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Foreign Policy

Felipe González to Chair EU Reflection Group on the Union's Future

EU leaders appointed Felipe González, a former Spanish Prime Minister, to head a group of independent experts which will look at the long-term future of the 27-nation bloc.

The panel was the brainchild of French President Nicolas Sarkozy and will have a broad mandate to 'identify the key issues and developments which the Union is likely to face and analyse how these might be addressed' up to the years 2020-30. It will report to EU leaders in June 2010.

One of the most sensitive issues is Turkey's full membership of the EU, opposed by Sarkozy. The group, however, does not have an explicit mandate to analyse where the EU's expansion should stop, thus allaying the fears in some governments that the group will define the EU's ultimate borders and exclude Turkey. Spain and the UK are among Turkey's most active supporters.

'The reflection group will need to take into account likely developments within and outside Europe and examine in particular how the stability and prosperity of both the Union and the wider region might best be served in the longer term', the EU statement said.

The group will not discuss possible changes to the EU's institutions –a subject that has exhausted politicians and voters–.

González served as Spain's Prime Minister from 1982 to 1996. He guided Spain into the EU in 1986 and secured Nato membership after a referendum.

The former Latvian President Vaira Vike-Freiberga and Jorma Ollila, the Chairman of the mobile phone giant Nokia, were named as the two vice-chairs of the nine-person panel.

Spain and Morocco End Stand-off, Moroccan Ambassador Returns

Morocco's ambassador to Madrid, withdrawn last November after King Mohammed VI protested at the visit by King Juan Carlos to the North African enclaves of Ceuta and Melilla (claimed by Rabat) has returned to his post (see *Inside Spain*, Newsletter 39, of 6 November 2007).

The decision to send Omar Azziman back was agreed after Miguel Ángel Moratinos, Spain's Foreign Minister, delivered a letter from José Luis Rodríguez Zapatero, the Prime Minister, to his counterpart, Taieb Fassi-Fihri. The content of the letter, addressed to Mohammed VI, was not divulged.

Gaddafi Visits Spain, Agrees Economic Framework

The Libyan leader Colonel Muammar Gaddafi made his first official visit to Spain and agreed an economic framework that could result in Spanish companies winning €1.5 billion worth of contracts. The figure is higher than that announced during Gaddafi's visit to France (his first in more than 30 years).

Libya is seeking to modernise its infrastructure and increase its output of oil (the country is Spain's fifth-largest supplier). Repsol YPF, Spain's oil and gas conglomerate, is the main Spanish company in Libya.

Gaddafi, who came to power in a 1969 coup, met with Spanish businessmen in the Bedouin tent brought with him and erected in the grounds of the El Pardo palace used for official visits.

Spain to Help Sub-Saharan Africa Improve its Infrastructure

Spain plans to help sub-Saharan African countries build roads and railways, José Luis Rodríguez Zapatero, the Prime Minister, announced at the end of last December's EU-Africa summit in Lisbon. Few details were offered.

As part of its efforts to reduce the influx of illegal sub-Saharan immigrants, who enter Spain via the Canary Islands after crossing the Atlantic in rudimentary fishing boats, the government is to open 13 schools-workshops in the region. Workers are also being directly recruited in these countries to work for Spanish companies in sectors such as fisheries.

These measures fall within the framework of the government's Africa Plan which provides for different actions to drive forward African development and address the causes of African emigration.

Domestic Scene

Anti-terror Court Jails 47 People in Biggest ever Eta-related Trial

The anti-terror court sentenced 47 people to prison terms of up to 20 years for their links to the separatist Basque terrorist group Eta. The trial was the largest ever tied to Eta.

The 47 were found guilty of belonging to, or collaborating with, a banned terrorist organisation. The ruling was the culmination of an eight-year investigation. It came six months after Eta formally ended its truce and three weeks after two undercover policemen were killed at gunpoint in South-Western France. Two of the three people accused of killing the policemen were arrested.

Those convicted belonged to a range of youth, social and political groups that seemingly offered ‘non-violent support for Basque independence’. Judge Ángela Murillo, however, said these organisations were the ‘heart and entrails’ of Eta as they raised funds, organised street violence and planned terror attacks.

The Basque government, led by the Basque Nationalist Party, and supported by a wide range of nationalist groups, criticised the sentences because they ‘imprisoned ideas’.

