Spanish misery index seems to have gone missing in action

Spain's unemployment rate might have come down from 27 per cent but it's still a staggering 23 per cent.

by **Jennifer Hewett. AFR, 12/03/2015**

I am trying to find an outside table at a Madrid bar to enjoy some beer and tapas in the spring sunshine. It's not that easy - and not for want of possibilities in a city supposed to have one of the highest number of bars to population in Europe. It's because much of Madrid seems to have the same idea as me.

The streets are a kaleidoscope of good-natured crowds ambling along. Most shops seem to have customers at least browsing in them. And the many bars and restaurants stretching from every corner near the centre of the city are a jumble of people eating and drinking and having a lot of animated fun doing so.

So what happened to the idea of Spain as one of sickest of the sick economies of Europe? The misery index seems to have gone missing in action.

Instead, Spain is expected to be the fastest-growing country in the eurozone this year. Many private-sector economists are tipping growth of nearly 3 per cent in 2015, above even the official forecast of 2.5 per cent. In European terms, that's positively stellar and an extraordinary contrast to the dire warnings of imminent financial collapse of the Spanish economy just a few years ago.

Naturally the conservative Popular Party government of Mariano Rajoy - elected by a country in economic desperation in December 2011 - is happy to take much of the credit for the change.

Secretary of State for Trade Jaime Garcia Lopez says Spain is realising the benefits of the deep structural reforms instituted in 2012-13.

Labour reform

He particularly points to the government's reforms of the labour market to make it more flexible, fixing the problems of the banking system and stabilising the energy sector, including reducing renewable energy subsidies. At the same time, the government has reduced red tape and other trading restrictions on business. University fees for students have gone up and school education has been revised to improve standards in areas like literacy and numeracy and history. In health care, public sector employee hours have increased from 35 hours a week to 37 and there are curbs on the eligibility for free medicine, which has reduced demand.

All this has also translated into success in reducing the budget deficit dramatically. And consumer confidence is up. It's enough to make Joe Hockey weep with envy.

Combine that with the depreciation of the euro helping Spanish exports, a decline in oil rices in a country that imports 98 per cent of its oil and gas, and the loose monetary policy of the European Central Bank, boosted by the bank's massive bond-buying program, which started this week.

The abrupt bursting of the massive Spanish property bubble during the crisis means prices and construction work are still subdued but there are a few cranes on the skyline again, and prices have steadied.

And larger Spanish companies specialising in everything from infrastructure and renewable energy to sophisticated technology networks are expanding their businesses and exporting their skills around the world.

But nothing is ever quite that simple, even over tapas.

Staggering

Spain's unemployment rate might have come down from 27 per cent but it's still a staggering 23 per cent. Even with a sizeable cash economy driving the official figure down several more per cent and the traditionally strong family support network in Spain as a safety net, that's still a lot of pain for a population to bear. Especially when the public debt to gross domestic product ratio is close to 100 per cent.

Investors are happy enough to lend to Spain cheaply but the continuation of that will depend on Europe's ability to avoid any nasty shocks. Greece, anyone?

The Spanish workforce might be much more flexible now in terms of pay and conditions and companies more willing to take the risk of hiring, in part because it's also easier to fire if necessary. But few of the vast number of small and often family run businesses in Spain develop into more resilient and innovative larger ones. The industrial relations system still changes the rules immediatelyfor any company whose employees number 50 or more, for example.

Nor is the Rajoy government's enthusiasm about the extent of the Spanish economic recovery and better times ahead doing much to convince voters before an election due late this year. Even the party's supporters acknowledge it hasn't been effective in explaining what it is doing and why, particularly in a world where much of the populist debate is driven by social media. (This is sounding more familiar territory for the Australian Treasurer)

And this is despite a cut in the corporate and personal income tax rates. Instead, a public irritated by cuts in government services and an increase in the VAT (from 18 to 21 per cent) is becoming ever more enthused about the vague promises of two new political parties. Both have surged in the polls in recent months, at the expense of the Rajoy government and its traditional main opposition, the Socialist Party.

Podemos ("We can") is creating considerable excitement by operating as a strongly left-wing protest variety, rather like Greece's new government. The other new offering, Ciudadanos (Citizens), is trying to claim the centre. Both are suggesting they are free of any taint of corruption and old-style politicking - not to mention any real policies.

The result is that Spain's basically two-party system has split into four main groupings, along with regional independence movements, with no one clear about the results. Hasta luego, Joe.

Jennifer Hewett is travelling in Spain as a guest of the Spain Australia Council Foundation

Spanish infrastructure giants ready to advance

Spain boasts 3000 kilometres of high-speed train network - the second-largest in the world after China.

by **Jennifer Hewett. AFR, 13/03/2015**

The menu tells me the chefs' main goal is healthy living and healthy eating. Who am I to argue, as I tuck into a Spanish omelette and delicious bread with olive oil for breakfast? At least I say no to the chocolate.

