

---

# Europeanisation of Transport Policy

JAVIER CAMPOS AND M. PILAR SOCORRO

## 1. Introduction

Transport is one of the economic sectors where transformation processes associated with the Europeanisation of public policies in Spain since 1986 have been most clearly observed. This sector has experienced profound transformations in the way transport infrastructures and services are designed and managed, also having experienced radical changes in structure, the degree of public intervention and the way in which transport operators relate to each other and to their users (De Rus et al., 2003).

Indeed, the transport system is not only an essential element in the functioning of any European country but is also located at the heart of the European Union's (EU) ultimate objective: the economic, social, and cultural cohesion of the residents of the Member States. Most of our daily activities could not be carried out without the permanent flow of people and products moving across cities, regions, and countries, making it possible for us to benefit from our respective comparative advantages. Moreover, the extent of competition and opportunities faced by European producers and consumers is conditioned by the availability of efficient transport, as it limits local monopoly power and widens the possibilities of social interaction (De Rus & Campos, 2001).

The idea of Europeanisation is important to understanding European and domestic politics. Radaelli (2003) argues that Europeanisation consists of processes of construction, diffusion and institutionalisation of formal and informal rules, procedures, policy paradigms, styles and norms, and shared beliefs that are first introduced in the EU policy process and then incorporated in the domestic discourse, political structures, and public policies. According to this logic, there could be several mechanisms that drive the Europeanisation process within transport policy. Some are activated at the macro level (for example, the implementation of new legislation) within a top-down process. Others are galvanised at the meso level (for example, the action of domestic political parties following EU policies and strategies at the domestic level). At the micro level there might also be policy change. For example, public opinion (or norms and values) may decide whether public transport should be more relevant than private transport within a particular setting. All these mechanisms have already been

explained in the literature (see Bache & Jordan, 2006; Arregui, 2007; Arregui, 2020). In this chapter, we plan to examine the extent to which these mechanisms have been operating in Spain's transport policies.

Although the Europeanisation of transport policies increases the prospects for citizens to choose where to live and work, this greater freedom comes with associated costs in the form of externalities such as pollution or accidents. To balance these benefits and costs across Member States and provide a level playing field, the European Union has developed an extensive range of harmonisation measures that have considered both the departure point and the different technical and economic characteristics of each transport mode and country. Infrastructure requirements, operational features and costs, or even the possibilities for introducing competition are very different for road, rail, maritime and air transport. For this reason, the pace at which all these changes and adaptations were transposed into Spanish legislation has not been homogeneous and many of them have taken several decades to be fully implemented (De Rus & Campos, 2002).

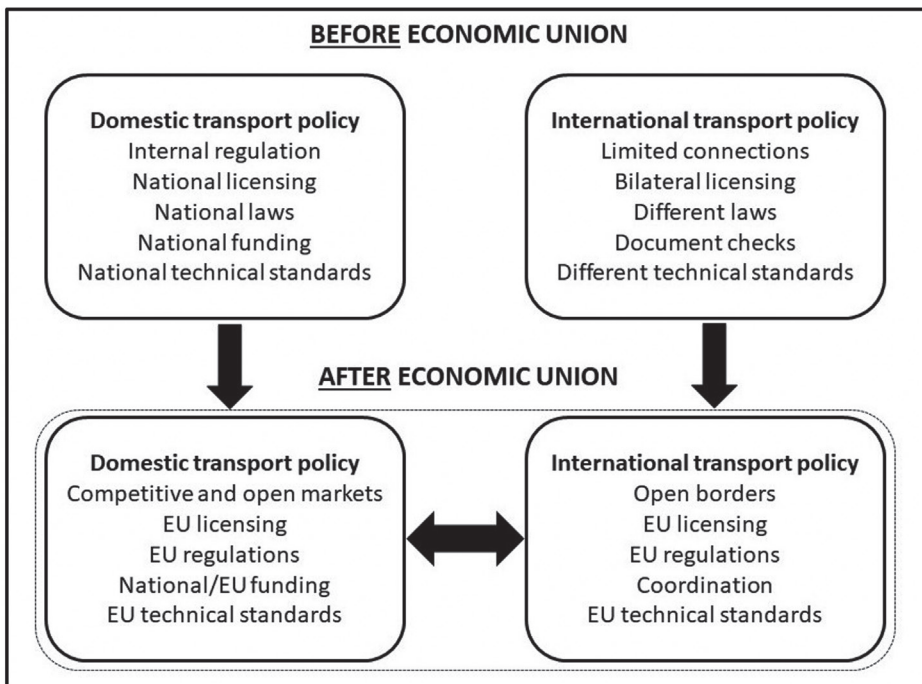
From a methodological point of view, most of these 'Europeanisation changes' in the Spanish transport sector have been implemented as 'top-down' processes (Ladrech, 1994), whereby the remodelling of domestic policies has closely followed criteria defined by Brussels. The global nature of transport and the requirement that even in domestic markets competition conditions should be fully harmonised have limited the capacity of national governments to impose their own agendas. The main policy changes have been defined by numerous white and green papers that discuss the general objectives of each sector and specific directives (even packages of directives) which have progressed over several decades, with strict deadlines for the transposition of their regulations. In many Member States, including Spain, it has been necessary to introduce important institutional changes not only in the way the sector operates (for example, the separation between infrastructure and services in the railways), but also in its own regulation (in air transport, for example, most technical and safety elements are now controlled at European level). In other sectors (ports, road and rail transport) specific sectoral laws have been passed to change the overall structure, reducing the role of the public sector and paving the way for greater private participation and increased competition. The Europeanisation of Spanish transport policies is also relevant in the case of infrastructures, whose modernisation would have been impossible without the support of EU structural funds, regional development funding and other contributions (Conzelmann, 1998).