In a related development, José Luis Rodríguez Zapatero, the Prime Minister, and Nicolas Sarkozy, the French President, agreed at the annual summit between the two countries in Paris to create a joint anti-terror investigation team following the killing of the two civil guards.

Meanwhile, Cándido Conde-Pumpido, the director of public prosecutions, was preparing to request the outlawing of the Communist Party of the Basque Lands (PCTV) and of Basque Nationalist Action (ANV) for their links with the illegal Batasuna (the political party that supports Eta and proscribed since 2003).

Church Mounts Offensive against Socialists, ahead of the 9 March General Election

The ultra-conservative hierarchy of Spain’s Roman Catholic Church, backed by Pope Benedict XVI, used a massive rally in support of the family to attack the government’s ‘radical secularism’ which it said could lead to the ‘dissolution of democracy’. The remarks outraged Socialist leaders who viewed the protests as the opening shot in the campaign for the 9 March general election.

Cardinal Agustín García-Gasco, the archbishop of Valencia, said the Socialists’ policies ‘do not respect the Constitution and only lead to despair through abortion, fast-track divorce and ideologies that manipulate the education of the young’. The Church hierarchy believes that the government’s reforms including the introduction of a civics course in schools (see separate item below) and same-sex marriage are marginalising Christianity.

Cardinal Antonio María Rouco Varela, the Archbishop of Madrid, said legislation had ‘reversed what the Declaration of Human Rights recognised: that the family is the nucleus of society, and has the right to be recognised’.

The organisers claimed 2 million people attended the rally. Other estimates put the number at 160,000. The Pope addressed the crowd from Rome via a large screen.

The Socialist party issued a statement justifying its policies and denying that they undermined the family. It challenged the PP to reverse them. José Luis Rodríguez Zapatero, the Prime Minister, said ‘everyone has the right to have rights, however they think, and whether they profess a religion or not’. Francisco Vázquez, Spain’s Ambassador to the Vatican, said the Church had ‘taken a step backwards’.

The government was taken aback by the Church’s belligerence as it had agreed a new financing deal under which the Church receives more funds via annual income tax returns. The Catholic Church, which enjoyed immense power during the 1939-75 regime of General Franco, is still the only faith in Spain to which taxpayers can assign a specified amount (0.7%, up from 0.5%).

The conservative Popular Party (PP) distanced itself from the rally for fear of losing centrist voters. However, Mariano Rajoy, the PP's leader, said that if he won the elections he would create a Ministry of the Family which would provide families with more social and legal protection.

The campaigning for March's elections will be particularly bitter and divisive. The PP has been on the offensive almost since the last election on 14 March 2004, held in extraordinary circumstances, when the Socialists were returned to power three days after bombs placed on Madrid commuter trains by Islamist radicals killed 191 people and injured more than 1,800 others.

The PP believed the bombs –placed in retaliation for its support of the US- and UK-led invasion of Iraq– robbed it of a third term in office. Since then Spanish political life has become very polarised and parliamentary debates vicious. Manuel Marín, the outgoing President of the Congress and a former EU commissioner, criticised both the Socialists and the PP for their behaviour during the legislature, saying Spaniards would not stand for it again.

The most contentious issue between the two parties was the government's initiative to seek a peace settlement with the separatist Basque terrorist group Eta after it declared a truce in 2006. The initiative, fiercely opposed by the PP, got nowhere and Eta returned to killing.

King Juan Carlos, in his Christmas message, called on the political forces to work together to defeat terrorism. This was the fourth year running that he called for unity on this issue, but so far he has been preaching in the desert.

Population Surpasses 45 million

Spain's population reached 45.2 million at the beginning of 2007, up from 40.2 million in 1999, and the foreign-born segment accounted for almost 10%, according to the National Statistics Institute (see Figure 1).

The pace at which the total population has been growing, however, slowed down, largely because of the entry of fewer immigrants. Growth was 2.1% between 2004 and 2005, 1.3% between 2005 and 2006 and 1.1% between 2006 and 2007.

Figure 1. Spain's Population 1999-2007 and Foreigners' Share

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Population (mn)	40.2	40.5	41.1	41.8	42.7	43.2	44.1	44.7	45.2
Foreigners' share (%)	1.8	2.3	3.3	4.7	6.2	7.0	8.4	9.3	9.9

Source: INE.

Spaniards Support Civics Courses in Schools

An overwhelming majority of Spaniards are in favour of lessons on citizenship in schools, according to a *Financial Times*/Harris Poll, and half believe new immigrants should be required to take a citizenship and language test in order to remain in the country (see Figures 2 and 3).

