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William Chislett

### Summary

King Felipe in state visit to UK calls for new 'arrangements' over Gibraltar.

Catalan push for independence moves towards showdown with central government.

Population rises for first time since 2011 due to migration.

Parliament ratifies EU-Canada free-trade deal after Socialists abstain.

State-controlled lender Bankia takes over BMN.e

### Foreign Policy

#### King Felipe in state visit to UK calls for new 'arrangements' over Gibraltar

King Felipe, in the first state visit to Britain by a Spanish monarch since 1986, called for London and Madrid to surmount their differences over Gibraltar. 'I am certain that this resolve to overcome our differences will be even greater in the case of Gibraltar, and I am confident that through the necessary dialogue and effort our two governments will be able to work towards arrangements that are acceptable to all involved', the King told a joint session of Parliament.

A spokesman for the British government said that while the two countries enjoyed a strong relationship, Gibraltar, ceded to Britain under the 1713 Treaty of Utrecht, is an issue 'on which we do not see eye to eye; our position is clear: the sovereignty of Gibraltar is not up for discussion'.

The King's tone on the prickly issue of Gibraltar was noticeably softer than last year when he addressed the UN General Assembly and called Gibraltar 'the only colony in European territory' –supported by UN resolution 1514 (XV) on territorial integrity– and invited the UK to 'comply with the UN mandate and put an end to this anachronism with a solution agreed between the two countries that re-establishes Spain's territorial integrity'.

Spain has proposed a shared-sovereignty deal for Gibraltar, which voted 96% in favour of remaining in the EU, if it wants to remain part of the EU and have the same access after Brexit.

The visit focused on the blossoming trade and investment relationship and highlighted how very different Spain is today than when Felipe's father, King Juan Carlos, made a

state visit 31 years ago. Then the relationship was very one-sided in Britain's favour. Spain had come out of a long dictatorship and the country was known for little else than its mass tourism, bull fights and siestas.

The stock of Spanish direct investment in the UK stood at €82.5 billion at the end of 2015 (latest figure), considerably higher than the UK's stock in Spain of €44.7 billion, and Spain has enjoyed a big trade surplus with the UK since 2002. Two-way merchandise trade is worth more than €30 billion, around 10,000 Spaniards are studying in the country and 130,000 Spaniards are officially registered as there, most of them working.

The King, the great-great-great grandson of Queen Victoria, was accompanied by a delegation of businessmen. The UK is a major source of revenue for companies such as Banco Santander, the euro zone's largest bank by market capitalisation, Telefónica (O2) and Iberdrola (electricity). Infrastructure and construction companies, such as Ferrovial and FCC, also have significant interests. Ferrovial holds large stakes in four airports – Heathrow, Glasgow, Aberdeen and Southampton– and last year won a €300 million contract to maintain 370km of roads in the East Midlands and a €300 million contract to complete enabling works on the 100km central section of the high-speed rail linking Birmingham and London. Spanish airport-operator AENA is participating in expansion work at Luton airport, where it has a majority stake and where King Felipe, accompanied by Queen Letizia, arrived for the three-day visit.

The King also urged the UK to reach an agreement as soon as possible about what rights will be retained after Brexit by Spaniards living in the UK, and Britons in Spain (236,669 registered at 1 January and a total of up to 800,000 including those with properties who spend part of the year in the country).

'These citizens have a legitimate expectation of decent and stable living conditions for themselves and for their families', he said. 'I therefore urge our two governments to continue working to ensure that the agreement on the UK's withdrawal from the EU provides sufficient assurance and certainty'.

Spain has the highest number of British migrants in Europe. At 1 January 2017, according to INE, there were 236,669 Britons registered as living in Spain. This was down from a peak of 397,892 in 2012. Brits resident in Spain began to return home before the Brexit referendum in June 2016 for various reasons. Including property owners who spend part of the year in Spain, the number of Britons in Spain is put at up to 800,000.

Since the Brexit referendum, the outflow is gathering pace, particularly among the retired elderly because of the uncertainty over whether post-Brexit they will, as non-EU citizens, still enjoy the same access to Spain's excellent public health system.

While the number of Brits living in Spain over the age of 65 has more than doubled in the past 10 years to 121,000 (40% of the registered British community), according to a joint report by the UK and Spanish statistical offices, most Spaniards in the UK are young and working (see Figure 1). This is an important difference.

**Figure 1. Spanish workers in the UK by activity (January 2013-December 2015)**

| <b>Activity</b>                        | <b>Number</b> |
|--|---------------|
| Education, health and public employees | 19,400        |
| Financial services                     | 17,000        |
| Hotels and restaurants                 | 16,700        |
| Transport and communications           | 5,500         |
| Other                                  | 9,600         |

Source: Office of National Statistics, UK.