The need to modernise a crucial sector for the Spanish economy and this explicit financial support explains why Spain has been, in the case of transport, one of the countries that — with some exceptions in the case of railways — has implemented European regulations with the greatest speed and degree of compliance (Borras et al., 1998). The challenges have been numerous and important; to understand them in detail, this chapter will first summarise the general principles of European transport policy, identifying its main objectives. Then, it will review the role of transport infrastructures and how Europeanisation has transformed each transport sub-sector in Spain and conclude by discussing some of the main lessons learned from this process.

## 2. The Objectives of European Transport Policy

Transport policy is a key pillar of the EU and constitutes one of the most complex regulatory development areas. One of the reasons that explains this difficulty is that each Member State had its own set of transport objectives that did not always coincide with those of its neighbors. Each of these objectives had institutions and tools originally devised in domestic terms. As summarised in Figure 1, their focus *before* and *after* European integration was completely different. From a political economy perspective, the Europeanisation of transport policies meant that most countries had to redirect their goals to promote international movements in a harmonised way, discarding nation-centric approaches in terms of licensing, laws, funding or technical standards. International trade and connections became more relevant, along with common rules to face all transport challenges. At the same time, regulatory institutions and the way in which transport operators behave (many of them, state-owned firms) also had to be adapted (European Commission, 2001).

**Figure 1. Main Elements of Transport Policy Before and After the Economic Union**



Source: Adapted from Button (2010) and the European Commission (2005).

These obstacles explain why in 1957, articles 74 to 84 of the Treaty of Rome only established a few general guidelines for transport markets: no further progress was possible at that time. However, after the Maastricht Treaty was passed in 1992, it was clear that the objectives of national transport policies had to converge definitively with those of the Union. Over the next two decades, this conclusion was translated into a broad set of harmonisation directives

affecting all transport modes. Their overall aim was to ensure efficiency in the provision and operation of infrastructure and services while respecting the rules of internal cohesion. This was achieved by defining the following four main objectives underlying the Common Transport Policy (CTP) since then (Campos, 2008).

The first objective was to achieve a better balance between the different transport modes by improving the quality of roads, revitalising the role of railways, controlling the growth of air transport, and creating so-called 'motorways of the sea'. The reason behind this principle was the recognised imbalance between the different modes of transport, dominated by road transport, both in freight and passenger services. In 1999, for example, road transport accounted for 44% of the freight market, compared to 41% for short sea shipping, 8% for rail and 4% for inland waterways. Road transport's dominance was even greater in passenger transport, where it accounted for 79% of the market, while air transport with 5% was on the verge of overtaking rail transport, which had reached a ceiling of 6%. It was precisely this success of road and air transport that led, in the Commission's view, to worsening congestion levels and environmental problems. For example, it was estimated that at least 10% of the total road network was affected by daily traffic congestion, resulting in external costs of about 0.5% of the EU's GDP. At the same time, most major European airports were experiencing delays of more than a quarter of an hour for over 30% of their flights, resulting in a relevant overconsumption of fuel. In sum, transport was responsible for 30% of CO<sub>2</sub> emissions, with road transport alone accounting for 85% of pollution attributable to the transport sector (De Rus & Campos, 2005).

The second objective of the CTP was formulated in 2001 and consisted in removing major obstacles to the growth of the transport system as a whole, by defining and investing in the so-called 'trans-European networks' (TENs). The function of TENs was to create a modern and effective infrastructure to link Europe's regions and national networks to facilitate the proper operation of the single market by ensuring the free movement of goods, people and services. In transport, they covered projects of common interest to create or upgrade transport infrastructure, close gaps, remove bottlenecks and eliminate technical barriers to transport flows between Member States. Since then, many projects of common interest have benefited from financial support of the European Union budget through the TEN-budget line as well as Structural and Cohesion Funds. The European Investment Bank has also contributed to the financing of these projects through loans.

The third objective was to position users at the centre of European transport policy by making decisive progress on safety regulation and adopting efficient charging systems that would allow full cost recovery. The first aspect was an important development, as it represented a growing concern for users. While air or rail accidents caused great consternation on an ad hoc basis, road transport was undoubtedly the mode with the highest number of fatalities per year. For this reason, the Commission recognised that road accident victims cost society not only tens of billions of euros in quantifiable expenditure, but also a human cost that was difficult to measure. Regarding charging, the Commission assumed that users should know exactly what they were paying for when using motorways or public transport. The use of infrastructure and the fight against pollution and congestion has a cost, so the way in which the user pays for the

internalisation of that cost should be done by applying economic principles of full transparency and consistency.

Finally, the last major objective of the CTP was to manage the globalisation of transport through international agreements that were integrated within the previous three objectives. While international rules were intended to facilitate trade, they often ignored issues such as environmental protection, safety, security, or particular industrial and social dimensions. Therefore, the Commission considered that transport services (especially in air and maritime transport) should be included in the WTO negotiations. Thus, from 2001, transport entered fully into the international agenda of the European Union, incorporating the objective of developing a sustainable transport system and contributing to the resolution of the growing problems of congestion and environmental pollution.

