

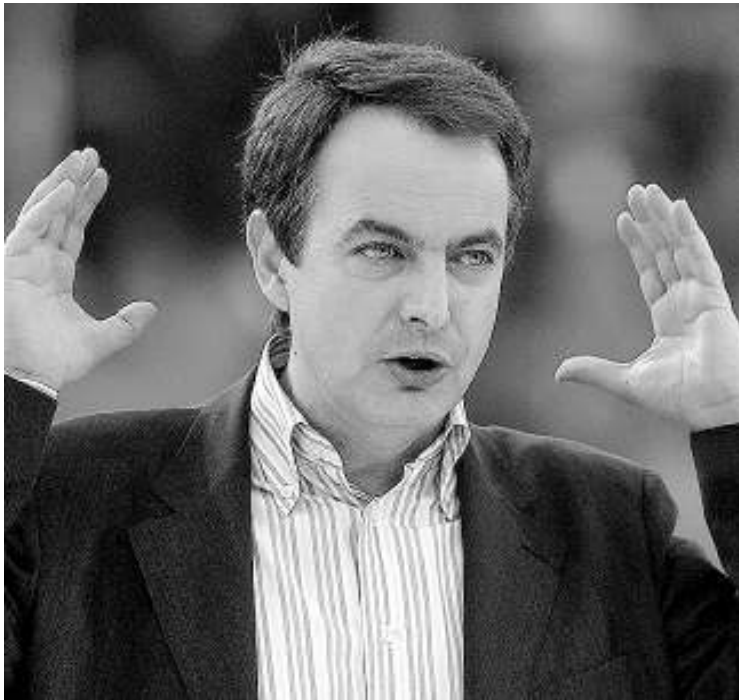
# Inflation jumps again to 3.5% and reaches a new yearly high in Spain

*The annual rate of inflation has risen to a new high as economic challenges for Spain intensify*

## RICHARD MCCRANN

Inflation in Spain has risen to 3.5% according to the country's National Statistical Institute (INE). According to the INE it has gone up by one tenth of a percentage point. During the first three months of this year inflation stood at 2.1% but it started to go up in April due to increases in petrol prices brought about by factors such as the threat to oil pipelines in Iraq. The rise in inflation as measured by the consumer price index in Spain, was predicted due to the combination in the rise in the prices of oil and gas in the first half of the year and their strong fall in the last financial year after the invasion of Iraq. However, in May this year the rate of inflation rose by nearly one per cent to reach 3.4%, which represents a monthly change from April to May of 0.6%.

In addition to controlling inflation, the Spanish prime minister, Jose Luis Rodriguez Zapatero, faces many tough economic challenges. He appears to have inherited a healthy economy but a big problem he confronts is the demand for housing, which is an important aspect of economic growth. Last year Spain started to build 700,000 homes, four times as many as Britain. But prices for new Spanish houses rose by



The prime minister must tackle many economic problems to modernise the country

18.5% and for existing ones by 16.7%. The housing boom shows no sign of slowing down but for many ordinary Spanish couples they cannot afford to buy their own property due to the high prices, and many workers have to refuse jobs that involve moving house, as they simply

do not have the income to buy property. Coupled with this is the fact that many households are in debt, as nearly half of their income goes on housing debt.

The tax system is due for reform as evasion is widespread, and the black economy accounts for one

fifth of gross domestic product (GDP). The government is also committed to more social spending, which has been falling as a share of the GDP since 1994, and at 20%, is below the EU-15 average of 27.5%, more police and other costly projects such as linking Barcelona with the high speed train project. Zapatero faces a real headache with the budget, which is expected to be in deficit this year by 0.9% of the GDP.

The Spanish government also has to tackle other issues of prices, productivity and pensions. Price inflation is reducing the competitiveness of Spain's exports, particularly in Europe. However, Zapatero will find it difficult to hold down prices as this might mean cutting wage costs through labour-market reforms. This might mean taking on the unions, but so far the government has shown no signs towards this, he has just announced an increase in the minimum wage of 6.6%. Productivity in Spain will mean boosting research and development and there is an urgent need to change the pension system, to bring retired people's pensions into line with their contributions, and to slow the growth of pension spending after 2015-20. More people will live longer adding pressure.

