



Inside Spain 24

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Spain to Send More Troops to Afghanistan

The government is to strengthen its military presence in Afghanistan in order to improve the security of its 540 troops already based there. The troops came under attack in April.

The troops operate under a UN mandate and are involved in building health facilities and schools in the country's west, particularly the neighbouring Badghis and Herat provinces.

The issue of whether to send more troops has been confusing, as the government has sent out different signals. Three days after José Luis Rodríguez Zapatero, the Prime Minister, said on radio that he did not intend to send more troops unless there were 'well-founded security reasons', the Deputy Prime Minister, María Teresa Fernández de la Vega, said at least 140 soldiers would be sent.

José Antonio Alonso, the new Defence Minister, then visited the troops and returned saying he had 'verified first-hand objectively the need to effect this increase in personnel' (Alonso, the former Interior Minister, replaced José Bono in a government reshuffle on 7 April) The deployment of more troops has to be approved by parliament; the government is assured of support as the centre-right opposition Popular Party backs the move.

The Spanish mission in Afghanistan has been a useful gesture towards the US following the sudden withdrawal of Spanish troops from Iraq in 2004. According to Kurt Volker, Deputy Assistant Secretary of State for European and Eurasian Affairs, Afghanistan is the most important place where Spain and the United States are working together (see www.state.gov/p/eur/rls/rm/64074.htm).

But it has not been a very productive mission compared to contributions by other European countries. The rules of engagement for Spanish troops are especially tight and they rarely leave their bases. The political leadership at home is very fearful of any casualties of troops in combat, because of the potential for a backlash against its policy in a country where pacifism is strong. So far the only deaths have been accidental: two transport helicopters crashed last August in a western Afghan desert, killing 17 troops.

According to the latest Elcano barometer (see www.realinstitutoelcano.org/barometro.asp), 51% of respondents view the presence of Spanish troops in Afghanistan positively, compared with 67% in the Balkans.

Foreign Policy

Spain and Gibraltar 'Close' on Deal

Peter Caruana, Gibraltar's Chief Minister, said he expected agreements to be signed by the summer resolving longstanding thorny issues such as joint use of the Rock's airport, the supply by Spain of more telephone lines and a solution to pensions owed to Spaniards who worked there. The deal, however, is not yet in the bag.

Speaking in Madrid, Caruana praised the 'intelligent and brave policy of dialogue' initiated by the Socialist government in 2004 when it abandoned Spain's traditional policy of antagonising Gibraltar with its sovereignty claims and mounted a charm offensive. Spain decided to discuss issues in a more co-operative spirit and give Gibraltar, for the first time, a seat at the negotiating table (a formula known as 'two flags, three voices'). Gibraltar has been a British territory since the 1713 Treaty of Utrecht.

'Spain has not modified its demands in any way, nor has Gibraltar, but at least we have an open agenda,' said Caruana. 'The climate has changed, so we can advance to our mutual advantage'.

Rodríguez Zapatero and Merkel Seek New Impetus for Stalled EU Constitution

José Luis Rodríguez Zapatero, Spain's socialist Prime Minister, and Germany's Christian Democrat Chancellor, Angela Merkel, met in Berlin on 20 April and pledged to join forces in pushing forward the stalled process of giving the European Union a constitution.

The two leaders laid aside their differences over the take-over bid by Germany's E.on for Endesa, Spain's biggest utility. Berlin and Madrid have been at odds about the Spanish government's backing of a €2 billion bid from Spain's Gas Natural for Endesa, over a rival and higher €9.1 billion offer from E.on (see separate piece below).

Spain (in a referendum) and Germany (through its parliament) approved the EU constitution before it was rejected by French and Dutch voters and left in limbo. EU leaders then agreed to a one-year reflection period, which ends next month, to assess the next move. Germany will hold the EU's rotating presidency in early 2007.

The Berlin-Paris-Madrid axis that Zapatero had hoped for when he came to office in 2004 died when Merkel beat the social democrat Gerhard Schröder in last year's elections and France entered into a political crisis after rejecting the EU constitution.

Domestic Scene

Doubts over ETA's 'Permanent' Ceasefire

Two attacks on offices raised doubts about whether the 'permanent' ceasefire by the Basque terrorist group ETA, in force since 24 March, is genuine.

Molotov cocktails were thrown into the offices of the Mapfre insurance group in the Basque town of Getxo and, in a more serious incident, a shop belonging to a politician in Barañáin was destroyed and flats above it had to be evacuated.

