

Inside Spain nr 101 (18 November-17 December)

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Foreign policy

Court ruling on Tibet angers Chinese government

A criminal court in Madrid called for the arrest of five former Chinese leaders over alleged crimes of genocide in Tibet, angering Beijing and raising the prospect of endangering relations with a growing trade and investment partner.

The ruling said Jiang Zemin, the former Chinese President, Li Peng, the former Prime Minister, and three other senior ex-officials held 'political or military responsibility' at a time when the authorities allegedly committed human rights abuses against Tibetans.

The case was filed against them by a pro-Tibetan pressure group in Madrid seven years ago under Spain's universal jurisdiction provisions, which allow judges to pursue crimes outside Spain. These provisions were used unsuccessfully in 1998 to prosecute General Augusto Pinochet, the former Chilean dictator.

Zhu Weiqun, the head of the religious affairs committee in the Chinese parliament's advisory body, called the move 'absurd and ridiculous. People who think like this will only humiliate themselves. Whatever country's courts accept these lawsuits is also humiliating itself'.

Spain's ambassador to China was summoned to the Foreign Ministry and told of the government's displeasure.

The government is reportedly planning to restrict the capacity of the *Audiencia Nacional* to investigate and try crimes against humanity committed outside Spain.

Opening of UK diplomatic bag heightens tensions with Gibraltar

Madrid assured the British government there would be no repeat of an opening of a UK diplomatic bag by a Guardia Civil officer at the border between Spain and Gibraltar, the UK overseas territory which Spain has long claimed.

Prime Minister David Cameron said the incident was a breach of the principle of state immunity and the principles underlying the Vienna Convention on diplomatic relations. It was the first time a British diplomatic bag had been searched by any EU or Nato member.

The Spanish government privately told London the bag was opened in error by a low-ranking officer. This followed public comments by José Manuel García-Margallo, the Foreign Minister, who denied a diplomatic bag had been opened. 'There is no incident', he told local media, in comments broadcast by radio stations. 'A bag was opened, which was not a diplomatic bag'.

Last month the European Commission said it found no evidence to support the claims by the British government that Spain's stringent checks on traffic and pedestrians entering Gibraltar as of the summer, which have caused long queues lasting several hours, break EU law. The controls were imposed after Gibraltar dumped 70 concrete blocks in contested waters to create an artificial reef.

David Liddington, the Europe Minister, dismissed a call by Labour MP Peter Hain to revisit the proposal for joint sovereignty of Gibraltar that was rejected in a referendum in Gibraltar in 2002. Hain at that time was Europe Minister in Tony Blair's government. He told the British parliament last month that the proposal 'respects the paramount rights of Gibraltarians but recognises that Spain... has an historic grievance'.

The key principle for Madrid is territorial integrity, while Gibraltar has always maintained that self-determination is the overriding issue though this excludes independence for the territory. The 1713 Treaty of Utrecht, which ceded Gibraltar to Britain in perpetuity, contains a reversionary clause indicating that if Britain should ever decide to relinquish sovereignty, Spain would be entitled to reclaim it before any other options were considered.

Domestic scene

Catalonia sets date for illegal independence referendum

The Catalan government announced a date for a vote on independence next November, setting itself on a collision course with the central government in Madrid that has vowed to block it.

Artur Mas, the region's centre-right President, said there would be two questions on 9 November. The first will ask: 'Do you want a Catalan state?'. Those who answer 'yes' will then be asked: 'Do you want the state to be independent?'

'I guarantee this referendum will not take place', Prime Minister Mariano Rajoy vowed. 'It is unconstitutional. It is contrary to the basis of the constitution which is the indissoluble unity of Spain. The government cannot negotiate something which is the property of Spaniards, sovereignty'.

The Catalan vote would come two months after a referendum on Scottish independence where there is only one and more precise question, 'Should Scotland be an independent country?'

Legal experts said the two questions were ambiguous and confusing as each one implies an alternative which is not specified. All states are, by definition, independent, making the first question redundant. However, support for the first question but not the second could be interpreted as a desire for greater autonomy without breaking with Spain.