In practice, and over the last decades, these four objectives have been developed at different speeds in each of the main transport modes by each of the Member States. Despite this asynchrony, it is possible to identify six common principles which, from an economic point of view, are shared by all transport policies, and whose application in Spain will be analysed in the following section (European Commission, 2011). These principles are:

- (1) Fair competition.** Competition rules – either in the market or for the markets – must apply to all transport modes at national and international levels, with limited intervention from the public sector. Certain forms of collusion (liner conferences, airline mergers, rail agreements, etc.) and state-owned operators may be permitted occasionally, but under careful monitoring by national and European authorities. Other exceptions may also be desirable, if required by specific market circumstances.
- (2) Comparative advantage.** The comparative advantages of the different modes in each area or region should be respected, evaluating their respective benefits and costs. This principle applies to both services and infrastructure provision and requires an ex-ante socio-economic evaluation of major transport investments, particularly those included in the TENs.
- (3) Full pricing.** Prices charged for each transport mode should reflect all relevant cost factors, minimising subsidies and other distortionary signals. Prices should include all cost factors, even if transport is provided by a government-owned company. Social costs should also be internalised so that prices reflect all relevant externalities in an intermodal balance.
- (4) Deregulation.** Public sector interventions opposed to market forces should be limited to exceptional cases. Member States should recognise that excessive intervention (including unjustified public funding or tax benefits) may distort the principles of the Single Market. However, deregulation processes should be gradual over time, so that all countries can adapt with the minimum social cost.
- (5) Integration.** EU transport policy must act as an instrument promoting regional development and cohesion. Opening transport links between central and peripheral regions of the EU and protecting peripheral and isolated territories is necessary to ensure that integration is effective and fair.
- (6) Reliability and sustainability.** Confidence in a safe, efficient and quality transport system promotes its use and development. Common minimum standards of quality and safety

must be established in all Member States, who should also develop policies that reduce pollution and the environmental impact of transport (European Commission, 2006).

### **3. Spain's Adaptation to the European Transport Challenges**

The consolidation of the common transport market under the principles described above led to very important changes in Spanish transport markets, which started to become effective from 1992 onwards. Since then, road, rail, air, and maritime transport services were progressively freed from restrictions based on the nationality of the agents. As described in Figure 1, national transport policies were subordinated to the general lines established in European regulations. The main actions focused on the deregulation of domestic markets within the framework of the subsidiarity principle and on the global design of their transport systems through the planning of infrastructures and services. Changes were quickly implemented in some sectors such as road and air transport, and much slower in rail. In minor cases, Spain was able to substantially influence EU policies, but in most areas the result for Spain was a remarkable structural change (with the creation of new regulatory institutions and the entrance and exit of some operators) accompanied by an impressive modernisation of its infrastructures.

#### **3.1. The Transformation of Transport Infrastructure in Spain**

One of the most visible changes in the Spanish transport sector over the last three decades has been the improvement of its transport network. Although some notable problems and many regional imbalances persist, most of Spain's roads, ports, airports, and railways are now generally regarded as in a good state of modernisation, and, comparatively, the country is well above the European average in terms of both provision levels and accessibility indices. Much of this situation is a consequence of the Europeanisation of the transport sector, which has been particularly active in terms of transport investments. Within the EU structural funds — particularly the Cohesion Fund and the European Regional Development Fund — Spain has been the country that has benefited most until 2020 (as a percentage of GDP), although this gap has narrowed significantly after the latest enlargements towards Eastern Europe. In nominal terms, the volume of funds received in the last 20 years is around €50 billion, and most of it has been devoted to infrastructure, particularly the high-speed rail network, the expansion of airport and port capacity and the upgrading of motorways and conventional roads. Spain has also participated, although with less intensity, in the so-called 'Trans-European transport networks' (TENs), a set of basic axes for the movement of people and goods that define the arteries through which the single market is nourished (European Commission, 2006).

However, not everything is positive. Many studies have found some perverse incentives and criticised socially questionable results (De Rus & Socorro, 2010). Most of these problems are associated with the so-called 'funding-gap', the main co-financing mechanism for infrastructure investments. It basically consists of the EU providing funds for the difference between the present value of a project's investment costs (e.g., an airport) and the net present value (NPV) of its income. Thus, the *gap* covers the part of the investment

costs that cannot be directly recovered throughout the life of the project, reaching in some cases a co-financing rate of 80% of the NPV.

Despite its relevance, this mechanism may yield unwanted results. Member States have no incentives to prioritise them according to social benefits, minimise project costs or to set prices according to their marginal social cost in the short term, despite the fact that this is the most economically efficient criterion recommended by the European Commission. Due to these incentives, it is not surprising that member countries have paid little attention to the economic selection of welfare-improving projects or the minimisation of costs. For example, an ex-post evaluation of a sample of projects co-financed by the Cohesion Fund in the period 1993-2004 concluded that national governments had mainly focused on meeting the requirements and deadlines for obtaining financing and paid less attention to technical contents and economic value-for-money (ECORYS Transport, 2005).

