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Foreign Policy

Spain Denies Collusion with CIA in Secret Flights for Terror Suspects

José Luis Rodríguez Zapatero, the Prime Minister, denied claims that Spain was one of 14 European countries that colluded with the CIA and allowed planes carrying terror suspects to stop over en route to secret prisons.

‘Neither I, as Prime Minister, nor the government as a whole, was aware or authorised any such flights, he said.

Council of Europe investigator Dick Marty said the Spanish airport of Palma de Mallorca was among the international ‘staging points’ for secret CIA prison transfers (see http://assembly.coe.int/CommitteeDocs/2006/20060606_Ejdoc162006PartII-FINAL.pdf).

Italian lawmaker Giovanni Fava, who is taking part in a separate investigation by a committee of European Union lawmakers, said 125 CIA-related flights landed at 10 Spanish airports between 2003 (under the previous government) and 2005.

National Court Judge Ismael Moreno is investigating Spain’s involvement as under Spanish law crimes such as torture can be prosecuted in Spain even if committed elsewhere. His ruling overturned a finding by state prosecutors that the matter was outside Spanish jurisdiction.

Anti-Americanism Intensifies in Spain

Just under a quarter of the Spanish public expressed positive views of the United States in the latest survey by the Pew Research Group, down from 41% in 2005 (see Figure 1). It was the third lowest level among the 15 countries surveyed after Jordan and Turkey.

Figure 1.

Favorable Opinions of the U.S.

	1999/ 2000	2002	2003	2004	2005	2006
	%	%	%	%	%	%
Great Britain	83	75	70	58	55	56
France	62	63	43	37	43	39
Germany	78	61	45	38	41	37
Spain	50	--	38	--	41	23
Russia	37	61	36	47	52	43
Indonesia	75	61	15	--	38	30
Egypt	--	--	--	--	--	30
Pakistan	23	10	13	21	23	27
Jordan	--	25	1	5	21	15
Turkey	52	30	15	30	23	12
Nigeria	46	--	61	--	--	62
Japan	77	72	--	--	--	63
India	--	54	--	--	71	56
China	--	--	--	--	42	47

1999/2000 survey trends provided by the Office of Research, U.S. Department of State

Anti-Americanism had shown some signs of abating last year, in part because of the positive feelings generated by US aid for tsunami victims in Indonesia and elsewhere. It rose this year, largely because of the war in Iraq. In Spain, fully 56% say the US military presence in Iraq is a great danger to the stability of the Middle East and world peace (the third-highest level after Turkey and Jordan); only 38% regard the current government in Iran in the same way (see Figure 2).

Figure 2.

Dangers to World Peace

% saying 'great danger'	Iran	US in Iraq	North Korea	Israeli- Palestinian conflict
U.S.	46	31	34	43
Great Britain	34	41	19	45
France	31	36	16	35
Germany	51	40	23	51
Spain	38	56	21	52
Russia	20	45	10	41
Indonesia	7	31	4	33
Egypt	14	56	14	68
Jordan	19	58	18	67
Turkey	16	60	6	42
Pakistan	4	28	8	22
Nigeria	15	25	11	27
Japan	29	29	46	40
India	8	15	6	13
China	22	31	11	27

The strong anti-American sentiment in Spain made the withdrawal of Spanish troops from Iraq in 2004 by José Luis Rodríguez Zapatero, the Prime Minister, a hugely popular move, but plunged relations with Washington into crisis. The two administrations have since established a friendly *modus vivendi* (the presence of Spanish peacekeeping troops in Afghanistan has played an important role here), but Zapatero has yet to be received in the White House. Both Miguel Ángel Moratinos, the Foreign Minister, and Eduardo Aguirre, the US ambassador to Madrid, said at the annual meeting of the US-Spain Council in Tampa, Florida, on 16 June that good relations did not depend on this 'mythical meeting'. Nevertheless, Zapatero would like the photo opportunity. Moratinos met Condoleezza Rice, the Secretary of State, in Washington.

The further thawing of relations was highlighted by the resurrection of the Congressional Friends of Spain Caucus which was first established during the 2001-02 Congress but was not re-registered until 19 June of this year. Twenty-six members of Congress have already joined, and the next step is to expand it to the US Senate.

Spain to Press Harder for G8 Membership

An 'observatory' has been set up to press the case for Spain's membership of the world's main groups of economic power such as the G8. Spain is the world's eighth-largest economy, the fourth-largest investor abroad and it accounts for 2% of world trade, but this position is not reflected in membership of such groups.

The 'observatory' has been created by the Foundation of Financial Studies, the only private sector foundation to have the current Prime Minister, the Socialist José Luis Rodríguez Zapatero, and the previous one, José María Aznar of the centre-right Popular Party, as its

Honorary President. The ‘observatory’ was formally launched in the Senate in the presence of Miguel Ángel Moratinos, the Foreign Minister.