Such is the magnitude of the Spain-UK relation that Madrid is in the 'soft' Brexit camp and in the forefront of countries wanting the best deal for the stock of Brits already in Spain after Brexit and for EU citizens in Britain.

### Former PM Rodríguez-Zapatero plays key role in release from jail of Venezuelan opposition leader

José Luis Rodríguez Zapatero, Spain's socialist Prime Minister from 2004 to 2012, helped mediate the release from prison of Venezuelan opposition leader Leopoldo López whose detention sparked 100 days of anti-government protests.

López, granted Spanish citizenship last December, was arrested in 2014 and handed a 13-year jail term for incitement to violence.

Rodríguez Zapatero held three meetings with López in prison in the last few months and in two of them was accompanied by the former Venezuelan Foreign Minister Delcy Rodríguez.

Spain has received an influx of Venezuelans in the last year, feeling the authoritarian regime of Nicolás Maduro and an economy on its knees.

As of 1 January there were 68,639 officially-registered Venezuelans in Spain according to the National Statistics Institute (INE). The Venezuela Diaspora Observatory claims the number is much higher at 300,000.

## Domestic Scene

### Catalan push for independence moves towards showdown with central government

The Catalan government chose a theatre, and not parliament, to unveil its draft law on holding an illegal referendum on independence for the region on 1 October. If more people vote in favour, said Carles Puigdemont, the regional Premier, the Catalan parliament would declare independence within 48 hours, regardless of the size of the turnout.

The Popular Party (PP) Prime Minister Mariano Rajoy, who has vowed to prevent the referendum, called the plan 'authoritarian delirium'.

Spain's 1978 constitution affirms 'the indissoluble unity of the Spanish nation'. It also states that 'national sovereignty belongs to the Spanish people'. Only the national parliament can change the constitution. Moreover, a constitutional amendment requires a large majority in favour and new elections, and were a referendum to be held it would have to be held throughout the country and not just in Catalonia.

In the latest ongoing judicial response to every move made by the independence bloc, the Constitutional Court ruled that the Catalan government could not use part of its 2017 budget to finance the referendum.

Catalans would be asked to answer yes or no to a single question: 'Do you want Catalonia to become an independent state in the form of a republic?'. Spain is a parliamentary monarchy.

The Socialists and the centrist *Ciudadanos* back the government. The Socialists, however, are against using Article 155 of the Constitution, which allows the government to intervene directly in the running of an autonomous region. It is feared that invoking this article for the first time would raise the stakes and create a potentially violent situation. *Unidos Podemos* is in favour of the referendum but does not view the outcome as binding.

The Catalan government has failed to win support from any country or international body.

Cracks emerged in the Catalan government over the referendum. Puigdemont sacked Jordi Bauguet, in charge of business, for saying that a binding referendum 'probably' will not happen. Three other prominent government members quit their posts. They gave no reasons for doing so, but their departure is believed to reflect a reluctance to take responsibility for the vote and face the legal consequences.

Polls show that Catalans are more or less evenly divided on independence, but a majority supports holding a referendum.

### Population rises for first time since 2011 due to migration

The population rose by 88,867 in 2016 to 46.5 million (+1.9%), the first rise since 2011, and due to a spurt in immigrants, according to provisional figures from the National Statistics Institute (INE).

INE said 354,461 foreign migrants moved to Spain, the highest number in five years and 22.5% more than in 2015, while 23,540 more Spaniards returned than left the country (see Figures 2 and 3).

Both figures underscore the upturn in the economy, which is growing at around 3% this year (the pre-crisis 2008 GDP level was only recovered in the second quarter of this year).

**Figure 2. External migration of foreigners, 2012-16**

|             | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016 (1)</b> |
|-------------|-------------|-------------|-------------|-------------|-----------------|
| Immigration | 272,489     | 248,350     | 264,485     | 290,005     | 354,461         |
| Emigration  | 389,339     | 458,974     | 319,989     | 249,230     | 241,795         |
| Balance     | -116,850    | -210,624    | -55,504     | +40,775     | +112,666        |

(1) Provisional.

Source: INE.

**Figure 3. External migration of Spaniards, 2012-16**

|             | <b>2012</b> | <b>2013</b> | <b>2014</b> | <b>2015</b> | <b>2016 (1)</b> |
|-------------|-------------|-------------|-------------|-------------|-----------------|
| Immigration | 31,565      | 32,422      | 40,968      | 52,109      | 62,572          |
| Emigration  | 57,267      | 73,329      | 80,441      | 94,645      | 86,112          |
| Balance     | -25,702     | -40,908     | -39,472     | -42,536     | -23,540         |

(1) Provisional.

Source: INE.

The figures are based on the resident population as opposed to those registered in town halls. Figures for the latter earlier this year showed the population was still declining.

The largest foreign community is Rumanian (see Figure 4). The foreign population accounts for 9.5% of the total population.