## WINE

### Bordeaux goes into the red

France's famous wine producing region, Bordeaux, is to cut back on sales to cope with competition from abroad and slump in domestic consumption. The Bordeaux Wine Council, which includes legendary names such as Chateau Latour, Chateau Margaux and Chateau Haut Brion, had agreed to limit sales from this season's harvest to 5000 litres per hectare. A 900-litre barrel now sells at 710 euros compared to 1,500 euros in the late 1990's. French domestic wine consumption is down and export sales are in steep decline, unable to compete against new world wine. "The collapse in price of some Bordeaux wines has reached an unacceptable level that threatens the viability of our vineyards, the unity of our industry," said Jean Louis Trocard, from the Bordeaux Wine Council. The region has also seen the wholesale price of a standard red collapse by almost half in the last three years, to a point where wine making can be profitable.

## FAST FOOD

### McDonald's sales jump

Spanish sales of fast food outlet, McDonald's, went up by 5.7% during the first three months of this year to reach 175 million euros. Last year the company exceeded sales of 554 million euros, a 9.4% increase on the previous year. According to a company spokesman the increasing sales is the result of a restructure to many areas of the company including marketing, advertising, promotions and design as well as the launch of new products to meet new tastes in the consumer market. During 2003 the company invested 14 million euros and opened 12 restaurants, creating 600 new jobs. "It is important that the restaurants have good locations, space and specifications, with a special emphasis on their profitability," said Philippe Walch, president of McDonald's Spain. The company reckon the launch of the salad's plus campaign last May helped sales.

## MEDIA

### Free paper forces share rise

Shares in Spanish media group Recoleto's climbed over four per cent after the company said it was considering launching a free newspaper. "We are studying launching a free newspaper, but no definitive decision has been taken," says a company spokesman. Shares rose by 4.4% to 5.7 euros as a response to the news. The company is owned by British media group media Pearson, also publishes the popular sports daily Marca. The free newspaper would be launched at the beginning of September it got the go-ahead. "They have done their homework, and a business plan already exists," a source close to the company said.

# World famous organic wine makers expand business to open new 2 million euro facilities

For the last 25 years, Penedes wine-growers, Albet i Noya, have been leaders in the field of ecological wine production in Spain. Agriculture minister, Antoni Siurana visited them this week for a private viewing of their new facilities worth 2 million euros.

As pioneers in the Spanish ecological wine growing sector, Albet i Noya's prize-winning wines have long received international acclaim. In fact, they are recognised abroad more than in Spain with only 5% of their overall production being consumed in Catalonia and a further 5% in the rest of Spain. The other 90% is consumed by customers from twenty countries. Josep M<sup>a</sup> Albet explains that ecological products in general receive a poor reception in Spain and adds, "The world is large and exporting is easy, and we have help. Also in Spain we are criticised for labelling in Catalan, while

abroad we are considered original. In the end, though, what matters is the quality of the wine."

In 2003 Albet i Noya produced a million bottles of wine, 200,000 more than two years ago. With most of this leaving the country, the company wish to increase exports even more, in particular targeting Germany, Switzerland, the UK, the USA, Japan and France. Still, production will be kept to a million bottles despite the firm having the capacity to produce more.

Their new facilities are to be inaugurated next Sunday and consist of warehouse, a cellar for 1,200 casks and a bottling plant. This 2 million euro investment is to allow them to match the growing demand, which has even forced the company to rent extra storage space. Besides this, in September for the first time they will harvest a new 30 hectare plot called Can Milà, which is destined to pro-

duce red wines.

On a less positive note, in his visit to Albet i Noya this week the Agriculture Minister, Antoni Siurana, spoke about the problems in the wine business, calling for the wine sector of the Penedès to, "discuss and analyse the causes of surpluses and the low price of grapes." Siurana justified his demand for the sector to agree on a pricing policy, saying, "the profitability of grapes is fundamental for the whole chain of production."

Albet i Noya has pioneered the organic winemaking and instead of using chemical fertilisers, the vineyards are planted in winter with a variety of grasses which are ploughed back into the soil in the Spring. After a number of years without excessive nitrogen inputs into the soil, the vines themselves become more resistant to many of the diseases that forced overproduction causes.

Throughout the year, the treatments are reduced to the use of copper hydroxide and sulphur dusting, that is more healthy for the environment.

Internationally renown wine critic, Robert Parker, whose opinions can influence whole markets of consumers, has published a report on the wines and cavas of Spain, which he refers to as, "a sleeping giant that has begun to awaken."

Among the 19 Penedès wines he analyses, at the head of the list is the red Sot Lefric 2001 with a score of 93 points out of 100. This wine of merely 5000 bottles is the only product of the tiny wine cellar from Vilafranca, Alemany i Corrió, which already received Parker's blessing for their 1999 vintage. The red wines, Absis i Dominio Cusiné 1790 of Parés Baltà and Petrea 2000 of Mas Comtal were both awarded 90 points by the American critic.