Figure 2. Civics Courses as Part of the Curriculum (%) (1)

	US	UK	France	Italy	Spain	Germany
Yes	89	73	86	99	84	92
No	6	11	7	1	10	4
Not sure	6	16	7	1	5	5

(1) The question asked was 'Should the teachings of civics courses (ie, lessons on citizenship –how the country/democracy works, etc–) be part of the standard school curriculum in (the UK/France/Italy/Spain/Germany/the US)?'.

Note: percentages might not add up to 100% due to rounding.

Source: Eurostat.

Figure 3. Citizenship and Language Tests for Immigrants (%) (1)

	US	UK	France	Italy	Spain	Germany
Yes	80	83	61	61	50	86
No	11	8	21	29	35	9
Not sure	8	10	18	10	15	5

(1) The question asked was 'Should new immigrants be required to take a citizenship and language test in order to remain in (the UK/France/Italy/Spain/Germany/ the US)?'.

Note: percentages may not add up to 100% due to rounding.

Source: Eurostat.

The government launched obligatory civics courses in secondary schools in some regions last autumn amid fierce opposition from the hierarchy of the Roman Catholic Church. The Church (which held sway over religious education during the Franco regime) said the state had no right 'to impose a moral formation that is not chosen'. In the last decade Spain has become an increasingly multicultural society: the foreign population now represents 10% of the total population.

In a separate but related development, a survey conducted by the government showed that a majority of the country's Muslim immigrants (estimated to number around one million) were very or fairly satisfied with their situation in the country. Of those surveyed, 26% said they were very content and 48% fairly satisfied. A total of 83% said they felt adapted to Spanish life and customs, 84% said no obstacles had been placed in their way for practising their religion and 90% rejected the use of violence. The survey covered 2,000 immigrants –57% of them from Morocco, 12% from Senegal, 11% from Pakistan and 5% from Algeria–.

Muslim leaders, however, played down the results and said the picture they painted was too idyllic as the questions in the survey avoided issues such as the difficulty of opening mosques and the teaching of Islam in schools.

The Economy

GDP Growth Revised Downwards, Current Account Deficit, Inflation and Unemployment Rise

The government revised its GDP growth forecast for 2008 from 3.3% to 3.1%, a figure that is still considered optimistic by many analysts. Meanwhile, last year's current account deficit reached a record of around 10% of GDP, inflation hit a 12-year high of 4.3%, double the government's initial estimate, and the number of unemployed rose by 106,674, the first increase since 2003. The jobless rate, however, was still relatively low at around 8%.

As a result of the inflation overshoot, wage bargaining agreements kicked in and increased salaries. These agreements for 2007 were based on a rise in inflation of 2%. Pensioners also received more money.

The Spanish stock market ended 2007 up 7.3%, its smallest rise in five years (+31.8% in 2006). The selective Ibex-35, however, still performed better than other indexes (see Figure 4).

Figure 4. Stock Market Indices, 2007 (% rise)

Index	
Dax (Frankfurt)	+22.3
Ibex-35 (Spain)	+7.3
Dow Jones	+7.2
Euro Stoxx 50	+6.9
FTSE 100 (London)	+4.1
Nikkei (Tokyo)	-11.1

Source: Markets.

The fall in these stocks reflected the downturn in the decade-long property boom. The price of new homes in 2007 rose by only 5.1% compared to 9.8% in 2006, 10.1% in 2005 and 12.5% in 2004 (see Figure 5). The property sales of some companies have fallen by 50%.

Figure 5. Average Price of New Homes (€per square metre)

1992	1993	1995	2000	2001	2002	2003	2004	2005	2006	2007
919	917	989	1,335	1,453	1,667	1,931	2,286	2,516	2,763	2,905

Source: Sociedad de Tasación.

Spain's 13 largest real estate companies and Madrid's association of real estate developers joined forces to create a lobby, known as G-14. Pedro Pérez, G-14's Secretary General and a former Secretary of State for the Economy under a previous Socialist government, estimated that for every flat not built two jobs were lost. He said up to 500,000 people could be laid off from the construction sector in 2008 and 2009. A high proportion of immigrants work in the sector.