Rajoy and David Cameron, the British Prime Minister, have been at pains to explain the negative consequences were a component part of either state to opt for independence. The cases of Scotland and Catalonia, however, are very different as the UK does not have a written constitution and the question was agreed with London.

In comments about Scotland being ejected from the EU if it voted for independence but clearly directed at Catalonia, Rajoy told *El País*, 'This is a fact, it's neither a value judgment nor an opinion, it's simply a fact. If part of a country integrated into the European Union leaves that country, then logically it would be outside the European Union, not because I say so, but because that's what the treaties say'.

The European Commission has made the same point several times, saying Catalonia would have to re-negotiate its EU membership. Herman Van Rompuy, President of the European Council, broke his silence on the issue when he visited Rajoy in Madrid. 'If a part of the territory of a Member State ceases to be a part of that state because that territory becomes a new independent state, the treaties will no longer apply to that territory. In other words, a new independent state would, by the fact of its independence, become a third country with respect to the Union and the treaties would, from the day of its independence, not apply anymore on its territory'.

NATO also joined the chorus. 'For any nation to be incorporated into the alliance the consensus of all the NATO allies will be necessary', said a spokesman for the alliance.

In a further warning of the negative consequences of independence, Luis Linde, the Governor of the Bank of Spain, said the Catalan banks would face serious problems. 'According to European regulations, if a small territory separates from another large one, banks with their headquarters in the small one cannot continue to finance themselves in the European Central Bank because it can only lend to those who provide guarantees issued by a member country of the European economic space'.

The Socialists, the main opposition in the national parliament, closed ranks with the Popular Party government of Rajoy in rejecting the referendum.

In the Catalan parliament, however, the referendum has the backing of 88 of the 135 MPs (71 of whom belong to Mas’s *Convergència i Unió* bloc and the left-wing separatist *Esquerra Republicana* party).

Mas has gone so far down the road of calling for a plebiscite on independence that he has boxed himself into a corner out of which it will not be easy to back down.

In the likelihood that the referendum does not go ahead –and Mas has let it be known he will not hold it if declared illegal– early elections in Catalonia would probably be held. This tactic would enable Mas to appear as a martyr to the cause of independence.

Spain scores below the average in Pisa international education tests...

Spain continued to score below the OECD average in international tests taken by 15-year-olds, but showed an improvement in its scores for reading, maths and science since the last assessment conducted in 2009.

Spain was ranked 29th in science 32nd in reading and maths out of 65 countries (see Figure 1). The Programme for International Student Assessment (Pisa) is conducted every three years and involves some 500,000 students. The latest results cover 2012.

Figure 1. Pisa report assessing competencies in reading, maths and science, selected ranking of countries (1)

Reading	Maths	Science
1. Shanghai, China (570; 556)	1. Shanghai, China (613; 600)	1. Shanghai, China (580; 575)
5. S. Korea (536; 539)	2. Singapore (573; 562)	5. Finland (545; 554)
6. Finland (524; 536)	5. S. Korea (554; 546)	7. S. Korea (538; 538)
9. Ireland (523; 496)	12. Finland (519; 541)	9. Poland (526; 508)
10. Poland (518; 500)	14. Poland (518; 495)	12. Germany (524; 520)
19. Germany (508; 500)	16. Germany (514; 513)	21. UK (514; 514)
21. France (505; 496)	25. France (495; 497)	22. Czech Republic (508; 508)
23. UK (499; 494)	26. UK (494; 487)	25. Latvia (502; 494)
OECD average (496; 493)	OECD average (494; 496)	OECD average (501)
28. Italy (490; 486)	28. Italy (490; 483)	26. France (499; 498)
31. Portugal (488; 489)	31. Portugal (487; 487)	28. US (497; 493)
32. Spain (488; 481)	32. Spain (484; 483)	29. Spain (496; 488)

(1) 2012 and 2009 scores in brackets.
Source: OECD.