**Figure 4. Resident foreign population by the top-10 countries of origin, 1 January 2017 and 1 January 2016**

|                 | <b>2017 (1)</b>  | <b>2016</b>      | <b>Change</b> |
|-----------------|------------------|------------------|---------------|
| Rumania         | 678,098          | 695,045          | -16,947       |
| Morocco         | 667,189          | 680,486          | -13,297       |
| UK              | 294,295          | 296,408          | -2,113        |
| Italy           | 203,118          | 191,618          | +11,500       |
| China           | 177,738          | 172,232          | +5,506        |
| Ecuador         | 145,879          | 158,951          | -13,072       |
| Germany         | 141,523          | 142,051          | -528          |
| Colombia        | 139,213          | 135,864          | +3,349        |
| Bulgaria        | 126,436          | 130,501          | -4,065        |
| France          | 103,062          | 100,737          | +2,324        |
| Other countries | 1,747,858        | 1,713,624        | +34,234       |
| <b>Total</b>    | <b>4,424,409</b> | <b>4,417,517</b> | <b>+6,892</b> |

(1) Provisional figures.

Source: INE.

The net arrival of immigrants in Spain last year (immigrants less emigrants) was the fourth highest in the EU (see Figure 5).

**Figure 5. Top 10 EU countries by immigrant arrivals in 2017**

| Country      | Number        |
|--------------|---------------|
| Germany      | 774,300       |
| UK           | 284,400       |
| Sweden       | 117,700       |
| <b>Spain</b> | <b>89,100</b> |
| Netherlands  | 78,900        |
| Austria      | 75,800        |
| France       | 65,900        |
| Italy        | 65,700        |
| Belgium      | 40,900        |
| Denmark      | 32,700        |

Source: Eurostat.

In a related development, 11,906 fewer babies were born in 2016 than in 2015. The total number was 408,384, down from the 30-year peak of 519,779 in 2008 when the number of births began to fall. For the second year running, the number of deaths (409,099) exceeded births, making immigrants the sole factor behind the growth in the population.

#### Marked differences between millennials and the elderly

All societies have a generational difference of opinions over such things as religious beliefs, politics and values.

Spain's are perhaps among the deepest in Europe as the country has changed profoundly in the last 40 years, moving from a long dictatorship to a democracy, from a protected to a market economy and from a society where the Roman Catholic Church held sway to a secular society, among other transformations.

Today, only a minority of Spain's population has any recollection of the 1939-75 regime of General Franco. A survey by Metroscopia shows just how deep the differences are between millennials and those over the age of 65 (see Figure 6).

**Figure 6. Differences between the young and old (%)**

|  | 18 to 34 years | Over 65 | Difference |
|--|----------------|---------|------------|
| Atheist or agnostic  | 47             | 12      | +35        |
| Prefer multiparty to two-party political system            | 80             | 51      | +29        |
| Believe the constitution needs profound reforms            | 66             | 42      | +24        |
| Believe Podemos and Ciudadanos are renewing political life | 67             | 47      | +20        |
| Spain's wealth is not well distributed                     | 79             | 62      | +17        |
| Support for euthanasia                                     | 90             | 74      | +16        |
| Believe Spain is not a tolerant society                    | 55             | 40      | +15        |
| Is not satisfied with how democracy works                  | 74             | 63      | +11        |
| The political situation is very bad                        | 33             | 22      | +11        |
| Spain is a racist society                                  | 47             | 37      | +10        |
| Is little or not at all proud to be Spanish                | 22             | 12      | +10        |
| The economic situation is very bad                         | 29             | 23      | +6         |
| Is very or fairly interested in politics                   | 39             | 33      | +6         |

Source: Metroscopia and the CIS barometer after the last election.

For example, only 12% of the elderly declare they are atheist or agnostic compared with 47% of those aged between 18 and 34. Most strikingly, 80% of millennials are in favour of a multiparty system instead of the essentially two-party system that has dominated Spain for the last 35 years.

This discontent is behind the creation of the far-left *Podemos* and the centrist *Ciudadanos* which won 111 of parliament's 350 seats in the general election a year ago.

### Ancient Valencia water court wins UNESCO heritage protection

UNESCO, the UN's cultural arm, has added the 10<sup>th</sup> century Water Court of Valencia, which bills itself as 'the oldest institution of justice in existence in Europe', to its intangible cultural heritage list.

The court deals with cases of stolen water, a precious resource in drought-prone Spain, or disagreements over the interpretation of rules managing the irrigation system.

Spain has 47 world heritage sites, the second-largest number after Italy (53).

## The Economy

### Parliament ratifies EU-Canada free trade deal after Socialists abstain

The Socialist Party's 81 MPs abstained when the free trade deal between Canada and the EU was put to the vote and approved as a result of the 179 votes of the conservative Popular Party (PP), the centrist *Ciudadanos* (C's) and Catalan and Basque regional parties. The hard-left *Unidos Podemos* (UP) voted against it.

