The Limits of Europeanization: Regulatory Reforms in the Spanish and Portuguese Telecommunications and Electricity Sectors

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The creation of a European Union-level regulatory regime for telecommunications and electricity was a highly successful political initiative of the European Commission. However, this article argues that the causal link between European initiatives and national policy change is weak. Building on an emerging tradition of cross-sector research of these two sectors, and considering two most similar European countries, the article applies a series of comparisons, including a stepwise comparative analysis of two countries (one a reluctant liberalizer, the other an enthusiastic one), of two sectors (a pacesetter and a footdragger), and of two time periods (before and after the regulatory reforms). We suggest that Spain and Portugal were able to shape their sectors according to the preferences of their national policy communities and in a context of a global shift in the way countries both within Europe and outside it defined their interests.

Is Europeanization a key factor explaining recent policy changes in the European economies, or is it only a reflection of those changes? In particular, to what extent were market liberalization and regulatory reform products of Europeanization? While research on the impact of the European Union (EU) on the member states is thriving, few systematic empirical attempts have been made to distinguish its effects from those of liberalization processes. In order to deal with this question, we compare policy change in two network industries—telecommunications and electricity—in Spain and Portugal, and compare the significance of the role of European forces with that of national and sectoral processes. The study is multilevel in the sense that it examines national and sectoral policy changes in the context of the emergence of European-level telecoms and electricity regimes. In each case, a coalition of political actors led by the European Commission (EC) was highly successful in promoting European-wide liberal regimes for telecoms (a key sector in the creation of the

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"information economy") and electricity (one of the sectors that were thought to be immune to change until the mid-1990s). These two regimes defined a common regulatory framework for all member states and coordinated a common schedule for market liberalization. We find weak evidences to support the view that Europeanization led to liberalization.

Building on an emerging tradition of cross-sectoral research of these two sectors (Bartle 1999, 2002, 2003, 2005; Coen 2005; Curien and Matheu 2001; Henisz, Zelner, and Guillén 2005; Levi-Faur 1999, 2003, 2004a; Mukherji 2004; Murillo 2002; Padgett 2001; Schmidt 1997, 1998; Stern 2000), we inquire into the degree to which the establishment of new European regulatory frameworks in these sectors is the driving force behind the liberalization in the two countries and sectors. We further inquire into the degree to which the emergence of new EU-level regimes for these two industries constrained mercantilist traditions in the two countries. Do these new European regimes supply the major framework for governance and economic behavior at the national level? Or are they so limited in scope and so loosely formulated that they leave major issues to the discretion of member states and national policy communities? In order to answer these questions, this article compares similarities and variations in regulatory reforms in the telecoms and electricity sectors in Spain and Portugal, and examines the impact of European regulatory policies on (a) similarities across both sectors and nations; (b) similarities across sectors and variations across nations; (c) variations across sectors and similarities across nations; and (d) variations across both sectors and nations. We observe how the different cases evolved before and after the creation of the EU regimes, looking at Europeanization not only as an explanation of domestic policy change, but also as an outcome of the policy change itself. Whether or not the EU regimes really accomplished their goals, we should observe increasingly both the Europeanization of markets (i.e., the creation of a single European market) and the Europeanization of governance (i.e., the creation of a distinctive European model of public control over private action). In doing so, the article examines also the limits of the single market and the process of Europeanization itself.

The notion of Europeanization has many facets, and recent debates in the academic literature have added more sophisticated interpretations and sensitivity to its various dimensions (Olsen 2003). In terms of policy change, it has been argued that Europeanization is a process of policymaking and rule making in which member states are strongly influenced by formal and informal interactions at the European level, both with each other and with the European institutions. These interactions take multiple forms and are extended in time before and after the formal momentum of the political decisions (Radaelli 2003). Some authors have tried to identify specific "mechanisms" or procedures that exemplify concrete interactive patterns, such as the so-called dynamics of uploading and downloading that adjust policy preferences (Börzel 2002), or the three mechanisms of Europeanization, namely, institutional compliance, modifying opportunity structures and framing beliefs (Knill and Lehmkuhl 2002). These attempts capture the logic of multilevel governance in Europe, the dynamics of mutual adjustment between governments and the policy instruments used by European actors. However, it is unclear whether these approaches are well equipped to assess the importance of European influence on complex and deep domestic political changes because they do not control for other possible influences. Beyond trivial cases, only some variation in the independent variable (the EU level as the source of policy change) would permit causal statements about the importance of the EU for domestic developments (Haverland 2005; Levi-Faur 2004a). This study explores variations in the independent variable comparing different sectors (with different specific regimes at the EU level), both in two different periods. We therefore supply clear empirical criteria for a study of Europeanization as against some less demanding tests that are common in the literature.

As said, we examine the "expected" impact of Europeanization on both nations and sectors. First, we look at the Europeanization of governance after the policy change, as it is reflected at the level of the institutions of the state in Spain and Portugal, and specifically, in the role of the regulatory authorities, their autonomy and their relations with the ministries. Second, we analyze similarly the Europeanization of markets as it is reflected in the processes of privatization and the creation of competitive and open environments within and across national borders. We suggest that, if "Europeanization matters," then domestic policy changes will lead to (a) similar patterns of market integration and similar institutions of governance across the two countries; (b) varying degrees of market liberalization depending on the extent to which the specific European regime promotes it; (c) a lesser degree of neomercantilism (promoting national champions and interests) with the advance of Europeanization; and (d) new strategies of internationalization by private firms, corresponding to the opportunities and constraints accompanying the progress of Europeanization. The methodology and research design that we adopt in examining the process of change in light of the previously mentioned criteria is discussed in the first section of the article.