The results varied considerably by region; some, such as Navarra in maths, and Castilla y León in science, were well above the OECD average (see Figure 2). For example, in maths Navarra scored 56 more points than Extremadura and 52 more in reading.

Figure 2. Pisa results by Spain's regions (score)

	Maths		Reading		Science	
	2009	2012	2009	2012	2009	2012
Navarra	511	517	497	509	509	514
Castilla y León	514	509	503	505	516	519
Basque Country	510	505	494	498	495	506
Madrid	496	504	503	511	508	517
OECD average	496	494	493	496	501	501
Spain	483	484	481	488	488	496
Andalusia	462	472	461	477	469	486
Extremadura	–	461	–	457	–	483

Source: OECD.

Generally speaking the results, which confirmed Asia's leading position, showed that Spain has basically stood still over the last decade. In reading, Spain's score in 2012 of 488 was better than in 2009 (481) and 2006 (461) but lower than in 2000 (493). The maths score of 484 was marginally higher than in 2009 (483) and 2006 (480) but lower than in 2003 (485), while in science the score of 496 was above 2009 (488) and 2006 (487).

Improving Spain's education system is a key issue which needs to be resolved for a successful transition to an economic model based more on knowledge and less on a construction sector that collapsed as of 2008. Spain has a particularly high drop-out rate from schools when students reach 16 (the age at which compulsory schooling ends). One in every four people between the ages of 18 and 24 were early school leavers in 2012, double the EU average but down from a peak of close to one-third during the economic boom, when students abandoned the classroom and flocked in droves to work in the construction and real-estate sectors.

According to government officials, one of the reasons for the overall mediocre results and the lack of any significant improvement is that Spain has had to cope with a very large influx of immigrants over the past decade. The foreign-born population rose from 2% of the overall population in 2000 to 13.5% at present.

Other factors are a curriculum regarded as antiquated, the rote system of learning, the quality of teachers and the large number of students who have to repeat a year.

The level of government spending on education, which has increased significantly since 2000, although there have been cuts in the past few years as part of the government's austerity measures, is not one of the reasons for Spain's poor results. For example, Spain's per student expenditure on secondary education in 2010 (latest comparative figures) was higher than Finland's (US\$9,608 vs. US\$9,162) and yet Finland's Pisa results are among the very best.

... Parliament approves education reforms

Parliament approved the government's education reforms but with only the votes of the ruling Popular Party. This was the seventh package of changes in the last 35 years, none of which have enjoyed the support of both the PP and the Socialists, the two main parties.



The reforms aim, among other things, to reverse the deteriorating quality of the education system and combat the high drop-out rate of students who leave school at 16 (one-quarter of those aged between 18 and 24 in 2012 were early school leavers). The reforms allow:

- Earlier choice (at age 14) of subject specialisation, encouraging greater take-up of technical courses or higher education.
- More independence to schools and colleges to choose the subjects they offer, detaching them to an extent from regional authorities (education is a regional competence in Spain) and linking the funding they receive to the quality of the programmes. As a counterbalance, the Ministry of Education will have more control over the curricula than before.
- Possibility of access to basic two-year technical training between the ages of 14-17.
- Increase in the number of official evaluations at each educational stage. The evaluations will be designed by the Ministry.
- Directors of education centres to be appointed on merit, based on criteria fixed by the Ministry.
- Students would be unable to pass their course with more than three failed subjects.
- Universities will set their own access criteria, which can be agreed with the schools. The national access to university test is abolished.

The reforms favour the Roman Catholic Church, as they reinforce the importance of religion classes in state schools. The education for citizenship course, introduced by the previous Socialist government, has been dropped. Students will be steered towards religion classes and those classes will help toward scholarships and graduation as they roll back a partial limitation on the academic weight of religion classes enacted in 2006. Gender-segregated schools, mostly run by the Church, will be eligible for state subsidies.

The reform mandates Spanish-language schooling for students who request it in regions like Catalonia, which use their own languages in public education. Catalonia will have to pay for private schools for students who request it.