In the case of Spain, much of the criticism focuses on the modal and geographical imbalance which has favoured, for example, the development of a modern rail transport network with demand levels well below its social costs, and with indirect damages for the transport of goods or for the access to more remote regions. In this sense, the Europeanisation of transport policies, by granting more discretionary margins to national and regional governments, has produced some unsatisfactory results (Betancor & Llobet, 2015).

### **3.2. Changes in Road Transport Policies**

As in the rest of Europe, in 1986, road transport was dominant in Spain where, as in Greece, Ireland and Italy, it had a market share of over 80%. This situation is not only explained by geography and a relatively good-quality infrastructure, but also by the economic model of the second half of the 20th century, which favoured imports and exports that could be easily transported on roads. Tourism and national income also grew from 1960 onwards, thus increasing urban and inter-urban travel. Moreover, traffic levels continued to rise over the following decades.

In contrast to what happened in other countries, road haulage in Spain was operating in a relatively liberalised context, with practically no quantitative restrictions and in direct competition with the railways. This explains why this sector was the fastest to adapt to European integration. To a large extent, the sector developed through self-employed entrepreneurs with their own vehicles. This created an industry with very flexible and competitive small companies, albeit with a low level of professional skills and little control over the technical and safety standards of the vehicle. Discretionary services developed rapidly and without any restrictions. Although hauliers had to pay a fee for the railways, their low quantitative importance did not restrict the development of road transport, which freely set prices and allowed for an unprecedented expansion of freight transport activity in Spain. Road became a strong competitor to rail and gradually replaced it as the main freight mode.

From 1971 onwards, the economic difficulties resulting from the oil crises led hauliers, with the support of the railways, to exert pressure to prevent new licences from being granted. Thus, a quota system was established for public freight transport, as well as a system of fork

pricing which, for distances of more than 170 kilometres, established the limits between which fares could vary. Only vehicles weighing less than six tonnes were exempt from the need to have a permit to carry out their activity as carriers. The aim of the regulation was the internal organisation of the sector to avoid the consequences of excessive competition.

Progressively throughout the 1980s, companies grew and started replacing medium-sized vehicles with larger vehicles. Carriers had to increase the average capacity of their vehicles to cope with higher transport volumes, although they might otherwise have preferred to have more vehicles with lower capacity, a more flexible solution for capacity adjustments between the short and long term. Although the quotas were initially very broad and affected all areas of activity, over time they became more restrictive until they finally had to be dismantled as a result of the European integration.

In fact, the main Europeanisation change in the Spanish road transport sector was brought in 1987 with the approval of the Land Transport Organisation Act (*Ley de Ordenación de los Transportes Terrestres*, LOTT). The LOTT defined a new legal framework more favourable to the liberalisation of the sector, open access and competitive prices. The new law introduced the principle of fair competition between transport modes, eliminating the theoretical subordination of road to rail. Its general guidelines established that the framework for action in which transport services and activities should be developed was that of the market economy, although the government maintained a broad regulatory capacity with the aim of offering an efficient transport system and introducing other EU-oriented principles. The LOTT also introduced changes in qualitative regulations. The most important ones referred to the homogenisation of the requirements for obtaining the administrative qualification that enabled the exercise of the transport operator profession and other harmonisation measures in line with CTP objectives and principles.

In the case of road passenger transport, both urban and interurban, the degree of liberalisation achieved in Spain has been low. Community regulations allowed subsidised public operators to remain, though they generally favoured concessions (competition for the market) in cases where this was possible and by substantially shortening the duration of these concessions.

### **3.3. Rail Transport in Slow Tracks**

In 1950, the rail sector in Spain accounted for almost 60% of total passenger traffic and 33% of freight traffic. By 2000, these market shares had followed a sharply declining trend — although the decline seems to have slowed down in recent years, especially in high-speed trains — with a share close to 8% of passenger traffic and 5% of freight traffic. The decline of rail as the dominant mode of transport had already been noted by most European countries since the middle of the century and can be attributed mainly to the lack of capacity of existing companies to respond to market challenges and to regain market share.

This reality sharply contrasts with the hopes that the European Union still has potential in terms of railway transport, both in the freight and passenger sectors, and especially in the suburban and long-distance sectors. Proof of this is the existence of an active European railway policy which has tried to promote and homogenise the changes which have taken place and are



taking place in the different national railway companies. In fact, the so-called first rail package in 1991 clearly opted for a model of railway restructuring based on vertical disintegration (separation of infrastructure from services) and market liberalisation (private participation and open access in domestic and international routes), the current organisation of the sector across the European Union is still surprisingly heterogeneous (Campos, 2015).

In countries such as Sweden, the United Kingdom or Finland, measures of complete institutional and operational separation (into different bodies or companies) were adopted very early on, while others only opted (from 1997 onwards) for an accounting or organisational separation within the same holding, with a much lower level of disintegration. In most cases, the public sector has retained the strategic control of infrastructure, with minor contributions from private companies in freight transport and regional markets. As a result of this institutional design, the current situation of rail transport in Europe could be considered as one of 'unfinished liberalisation', with huge progress in the case of freight transport and larger delays in passenger transport, a sector where the Commission's attempts still meet with reluctance on the part of some Member States.

In Spain, the Europeanisation of its rail policies arrived late. As in other countries, the sector was dominated since 1941 by a vertically integrated public monopoly — RENFE — whose market share and relative importance gradually declined over time. From a financial point of view, losses were also very significant, particularly on short and medium distance routes, with long distance and high-speed lines achieving outstanding results in productivity and cost coverage. In 1980, the overall deficit of the company stood at 5,000 million euros per year, which forced restructuring and reforms.