Case Selection and Research Design

Case selection is of particular importance in small-*N* analysis. We therefore first clarify the space of variations across our cases and in particular the process of "casing" as a tool in our stepwise design (see Table 1). "Casing" is a process of setting the boundaries of the cases, which we do in this article in three ways. We select two countries—Spain and Portugal—under most similar system design, and discuss their similarities and variations. We compare the telecoms and electricity sectors again according to the logic of most similar system design and explore their similarities and variations. The first stage of systematic comparison is about the two

TABLE 1
The Stepwise Comparative Design[a]

Step	Section	Comparison	Comparative Approach			
				Nations	Time	Sectors
1	II	Telecoms and electricity regimes in the EU	International regime approach and PSA	Constant	Constant	Vary
2	III	Telecoms liberalization in Spain and Portugal up to 1993	NPA	Vary	Constant	Constant
3	III	Telecoms liberalization in Spain and Portugal after 1993	NPA	Vary	Constant	Constant
4	IV	Electricity liberalization in Spain and Portugal up to 1993	NPA	Vary	Constant	Constant
5	IV	Electricity liberalization in Spain and Portugal after 1993	NPA	Vary	Constant	Constant
6	V	Telecoms and electricity Spain and Portugal	Compound: PSA and NPA combined	Vary	Constant	Vary

[a]For the comparative terminology, see the introduction to this special issue as well as Levi-Faur (2004b).
EU, European Union; PSA, policy sector approach; NPA, national pattern approach.

cases of sectoral regime at the European level. The second section (Varieties of EU-level Regimes) compares the 1993 European regime for telecoms with the 1996 European regime for electricity. Our second type of case includes eight sectoral regimes bounded by time. The first four are telecoms (third section, Telecoms Liberalization in Spain and Portugal) and the other four are electricity cases (fourth section, Electricity Liberalization in Spain and Portugal). These cases are defined by time; thus, we have the telecoms sector in Portugal and Spain up to 1993 or the electricity sector in Spain and Portugal after 1996. Third, we have the compound cases of telecoms and electricity and of Spain and Portugal (fifth section, Similarities and Differences across Sectors and Nations). Here, we look for variations in the impact of Europeanization not on the telecoms sector in Portugal specifically, but on the telecoms sector in both countries, compared with the electricity sector in both countries, and we also compare Spain and Portugal, discarding the variations in the two sectors within each country. These comparative strategies make the inferential process more formal and transparent on the one hand, and more systematic on the other. Thus, we articulate what comparativists usually leave implicit (Levi-Faur 2004b). At the same time, these strategies test research questions against a myriad of cases and thus potentially increase their consilience.

Spain and Portugal share certain common characteristics that set them somewhat apart from other members of the EU. They share similar authoritarian legacies, late industrialization, strong Catholic religious institutions, late democratization, traditions of centralism, as well as, more recently, wide public support for Europe (Díez-Medrano 2003; Giner 1986; Malefakis 1995; Sapelli 1995). None of these similarities makes the two countries identical, but they perceptibly share a certain persistence of their etatist traditions. Thus, we suggest that the notions of "corporate etatism" and "social etatism" might capture reasonably well the specific mixture of variations and similarities in Spain and Portugal. Etatism is often contrasted with liberal and corporatist patterns of state-business relations or "styles," and it implies a preference for "state" solutions to policy problems (i.e., a dominant role of the state in policymaking and in network structures, and by implication, a role for interest associations limited to lobbying) (van Waarden 1999, 104).

These policy styles are often exemplified in paradigmatic cases. Thus, France is usually the paradigmatic case of etatism, Britain (and the United States) of liberal pluralism and the Scandinavian countries of corporatism. Note that these are theoretical constructions to which, obviously, individual nations fit more or less readily. Why etatism for Spain and Portugal? At the most obvious level, etatism is a default option that captures the characteristics of these polities much better than the notions of liberal pluralism and corporatism. Liberal pluralism is usually identified with the Anglo-Saxon countries, and its major characteristics are largely foreign to Spain and Portugal (although less so to the former than the latter).

As for corporatism, both Spain and Portugal are low in trade union membership, have highly concentrated public administration and industrial sectors, and have relatively weak employer associations. As well, etatism seems to capture some important characteristics, such as a history of late industrialization in both countries that is associated generally with a much more active role for government than in liberal economies and societies (Gerschenkron 1962). Another important characteristic in both countries is the historical centralization of power in their domestic business communities and societies as well as in their colonial administrations. Spain, however, moved faster with industrialization and always had strong domestic civil opposition to the center (thus, Portugal did not experience a civil war). More recently, in Portugal, it was the armed forces that led the insurrection of April 1974 that resulted in democratization. In Spain, it was the death of General Franco that triggered the transition, which was led by regime reformists and the monarchy (Linz and Stepan 1996; Maxwell 1995). Another notable difference in the degree of etatism is the significant territorial decentralization that has occurred in Spain but not in Portugal in the democratic era.

Yet we think that an adjective is necessary in order to qualify the commonalities of etatism in the two countries. "Corporate etatism" captures the essence of government-business relations in Spain, while "social etatism" fits the Portuguese case. "Corporate etatism" signifies the existence of a stronger business community in Spain than in Portugal. This is best reflected in the structure of the financial system, notably, the existence of private banks (Banco Bilbao Vizcaya Argentaria and Banco Santander Central Hispano) that exercise control over a wide array of private (and privatized) business in Spain, in contrast with the dominance of a public bank (Caixa Geral de Depósitos) in Portugal. "Social etatism" best captures the Portuguese system because it better reflects the strong social orientation of the Portuguese revolution and constitution (Fishman 2003). It might also be reflected in the fact that, while for most of the post-war period, Spain's expenditures on social protection were larger than Portugal's, by the end of the 1990s Portugal was spending more on this item as a percentage of gross domestic product despite being poorer than Spain (Guillén, Álvarez, and Adão e Silva 2002, 234–237). While the health systems of both countries cover the whole population, Spanish labor policies, unlike those of Portugal, seem to endorse or at least to tolerate high unemployment. Indeed, unemployment in Spain was almost three times higher for most the period 1980–2000 than in Portugal (e.g., in 2000, it was 4.1% in Portugal and 14.1% in Spain). Given their etatism and their relatively peripheral status in the EU, the two countries are least likely cases for liberalization. The liberal and supranationalist agenda of Europeanization is therefore examined here in light of the least favorable cases (Portugal was even less favorable to the liberalization agenda than Spain).