The government's draft education bill triggered protests earlier this year for various reasons, including a belief among the left that the reforms will discriminate against underprivileged students and increase the Church's influence. Deep cuts in education spending also sparked demonstrations.

Spain drops 10 places in public sector corruption ranking

Spain was ranked 40th out of 177 countries in the latest corruption ranking by the Berlin-based Transparency International, down from 30th in 2012 (see Figure 3). Its score of 59 was six points lower. The nearer to 100, the cleaner the country.

Figure 3. Ranking of perceived levels of public sector corruption, selected countries (1)

Country ranking out of 177 nations	Score out of 100
1. Denmark (1)	91 (90)
3. Finland (1)	89 (90)
12. Germany (13)	78 (79)
14. UK (17)	76 (74)
22. France (22)	71 (71)
40. Spain (30)	59 (65)
69. Italy (72)	43 (42)

(1) 2012 ranking and score in brackets.
Source: Transparency International.

Among the spate of high profile corruption cases under investigation are that of Luis Bárcenas, the former treasurer of the ruling Popular Party who told a judge that he had channelled cash donations from construction firms into politicians' pockets. He was found to have almost €50 million in a Swiss bank account. In another case, Iñaki Urdangarín, the son-in-law of King Juan Carlos is accused of embezzling millions in public funds.

In Andalucía, the Socialist UGT trade union is embroiled in a scandal involving the fraudulent use of public funds. Francisco Fernández Sevilla, the head of the regional UGT branch, resigned after the government of Andalucía announced it was reviewing some 30 files containing information regarding €7.5 million in subsidies and aid to the union.

The corruption survey, which was first conducted in 1995 and is based on perceptions, draws on a variety of sources, including World Bank and World Economic Forum assessments, the African Development Bank's governance ratings, and Transparency International's own Bribe Payers Survey.

A survey by the government-funded CIS showed last month that corruption was Spaniards' second main concern (31.8% of respondents) after the very high unemployment rate (77.7%).

Anti-protest bill goes to parliament

Fines of up to €30,000 could be imposed on those taking part in and organising unauthorised demonstrations if, as seems likely, parliament approves the government's Citizens' Security Law.

The maximum fine would be applied to unauthorised protests that turn violent inside or outside Spain's parliament or senate.

Leftists and civil rights activists labelled the bill the 'Kick in the teeth law' because of the harsh penalties for protests in a country that emerged from 39 years of dictatorship in 1975.

There were 14,721 demonstrations last year, according to the Interior Ministry, most of them linked to Spain's economic crisis and loss of confidence in politicians. 'We want to guarantee a freer and more peaceful coexistence for all Spaniards... eradicating violence', Interior Minister Jorge Fernández Díaz said. Compared to Greece, Spain's recent protests have been largely peaceful.

The draft law modifies the relationship between public and private security services, increasing the scope of the latter. In essence, private security services will be complementary to public security instead of subordinate as before. For example, private security guards would be allowed to make arrests in certain areas.

Elections at the mid point of the PP's government would produce a fragmented parliament

The Popular Party (PP), which trounced the Socialists in November 2011, is half way through its term of office and if elections were held today neither of the two largest parties would win an absolute majority nor find it easy to form a government.

The PP would win 146 seats in the 350-seat parliament and the Socialists 131, down from 186 and 110 respectively, according to surveys conducted by Metroscopia between June and November. None of the other parties on their own would win enough seats to enable either the PP or the Socialists to form a stable government (176 seats are required), as has happened in the past.

The communist-led United Left (IU) and the centrist Union, Progress and Democracy (UPyD) would double their number of seats to 25 seats and 11, while the Catalan nationalist Convergència i Unió would drop from 16 to 11 seats. The more radical pro-independence Catalan Republican Left would capture eight seats, five more than in 2011.

The PP and the Socialists would need at least two parties each to form a stable government. For example, IU support for the Socialists would be 20 seats short of a majority. The alternative would be a PP minority government, as the party with the most seats, which would have to depend on ad hoc parliamentary support.