The chefs are two brothers who have a well-known restaurant in Barcelona, as well as a television show. But I am eating their healthy fare as I travel at between 200 and 300 kilometres an hour from Madrid south to Seville.

Groves of orange and olive trees flash past, interspersed with glimpses of Spain's massive motorway network, which comprises 14,000 kilometres of tollways and freeways.

Not that any car travel can compete against Spain's 3000 kilometres of high-speed train network - the most extensive in Europe and the second-largest in the world after China's.

It's no surprise that the train is running on schedule. If it was more than five minutes late I would get a cash refund on the ticket, guaranteed by the government-owned train company, Renfe.

The company can afford the offer because delays happen so rarely - 0.02 per cent of arrivals.

The quality of its infrastructure is one of Spain's proudest boasts - it is a country determined to redefine its national image as one of a highly sophisticated and technologically advanced economy.

Generous funding

Of course, much of its slick, high-speed train service is not all that new. Thanks to generous European Union funding of billions of euros, some of the network started being built in the late 1980s and 1990s, well before everyone ran out of money in the financial crisis.

Unfortunately for Australia's perennial chatter about the potential for a high-speed train service on the east coast, no such taxpayer largesse is available. Covering the cost of the investment to build an Australian version would make the national broadband network look dirt cheap.

But the happy result for Spain is that such a cost barrier has been vaulted over, mainly by others. The Spanish infrastructure department said Renfe's high-speed trains didn't require any direct subsidy from an impoverished Spanish government because the service made enough to cover its operations and maintenance expenses.

Yet the sheer amount of infrastructure in an indebted country of 46 million people a little more than twice the size of Victoria might still seem excessive, despite past subsidies from the European Union.

Spanish citizens get access to a quality of infrastructure that Australians can only dream of - no matter how much "asset recycling" is promised and no matter how often Tony Abbott describes himself as the infrastructure Prime Minister.

But the real pay-off for Spain is that it is able to use such investment in roads, rail and airports nationally to its commercial and technological advantage internationally.

That is because Spain's companies have gained expertise and efficiency in complicated infrastructure construction over decades. With Spain so well catered for - and largely out of spending money - the obvious option is to look offshore for expansion and the application of all those acquired engineering skills and technology.

Spanish invasion

Australia is not the only country experiencing a Spanish invasion of companies keen to build roads and rail, bridges and tunnels, airports and ports, as well as renewable energy infrastructure.

Most of what are now very large Spanish businesses earn the bulk of their revenue from building and operating infrastructure in the rest of Europe, Latin America, the United States, Asia and the Middle East.

But the opportunities in Australia now are attracting their attention, particularly in a country with relatively concentrated local competition, an obvious dearth of infrastructure and a reliable legal framework.

Some of the names are already becoming familiar to Australians and will only become more so. Grupo ACS has taken over Leighton Holdings, for example.

Acciona operates energy businesses and road projects in NSW and Brisbane. It was also part of the consortium that won the contract to build the East West Link project in Victoria, which the state government is trying to cancel despite an inevitable fight over compensation to be paid (oops).

Ferrovial, which once owned a stake in Sydney airport, made an offer recently for Transfield Services. It was rejected by a board that is now under market pressure to justify its decision.

But a Spanish company like OHL, for example, would hardly register in Australia. So far, it has has been awarded six modest construction contracts for sections of roads in three states, for a total value of about $600 million.

One of biggest

In fact, OHL is one of the biggest and most successful construction and infrastructure concession corporations in the world, operating in about three dozen countries.

Its chairman, Juan-Miguel Villa Mir, is also chairman of the even more diverse private family company, Grupo Villa Mir, which holds 61 per cent of OHL.

Since he founded it in 1987, the group has expanded into a range of industries across the globe, from real estate and fertiliser to energy and electrometallurgy, making him one of Spain's richest and most respected businessmen.

Now Mr Villa Mir sounds extremely enthusiastic about much greater expansion in Australia, saying he sees a country "full of opportunities".

In that context, he also points out the group's expertise in private financing of infrastructure through its sizeable stake in yet another global company, Abertis.

And the time is right for funding ambitious projects. "There's more money available more cheaply than ever before," he says.

Perhaps governments in Australia should pay more attention to their Spanish lessons.

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Spain shines a light on renewable future

The big advantage for Spain is that its companies can apply their technological expertise to many other countries keen to increase renewable energy.

by **Jennifer Hewett. AFR, 16/03/2015**

From a distance, the image rising from the flat fields of southern Spain looks like a new version of Star Wars.