The other pair of cases comprises telecoms and electricity, which were closely intertwined with the nation-state. Yet since the mid-1980s, these two network industries have experienced radical degrees of liberalization. Indeed, the extent of change exceeds that of other infrastructures in the modern economy, such as gas, oil, railways, roads, airlines, and media. Both sectors are constructed around extensive and very expensive grids. More so than any other element of these sectors, the grids display natural monopoly characteristics, and they are strategic assets that allow their owners to control other segments of the sector and, more important, other suppliers' access to customers in the absence of regulatory constraints.

Technological innovations have reduced some of the heaviest constraints on successful market competition in both sectors in recent decades. Yet, for four technological and economic reasons, the remaining constraints still make electricity less open to competition than telecoms. First, alternatives to the copper wires of telephony are available to an extent that does not exist in electricity. Mobile telephony, and then wireless and cable telephony, have provided alternative networks to the wire-telephony grids. Second, technology offers new options for using electricity grids to transmit telecom data (packet switching) and new options for electricity (and railway) companies to use their internal communication systems (and right of way) to supply telecom services. While it is possible to use the electricity grids and assets to transfer telecom, the converse is impossible. There is a one-way convergence between these technologies, implying that telecoms will face competition from electricity but not vice versa. Third, electricity transportation is sensitive to distance in a way that is unknown in modern telecoms. While at the moment it is feasible to produce electricity in Germany and consume it in Portugal, this option is costly. The transmission losses and the considerable costs involved in the construction of electricity interconnections weaken competitive pressures from distant generators; after the digital revolution, telecom interconnections are much simpler and easier to monitor. Fourth, the transportation of electricity requires grids that cost about 10 times more than the transportation of telecom, which further limits the options for plurality of networks that are so essential for competition. Thus, we have good reason to expect competition in electricity to be more limited than that in telecoms, and the "goodness of fit" between the ideas of liberalization and the realities of the sector to be greater in telecoms than in electricity.

Varieties of EU-Level Regimes

Efforts to promote European-level policies in the telecoms and electricity sectors were evident before the Single European Act of 1986 and even before the rise of neoliberalism to a hegemonic position (Kalyvas 1994). Yet these early efforts were basically connected to industrial policies (mainly in telecoms) and the safety of energy supply (with some relevance to electricity cross-national connections). Early signs of policy change in telecoms emerged in the 1980s and included the divestiture of American Telephone and Telegraph in the United States and the privatization of

Cable and Wireless and British Telecoms in the United Kingdom and of Nippon Telegraph and Telephone (NTT) in Japan. At the EU level, the publication of *Action Lines* (1983) was notable, which later served as the basis for the community's telecoms plan (Schneider, Dang-Nguyen, and Werle 1994). In 1986, a new directorate for telecoms was established in the EC charged with promoting a European regulatory regime in the sector.[1]

The publication of the Green Paper on the liberalization of telecommunications equipment and services in 1987 was an important turning point. The document provided impetus and set the agenda for future discussions on policy developments and legislative initiatives. New directives followed after 1988, and a significant move was the adoption in 1990 of the Open Network Provision, a very important initiative to harmonize access conditions for telecommunications networks and services for all member states. Under this directive value-added markets began to be opened, except for basic telephone services, which remained a monopoly. Intense conflict between the EC and some member states occurred after 1988 over their respective responsibilities. However, in 1991, the European Court of Justice confirmed the Commission's powers on this issue. Yet within that period, key member states such as Germany and France began to endorse telecoms liberalization. Intense debate on the nature of the EU regime continued during the 1990s, and four more Green Papers were published between 1990 and 1996, focusing on different aspects of the telecoms systems (Natalicchi 2001). Up to 1992, liberalization efforts were directed toward value-added markets in terminal equipment, services, and satellites. However, after a public-consultation process, and counting on the acceptance of most established telecoms operators, the Commission took a more radical step in June 1993. It proposed the liberalization of all voice telephony services (local, domestic, and international) and, after two meetings of the Telecommunications Council in June 1993, the member states agreed to open voice telephony, the major segment of the market, to competition as of January 1, 1998, for all EU countries (but with moratoria for specific countries). Thus, since 1993, we observe that liberalization initiatives at the European level that initially were confined to minor segments of the market were now focused on the major ones, and new directives followed to regulate infrastructures, universal service, and mobile telephony.[2]

In electricity, like the energy sector as a whole, liberalization proceeded extremely slowly. True, the directorate of energy (DG XVII) was institutionalized as far back as 1968, long before the directorate for telecoms. But energy was generally considered a "national concern" (Andersen 1993, 134). A modest move was the adoption of a directive in 1990 concerning the transparency of electricity and gas prices for industrial consumers. The Commission hoped thereby to increase the bargaining power of industrial users vis-à-vis suppliers. In the same year, a Transit Directive was adopted to promote open access for third-country member states that did not share a common border (Midttun 1996, 266–270). A significant attempt to promote reform came only in 1992, when the Commission published the draft of a directive intended to abolish exclusive rights, thus promoting (a) the building of new electricity grids, (b) the building of new generation facilities, and (c) open access to distribution and transmission grids. In addition, the draft required the unbundling of the generation, transmission, and distribution functions of integrated monopolies to safeguard competition in this sector.