Majority 'in favour of reforming the 1978 Constitution'

More than half of respondents (53%) are in favour of a major reform of the constitution, which celebrated its 35th anniversary on 6 December. This was almost double that at the time of its 30th anniversary in 2008 (see Figure 4).

Figure 4. Do you believe the Constitution... (%)

	2008	2013	PP voters	Socialist voters	In Catalonia	In the rest of Spain
... is in need of profound reforms as out of touch with reality	29	53	42	54	75	49
... only needs some partial changes as it remains valid	59	42	52	43	23	45

Source: Metroscopia.

The largest block supporting an overhaul of the constitution is in Catalonia, whose nationalist government has announced an illegal referendum on independence.

Articles written to coincide with the 35th anniversary by María Dolores de Cospedal, the Secretary-General of the PP, and Alfredo Pérez Rubalcaba, her Socialist counterpart, showed that the PP was prepared to do little more than change the Constitution to abolish male preference in the royal succession (Prince Felipe, the heir to the Spanish throne, has two daughters and the birth of a son would relegate them to second and third places). The Socialists want to go much further, and currently defend the creation of a more federal system.

Population to fall by 2.6 million over next 10 years

Spain's population will drop from 46.7 million to just over 44 million in 2023, due to more deaths than births (as of 2017), reduced migration to Spain, and higher emigration from the country, according to projections made by the National Statistics Office (see Figure 5).

Figure 5. Spain's demographics, 2013-23

	Population (million)	Over 64 (% of pop.)	Under 16 (% of pop.)
2013	46.7	26.7	24.3
2015	46.2	28.4	24.9
2017	45.7	29.8	25.0
2019	45.1	31.4	25.0
2021	44.6	33.1	24.6
2023	44.1	35.1	24.1

Source: INE.

The last time such a phenomenon occurred was during the 1936-39 Civil War or as a result of the so-called Spanish flu (1918-19). The next decade, on the basis of current trends, will be markedly different to the last one, when the population rose by 5 million between 2003 and 2013.

Average life expectancy at birth will rise to 81.8 years for men and 87 years for women, increases of 2.5 years and 1.9, respectively. The average fertility rate will increase from 1.34 to 1.41, still below the replacement rate.

The economy

Rating agencies upgrade Spain's credit outlook, jobseekers figure improves

The three main rating agencies –Standard & Poor's, Fitch and Moody's– revised upwards their country credit outlook from 'negative' to 'stable', underscoring the improvement in Spain's finances.

But sovereign debt is still rated very low: in the case of S&P at triple B minus and in the case of Moody's at Baa3, only one notch above junk. Spain first lost its top credit rating at S&P in 2009 and since then it has not been upgraded by any of the three rating agencies.

The economy emerged very weakly from recession in the third quarter, though the Ibex-35 stock index has risen 15.4% so far this year (21% by the beginning of this month). The Treasury has been comfortably raising funds on financial markets. The five-year borrowing cost fell on 5 December to its lowest level since 2005 when the Treasury sold €3.52 billion of debt with a yield of 2.722%. The gap between Spain's 10-year borrowing costs and Germany's has narrowed by

around 40% this year (see Figure 6).

Figure 6. 10-year government bond yields (%) and spreads over Germany's bunds (1)

	Yield 25 January	Yield 16 December
Germany	1.64	1.84
Greece	10.49 (8.85)	8.93 (7.09)
Ireland	4.11 (2.47)	3.46 (1.62)
Italy	4.14 (2.50)	4.05 (2.21)
Portugal	6.18 (4.54)	6.09 (4.25)
Spain	5.18 (3.54)	4.08 (2.24)

(1) Spreads in brackets in pp.
Source: ThomsonReuters.

There was also better news on the employment front. The number of people officially registered as unemployed fell a little in November (by 2,475) to 4.8 million. This was the first reduction in the month of November, a seasonally unfavourable one, since the figures for jobseekers were first compiled in their current form in 1996. The average rise in the number of jobless that month between 2001 and 2007 was 44,000 and 78,000 between 2008 and 2012 (years of recession). The improvement led to speculation that the economy might be beginning to create jobs.