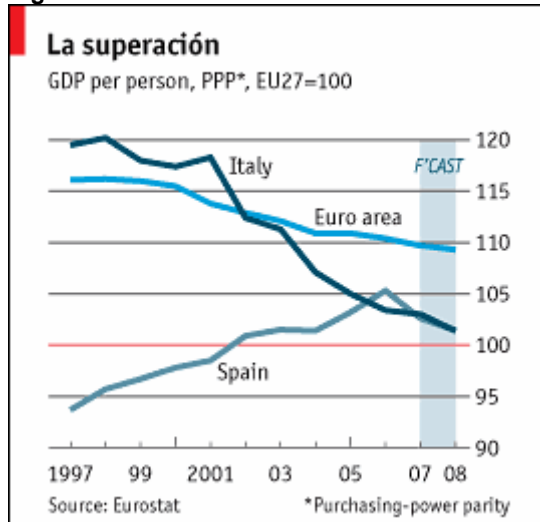
Pedro Solbes, the highly experienced Economy Minister, agreed to stay on in his post if the Socialists win. This pleased the business community as the economic situation under the next government, regardless of its colour, will be very different to that of the last four years.

The Popular Party, meanwhile, announced that Manuel Pizarro, the former Chairman of Endesa, would run on their electoral list for Madrid. If the party wins the March election he will probably be named Deputy Prime Minister for the Economy. Pizarro fought off Gas Natural's attempt to takeover Endesa, but his preferred suitor, Germany's E.on. was beaten by Italy's Enel and Spain's Acciona in a controversial bid.

Spain's GDP Per Capita Surpasses Italy's

Spain achieved its much vaunted overtaking (*superación*) of the Italian economy earlier than initially expected. Its GDP per inhabitant (the size of the economy divided by the population) in purchasing power parity terms in 2006 was 105% of the EU-27 average compared with Italy's 103%, according to Eurostat, the Statistical Office of the EU (see Figure 6).

Figure 6.



Spain's economy has consistently grown above the EU average over the last decade, while Italy has performed weakly in comparison, and its population has risen substantially (by more than 5 million). Indeed, but for the extraordinary increase in its population, largely due to the influx of immigrants, Spain's per capita GDP would probably have surpassed Italy's earlier.

Roman Prodi, the Italian Prime Minister and a former President of the European Commission who never questioned Eurostat's figures while in Brussels, pointed to the data of the International Monetary Fund (IMF) which showed Italy slightly ahead (using the same methodology) in 2005 (per capita income of US\$27,750 for Italy as against US\$27,270 for Spain). Given that the Spanish economy continued to grow much faster than Italy's in 2006 and 2007, the IMF's figures for these years are likely to be in line with Eurostat's.

José Luis Rodríguez Zapatero, the Prime Minister, said that overtaking France was now a national goal.

Repsol to Sell 25% of its Argentine Division YPF

Repsol YPF, Spain's energy conglomerate, is to sell 25% of its YPF division to the Argentine financier Enrique Eskenazi. The long-awaited deal, which follows a year of talks, will be done in two phases: the sale of a 14.9% stake for US\$2.2 billion followed by a buy option for a further 10.1% for US\$1.5 billion. There will also be a listing of 20% of YPF during the first half of this year.

The proceeds will be used for a stronger push into oil exploration –Repsol's weakest area– particularly in Northern Africa and the Gulf of Mexico. The deal also enables Repsol to improve its relationship with the Argentine government, which often criticised the sale of the former state oil monopoly YPF to Repsol in 1999. Eskenazi is a close associate of Cristina Fernández, Argentina's recently elected President, who succeeded her husband Nestor.

Casino to Rival Las Vegas

The semi-deserted region of Aragón is planning to build the world's second-largest casino after Las Vegas. The €17 billion complex, known as Gran Scala, hopes to attract 25 million visitors a year.

Figure 7.



A digitally generated illustration showing the Gran Scala leisure complex in Los Monegros.

The complex will eventually contain 32 casinos, 70 hotels, 232 restaurants and 500 shops, alongside replicas of Egyptian pyramids and Roman temples. There will even be a copy of the Pentagon –which will serve as a hotel in Spyland, a James Bondish theme park–.

It will be built on 2,000 hectares by the British-based consortium International Leisure Development. Other sites considered were in Dubai and France. Nearby Zaragoza, the capital city of Aragón, is holding this year's World Expo, dedicated to water and sustainable development. The casino is opposed by environmental groups.

Spain is the only developed country in the world that spends more on the lottery and other forms of gambling than it does on R&D. Spaniards spent an estimated €3 billion on the Christmas lottery alone.