A cement tower,150 metres high, has iridescent shafts of light shimmering around it. But the luminous effect is real, created by about 650 mirrors, each one 20 square metres, and all focusing their reflected sunlight on a giant glowing metal receptor on top of the tower.

It is one of the more spectacular examples of Spain's ambition to develop, pilot and sell the world's most advanced renewable energy technology. This tower, built by Abengoa in 2007, delivers 11 megawatts of power for the Spanish national electricity grid. A short distance away another tower, built two years later and slightly taller, with 1200 mirrors, or "heliostats", creates 20 megawatts of power from solar thermal technology. The mirrors, cleaned daily, all turn slowly to follow the path of the sun every day.

Tower technology is only one part of the constant experimentation at Abengoa's massive Solucar complex just south of Seville. Beyond the mirrors, another field of dreams features hundreds of photovoltaic cells made of silicon, including newer, highly concentrated versions that are more effective in extreme heat.

Further down the road, there's a different adaptation of solar thermal power, featuring narrow pipes with synthetic oil running through "parabolic troughs" of connected mirrors. The oil is heated to almost 400 degrees and transfers that heat into molten salt or water, which turns to steam. Yet only a little more than 100 people are required to operate and maintain the entire Solucar complex.

Nearby, just past a farm where pigs roam and sunflowers bloom, two squat, ultra-modern buildings house another 50 people, as part of Abengoa's investment in research and development.

It is projects like these from innovative companies like Abengoa that enables Spain to produce about 44 per cent of power annually from renewable energy, including 17 per cent from hydro electric. Another 20 per cent comes from nuclear.

Obvious answer

For a country that imports its oil and gas, has no viable coal deposits, and hasn't built a nuclear power station since 1982, renewable energy seemed the obvious answer to a succession of Spanish governments. Spain became the hero of the renewable energy market and a symbol of sustainable power development.

But the high cost to Spanish taxpayers seemed much less affordable when easy money evaporated during the financial crisis.

Abengoa is one of many companies suing the Rajoy government for reducing subsidies to renewable energy abruptly, as the new government grappled with imminent financial catastrophe following its election in late 2011.

Instead of generous automatic feed-in tariffs to the grid, for example, the government now limits the return on assumed investment costs in renewable energy to 7.2 per cent. It has also lifted the retail price caps, which made taxpayers responsible for the tens of billions of euros difference between relatively cheap power for consumers and the higher cost of production.

Some investors, including international investors, argue they put money into renewable energy projects on terms that were altered subsequently by the Spanish government and are fighting for compensation.

Not that Spain has turned away from a bias towards renewable energy, let alone forcing it to compete on a neutral cost basis. The commitment remains extremely popular, which is typical of a European mindset that regards the ever greater use of renewable energy as a vital public good.

When European companies bid into their national grids every day for the amount of power they can supply at what price, renewable energy and nuclear have first priority in terms of volume. Only after they have exhausted what they wish to sell can other, conventional, power sources like gas compete to supply what demand is left.

Result

The result is many Spanish gas turbines idling at about 10 per cent of capacity, if they operate at all, and more than double the installed power supply necessary to meet national needs. That ensures there will be no new investment in power generation in Spain, of whatever variety, for many years.

All of this might seem in a different dimension from Australian arguments over its renewable energy target, in which new investment has been frozen because of uncertainty over the rules. But it's all part of the global debate about how to manage the trade-off between short-term costs and long-term benefits of renewable energy.

The big advantage for Spain is that its companies can apply their technological expertise to many other countries now keen to increase renewable energy. It's a repeat of the strategy used by Spanish companies skilled in building traditional infrastructure like roads and rail - with many working in both areas.

So Abengoa now earns 84 per cent of its €7 billion revenue outside Spain, ranging from projects in the Middle East and South Africa to Latin America and the US. Several of the solar thermal projects already include the ability to store power for many hours - at night, for example. That is a huge advantage, making solar more reliable as a source of steady baseload power. But solar thermal is also more expensive to build than wind turbines or PV systems. Technology is the ultimate work in progress.

In Australia, Abengoa has offices in Sydney and Brisbane and is working with the Australian Renewable Energy Agency, set up by the Labor government in 2012. The aim is to create interest in supplying a West Australian mine with solar thermal energy. Abengoa is also doing research and development work with the Commonwealth Scientific and Industrial Research Organisation on heliostat design.

But with still no bipartisan agreement on the renewable energy target, and extreme scepticism about the extra costs, the Abengoa vision for Australia is likely to remain a shimmering mirage indefinitely.

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Hot air can be even more expensive than renewable energy

Acciona requires certainty and predictability before it can proceed with any investment decisions on renewable energy

by **Jennifer Hewett. AFR, 17/03/2015**

Spain's Acciona has been doing business – big business – in Australia for more than a decade.