Alfredo Pérez Rubalcaba, the new Interior Minister, said such attacks were 'incompatible with ETA's ceasefire'. Rubalcaba, the government's former parliamentary spokesman, replaced José Antonio Alonso on 7 April and will oversee the talks with ETA. Prior to the attacks, José Luis Rodríguez Zapatero, the Prime Minister, said the ceasefire was holding firm and that extortion letters received by Basque businessmen were sent before it was announced.

Significantly, the attacks were criticised by Batasuna, the political party close to ETA and outlawed since 2003, which until then had always refused to do this. Fernando Moraleda, the government's spokesman, said its investigations did not reveal ETA's hand behind the attacks and that José Luis Rodríguez Zapatero was maintaining the calendar for verifying the ceasefire. Zapatero intends to report to parliament in June.

The attacks, however, played into the hands of the centre-right Popular Party (PP) which is sceptical of ETA's announcement and is demanding that the group be dissolved and lay down its weapons before the government starts any meaningful dialogue. The PP's leader, Mariano Rajoy, took issue with Zapatero's labelling of Arnaldo Otegi, the spokesman for Batasuna, as a 'great fighter for peace'. Otegi was imprisoned in 1989 for his role in the kidnapping of a Basque businessman and again for several days in March of this year after he was accused of instigating acts of violence during a strike.

Otegi was given a 15-month sentence last month for glorifying terrorism, but was not immediately imprisoned. He was also banned from standing for political office for seven years. Another judge barred him from travelling to Northern Ireland for a meeting organised by Sinn Fein.

In a separate move, but one related to the contentious issue of regional autonomy, the PP delivered in a dozen trucks a petition to parliament with 4 million signatures calling for a referendum on the recently approved plan to give Catalonia more autonomy. The PP, which won 10 million votes in the 2004 general election, wants the following question to be put to the nation: 'Do you believe it is advisable for Spain to continue to be a single nation where everyone has the same rights and obligations, as well as the same access to public provisions?'

Judge Orders 29 People to Stand Trial in Connection with Madrid Train Bombings

The two-year investigation into the March 2004 train bombings in Madrid, which killed 191 people and injured another 1,755, ended with a judge ordering 29 people to stand trial for their role in Spain's worst terrorist attack.

Judge Juan del Olmo's 1,500-page report found that Islamic radicals were behind the attacks which were inspired, but not directed by, Osama bin Laden, leader of the al-Qaeda terror network. Only one Spaniard is charged directly with causing death and injury as he is accused of supplying the plastic explosives used in the train bombing.

Six of the accused face charges of mass murder or conspiring to murder over the attacks. A further seven suspects blew themselves up in a flat when police were hot on their trail.

The investigation found no evidence that ETA, the Basque terrorist group, played a role in the bombings. The centre-right Popular Party (PP), which backed the war in Iraq, lost the elections three days after the bomb attacks to the Socialists who then fulfilled an electoral pledge and withdrew Spain's troops. The PP continues to question the investigation and to accuse the government of not following leads that point to ETA's involvement.

Spain has the World's 10th Largest Stock of Immigrants

Spain gained 4 million immigrants between 1990 and 2005 when the number of them (4.8 million) was the 10th largest in the world and they represented 11% of the country's population, according to the UN Commission on Population and Development (see Figure 1). In 1990, Spain was not even among the top 20 recipient countries.

Figure 1. Countries with the largest number of international immigrants (millions)

| 2005 | Millions | % of the population |
|------------------|-----------------|----------------------------|
| 1. United States | 38.4 | 12.8 |
| 2. Russia | 12.1 | 8.4 |
| 3. Germany | 10.1 | 12.2 |
| 4. Ukraine | 6.8 | 14.6 |
| 5. France | 6.5 | 10.7 |
| 6. Saudi Arabia | 6.4 | 26.1 |
| 7. Canada | 6.1 | 18.9 |
| 8. India | 5.7 | 0.5 |
| 9. UK | 5.4 | 9.0 |
| 10. Spain | 4.8 | 11.1 |

Source: Population Division of the United Nations Secretariat, *Trends in Total Migrant Stock: The 2005 Revision*.

Most of Spain's migrants are from developing countries, particularly Ecuador, Colombia and North Africa. Their average annual number soared from 33,000 in 1990-94 to 483,000 in 2000-04. Last year the government granted an amnesty to some 700,000 illegal immigrants.

Migrants are attracted to Spain by the labour shortages in certain sectors of the economy, particularly construction and agriculture. In turn, they are boosting demand for new housing and sustaining Spain's 10-year construction boom which shows no signs of abating.

Immigrants have also halted Spain's declining birth rate. Births to foreign women constituted close to 14% of all births in Spain in 2004.