Thus, in 1994, RENFE was reorganised into specialised business units (transport services and infrastructure), with separate accounts and objectives. In 1997, the *Gestor de Infraestructuras Ferroviarias* (GIF) was created, a public management agency responsible for the construction and maintenance of the infrastructure and financed through access fees paid by all operators. However, it was not until the approval in 2003 of the Railway Sector Act (*Ley del Sector Ferroviario*, LSF) when the European principles of railway liberalisation were definitively transposed into Spanish legislation. This introduced two relevant modifications: a change in the structure of the sector, with new agents that enshrined the principle of vertical disintegration and the opening to competition, first in freight transport and then in passenger transport, so far limited to several high-speed lines (Campos & De Rus, 2009).

In 2005, GIF became ADIF (*Administrador de Infraestructuras Ferroviarias*) and was given more independence (although still subordinate to the government) in order to manage rail traffic and allocate the available capacity among licensed operators. It is also responsible for the operation and maintenance of the national rail network (regional and urban lines are managed by regional governments and municipalities), and for the execution of new investments, either directly or through concessions to private companies, in accordance with EU principles. With support from European funds, Spain has become one of the world leaders in terms of the extension of its high-speed network, although its actual use and efficiency is far below expectations (Campos, 2020).

### 3.4. Maritime Transport in Full Sail

Maritime transport in Spain and the management of its port infrastructures have undergone major changes over the last decades. The sector experienced a notable stagnation of national cabotage traffic between 1973 and 1997, with a decline in coastal shipping, which was only partly compensated by passenger traffic as a result of the increase in tourism (cruises) and domestic trips in the Canaries and Balearic Islands (Suárez-Alemán et al., 2014).

However, the origins of the crisis of the maritime sector in Spain must also be found in the lack of competitiveness of our fleet and in the institutional framework that existed in the country over the last thirty years. In fact, two periods in the evolution of the Spanish maritime sector can be distinguished. The first one stems from 1974 to 1985 and was characterised by a large number of small companies, which did not allow shippers to take advantage of economies of size and scope. Moreover, as a result of the oil crisis, there was a growing overcapacity of the oil fleet and, to a lesser extent, of the bulk carrier fleet.

To tackle these problems, the government nationalised a major operator, *Trasmediterranea*, in 1977. It also provided public aid to the sector to compensate for the loss of competitiveness to which operators were subjected as a result of shipowners' obligation to purchase vessels built in national shipyards, hire Spanish crews and other restrictive regulations. Paradoxically, in some cases these measures were instruments of greater strangulation for companies, rather than lifelines, as they distorted the signals that companies had to adapt to the competitive environment. This happened, for example, with the setting of freight rates in many cases below international rates.

A second period in the evolution of the Spanish maritime transport began in 1986. That same year saw the first agreements to adopt liberalisation measures, a long process that would last until the present day. The Europeanisation of the maritime policies resulted in an important revulsive of the sector. EU Accession led to an intensification of foreign trade with other European countries, which generated a significant increase in land transport at the expense of the progressive stagnation of maritime transport. Despite some initial improvements, the change ended up reinforcing the trend — which started in 1979 — towards a marked decline in the fleet, beyond the adjustments for overcapacity. Competitiveness was sought by abandoning the national flag and registering national vessels under flags of convenience. Between 1985 and 1995, the number of vessels fell from 510 to 230, and employment was reduced by more than 50%.

With the approval in 1992 of the Ports and Merchant Navy Law (*Ley de Puertos y Marina Mercante*), a more competitive framework was established, which included the opening of a Special Ship Register in the Canary Islands, with tax exemptions and rebates. On the other hand, the gradual liberalisation of access to foreign competitors was carried out in strict accordance with the EU directives, although Spain obtained certain safeguards and grace periods. Regarding passenger traffic, the entry of new competitors also reduced the dominant position held by domestic shippers, but they still operate lucrative routes in the archipelagos and with the enclaves of Ceuta and Melilla.

Prior to the changes introduced in 1992, the Spanish port system was based on the existence of two parallel management models. On the one hand, there were four autonomous ports (Barcelona, Bilbao, Valencia, and Huelva), which activity was self-regulated, whereas the remaining main ports were managed by a centralised network for decision-making on tariffs and investments. The Europeanisation introduced by the Ports and Merchant Navy Law established a single organisational model for state-owned ports, determining the conditions under which private agents could participate in the provision of services. The figure of the *port authority* was established as the main managing institution, acting also as the regulator of the private companies. The port authorities are under the control of *Puertos del Estado*, an agency that executes the port policy established by the government.

Additional amendments introduced in 1997 to the Ports Act aimed to further decentralise the operation of ports and delimit the role of the regions in relation to State-owned ports. The aim of the reform was to give port authorities greater autonomy in the determination of tariffs, in decisions to be undertaken on investments, and to try to attract greater participation of private companies in port activity.

### **3.5. The Complete Europeanisation of Air Transport**

The air transport sector has a strong international dimension that requires international regulation. This fact was first acknowledged in 1944 when representatives from 52 countries met to sign the Convention on International Civil Aviation (the Chicago Convention). Despite this, in the four decades that followed the Chicago Convention of 1944, airline policy was purely national, except for some cooperation in price setting for international routes (Lawton, 1999).