Spain’s GDP surpassed that of Canada’s, the smallest of the G8 countries, in 2004.

Domestic Scene

Government to Begin Peace Talks with Basque Terrorist Group ETA

Three months after the violent Basque separatist group ETA announced a permanent ceasefire (on 22 March), the government said it would begin peace talks. But it will do so without the blessing of the centre-right Popular Party (PP), the main opposition which broke off co-operation with the government. The PP believes the Socialists will pay a ‘political price’ for reaching a deal, something that José Luis Rodríguez Zapatero, the Prime Minister, vehemently denies, and it is unhappy about the new Catalan charter (see story below).

The government is satisfied that the ceasefire is genuine and that businessmen have not been extorted since it came into force to pay money to ETA. ‘The process is going to be long, tough and difficult’, said Zapatero. The government is going down a path full of potholes as it is caught between a rock (the PP’s intransigence) and a hard place (the Socialists can offer ETA very little). The prize for the Socialists, however, is enormous if it achieves lasting peace without political concessions.

ETA has murdered more than 800 people since the first fatal attack in its campaign for Basque independence in 1968. Its last fatality was in 2003. Spain has twice before held peace talks with ETA, in 1989 in Algeria under the Socialist government of Felipe González and then in 1998 in Switzerland, under the PP government of José María Aznar. But both of those talks were held in secret. Neither proved successful.

Not only has the PP withdrawn its support, ostensible because the Socialists contacted Batasuna, the banned political party that supports ETA, but ETA issued a hard-line statement several days before the government’s announcement in which it threatened to call off negotiations unless ‘all repressive measures’ against it were ended. The statement coincided with the arrest of 12 people charged with running an extortion racket for ETA and the highly charged trial of two ETA leaders accused of murdering a PP town councillor in 1997.

‘The only negotiations we will support are those about when and where ETA disbands and gives up its weapons’, said Mariano Rajoy, the PP leader. This is the first time the main opposition party has not supported the government’s efforts to end the ETA problem.

In its statement ETA said it wanted to regain the ‘territory and sovereignty’ of Euskal-Herría, their name for the Basque regions in Spain and southern France. ‘The Spanish state should accept the decisions of the Basque people. No laws, legal structures or constitution should be an obstacle to the decisions adopted by a majority of the Basque people’, the statement read.

If this is ETA’s agenda at the negotiating table then there will be a dialogue of the deaf. The most the government can offer is a limited amnesty for those imprisoned for non-violent crimes, the transfer of prisoners to prisons closer to the Basque country (making visits by family members easier) and the legalisation of Batasuna if it respects the Spanish constitution. An amnesty would be difficult because the constitution only allows them on a case by case basis and not en masse.

Catalonia Votes in Favour of Greater Autonomy on Low Turnout

Catalans voted overwhelmingly in favour of the new charter giving them greater autonomy, but just under half of those eligible to vote went to the polls. The 'yes' vote, backed by the Socialists and the conservative and nationalist Convergence and Union (CiU) party won 73.9%, and the 'no' vote, pursued vociferously by the centre-right Popular Party (PP), gained 20.7%. The pro-independence Catalan Republican Left (ERC) expressed its discontent with the substantially watered down version of the original text, approved by the Catalan parliament, by casting blank votes (5.3%).

The abstention rate of 51% was well above the 40% registered in 1979 when the region won its first degree of autonomy (supported by 88%) after the end of General Franco's regime in 1975 and the restoration of democracy. Catalonia enjoyed a measure of autonomy before the 1936-39 civil war which was suppressed during the dictatorship. Although the circumstances are very different, the much higher abstention rate suggested that many Catalans were indifferent to a process that has dominated political debate for around two years, to the exclusion of virtually all other issues.

Map 1.



Source: BBC.

The new Catalan statute does not go as far as that for the Basque country, probably the European region with the most autonomy, but it does extend the region's powers to include an independent judiciary, a new tax authority that will share responsibility for collecting taxes with the central government, control over regional transport and infrastructure services, and negotiating rights with the European Union on matters affecting Catalonia. More controversially, Catalonia, the most dynamic part of the Spanish economy, has the right to call itself a nation.

The charter inflamed passions right across the political spectrum, rattled some sabres in the armed forces, pitted the Catalan Socialists against the Socialist-run national government, led to the collapse of the coalition government in Catalonia that sponsored the charter and produced the ousting of Pasqual Maragall, the region's Socialist premier, who will not run in early elections in the region in the autumn. José Montilla, the Industry Minister in Spain's national government and the First Secretary of the Catalan Socialist Party, will replace Maragall as the Socialists' candidate.