This proposal was fiercely opposed by the industry and the member states (Padgett 1992, 69–70). Although there were good reasons to believe that Article 90 of the Treaty of Rome, which provides the Commission with competencies to prohibit state monopolies from engaging in anticompetitive practices, could be applied to electricity, the Commission hesitated to act as against the national governments (Schmidt 1998). It took five years of negotiations and extensive efforts at compromise before a Franco-German deal paved the way in 1996 for the creation of a European regime (a similar deal enabled progress in telecommunications). By the end of 1996, an Electricity Directive (96/92/CE) had been adopted. The directive called for open access to the transmission and distribution networks and set up eligibility criteria for implementation according to the level of consumption. A February 1999 deadline was set for the provision of choice of electricity supplier to large industrial users; the directive also aimed to extend choice of electricity supplier to households, albeit some time later. A new directive (2003/54/CE) of June 26, 2003, amended some of the legal provisions of the 1996 regime. It contained further measures requiring legal unbundling of network activities from generation and supply, established a regulator in all member states with well-defined functions, imposed transparent network tariffs, and reinforced public service obligations. It came into force in July 2003, and established deadlines for opening the electricity market to all nonhousehold consumers on July 1, 2004, and to all consumers (households included) in July 2007. The new directive thus aimed to harmonize open-market provision across the EU member states.

While the EU-level regime is a fact of life in both the electricity and telecoms sectors, the extent to which the member states have adopted the EU's liberalization measures varies. Because liberalization in the electricity sector was much more restricted than that in telecoms during the 1990s, Levi-Faur (1999) proposed a distinction between supranationalism in telecoms and intergovernmentalism in electricity. The lesser degree of electricity liberalization, and thus its intergovernmentalism, was evident in the wide discretion that the electricity directive of 1996 accorded to member states.[3]

Telecoms Liberalization in Spain and Portugal

To what extent was the new telecoms regulatory regime at the European level the driving force beyond the liberalization of telecoms in Spain and

Portugal? And to what extent do the new EU-level regimes constrain traditional mercantilist behavior by governments and market actors? This section compares developments in the telecoms sectors in the two countries before and after 1993, the year in which the key decisions to create the European regime were taken.

Telecoms Liberalization in Spain and Portugal up to 1993

Telecoms regimes in Spain and Portugal shared some important similarities even before the era of liberalization. Unlike almost all other western European countries, Spain and Portugal did not fully nationalize their operators. In Spain, Franco's regime in 1946 purchased a controlling share of the private monopoly owned by International Telephone and Telegraph (Little 1979). Yet the company Telefonica continued to enjoy a considerable degree of autonomy (Jordana 2002, 87–90). In the Portuguese case, nationalization came only in the late 1960s. Private ownership in Portugal was accompanied by a fragmented industrial structure in which different operators covered different parts of the country (again an exceptional case in Europe, where the industry was generally consolidated in a single operator for each country). Both states had only a marginal interest in the sector until the 1980s. Indeed, some efforts were made to create local technological capacities (especially in Spain after the 1960s), yet the state did not take on a steering role in the sense of formulating goals and priorities, apart from odd measures of the industrial development type. In both cases, such limitations during their dictatorships were also an example of weak state capacity (despite the etatist rhetoric).

The role of the state in both countries changed only in the context of democratization and an increasing awareness of the importance of telecoms in the information society. In Portugal, it resulted in the establishment in 1981 of the first telecoms regulatory agency in Europe, Instituto das Comunicacoês de Portugal (ICP). In Spain, the General Secretary of Communications and the General Directory of Telecommunications were created in 1985, with the aim of studying, controlling, and coordinating the sector. What is evident in both countries—in the 1980s and even before they joined the EC/EU—is that that the state became increasingly interested in the sector and that that interest increased in the second half of the 1980s and well into the 1990s, implying more active public policy interventions.

In April 1986, four months after Portugal joined the EC, the government set up a special commission to study the sector. The commission's report formed the basis of the Telecommunications Act of 1989, the first piece of legislation whose scope embraced the entire Portuguese telecom industry. It defined public responsibilities, guaranteed access to certain services, and opened value-added services to competition. The functions of the ICP were extended and the agency was granted a certain amount of autonomy. In Spain, the government paid less attention to telecoms at that time, but the trend was similar to that in Portugal, and in 1987 the parliament approved the first telecommunications act in more than 70 years. This law provided a clear legal framework and a clear distinction between the state and the operator. At the same time, it distinguished between monopolistic and competitive services, the latter to be authorized by the government case by case. Although both pieces of legislation might reflect EU regulatory debates at that time, it is necessary to note that the political impulse for these laws came from domestic concerns, as a way to establish public authority in the telecoms domain.

Signs of change were also evident in the increasing tendency to open some segments of the telecoms market to competition and to make the first moves toward privatization. New legislation liberalized the equipment market in both countries in 1989. Portugal went even further by opening value-added services to competition in the same year, a step that Spain took in 1992 in the context of the implementation of the 1990 EU directive on value-added services. A major arena of change was the emerging market for mobile telephony. Portugal once again made the first move in this market. The incumbent had been operating a land mobile phone system since the late 1980s, but a second license was granted in 1991 to Telecel, a consortium comprising mainly Portuguese partners, with France Télécom providing the technology. Similarly, Spain awarded a mobile telephony license to a new group (Airtel) in 1994.

A first step toward privatization was taken in 1987, when the Spanish government allowed capital mobilization by Telefonica that reduced the state's shareholding in the company from about 40% to about 32%. Yet it took eight more years for the first privatization of Spanish shares to occur. Also, the last steps of its privatization aimed to disperse ownership and retain control in managers' hands (Bel and Trillas 2005). In Portugal, the main changes were the restructuring of the sector and the consolidation of three operators with different organizational identities and traditions into one company, Portugal Telecoms (PT)—a process that culminated in 1994–1995. Thus, by 1995, a time of wholesale liberalization of telecoms markets, Portugal paradoxically centralized government control over the telecoms operators and achieved what other countries had had for decades: a single public operator running a monopoly (Sousa 1996, 663). Partly for this reason, and despite the removal of constitutional constraints, no effort was made to privatize until the government had created and consolidated a national champion. Nothing at the European level foreshadowed those moves. Instead, they were intended to better defend domestic interests in a context of perceived increasing market globalization.