Until 1980, most EU Member States thought that the European aviation policy was outside of the jurisdiction of the European Commission and that it was a matter for national governments (Button et al., 1998). However, by the early 1980s, following the example of US air transport market liberalisation and the lead of some countries such as UK, which were undertaking some internal liberalisation measures, European governments began to realise that this nationalistic and interventionist air transport policy was no longer reasonable and started to accept the need for airline liberalisation.

The air transport sector within the European Union was liberalised step by step (Button, 2010). In particular, the EU introduced three legislative packages in 1987, 1990 and 1992. With the “First Package” the established rules were relaxed, including the possibility for bilateral sharing of seat capacity, and limiting governments’ right to object to fares. This was extended in 1990 with the “Second Package”, which implied greater flexibility concerning fare setting and capacity sharing. Governments could no longer discriminate against airlines of other Member States, since they met safety criteria. The final reform of air transport, the “Third Package”, was started in 1992 and implemented in phases with the aim of having a regulatory structure by 1997 similar to that for US liberalised domestic aviation. In specific, since 1997 full cabotage has been permitted and fares are generally unregulated.

Until the entry into force of the EU internal air transport market regulations in 1993, intra-EU routes were to a large extent "monopolised" by national carriers such as British Airways, Air

France, Lufthansa, Alitalia, Iberia, or KLM (Burghouwt et al., 2015). The first consequence of the implementation of the “Third Package” on the Spanish domestic market was the entry on the scheduled flights market of new airlines such as Air Europa and Spanair, that had previously offered only charter flights. The increased competition in the Spanish air domestic market implied price reductions on nearly all the routes (Rey, 2003).

European state airlines frequently benefitted from state intervention, such as direct operating aids or aids aimed at improving the airline’s financial structure. Such a scheme was not in line with EU principles proceeding from an “open market with free competition” (see Article 119 of the Treaty on the Functioning of the EU). However, the European Commission acknowledged that many of these flag carriers were unable to compete without state aids in a fair open market. For this reason, the Commission implemented the “one-time, last-time” principle, providing governments with a short transition period to help national carriers to increase their market competitiveness.

In the case of *Iberia*, despite an important capital injection from the Spanish government, the company continued to lose money. Under this situation, the Spanish authorities persisted in arguing for aid based on factors beyond the control of Iberia, such as the Spanish recession and the problems associated with privatising Iberia’s South American subsidiaries (Lawton, 1999). This reflects the fact that, although financial aid to airline companies was within the legal competence of the European Commission, they were frequently ignored by national governments.

Between 1996 and 2014, the Spanish Government paid at least 511.3 million euros to airlines to facilitate route start-ups or to ensure their continuity (Ramos-Pérez, 2016). EU legislation allows for these subsidies whenever they fulfill the following requirements: (i) contribution to a well-defined objective of common interest; (ii) a real need for state intervention; (iii) the suitability of state aid as a policy instrument (that is, a business plan with prospects of profitability within three years); (iv) an incentive effect; (v) proportionality; (vi) avoidance of negative effects on intermodal competition; (vii) transparency. Despite these EU requirements, in only 17.5% of the cases recorded during 1996-2004 there was a public tender to award state aid, and in many of these cases the requirements and conditions stipulated in the tender restrict the potential number of tendering airlines to a single company. Although the final aim is to increase air transport operations with the development of new routes, most state aids were linked to tourist promotion as a way to avoid problems with EU regulation and without any prior strategy to reach medium and long-term objectives.

Current Spanish air transport policy is characterised by the existence of public service obligations (PSOs) and the discount for residents. PSOs are the most frequent instrument enabling the connection to remote areas worldwide. European legislation distinguishes between open and restricted PSOs. The open PSO establishes a set of conditions, such as maximum or reference prices, frequencies, time intervals and even the type of aircraft, allowing any airline that wants to enter the market to do so. The restricted PSO is established on those routes that are not commercially profitable in the absence of public intervention. Routes under PSOs are usually operated by a single airline that obtains the exclusiveness (and quite likely the corresponding economic compensation) after a competitive tendering process.

It is worth highlighting that the European Commission considers PSOs as something exceptional, that makes sense when the market fails in solving accessibility problems, as is the case of routes with low demand (less than 100,000 passenger-trips) or with outermost

territories. Air transport PSOs in Spain are set under a common European legal framework defined by the European Commission, although the Spanish Government has autonomy in the selection of protected regions, minimum frequency and service levels, reference fares and the amount of possible economic compensations.

Passengers with residence in non-peninsular territories in Spain (the Canary Islands, the Balearic Islands and the cities of Ceuta and Melilla) are nowadays entitled to receive a 75% discount on the ticket price of all domestic flights departing/arriving to their place of residence. These subsidies are an exemption within the general European legislation on state aid rules, aiming to protect passengers from peripheral areas on a territorial equity basis. In 2017, Spain devoted 300 million euros to support this public policy, an amount that is higher than the entire public support in Europe or the U.S. In 2018, the public expenditure climbed to nearly 800 million euros with significant price increases to non-residents (AIReF, 2020).