The company, which remains 60 per cent family owned, focuses on building and operating infrastructure and renewable energy projects.

So it has built everything from Adelaide's desalination plant, to Queensland's Legacy Way underground toll road, to wind farms in Victoria, NSW and South Australia, to a large photovoltaic plant in the ACT.

It is tendering for a role in NSW's new West Connex tollway in Sydney, has just started to help construct the city's new light rail network and is upgrading a section of the Pacific Highway.

That all makes Australia one of the key markets in the company's remarkably successful global expansion, which so far includes projects in more than 30 countries on all five continents. Australia was Acciona's top growth market in terms of awarded contracts in 2014, for example.

Yet Acciona is also one of the many companies that finds itself caught up in the intricacies of a bitterly divided Australian political system.

Other Australian wind farms planned by Acciona are now on indefinite hold until there is some deal on just what the Australian renewable energy target will be.

Compensation sought for Vic cancellation

Acciona is also part of the Lend Lease-led consortium fighting for compensation from the Victorian government over its cancellation of the East West Link $6.8 billion toll road project.

Acciona management in Spain won't comment on the legal and political brawling over the decision by the Victorian Labor government not to honour the contracts signed by its predecessor.

But it's clear the move by the Andrews government came as a shock to global infrastructure companies used to thinking of Australia as a safe and predictable place in which to invest. And it may yet affect broader commercial confidence in the legal right to adequate compensation for any breaches of contract.

These companies want compensation for the direct cost incurred for their prior work on the project and for the cost of shifting equipment and employees to Australia. But they also want recognition of the cost of opportunities lost elsewhere because of the decision to pursue the Victorian project in preference and in good faith.

Such arguments over the amount payable will only intensify with the Victoria government reported to be drafting legislation to protect its position, given the consortium's demand for at least $1.2 billion. This would certainly increase the risk profile (and assumed interest rate cost) of any future borrowing to build in Australia.

The Abbott government will continue to berate the Andrews government for creating the perception of sovereign risk in doing business in Australia and for trashing the country's reputation as a reliable investment destination. Not to mention trashing thousands of Australian jobs in construction.

Warnings, conversations have no impact

But Prime Ministerial warning letters about the "unprecedented" failure of a state government to honour a contract to build transport infrastructure, as well as tense conversations with the Victorian premier, have so far had no impact on Daniel Andrews. Acciona and other companies in the consortium seem certain to face a protracted dispute with Victoria – with no real winners possible.

Even this fiasco, however, looks relatively straightforward compared with the complexities of the murky Australian debate over the renewable energy target.

Both sides of politics officially agree with the official target of having 20 per cent of Australian energy coming from renewable power sources such as wind, solar or hydro by 2020.

But Australia had managed to complicate this by defining the percentage as a set number of gigawatt hours – 41,000 gigawatt hours for large-scale renewable energy. The decline in overall demand for energy means this figure is now more likely to represent closer to 30 per cent than 20 per cent of all power by 2020.

The Abbott government's Warburton review recommended scaling back the scheme to reflect lower demand and possibly closing it to new entrants. But although the government didn't follow the Warburton path, there was never going to be bipartisan agreement on the scale of reduction.

The practical result of that argument has been a freeze on any new investment in renewable energy until companies understand what the rules and incentives will be for expensive, long-term projects.

Certainty, predictability required

Joaquin Mollinedo, chief institutional relations officer of Acciona, says that the company simply requires certainty and predictability before it can proceed with any investment decisions.

That doesn't seem too much to ask. Apparently, it is in Australia. This is even more perplexing for European companies participating in the global trend towards greater use of renewable energy.

Australian industry is still hoping for an imminent breakthrough after months of negotiation between Labor and the government to try and reach a compromise on a lower number of gigawatt hours. This would include exemptions for heavily emitting industries such as aluminium, cement making and steel – which would otherwise face high penalties.

But any deal is still elusive. The government is suggesting 31,000 gigawatt hours, while the opposition is insisting that at least 35,000 gigawatt hours is necessary. The need for both sides to move a little more looks obvious. Especially given the time frames necessary for building more wind farms or more expensive large-scale solar power. And especially given that penalties will kick in if the target isn't met – penalties that would be the equivalent of paying $93 extra a tonne for failure to meet legislated requirements.

That would mean no more renewable energy projects built, but additional high costs still imposed on companies and ultimately on consumers. This would certainly count as a peculiarly Australian own goal.

Labor called a union and business roundtable on Monday to discuss the issue, but it was more an attempt to avoid being blamed for the stalemate. No wonder business, of whatever variety, is so disheartened by the political climate. Hot air can be even more expensive than renewable energy.

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