Some provisional conclusions about the first years of policy change can be safely drawn at this stage. First and foremost, the Spanish and the Portuguese started to steer the sector only in the context of democratization and before the consolidation of the European regime. Second, these governments promoted liberalization without waiting for the creation of a European regime for telecoms, but partially anticipated it—and they were by no means latecomers, as might be conventionally assumed. True, the steps that were taken were only modest as they focused on relatively minor markets. Neither country privatized, but the first signs of a new approach were evident in both. It would, therefore, be misleading to see the process as one in which the EC was pushing against reluctant member states. Since the mid-1980s, the dynamics of market liberalization in this sector was evident even outside the context of Europeanization.

Telecoms Liberalization in Portugal and Spain after 1993

The establishment of a European regime for telecoms after 1993 (see second section) coincides with a similar move toward liberalization in Portugal and Spain. However, the two countries' telecoms sectors display important similarities and differences. At the governmental level, in both countries the major focus of liberal intervention is the consolidation of the position of the regulatory authorities. As was previously clarified, a regulatory authority was established in Portugal as early as 1981, clearly beyond any influence of the EC/EU. Changes that increased its autonomy were introduced at the end of the 1980s and again in 2001, when more comprehensive changes resulted in the establishment of Autoridade Nacional de Comunicações (ANACOM). Spain moved more slowly in this respect. The first indications of an intention to establish a regulatory authority in Spain came in 1994 under the Socialists. Yet the actual step was taken in 1996 by a center-right government, and the new regulatory authority, Comisión del Mercado de las Telecomunicaciones (CMT), has operated since 1997. If the regulatory agencies became a major locus of regulation-for-competition, the ministries kept enough power—as we will see later—to protect "national interests" mainly through the promotion of national champions.

Unlike in the reform of the governance structure, Spain was ahead of Portugal in privatization and "market making." In 1995, the Spanish Socialist government sold 11% of Telefonica's shares as part of an effort to adjust the public finances to the criteria laid down in the Maastricht Treaty of 1992. Privatization was far from "natural" or "liberal." A year later, the new Spanish government of the right-wing Popular Party nominated a chairman for Telefonica who had a close relationship with the party, and only then, at the beginning of 1997, moved toward a public offering of the remaining 21% of shares. A "golden share" allowed the government to veto changes in control for 10 years, and it was used to block Telefonica's proposed merger with the Dutch incumbent in 2000. Both decisions point to the continuity of the Spanish government's interest in the sector. This was also evident when a decision was taken to establish a second national operator to compete with Telefonica. The goal was to establish a transitional duopoly for two years to allow the new company to strengthen itself before the market was opened in November

1998. Retevision, a public firm operating in the radio and TV communications sector, was used as basis for the creation of the new operator.[4] The creation of the second operator was intended to concentrate most of the competition among strong Spanish operators after liberalization. It also gave politicians an opportunity to make more decisions in this sector (Jordana and Sancho 2005).

In Portugal, privatization was begun by the center-right Social Democrats and continued by the Socialist government elected in 1995. The Socialist government in May 1995 signed a 30-year contract with PT, granting the company use of the network (which remained publicly owned) in return for a guaranteed universal service. PT would guarantee other operators access to the network in accordance with EC legislation on fair competition. Privatization also advanced very gradually and was completed only in 2000. After that, the Portuguese state retained golden shares that gave it the final say on certain strategic matters and some small level of indirect ownership. The Portuguese concentrated their energies on the consolidation and formation of PT as a national champion and avoided the creation of a second operator. The processes in both countries reveal that privatization was not simply about government retreating from the economy. It was seen as an opportunity to take decisions and to shape the sector in ways that would have a long-term impact on the extent of competition and on the structure of ownership of the operators. The Spanish and Portuguese governments were hesitant in promoting competition at the beginning of the 1990s, and bargained with the EC in 1993 for delays in opening the market. Their opposition was not fundamental but only tactical, grounded in their own strategies of "market management." However, it was the good performance of the major operators at home and abroad that enabled both governments to move faster and along with the majority of the EU's member states in later years.

In certain respects, the single telecoms market was a success, as both countries, along with the other member states, implemented the bulk of the liberalization program as laid down in the 1993 European regulatory framework. Yet, at another and perhaps more important level, this development reveals the limits of Europeanization as an outcome, beyond the setting of common regulatory backgrounds for all member states. Not only were the Portuguese and Spanish national telecoms markets only very partially integrated with Europe in the years after liberalization, they were not even integrated with one another, and the regulatory course of action was decided on a national basis (Henten and Schneider 2003). There was no single Iberian telecoms market but two separate ones, each liberalized to a degree but not in a way that could not have been achieved without the European supranational regime. This was highly visible at the level of the operators of fixed telephony, but was also the case in the mobile-telephony market, in which some firms already were really global operators.

No less revealing of the limits of Europeanization also for the outcome of policy change were the Spanish and Portuguese operators' strategies of internationalization. Rather than investing in each other's markets, either in collaboration or through competition, they turned to their former colonies. Telefonica acquired controlling shares of the incumbents in Chile and Argentina in the late 1980s and early 1990s. In 1994, it acquired the Peruvian incumbent. In 2001, Telefonica controlled 56% of the fixed lines in Argentina, 34% in Brazil, 73% in Chile, and about 100% in Peru. In addition, it has interests and activities in Venezuela, Mexico, Guatemala, El Salvador, and Puerto Rico (Rozas 2003). At the same time, PT had major operations in Brazil, where since 1998 it has controlled significant mobile operators as well as a major internet provider. It was also active in, and controls, fixed-line operators in the former Portuguese colonies of Cape Verde, Guinea Bissau, Macau, Mozambique, and Timor. While both companies had some investments in Europe, these were minor in comparison with the investments in their linguistic areas (and former colonies). Indeed, the extent of integration of the Spanish and the Colombian telecoms markets was quite similar to that of the Spanish and the Belgian markets. Although the trajectories of liberalization in the two countries were very similar, we have no reason to believe that these similarities mostly reflect the project of creating a single European telecoms market. Europeanization has usually been portrayed as a constraint on national decision making, influencing policy change. However, what we found here is that European regulatory schemes were used as opportunities for modernization and, when they were believed to involve constraints on the national interest, both liberal and European principles were modified.