Finally, regarding airports, the agency in charge of airport management and air traffic control in Spain is *Aeropuertos Españoles y Navegación Aérea* (Aena), under partial control by the national government. As in the rest of Europe, it has been open to a more decentralised management and competitive model, and as a result of pressure from airlines, aeronautical charges have fallen since the 1980s, whereas revenues from commercial activities have increased. The liberalisation of handling activities is another illustrative example of the process of change and liberalisation. However, the overall profitability of the network is still low, except for Madrid and Barcelona (due to their hub-and-spoke characteristics). The other profitable Spanish airports are those with significant international traffic, which cross-subsidise the remaining ones, an exception which is permitted by the CTP.

## 4. Conclusions

The Europeanisation of Spanish transport policy since 1986 has led to major changes in the whole sector, not only in its structure, but especially in the definition of its objectives. The main challenges have been the transposition of several principles and objectives into national legislation, to which many modes of transport were not accustomed before EU accession. They have focused on three main areas of action: firstly, the liberalisation of transport infrastructures and services within the framework of their adaptation to EU regulations; secondly, the introduction of the principles of harmonised and sustainable mobility within the framework of all transport policies; and finally, the planning and execution of an ambitious investment programme aimed at significantly improving the relative provision of infrastructures in Spain. Thus, this chapter has shown that the main Europeanisation mechanisms that have operated in the transport policy in Spain were activated at the macro level through the implementation of new legislation that has produced the liberalisation, harmonisation and internationalisation and significant investments within the transport sector.

Regarding liberalisation policies, Spanish transport legislation has adapted to the harmonisation principles established by the European Union since 1986, but some sectors have moved faster than others. This has led to the gradual liberalisation of all transport modes, many of which were initially much more regulated in Spain than in the rest of Europe. For example, in road freight

transport, most of the entry restrictions and other barriers to competition that had existed since the 1950s were progressively eliminated. In transport modes that were dominated by large public monopolies, the market power of companies is now significantly reduced. In some cases (such as the former public operators *Iberia* or *Trasmediterranea*), liberalisation was also accompanied by a process of privatisation, while in others (RENFE in rail transport) major structural changes were introduced (such as the separation of infrastructure management from service provision) to favour competition. In contrast, in many cases urban passenger transport remains in the hands of public or semi-public operators, and in interurban transport the excessive duration of concessions still limits, in some cases, the effectiveness of competition for the market.

When compared to the pre-1986 situation, there is no doubt that the outcome of the liberalisation of services in Spain has been very positive, particularly in terms of capacity and price-quality for users. However, this does not mean that the degree of competition achieved in the transport markets guarantees that they are currently operating at the highest possible level of efficiency. In fact, neither the national government nor the different autonomous or local authorities have so far shown excessive zeal in advancing liberalisation policies beyond EU or national requirements, sometimes using arguments based on equity or on certain impacts on their territory.

From 2001 onwards, once most of the objectives of liberalisation in transport markets that had been promoted by EU directives were achieved, the focus of transport policy in Spain began to shift towards the idea of sustainable mobility that emanated from the European Commission. In this way, transport policy started to increase traffic intensities, levels of congestion, noise, and pollution, and discourage the use of environmentally aggressive transport modes, as well as favouring the full internalisation of social and environmental costs. This sustainable mobility strategy aims at decoupling transport growth from economic growth, developing alternatives to private car and road freight transport and the correct allocation of external costs. It also insists on the need for rigorous monitoring of the sector's environmental performance and, where possible, setting quantifiable targets for transport policy.

The Europeanisation of Spanish transport policy has also had a major impact on infrastructure investments and, in fact, this area alone constitutes one of the most important achievements of transport transformation in the country. Over the last decades, a thorough renovation and modernisation of all transport infrastructures has been carried out, with accumulated investment in this sector representing almost 1% of GDP in annual terms. Between 1986 and 1992, the investment drive was motivated by the initial need to prepare the country for the international commitments of 1992; from that date onwards, the objective was to force a rapid convergence with European levels of provision and from 2001 onwards the sustainable development strategy has been added to this objective.

Most of this investment effort has been of a public nature and has been carried out by the national government, except in the case of roads (where it has been shared almost 50-50 with the autonomous communities and local authorities). In any case, the success of this transport policy is also significant, as Spain can now be considered to have a transport system that is practically in convergence with the rest of Europe in terms of road and rail equipment, especially in relation to high-speed lines. Regarding ports and airports, the national network coordinated by public entities such as *Puertos del Estado* and *Aena* has so far shown sufficient capacity to meet the main challenges presented. However, a process of reform of the airport model is currently

underway. The reforms aim to separate airport management from air traffic control activities, involve the regional governments and other local authorities in management, and promote the entry of private capital. Although on paper these three measures are positive and would bring the Spanish airport model closer to that of other developed countries, a priori they are not fully compatible with each other, and the desired organisational model must be carefully designed to avoid the risk of the changes being ineffective or worsening the current results.

In short, most of the challenges associated with the Europeanisation of transport policies in Spain have already been addressed. In most sectors, the measures have been unidirectional, a result of the necessary harmonisation of a sector whose relevance for European integration leaves little room for action by national authorities. The remaining advances that can be expected in the coming years include the culmination of the adaptation of rail and the implementation of more sustainable transport policies in all sectors.