Spanish Women Live the Longest in the European Union

Spanish women live 83 years on average, the longest in the European Union, according to a study by the Spanish Ministry of Health. Including men, the average Spaniard lives 79.7 years, the third highest after Italy and Sweden.

The longevity of Spaniards bears testimony to the greatly improved public health system and the healthier Spanish eating habits. The life expectancy of the average Spaniard increased from 69.9 years in 1960 to 79.7 in 2002 (latest year for figures).

The Economy

European Commission Deals Blow to Government and Authorises E.on's Take-over of Endesa

The European Commission unconditionally approved E.on's €29.1 billion bid for Endesa, Spain's largest electricity generator, increasing the likelihood of thwarting the government's ambition to create a national champion. The government favours the lower bid for Endesa by Gas Natural, Spain's biggest gas supplier.

Brussels said that E.on and Endesa have 'limited overlapping activities' in the electricity markets where they operate, and 'an absence of overlapping activities in natural gas'. 'It is considered unlikely that the proposed operation would have a significant adverse impact on competition in the energy markets', it said. The Commission was also preparing to mount a legal challenge against Spain for trying to hinder E.on's bid after Madrid broadened in February the remit of its national energy commission (CNE) to allow it to review security and supply aspects of foreign bids in the energy sector.

The Commission's move came several days after Spain's Supreme Court voted to suspend government approval for Gas Natural's €22 billion take-over of Endesa. This was the first time there had been such a ruling. The Court ruled by 18 votes to 14 in favour of a temporary injunction brought by Endesa, following the recommendations from Spain's competition authorities to disallow the merger of the two companies.

This was the second legal victory for Endesa. In March a Madrid commercial court ordered a suspension of Gas Natural's bid pending a definitive ruling on whether or not a side agreement between Gas Natural and Iberdrola, Spain's second-biggest generator, contravened European Union rules on fair competition and constituted collusion to eliminate Endesa from the market.

Gas Natural launched its hostile bid for Endesa last September and E.on joined the battle in February. No one is predicting when and how the saga will end.

Telefónica Acquires Colombia's Largest Telephone Company

Telefónica, Spain's telecoms giant, acquired a controlling stake in Colombia Telecom, the country's largest telephone company, for €300 million. It acquired 50% plus one share, beating off competition from CANTV, the Venezuelan company recently bought by the Mexican magnate Carlos Slim.

The Spanish company plans to spend US\$670 million on Colombia Telecom. Of the total, some US\$300 million will go to expand Telecom's broadband services, US\$250 million to update its technology platforms and US\$120 million to fixed-line operations.

The purchase significantly enhances Telefónica's already very strong position in Latin America where it is the second-largest mobile telephone operator after America Móvil, with more than 70 million customers at the end of 2005 (see Figure 2). It has spent more than €42,000 million on acquisitions in Latin America since 1990.

Figure 2. Telefónica in Latin America

| Country | Fixed lines | Mobile |
|-------------|-------------|------------|
| Mexico | – | 6,368,000 |
| Guatemala | 44,000 | 1,041,00 |
| El Salvador | 69,000 | 538,000 |
| Panama | – | 849,000 |
| Colombia | 2,600,000 | 6,033,000 |
| Ecuador | – | 1,885,000 |
| Peru | 2,248,000 | 3,455,000 |
| Chile | 2,429,000 | 5,276,000 |
| Nicaragua | – | 372,000 |
| Venezuela | – | 6,160,000 |
| Brazil | 12,340,000 | 28,805,000 |
| Uruguay | – | 419,000 |
| Argentina | 4,532,000 | 8,335,000 |

Source: Telefónica (end of 2005).

Agbar Buys UK Water Company

Agbar, based in Barcelona, plans to acquire the UK's Bristol Water, which supplies about one million customers in the city of Bristol and surrounding areas, for €237 million.

In the last two years the UK has become the favourite target of certain Spanish companies seeking to expand, although it is not part of the Euro zone (see Figure 3). Grupo Santander, Spain's largest financial group, started the wave of acquisitions when it bought Abbey. Telefonica recently bought mobile phone network O2 and Ferrovial has its eyes on the airports group BAA.

