

Viewing cable 07MADRID630, MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT

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SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT

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EINV/BEXP: Spanish Economic Growth

TBIO: Biotechnology controversy over use of MON863

BEXP/TBIO: Frozen strawberries to compete with U.S. market

EINV: Endesa - is it finally over?

MACROECONOMICS IN SPAIN

¶1. (U) Financial Times Columnist Martin Wolf says "The pain in Spain will follow years of rapid economic gain" - but he argues the pain may still be years away. Wolf addresses the issue of whether current account deficits matter inside a monetary union. His answer: "no, because there cannot be a currency crisis; and yes, because there cannot be a currency crisis." He concedes that, up to a point, it is correct that imbalances within the eurozone should not matter more than a difference in the balance of payments between Scotland and England. But he points out that at some point creditors might find debtors less creditworthy than they thought. In Spain's case, this would mean credit for construction (hugely significant in Spanish growth) would dry up. So "currency risk turns into credit risk." Spain will likely have

difficulty in replacing lost domestic demand with foreign demand (exports) for six reasons the OECD highlights: (1) Spain has suffered a loss in competitiveness; (2) Spanish exports are generally low in technological value; (3) much of recent Spanish investment is in non-tradeables, i.e. construction; (4) Spanish industry is vulnerable to competition from Asia and Eastern Europe; (5) underlying productivity growth is low; and (6) wage bargaining is rigid. (Comment: While Wolf's analysis is not completely original, it is worth reading because it summarizes so well the macroeconomic questions people ask about Spain. But while the analysis is persuasive, Wolf makes no short-term predictions. This well respected analyst concludes that we will have a better idea of how the Spanish economy adjusts a "decade or so from today". This helps explain why economic issues do not loom large in current Spanish political discourse.) (Financial Times, March 28, 2007)

FRENCH QUESTION MONSANTO'S DATA ON MON863

¶2. (U) There appears to be immense potential for a new European Union (EU) agriculture biotechnology controversy to further set back the biotechnology approval process used by European Food Safety Authority (EFSA) and the European Commission (EC) for approving new agriculture biotechnology events in Europe. The Government of Spain (tending more-and-more against biotechnology) has not publicly reacted to this latest biotechnology controversy, wherein a French laboratory has called into question the data used by Monsanto to gain EFSA approval of MON863 for feed and seed use in the EU. The biotechnology event MON863 is a transgenic root borer resistant corn variety that was approved by EFSA in 2005, but has not yet been admitted into the EU seed catalog, because a qualified majority of EU Member States did not support its introduction, and because the EC has not taken the subsequent and required decision to introduce this event.

¶3. (U) In 2006, Greenpeace won access to the Monsanto data provided to EFSA in support of MON863, and under their sponsorship that data was put under intense scrutiny by researchers from the University of Caen in France. The Caen researchers' findings pointed to kidney damage in rats fed MON863, findings not deemed relevant by Monsanto or EFSA. Monsanto-Spain says that the new findings resulted from analyzing the original data out of context, and EFSA, for its part, will now reevaluate the original Monsanto data and its own findings that supported the safety of MON863.

SPANISH USING EU BANNED PRACTICES ON STRAWBERRIES

¶4. (U) The World Wildlife Fund (known in Spain as WWF/Adena) may have unwittingly forced greater competition and possibly lower prices in frozen strawberry trade for U.S. producers. WWF/Adena has accused the Spanish strawberry industry of using environmentally-destructive practices and has launched a campaign to block Spanish-produced strawberry distribution within Europe. WWF/Adena charges that producers continue to use methyl bromide to irradiate soil pests in spite of an European Union (EU) ban on the practice beginning in 2004. In addition, WWF/Adena has accused the Spanish producers of

invasion and degradation of Donana Park, a world patrimony site that harbors migratory birds traveling between Europe and Africa.

¶5. (U) Reportedly, in response to the WWF/Adena accusations, supermarket chains throughout Europe are reducing their orders for Spanish strawberries, with Spanish industry officials indicating that orders are down, year-on-year, by

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some 50 percent. About 80 percent of fresh Spanish strawberries are exported to other EU Member States, especially the northern States, so producers will now likely need to shift from fresh export to processing, including producing frozen strawberries, a product line where Spanish producers compete with U.S. producers.

ENDESA TAKEOVER SAGA COMES TO AN END

¶6. (U) On 4/2/07, Germany's Eon, Italy's Enel and Spain's Acciona announced they would end the dueling over Endesa. Effectively, they agreed to divide the company's assets. Eon will end up with Endesa's assets in Italy, France, Poland and Turkey plus a small power generation company in Spain. The Enel/Acciona group will end up with most of Endesa's assets in Spain and Latin America. Thus ends a battle royal that started on 9/5/05 with Barcelona-based Gas Natural launching a hostile takeover bid for Endesa. The PP-appointed CEO of Endesa, Manuel Pizarro, responded furiously and is widely considered to have engineered Eon's much more generous counterbid on 2/21/06. The GOS clearly favored the Gas Natural bid, many people say in order to placate their Catalan political allies. The takeover battle resulted in lawsuits in Spain and involvement by regulatory authorities in Madrid and Brussels. The GOS came under heavy criticism for promoting the "national champion" concept. The opposition PP took a nominally free market line, but it was obvious it preferred Endesa be controlled by anybody but a Catalan company, thus exposing continuing deep political fault lines in Spanish politics. So who wins and who loses from this deal? The GOS loses because Endesa will be carved up, i.e. it will not become a Spanish national champion. But, in return for letting Italy's Enel manage (it is investing more than Spanish construction firm Acciona) Endesa's Spanish and Latin American assets, there is speculation that Italy might be more receptive to Spanish construction company takeovers in Italy. Germany's Eon does not get all of Endesa, but it does end up with the majority of the company's European assets, which some commentators say is what the company was mostly interested in anyway. The shareholders win as they are getting Euros 41 a share as opposed to the roughly Euros 22 originally offered by Gas Natural. The Spanish President of the CNMV (Spain's SEC equivalent), Manuel Conthe, is a casualty, if not necessarily ultimately a loser. He resigned on 4/2/07, reportedly because he felt pressured by the GOS to favor the Enel/Acciona offer for Endesa. There are many other twists, plots and sub-plots associated with this story. But the

biggest feature of this corporate struggle is that it was so revealing of the limits of the idea of a single common European market driven by economics. Politics played as big a part in determining winners and losers, if not a bigger part. This no doubt explains why The Economist considers Spain and Austria to be the most economically nationalistic members of the EU. (All media)
Aguirre