## References

- AIREF (2020). *Spending Review Fase II. Estudio Infraestructuras de Transporte*. [www.airef.es](http://www.airef.es)
- ARREGUI, J. (2007). Europeización y transformación institucional del Sistema político español. In F. Morata & G. Mateo (Eds.), *España en Europa, Europa en España (1986-2006)* (pp. 123-148). Barcelona: Fundación Cidob.
- ARREGUI, J. (2020): "Europeanisation of Political Structures and Public Policies". In D. Muro & I. Lago (Eds.), *The Oxford Handbook of Spanish Politics*, (pp. 132-150). Oxford University Press.
- BACHE, I., & JORDAN, A. (2006). Europeanisation and domestic change. In I. Bache & A. Jordan (Eds.), *The Europeanisation of British Politics*. Palgrave Macmillan.
- BETANCOR, O., & LLOBET, G. (2015). Contabilidad Financiera y Social de la Alta Velocidad en España. *Studies on the Spanish Economy, FEDEA, 2015/08*.
- BORRAS, S., FONT, N., & GOMEZ, N. (1998). The Europeanisation of national policies in comparison: Spain as a case study, *South European Society and Politics*, 3(2), 23-44.
- BURGHOUWT, G., MENDES DE LEON, P., & DE WIIT, J. (2015). OECD. EU Air Transport Liberalisation. Process impacts and future considerations. *International Transport Forum's Discussion Paper Series, 2015-04*.
- BUTTON, K. (2010). *Transport Economics*. Edward Elgar Publishing.
- BUTTON, K., HAYNES, K., & STOUGH, R. (1998). *Flying into the Future: Air Transport Policy in the European Union*. Edward Elgar Publishing.
- CAMPOS, J. (2008). La inversión pública en transporte en España. *Papeles de Economía Española*, 118, 175-183
- CAMPOS, J. (2015). La competencia en el ferrocarril: un análisis del nuevo marco institucional en Europa y en España. *Studies on the Spanish Economy, FEDEA, 2015/12*.
- CAMPOS, J. (2020). Regulation of rail infrastructure and services. In R. Vickerman (Ed.), *Encyclopedia of Transportation*.

- CAMPOS, J., & DE RUS, G. (2009). Some stylized facts about high-speed rail: a review of HSR experiences around the world, *Transport Policy*, 16(1), 19–28.
- CONZELMANN, T. (1998) 'Europeanisation' of Regional Development Policies? Linking the Multi-Level Governance Approach with Theories of Policy Learning and Policy Change. *European Integration online Papers*, 2(4).
- DE RUS, G. (2006). *La política de transporte europea: el papel del análisis económico*. Fundación BBVA. Bilbao.
- DE RUS, G., & CAMPOS, J. (2001). *El sistema de transporte europeo: un análisis económico*. Editorial Síntesis.
- DE RUS, G., & CAMPOS, J. (2002). Dotación de infraestructuras y política europea de transporte, *Papeles de Economía Española*, 91, 169-181
- DE RUS, G., CAMPOS, J. (2005). Los fundamentos económicos de la política de transporte europea: un análisis crítico. *Investigaciones Regionales*, 7, 193-218.
- DE RUS, G., CAMPOS, J., & NOMBELA, G. (2003). *Economía del Transporte*. Antoni Bosch editor.
- DE RUS, G., & SOCORRO, M. P. (2010). Infrastructure Investment and Incentives with Supranational Funding, *Transition Studies Review*, 17(3), 551–567.
- ECORYS TRANSPORT (2005). *Ex post evaluation of a sample of projects co-financed by the Cohesion Fund (1993-2002)*. Synthesis Report for the European Commission, DG Regional Policy. [https://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/pdf/cohesion\\_project.pdf](https://ec.europa.eu/regional_policy/sources/docgener/evaluation/pdf/cohesion_project.pdf)
- EUROPEAN COMMISSION (2001): *European Transport Policy for 2010: Time to decide*. COM(2001)0370.
- EUROPEAN COMMISSION (2005). *Study on strategic evaluation on transport investment priorities under structural and cohesion funds for the programming Period 2007-2013*. DG Regional Policy.
- EUROPEAN COMMISSION (2006). *Keep Europe moving – Sustainable mobility for our continent*. COM(2006)0314). White Paper.
- EUROPEAN COMMISSION (2011). *Roadmap to a Single European Transport Area. Towards a competitive and resource efficient transport system*. COM(2011)0144). White Paper.
- LADRECH, R. (1994). Europeanisation of domestic politics and institutions: The case of France. *Journal of Common Market Studies*, 32, 69-88.
- LAWTON, T.C. (1999). Governing the Skies: Conditions for the Europeanisation of Airline Policy. *Journal of Public Policy*, 19(1), 91-112.
- RADAELLI, C. (2003). The Europeanisation of public policy. In K. Featherstone & C. M. Radaelli (Eds.), *The Politics of Europeanisation*, (pp.27-56). Oxford University Press.
- RAMOS-PÉREZ, D. (2016). State aid to airlines in Spain: An assessment of regional and local government support from 1996 to 2014. *Transport Policy*, 49, 137-147.
- REY, M.B. (2003). Structural changes in the Spanish scheduled flights markets as a result of air transport deregulation in Europe. *Journal of Air Transport Management* 9(3), 195-200.
- SUÁREZ-ALEMÁN, A., CAMPOS J., & JIMÉNEZ, J. L. (2014). The economic competitiveness of short sea shipping: an empirical assessment for Spanish ports. *International Journal of Shipping and Transport Logistics*, 7(1), 42-67.