Pedro Sánchez, recently re-elected the Socialists' Secretary General, campaigned in the primaries in favour of free trade provided certain conditions were met: deals needed to uphold public services and guarantee social and labour rights, as well as consumer and environmental protection.

The Deputy Prime Minister, Soraya Sáenz de Santamaría, said the Socialists' position was anti-European and counter to progress. The PP and C's said the deal would create new opportunities for SMEs and have a positive impact of €12 billion in Spain (€8 billion in Canada).

A disappointed Pierre Moscovici, the European Commissioner for Economic and Financial Affairs, and a former French Socialist Finance Minister, told Sánchez that being left wing 'does not mean being against globalisation'. Spain's Socialists MEPs voted in favour of the deal.

The trade deal has to be ratified by all EU parliaments before it can come into force.

In political terms, Sánchez's decision to abstain was perceived as a gesture towards UP with whom he needs to strike some kind of a deal if he is to achieve his ambition of dislodging the PP from power. The Socialists and UP are locked in a struggle for hegemony of the left.

In a move seen as the possible shape of things to come, the Socialists and UP in Castilla-La Mancha negotiated their first regional government. The Socialist-run government needs support in order to get the 2017 budget through the region's parliament.

### Tax Agency continues to name and shame those owing more than €1 million

The number of companies and individuals owing more than €1 million in taxes dropped by 4.6% to 4,549 over 2016 but the amount owed (€15.4 billion) was only down 2%.

This was the Tax Agency's third 'black list', comprising 338 individuals and 4,211 companies. The real-estate company Reyal Urbis continued to top the company list with €363.2 million, while the businessman Agapito García Sánchez owes €17.0 million.

## Corporate scene

### State-controlled lender Bankia takes over BMN

Bankia, whose near collapse sparked an EU banking bailout in 2012, acquired Banco Mare Nostrum (BMN), creating Spain's fourth-largest lender. The deal came hard on the heels of the purchase of Banco Popular by Banco Santander, the market leader, for the nominal sum of €1.

Bankia received €22 billion in public aid, the largest amount of any Spanish bank during the crisis, and BMN €1.65 billion. Both banks were taken over by the state to different degrees. Bankia has since been partially re-privatised and is generating a profit again.

Popular, like Bankia and BMN, was dragged down by toxic real-estate assets and loans following the bursting of a massive property bubble.

The consolidation of Spain's banking market has left four big banks: Santander (the euro zone's largest bank by market capitalisation), BBVA, Caixabank and Bankia.

In a separate development, Santander's US bank finally passed the Federal Reserve's 'stress test', which it had repeatedly failed for three consecutive years. The Boston-based Santander Holdings USA's capital plan received no objection from the Fed.

'This is a big step forward that demonstrates our progress across a range of legacy issues and affirms that we are fully committed to meeting our regulators' expectations', said CEO Scott Powell.

### Acciona wins contract to modernise rail line...

Acciona's Australian subsidiary, Geotech, has been awarded its first major contract: the upgrading of Victoria's Ballarat rail line in a deal worth around €350 million.

Acciona, which has been operating in Australia, a promising market for infrastructure, since 2002, acquired Geotech in March.

### ... Ferrovial to upgrade Polish railway line...

Ferrovial is to modernise two sections of Polish Rail's line 7, which links Warsaw and the border with Ukraine. The contract is worth €233 million.

### ... Grifols acquires stake in US GigaGen...

Grifols, one of the world's top three producers of plasma-derived medicines, is to acquire 43.96% of the US biopharmaceutical company GigaGen for US\$35 million.

The company built trains for the Heathrow Express in London and is in the bidding process for new London Underground trains. It also intends to bid for the contract to provide new rolling stock for the South Wales Metro.

... Zara rises in ranking of world's most valuable brands

Zara, the flagship brand of Inditex, the world's largest fashion retailer, moved up to 34<sup>th</sup> position in BrandZ's 100 most valuable brands, and Movistar dropped three places to 43<sup>rd</sup> (see Figure 7).

**Figure 7. Spain's companies in the ranking of the world's 100 most valuable brands**

| 2017 | 2016 | Change | Brand    | Category | Value 2017  | Value 2016 | % change |
|------|------|--------|----------|----------|-------------|------------|----------|
| 34   | 35   | +1     | Zara     | Apparel  | US\$25.13bn | \$25.22bn  | -0.3     |
| 43   | 40   | -3     | Movistar | Telecoms | US\$22.00bn | \$21.94bn  | +0.3     |

Source: BrandZ.

The brand values are calculated on the basis of revenues and profitability combined with surveys of 3.1 million consumers in 51 countries.