country's largest producer. Roca's own plant near St. Petersburg began to operate in 2006.

Algeria Dismisses Repsol and Gas Natural from Huge Project

The Algerian government dealt a severe blow to Repsol YPF and Gas Natural by dismissing them from a €5bn natural gas project. Repsol said the move was illegal and that it would appeal via international arbitration.

Repsol held 48% of the Gassi Touil project and Gas Natural 32%, with the state-owned Sonatrach holding the balance. Sonatrach blamed the Spanish groups for delays and cost overruns.

The cancellation was bad news for Repsol as it is seeking to build up depleted reserves and secure supply contracts.

Ford to Invest €425 million in Almussafes Plant

Ford secured the future of its plant at Almussafes near Valencia by announcing that it would invest €425 million in producing three new models, with an annual production target of 350,000 cars.

The agreement took two years to forge and was compared to the ‘pregnancy of an elephant’ by Gonzalo Pino, the UGT trade union secretary at Almussafes. In return for guaranteeing its continued existence, workers agreed to moderate wage rises, not to press for a reduced working day and to split their holidays and adjust them more to the plant’s needs.

The ‘sword’ hanging over workers was the possibility that Ford would strike a deal with the government of Rumania.

Santander Sells Latin American Pension Fund Business

Grupo Santander, Spain’s largest banking group, sold its Latin American pension fund business to the Dutch insurance group ING for US\$1.3 billion. This made ING the second-biggest pension fund administrator in Latin America after BBVA, Spain’s other big bank.

Santander sold its businesses in Mexico, Chile, Colombia and Uruguay and was in talks to acquire the business in Argentina.

Ryanair to Establish More Operating Bases in Spain

Ryanair, the leading European low-cost carrier, is to set up operating bases in Valencia and Alicante, intensifying the battle for the Spanish market, the main focus for the expansion of these carriers after the UK and Germany.

The Irish airline has bases in Barcelona-Girona with nine aircraft and 49 routes and in Madrid, which has five aircraft and 15 routes. Its main rival, easyJet, opened its first base in Spain in Madrid for domestic routes earlier this year.

Vueling, a low-cost Spanish carrier, recorded a net loss of €3.7 million in the first six months.

The five main low-cost airlines –Ryanair, easyJet, Air Berlin, Vueling and Clickair– had 20% of the Spanish market in the first seven months of 2007, according to AENA.

Spain’s Mandatory Pension Scheme, Fourth Most Comprehensive in OECD

Spain has the fourth most comprehensive mandatory pension scheme among OECD countries. Future retirees can expect, under the current situation, to receive state pension benefits equivalent to 81% of their pre-retirement earnings as against 96% in Greece, the top of the league, and 31% in the UK, the bottom (see Figure 5).

Figure 5. Mandatory pension schemes, selected OECD countries

	Benefit as % of pre-retirement earnings
Greece	95.7
Luxembourg	88.3
Netherlands	81.9
Spain	81.2
Hungary	76.9
Italy	67.9
Sweden	62.1
France	51.2
United States	41.2
Germany	39.9
United Kingdom	30.8
OECD average	59.0

Source: Pensions at a Glance, OECD, 2007 edition.

The projected entitlements are for a typical worker entering the system today who retires after a full career. They are based in schemes that are required by law, whether public or private. Spain's public pension system has a current ceiling for contribution and benefit purposes of €32,778.

The social security system has an overall surplus at the moment (0.6% of GDP in 2006). While the capacity to balance pension expenditure is currently excellent, most indicators, demographic and financial, under current population projections, point to a deadline at around 2015-20. After that, Spain will either have to borrow money to cover its pension spending or seek alternative solutions, such as raising taxes or lowering benefits.