Electricity Liberalization in Spain and Portugal

Moving now from telecoms to electricity, we first examine the changes in the Spanish and Portuguese regimes for electricity up to 1996. We then move to a comparative analysis of the two countries' electricity policies from 1996 onward under the incipient new European regulatory regime (Steps 4 and 5 in Table 1) that was strongly reinforced in 2003. Our analysis shows that both countries made significant attempts at liberalization even before 1996. This is particularly true in respect of privatization, but we also identify clear efforts to promote competitive arrangements and to redesign the structure of governance at the national level in the two countries, especially with regard to the generation sector. While efforts to promote competition were not successful, and liberalization was implemented only in the post-1996 era, our research once again throws doubt on the argument that Europeanization was the major driving force behind policy change in the two countries.

Electricity Liberalization in Spain and Portugal up to 1996

Although Spanish electricity supply had already been proclaimed a public service in 1924, private suppliers dominated the governance regime and limited the role of the state. Thus, planning for electricity growth was in the hands of the association of electricity suppliers (Unidad Eléctrica S.A.) until the 1970s, and only thereafter was it transferred to the government. Indeed, the first comprehensive framework for electricity regulation in Spain was the 1994 law Ley de Ordenacíon del Sistema Eléctrica Nacional (LOSEN). The major public institution was Endesa, which was established by the Franco regime in 1944. Endesa was expected to construct and operate thermogenerators using local coal and thus to contribute to the import-substitution strategy of the state. It operated as a minor actor in a market that was largely supplied by private companies backed by private financial oligarchies (Lancaster 1989). Further growth in the role of the state in this sector came with the nuclear program, which was largely aimed at the production of electricity by private operators but still involved some important policy decisions and institutionalization of energy functions at the government level. Major change came in the mid-1980s when the Socialist government nationalized the high-voltage transmission network and expanded the role of the public company Endesa, though it avoided comprehensive nationalization in the post-war British and French style. Another change came about in 1994, when an autonomous authority for electricity (Comisión del Servicio Eléctrico Nacional) was established (Boira-Segarra 1997), albeit with only advisory functions.

Somewhat similar late and weak public controls are evident in Portugal, although they developed much more slowly than in Spain. The constitution of the Estado Novo (New State) of 1933 placed constraints on state enterprise and ensured the primacy of private enterprise. However, in the context of post-war hydroelectric development, the state invested in the sector, and some sort of "mixed enterprise" prevailed. But the administrative capacity was very limited, and the various ministries exercised only nominal control. Unlike Franco, who backed the idea of state-led industrialization, Portugal's Salazar was hostile to it and kept aloof from the international conventions of the period (Bermeo 1990, 138). The transition to democracy radically changed the governance of the sector. The 1976 constitution proclaimed the state enterprises as "the inalienable property of the Portuguese people" (later, it would require a constitutional change to sell more than 50% of the state enterprise [Corkill 1994, 217]). Accordingly, the fragmented electricity sector was consolidated and nationalized in 1976 under a state-owned entity, Electricidade de Portugal (EdP), and, subsequently, private investment in the sector was legally barred (Cross 1996, 183). For almost two decades, EdP was the major state agency in the electricity sector in Portugal. While it performed only service functions formally, its expertise and the institutional vacuum at the ministerial level made it the most important organization in the sector.

Yet in 1995, as part of a reorganization of the sector, the Portuguese government decided to establish a regulatory authority for electricity, Regulatory Entity of the Electricity Sector (ERSE). While this authority started operating only in 1997, it signified the coming transformation.

In all that concerns liberalization in this period, Spain moved faster and at a more decisive and self-assured pace than did Portugal. Privatization was promoted in 1988 by Felipe Gonzalez's ruling Socialist Party via a partial public offering of the assets in Endesa on the stock exchanges of Madrid and New York. A second offering was made in 1994, and a final one in 1998 transferred all remaining shares. Portugal moved slowly, yet in the same direction. Constitutional restrictions were removed by the ruling center-right Social Democrat Party. Two years later, in 1991, EdP was corporatized and became a public limited company, with public ownership but operating under private law. In 1996, the first decisive move toward privatization was made with the sale of 30% of EdP on the Lisbon stock exchange. This was followed by more offerings in 1997, 1998, and 2000 that reduced the government stake to about 33%. If privatization is one criterion of policy change in the electricity market, the other is a government policy vis-à-vis independent power producers. Here, it was Portugal that led the way, perhaps in the context of experiencing more constraints on investment in electricity than Spain. While the first independent generators entered the Spanish market only at the end of the 1990s, Portugal had already made private investment in electricity legal in 1988. However, it was five more years before a private consortium in 1992 won an international tender to supply electricity in Portugal.

The move toward a more competitive environment was, however, very hesitant in both countries and focused mainly on competition in generation. In 1994, about two years *before* the launch of the EU regulatory regime for a single market in electricity, the Spanish Socialist government advanced competition in the generation segment of the industry while maintaining the status quo in the transmission and distribution segments, and created an advisory regulatory agency (Curien and Matheu 2001). Yet the law faced significant opposition from the established operators and was difficult to implement. Under the center-right Popular Party government, it was in effect suspended in 1996 (Lasheras 1999, 292). The Portuguese government made a similar move toward competition in generation in 1995, introducing legislation that, even before the establishment of the EU regime, recognized some generation activity as competitive.

All in all, there is strong evidence in both countries in the period before the 1996 EU directive of moves toward private ownership and the development of autonomous regulatory capacities. Specifically, we observe already in 1994 some moves toward an independent regulatory authority in Portugal and a regulatory advisory agency in Spain. In addition, we observe the opening of the market for independent power producers in the case of Portugal, and the privatization of the public operators in both countries. Moreover, in both countries, the first moves toward the creation of a competitive order in the generation of electricity came in 1994 and 1995. These moves, which eventually failed in the case of Spain and had only limited effect in the case of Portugal, indicate that the picture of inertia and member states reluctantly reacting to the pressures of the EC is partial at best, while domestic efforts to influence policy change were predominant. Because the single market program does not enforce any preference for a particular form of ownership, the changes that are evident in the Spanish market since the late 1980s can hardly be seen as an expression of European pressure or premature adaptations. Nor can it be suggested that Portugal and Spain are exceptional here, as the majority of the privatizations that were undertaken among the EU member states before 2002 occurred before 1996 (Levi-Faur 2004a).