Approval of the Catalan charter has paved the way for Andalusia, Galicia, Aragón, the Balearic Islands and Valencia to seek greater autonomy. However, the Catalan deal on financial matters and those of others in the pipeline cannot really come into force until the new law for the financing of all of Spain's regions is discussed and passed. As it is an organic law it requires two-thirds approval in the parliament, which means the Socialists face the very difficult task of getting the PP on board.

Drought Worsens, Reservoirs at 10-year Low

Spain entered the summer and the tourist season with its reservoirs at a 10-year low. The national meteorological institute warned earlier this year that the country was heading for its worst drought since 1947.

The country is in the second year of a drought which experts say could last between four and six years. Reservoirs were at an average of 54% of their capacity in June while the basins of the Segura and Júcar rivers in the south-east were down to 16% and 21% respectively, according to the Environment Ministry.

The provinces of Murcia, Almería, Alicante and Valencia in the south-east of the country, all of them major tourist areas, are the most affected. The Costa del Sol in the south looks as if it will escape water shortages as recent rains filled its reservoirs. The northern part of the country, which traditionally receives a lot more rain, is unaffected.

A large part of Spain's construction boom is taking place in the south-east, where there is growing concern among experts that these developments may face serious and permanent water shortages in the future. More than 90% of Spain's coastal area from Tarragona to Almería is at risk from desertification.

A government report expressed alarm at the rapid and uncontrolled pace of urbanisation in Spain, particularly along the Mediterranean coast. Between 1987 and 2005 land in the country occupied by buildings increased by 40%. Last year a record 812,294 houses and flats were built in Spain, by far the largest number of any EU country and more than France and Germany combined, and yet prices are beyond the reach of most young people.

Two regions, Valencia and Murcia, are among the main locations in Spain for golf courses which soak up a lot of water. Spain now has 324 golf courses, the largest number in Europe, and they were used by more than 1 million foreigners during 2005.

Spain has EU's Largest Relative Prison Population

Spain's prison population has grown so much that in June there were 146 prisoners per 1000,000 inhabitants, the largest in the EU (see Figure 3). The total number of prisoners almost doubled between 1990 and June to 62,176. Prisons are becoming overcrowded because the sharp rise in people imprisoned has not been met by an adequate increase in the space for prisoners. One third of prisoners are foreigners.

Figure 3. Prisoners per 100,000 inhabitants

	1995	1998	2004	2006
UK	99	125	142	140
Spain	102	114	139	146
Portugal	124	146	129	NA
Netherlands	66	85	123	NA
Italy	87	85	100	NA
Germany	81	96	96	NA
France	89	86	95	NA

Source: Directorate General of Prisons.

Spain's Birth Rate Rises

Spain's birth rate in 2005 of 1.34 children per woman of fertile age was the highest figure since 1993. Children born to non-Spanish (immigrant) mothers accounted for 15% of total births.

The steady decline in Spain's birth rate has been the steepest in the European Union (see Figure 4) and one of the rates that has plummeted the most in the world. It dropped from 2.8 in 1976, the second highest in the EU after Ireland, to 1.16 in 1996, the lowest in the EU.

Figure 4. Birth rates in selected EU countries

	1976	1981	1991	2000	2004
EU-15	1.92	1.77	1.53	1.50	1.52
France	1.83	1.95	1.83	1.88	1.90
Germany	1.51	1.41	1.33	1.38	1.37
Italy	2.10	1.59	1.31	1.24	1.33
Spain	2.80	2.04	1.33	1.23	1.33
United Kingdom	1.74	1.82	1.81	1.64	1.74

Source: Eurostat.

Spanish women are beginning to have more babies and the country has received around 4 million immigrants in less than a decade, many of them young women from Latin America and North Africa who tend to have larger families.

The Economy

Ferrovial Wins Battle for British Airports Authority (BAA)

After a bumpy three-month ride, Grupo Ferrovial, Spain's largest infrastructure group, finally landed smoothly and won control of BAA, the world's biggest airports operator. It will pay €15 billion for BAA's seven airports in the UK and other operations in Hungary, Italy, Australia and the US.

Ferrovial beat off a rival bid from a grouping led by Goldman Sachs, the US investment bank. The acquisition is the biggest take-over ever made in the global airports industry.

BBVA Steps Up its Presence in the US

Banco Bilbao Vizcaya Argentaria (BBVA), Spain's second-largest bank, agreed to acquire two banks in Texas for US\$2.6 billion. In 2004 BBVA bought Laredo Nacional and a small bank in California, and since 2000 it has owned Bancomer, Mexico's largest bank.

The purchase of Texas Regional Bancshares Inc., the parent of Texas State Bank, and of State National Bancshares Inc., strengthens BBVA's retail reach in the fast-growing Hispanic market. BBVA claims to account for 40% of the US\$20 billion Mexican immigrants send home each year and wants to provide more services.

The latest expansion gives BBVA 121 more branches in Texas and makes it the leading bank in the state.