The number of unemployed according to the latest labour-force survey, however, remains much higher at close to 6 million (26% of the work force). According to a report by PwC, Spain will take 15 years to reduce its jobless rate to below 10%.¹

November was also a better month for the number of new cars sold, which at 55,450 was 15.1% higher than the same month of 2012. Sales for the first 11 months were 662,188 (+2.1% year-on-year). Anfac said the improvement was due to car buying incentives.

US casino operator pulls the plug on mega project

The government's rejection of the exorbitant conditions of US billionaire Sheldon Adelson for building Europe's largest casino complex on the outskirts of Madrid led the magnate to cancel the project.

Dubbed Eurovegas, the building of the 22 billion project comprising 12 hotels, six casinos, a conference centre, golf courses, cinemas, shopping malls, bars and restaurants would have created up to 250,000 jobs in a country with an official unemployment rate of 26%.

Among the conditions was a reduction in the tax rate from 45% to 1%, guaranteed compensation in the event of future legislative changes and an assurance that new operators would not be allowed in the sector. The government was apparently prepared to reform its anti tobacco law and allow smoking at Eurovegas in places where it is currently prohibited. It checked the legality of Adelson's other demands with the European Commission.

¹See http://www.pwc.es/es_ES/es/publicaciones/economia/assets/la-economia-espanola-en-2033.pdf.

Regional and central government officials fell over themselves to court Anderson, but in the end his demands were too much. 'New conditions were put forward concerning taxes and legal protection... which could not be taken on board by the administrations involved', the Deputy Prime Minister, Soraya Sáenz de Santamaria, said. 'The government needs to preserve the general interests of all Spaniards'. The project was not to everyone's liking, particularly those who claimed it would lead to increased crime and prostitution and return Spain to an economy excessively based on bricks and mortar.

IMF urges banks to continue to limit cash dividends and increase capital

Spain's banking sector is coming out of the woods, but banks should carry on limiting cash dividends in 2014 and boost their capital, the International Monetary Fund (IMF) said in its fourth report.²

The IMF continues to monitor banks under the terms of the bailout granted in 2012 after Bankia, in particular, posted massive losses as a result of toxic real-estate loans following the bursting of Spain's property bubble. Spain received €41 billion of a €100 billion credit line from the European Stability Mechanism and will exit the programme in January. The government says there is no need for more aid.

'Efforts under the programme have made the banking system stronger, safer, and leaner, as has important policy progress at the European level', the IMF said.

The Bank of Spain called on banks to limit cash dividends this year to 25% of profits. The IMF suggested that the central bank should be given the power to cap pay-outs. BBVA has already announced it will skip a dividend payment in January.

'To avoid exacerbating already-tight credit conditions, supervisory actions to strengthen solvency and reduce risks should prioritize measures that boost banks' nominal capital', the IMF said. 'Such actions include encouraging banks to take advantage of buoyant equity markets to increase share issuance'.

Exports covered 94% of imports in the first nine months

Exports were almost 7% higher in the first nine months of 2013 at €175.1 billion and imports were 2.3% lower at €186.1 billion, leaving a trade deficit of €11 billion, less than half that in the same period of 2012 (€27.2 billion). Exports covered 94% of imports, up from 86% (see Figure 7).

² See <http://www.imf.org/external/pubs/ft/scr/2013/cr13331.pdf>.

Figure 7. Main foreign trade magnitudes, 2007-13

	Exports (€bn)	Imports (€bn)	Balance (€bn)	Coverage (%) (2)
2007	185.0	285.0	-100.0	64.9
2008	189.2	283.4	-94.2	66.8
2009	159.9	206.1	-46.2	77.6
2010	186.8	240.0	-53.2	77.8
2011	215.2	263.1	-47.9	81.8
2012	226.1	257.9	-31.8	87.7
2013 (1)	175.1	186.1	-11.0	94.1

(1) First nine months.