Figure 3. Spanish acquisitions in Europe, 2004-06

| Spanish company | Company acquired | Cost (€million) |
|-----------------|----------------------------|-----------------|
| Santander | Abbey (UK) | 13,467 |
| Ferrovial | BAA (UK), pending | 12,405 |
| Metrovacesa | Gecina (France) | 5,500 |
| Telefónica | O2 (UK) | 26,000 |
| | Cesky Telecom (Czech Rep.) | 2,754 |
| Abertis | TBI (UK) | 788 |
| | Sanef (France) | 4,030 |
| | Autostrade (Italy) | 25,000* |
| Sacyr | Eiffage (France) | 1,661 |
| Agbar | Bristol Water (UK) | 246 |
| Colonial | SFL (France) | 1,638 |

(*) Merger; market value.

Source: *El País*.

Agbar is a major company in the water sector in both Spain and Chile. It also has water businesses in Mexico, Colombia and Cuba. Last year, it scaled down its water business in Argentina and pulled out of Uruguay.

Grupo Lar Acquires French Property Firm

Grupo Lar became the latest Spanish property developer to buy a French company, following in the steps of Metrovacesa, Inmobiliaria Colonial and Testa. Lar agreed to buy 70% of Ogic over the next three years at a cost of between €40 million and €60 million.

Volkswagen to transfer part of its production to Eastern Europe

Volkswagen is to move part of the production of its Polo from its plant in Navarre to Eastern Europe, following the failure to reach a new collective agreement after 15 months of talks with trade unions. VW had threatened to take this action.

VW is seeking to implement a wide-ranging restructuring plan throughout the group.

Abertis and Italy's Autostrade Seek to Create World's Largest Toll Road Company

The merger of Abertis and Autostrade would, if approved, create the world's largest toll-road operator and infrastructure company.

The greater size would not generate any synergies between the two companies as the core motorway concessions businesses of the companies do not overlap, but it would enhance prospects for winning international projects and concessions.

The headquarters of the new company, to be called Abertis, would be in Barcelona.

Tax Agency Investigates Flood of €500 Notes

The government wants to know why Spain is awash with €500 bills, one of the world's largest-denomination bank notes, which highlights the country's flourishing black economy (estimated to be as much as 20% of GDP) and market for money-launderers.

The investigation by the Tax Agency followed the arrest last month of 11 people including the mayor of Marbella on multi-million corruption charges, in one of whose homes €378,000 was found in €500 notes. The town council, which ran the city like a private fief, has been dissolved and a caretaker administration appointed. It was the first time since Spain returned to democracy in 1978 that a government had taken such a step.

According to the Bank of Spain's latest figures, 60% of the close to €80,000 million circulating in Spain is in the form of €500 notes (50% a year ago), and there are more €500 notes than € notes (respectively, 100 million and 43 million). When Spain joined the euro in 2002, 13 million €500 notes were injected into the economy; today there are 100 million (26% of the total in the 12 Euro zone countries, compared with 3.5% in 2002).

The €500 notes are popularly known as 'Bin Ladens' after the al-Qaeda leader, as everyone would like to have them but few have seen them. Most shops will not accept them because it involves having to give back so much change.

Most of these notes are believed to be circulating around the booming construction sector and not stashed away in mattresses, although Spaniards have a tradition of squirreling away. It is common practice for many real estate companies to accept or even demand cash payments and to undervalue properties when transactions are officially registered. The authorities are also worried about the rise of Mafia groups in Spain and their money-laundering activities.

Repsol YPF, Third Largest Oil Producer in Brazil

Repsol YPF, Spain's oil and gas conglomerate, signed an agreement with Petrobras which makes it Brazil's third-largest producer of oil. Repsol is to invest in the country's largest offshore platform, whose production capacity is 180,000 b/d.

Repsol has been operating in Brazil since 1997 and is the only foreign company involved in exploration with Petrobras.

Both Repsol and Petrobras are affected by the Bolivian government's decision to nationalise its energy sector, a move announced as we went to press. Repsol has invested more than US\$1bn in Bolivian gas production, which accounts for 18% of the company's total energy reserves and 11% of production.

Spain's 20 Years in the European Union

Anyone who had any doubts about the spectacular progress made by Spain in its first 20 years as an EU member should consult the study on the subject recently published by the Elcano Royal Institute, the European Commission and the European Parliament (see www.realinstitutoelcano.org/publicaciones/libros/publicacion_20_europa.pdf).

Sixty indicators cover Spain's economic, political and social transformation. For example, per capita income in purchasing power parity and euros of 2005 rose from €7,960 in 1985 to €23,087 in 2005 (from 71.6% to 90.1% of the EU-15 average); the unemployment rate dropped from 17.7% to 10.3% (over a period when the population rose by more than 5.7 million, mostly immigrants in search of work); inflation fell from 8.1% to 2.9% and the kilometres of motorways, largely financed with EU funds, rose fivefold.