Santander to Acquire Russia's Largest Auto Finance Company

Santander Consumer Finance, part of Grupo Santander, Spain's largest bank, is to acquire Russia's main auto finance company for around €40 million. It will be the first large acquisition by a Spanish bank in Russia.

Ebro Puleva Becomes World's Second-Largest Pasta Company

Ebro Puleva, the largest Spanish food group, acquired New World Pasta, the US pasta company, for €82 million, making it the world's second-largest pasta specialist after Italian group Barilla.

The deal followed the sale in May of its biscuit and juice business in Central America. It bought the US company Riviana in 2004.

New World Pasta is the leading producer of dry pasta in the US and Canada with respective market shares of 28.5% and 40.9%, and operates four production plants.

Repsol Finds More Oil in Libya

Repsol YPF has discovered more oil in Libya, helping it to diversify away from its core Latin American assets.

The exact size of the find, its 10th discovery since 2001, has yet to be determined, but the yield is expected to be similar to those of previous discoveries.

The discovery could not have come at a better time for the company as it had to downgrade its estimated reserves by 25% earlier this year, due mainly to maturing wells in Argentina and the nationalisation of Bolivia's gas industry. Repsol has about 49% of its reserves in Argentina and 18% in Bolivia. Libyan oil is high-quality oil and does not require much investment as it is easy to extract.

Repsol has explored less than 30% of its 140,000 square kilometres in Libya. It produces about 15% of Libya's output of 1.7 million barrels a day, making it the country's biggest international oil producer.

Spain's Inward Investment Continues to Decline

Foreign direct investment (FDI) in Spain was an estimated US\$23 billion in 2005 (see Figure 5), continuing the downward trend, according to the Organisation for Economic Development (OECD).

Figure 5. Direct investment flows to selected OECD countries, 2002-05 (US\$ billion)

	2002	2003	2004	2005
France	49.1	42.5	31.4	63.5
Germany	53.6	29.2	-15.1	32.6
Italy	14.6	16.4	16.8	19.5
Spain	39.2	26.0	24.8	23.0
UK	24.1	16.8	56.3	164.5

Source: OECD.

The largest recipient was the United Kingdom with US\$164.5 billion, a country in which Spanish companies have recently been investing in heavily. Rising wages and inflation have eroded Spain's competitive edge in labour costs in the manufacturing sector; some foreign companies have shifted their production from Spain to new EU members such as the Czech Republic and Poland.

More than 40 multinationals have closed or sold factories in Spain since 2002, according to various studies. In a bid to reverse this trend, the government will launch in September an agency to attract more FDI, known as INTERES Invest in Spain.

Spain's outward investment declined from US\$60.6 billion to US\$38.7 billion (see Figure 6). The largest outward investor was France. Spain's outward investment in 2002-05 totalled US\$159.6 billion and its inward investment US\$113 billion, making it one of the world's top net investors abroad with US\$46.6 billion (just behind the UK's US\$47 billion).

Figure 6. Direct investment flows from selected OECD countries, 2002-05 (US\$ billion)

	2002	2003	2004	2005
France	50.5	53.2	57.0	115.6
Germany	19.0	6.2	1.9	45.6
Italy	17.1	9.1	19.3	41.5
Spain	32.7	27.6	60.6	38.7
UK	50.3	62.4	94.9	101.1

Source: OECD.

Spain Enters the Millionaire's Club

Spain has joined the select club of the 10 countries with the most dollar millionaires (some €800,000) in terms of liquid financial assets. The number grew by 5.7% in 2005, the second-fastest pace in the EU, to 148,600 people (see Figure 6).

Figure 6. The 10 countries with the most millionaires (thousands)

United States	2,669
Japan	1,406
Germany	767
United Kingdom	448
France	367
China	320
Canada	232
Italy	196
Switzerland	191
Spain	149

Source: World Wealth Report, 2006.

The figures in the latest World Wealth Report for high net-worth individuals, prepared by the investment bank Merrill Lynch and the consultancy Capgemini, are in sharp contrast to the latest available ones (2003) from Spain's Tax Agency. According to the Agency, only 65 people declared in 2003 financial assets of more than €30 million while the wealth report says there were 1,500 people in Spain in 2005 with net financial assets of more than €24 million. Although different years are compared and the methodology is not the same for the respective calculations, the difference between the two figures is striking.

The wealth report figures are based on the values of private equity holdings stated at book value as well as all forms of publicly quoted equities, bonds, funds and cash deposits, but they exclude collectibles, consumables, consumer durables and real estate used for primary residences.

The driving forces behind this surge in wealth creation are the decade-long period of strong economic growth, the boom in the construction sector, where many fortunes have been made, the purchase of family-owned companies by foreign investors and a stock market that has been one of Europe's strongest performers.