(2). Percentage of imports covered by exports.

Source: Ministry of Economy and Competitiveness.

The lower trade deficit (€100 billion for the whole of 2007 at the peak of the boom when the country was living beyond its means) has helped to turn a staggering current account deficit of 10% of GDP that year into a surplus (for the first time in 26 years) estimated at more than 1% this year.³

Ghost airport, symbol of real-estate bubble, put up for sale

The white-elephant airport at Ciudad Real, opened at the end of 2008 at a cost of €1.1 billion and closed in 2011, was put up for sale with a minimum price tag of €100 million.

The airport, which never attracted more than a handful of flights a week, has a terminal for 10 million passengers a year and a 4 km runway capable of taking the A380 super-jumbos. Partly funded by the Caja Castilla La Mancha savings bank, the first of Spain's *cajas* to be bailed out, in 2010, the airport is 200 km from Madrid and was intended to relieve pressure on the capital's airport as it is near to the high-speed train network.

The airport was initially named 'Ciudad Real Don Quixote' after the delusional protagonist of Miguel de Cervantes' 17th century novel and changed to 'Ciudad Real Central' when it became the butt of jokes. It was built during the Socialist regional government (now Popular Party) of Castilla La Mancha.

The airport at Ciudad Real is not the only idle one in Spain. There is another one at Castellón, in the PP controlled region of Valencia, which has a 24-metre-high statue dedicated to Carlos Fabra, a powerful local PP politician, crowned by an aluminium model aircraft. Fabra was sentenced to four years in prison last month for tax fraud.

Fabra justified opening the airport in 2011 even though it was not in use because it did not have the required permits on the grounds that 'anyone who wants can visit the runway, the terminal and the control tower and walk around them, something they could not do if aircraft were taking off'.

³ For a full analysis of the export performance and structural changes see the author's report at http://www.realinstitutoelcano.org/wps/portal/rielcano_eng/Content?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/ari47-2013-chislett-spain-exports-economy-salvation.



Corporate scene

Repsol reaches compensation deal with YPF

The Argentine government, which nationalised YPF, majority owned by the energy conglomerate Repsol, last year without paying anything has agreed in principle to compensate the company.

Buenos Aires is apparently offering a package worth US\$5 billion, half of what Repsol had initially demanded. Repsol had begun to press ahead with suing Argentina in national and international courts.

YPF produces around one-third of Argentina's oil and a quarter of its gas. The country has very large reserves of shale oil and gas.

The Argentine government, keen to develop the shale reserves, needs a settlement in order to attract foreign investment, and Repsol would then be able to move ahead with its post-YPF strategy.

Santander buys stake in Bank of Shanghai

Santander, the euro zone's largest bank by market capitalisation, stepped up its geographic diversification by buying an 8% stake from HSBC in Bank of Shanghai for €170 million and increasing its low presence in Asia.

Emerging markets, particularly Brazil and Mexico, generated 55% of Santander's profits in the first nine months of this year. China has been the one weak spot in the extensive financial group built up over the last 25 years.

Bank of Shanghai has total assets of €98 billion and most of its 294 branches are in the city of that name.

BBVA, Santander's main Spanish rival, sold its 5% stake in China's Citic Bank in October, which reduced its holding to just below 10% and so within the incoming Basel III regulatory rules.

These rules will require banks that hold 'significant' investments in other groups (more than 10% of their total equity) to hold more capital against these stakes.

Inditex: profits and stores continue to grow

Inditex, the world's largest clothes retailer by sales, posted net profits of €1.67 billion in the first nine months, 1% more year-on-year, on revenue that was 5% higher at €1.93 billion.

The number of its stores, including Zara, its best known chain, rose during the nine months of its trading year by 240 in net terms to a total of 6,249.

Prosegur enters Australia

Prosegur, one of the world's largest security companies, acquired Chubb's cash-in-transit armoured vehicles unit for about €95 million, representing its first foray into the Australian market.