Electricity Liberalization in Spain and Portugal after 1996

We move now to the period after the creation of the European electricity regime in 1996. As already indicated, the establishment of autonomous regulatory institutions in Spain and Portugal predates the new EU regime. The Spanish authority Comisión del Sector Eléctrico Nacional (CSEN), established in 1994, was renamed in 1997 Comisión Nacional del Sector Eléctrico. A third act in 1998 renamed it Comisión Nacional de la Energia (CNE) and extended its authority to other segments of the energy sector. The Spanish agency purports to be an independent authority, yet this is hardly the case. Indeed, it is one of "these kinds of agencies which provide advice to the ministry and are responsible for monitoring and arbitration, but have no definitive regulatory powers. In accordance with their advisory role, the areas of activity of these organizations are broadly defined to include most regulatory issues. Governance and decision-making structures and independent safeguards are similar to those adopted by independent regulatory agencies" (Ocaña 2003, 22).

Unlike the Spanish politicians, who were thus reluctant to delegate control and were careful to preserve their authority by making only a limited commitment to autonomous regulation outside the scope of competition laws, the Portuguese seem to follow the blueprint of independent regulatory authorities (Ocaña 2003, 20–22). The Portuguese ERSE has operated since 1997 under legislation dating from 1995. In 2002, ERSE competences were extended to the autonomous regions of Madeira and Azores and to natural gas, and thus it came to be known as the Regulatory Entity of Energy Services. Another important step, taken in 2002, was the creation of the Competition Authority, which also exercises some authority over energy markets. Yet it is too early to assess its impact on the electricity market.

If in 1995 competition was understood to be possible and desirable in the generation segments of the Spanish and Portuguese electricity sectors, after 1996, competition began to be applied to consumers, and choice of suppliers for eligible consumers was guaranteed at least at the legal level and, following the agreement, at the EU level. After the suspension of the implementation of the pre-1996 liberalization act, the new center-right government in Spain concluded an Electricity Protocol that was signed with the industry in 1996 and led to a new electricity law designed to create a new domestic electricity regime. The New Electricity Law that came into force in January 1998 liberalized generation and provided freedom of choice for eligible consumers. Then, in 1998, another agreement between the Ministry of Industry and Energy and the electricity sector, known as the Miner Agreement, was signed in order to accelerate the liberalization process even beyond the EU minimum requirements for eligibility for choice of electricity supplier. Indeed, all consumers have been eligible for free choice of supplier since 2003.

The Portuguese also moved toward a more competitive market during this period. While the law of 1995 still provides the framework for electricity regulation, in 1997, it was modified so as to conform to the EU directive. Most important, the regime for access to the transmission network was defined as regulated Third Party Access (regTPA) and the eligibility of consumers was set according to EU obligations. In 2001, however, the Portuguese government took one further step and, like its Spanish counterpart, raised qualified consumers' thresholds beyond the EU requirements. Thus, while the EU obligation was to liberalize the market for consumers of more than 9 GWh by 2003, the Portuguese government brought the deadline forward to 2001. Yet, although Portugal went beyond the EU in this respect, it has been always behind Spain. The most striking difference here is that between the countries' abilities to switch electricity supplier. While this ability was estimated to extend to almost 32% of consumption in Spain, it accounted only for 4% of total Portuguese consumption (CNE and ERSE 2002, 8). While Spain liberalized its entire market in 2003, Portugal fixed mid-2004 as its deadline for total liberalization. However, it is important to bear in mind that it was mainly large business consumers that were affected. Households in Spain were practically still out of the game of switching suppliers, despite having had the right to do so since January 2003 (open competition at this level was very limited).

Unlike in the sphere of competition, the restructuring of EdP was only minimal in Portugal, and the market was still dominated by the former public operator during the period examined. The market is thus horizontally concentrated and, to the extent that vertical restructuring was promoted as a policy, this was already achieved in 1994. In that year EdP was turned into a holding company and divided into six major independent subsidiaries, with one company for generation, one for transmission (Rede Eléctrica Nacional [REN]), and four for regional distribution. However, the restructuring did little to affect the dominance of the EdP, as all the subsidaries operated under the group's headquarters authority. Some important developments in this sphere occurred in 1998, when accounting separation between generation and transmission was achieved. Administrative and legal separation between generation and transmission followed in 2000, when REN left the EdP group and the state became the major shareholder in REN, owning 70% and leaving EdP only 30%.

The variations in the moves toward a more liberalized environment in the electricity industries of Portugal and Spain have been accompanied by some similarities. First is the tendency toward the internationalization of national champions, in both cases mainly toward Latin America, already in the late 1990s. Thus, the Spanish Endesa internationalized mainly to Latin America (Chile, Argentina, Colombia, Peru, Brazil, and the Dominican Republic) but also undertook significant activity in Portugal and Italy and, to a more limited extent, in a few other European countries. The Spanish Iberdola obtained a significant presence in Mexico, Guatemala, and Bolivia, as well as in Brazil, but none in Europe. In Portugal, EdP had a major presence in Brazil, Macau, Cape Verde, and also Guatemala, but none in Europe. Thus, in neither country has liberalization of markets made the operators Euro-centered. Second, governments and companies are now actively promoting the creation of an Iberian market as a distinct unit with a common market operator and extended interconnection of the countries' transmission networks. The process that started at the end of the 1990s encountered some regulatory and technological difficulties, and consequently, the creation of the Iberian market had to be postponed several times from the original date of January 2003. This is a significant development at the national level and demonstrates a somewhat relaxed attitude on the part of the Portuguese toward "Spanish imperialism" but, as we will soon see, it reveals the attempts of the four leading corporations (three Spanish and one Portuguese) to protect their position even in the context of a liberalized and Europeanized market. It also reveals the limits of the European regime and of the concept of a single European market for electricity.

All in all, while the movement toward liberalization was consistent across the two periods, the creation of an EU regime for electricity in 1996 had an impact on the extension of the goals of competition for consumers by introducing eligibility for small consumers. Yet, while this goal was formalized in legislation and detailed regulation, it was still a far-from-practical option for consumers, and after 2003, it was introduced very slowly, even in Spain. We observe that the changes both in the governance (autonomous regulatory authorities) and in the market levels (private ownership, competition) become more legitimate over time in both countries, especially after 1996. Those corporate actors that moved along only reluctantly did not see liberalization as a major threat because it allowed them a wide margin of maneuver in protecting their interests. This observation, and especially the fact that the two countries proceeded with liberalization, first in advance of the emergence of the European regulation and later beyond its requirements, suggests that European influence was not a major force behind liberalization, although it probably had a strong impact on the framing of the national regulatory regimes.

Similarities and Differences across Sectors and Nations

We move on with our stepwise and iterative process of pairwise comparisons to the aggregate level of liberalization and its relation to Europeanization. Thus, we compare the Spanish and Portuguese liberalization policies and their relation to Europeanization. Rather than looking at each of the four sectors (the Spanish telecoms sector, the Spanish electricity sector, the Portuguese telecoms sector, and the Portuguese electricity sector) we compare the telecoms sector in the two countries with the electricity sector in the two countries. In other words, we are "casing" our units of analysis in a "compound," higher level of aggregation. At the same time, we aim at a systematic and holistic review of variations and similarities across these sectors and nations and use Table 2 as a heuristic device.

TABLE 2
Europeanization in a Compound Perspective: Variations and Similarities in Spain's and Portugal's Liberalization Processes

	Cross-Sectoral Similarities	Cross-Sectoral Variations
Cross-national similarities	*Expectations*: Variations in the EU regimes and the propensity of the sectors for competition will have a strong impact on the degree of liberalization in the two pairs of sectors and countries.	*Expectations*: Liberalization in electricity would develop more slowly than in telecoms. National variations will be minimal in scope in comparison with the sectoral one.
	Observations: There is clear and strong evidence of cross-national and cross-sectoral similarities in the movement toward more liberal regimes, but the regimes are open enough to the promotion of national interest and national champions.	*Observations*: Variations in the structure of governance and market opening are less distinctive than expected. The variations in the degree of competition are mainly the result of technological and economic characteristics of the sectors.
	Implications: The observations do not support the expectation of a strong impact of Europeanization on the extent of liberalization.	*Implications*: Stronger propensity for competition in telecoms and a supranational regime at the EU level did not prevent the two countries moving toward liberalization despite the constraints on competition in electricity and despite the lesser pressure from the EU in this respect.

TABLE 2
Continued

	Cross-Sectoral Similarities	Cross-Sectoral Variations
Cross-national variations	*Expectations*: Portugal's social etatism will result in a lesser propensity for liberalization than Spanish liberal etatism. Cross-sectoral variations will be minimal.	*Expectations*: The creation of EU regimes will produce both sectoral and national variations, but the degree of variations will differ across nations and sectors.
	Observations: The Portuguese moved more slowly than the Spanish on competition but were more inclined to delegate authority to the regulatory agencies.	*Observations*: Sectoral differences in Spain are greater than in Portugal. At the level of both governance and market, electricity differs from telecoms to a greater extent in Spain than in Portugal. Cross-national variations at both sectors are bigger at the level of governance than the market.
	Implications: Nations may better explain variations in public policy than variations in EU regimes. The arguments about the critical importance of Europeanization as major force of change are qualified.	*Implications*: The strength of private actors in Spanish electricity and their relative weakness in Portugal seem to explain better than Europeanization the balance of private—public power and the dynamics of Spanish liberalization.

EU, European Union.

Our case-selection consideration leads us to expect the establishment of European regimes to exert pressure for policy change and for the creation of a single market in both sectors. We expect liberalization to move ahead more forcefully in telecoms than in electricity because of the technological and economic characteristics of the two sectors. Because of their etatist traditions, we also expect that European pressures will move Portugal and Spain reluctantly toward liberalization, though the degree of reluctance is expected to be higher in Portugal than in Spain. In the rest of this section, we test these expectations against observations of four combinations of similarities and differences across the two countries and the two sectors in order to draw some conclusions about the relations between Europeanization and policy change. We discuss expectations, observations, and implications in respect of each of the four combinations of differences and similarities.

At the level of expectations, cross-national and cross-sectoral similarities in the advance of liberalization across Portugal and Spain and across the two sectors suggest that variations in the EU regimes for telecoms and electricity, and variations in the character of European pressures (before and after the establishment of European regulatory regimes) were not critical determinants of the process of change. What we have observed, however, is that, despite a slow and hesitant start in electricity, liberalization has progressed well beyond initial expectations. In both nations, liberalization was promoted beyond the minimum obligations set by the EU, and the latest EU directive (2003/54/CE) seems to follow rather than to lead developments. This observation is of critical importance because, if it is the nature of the EU regime that shapes the extent of liberalization, we should have observed less electricity privatization, less delegation to national regulatory authorities, and less regulation for competition. Yet what we have found is that, apart from the technological and economic constraints that limit the extent of competition in electricity, this sector was increasingly and surprisingly subject to a liberal regime at the national level in the countries examined. This achieves a level that cannot be inferred from or explained by the nature of the EU's intergovernmental regime, and thus throws doubt on the characterization of the process of Europeanization as the independent variable that explains liberalization in this case. We also observe strong similarities at the national level and, against our expectations of a lesser degree of liberalization in Portugal, we have found that in general, Portugal has moved in the same direction as Spain. Again, this might be seen as an effect of Europeanization, but our cross-temporal comparisons as presented in the two preceding sections of the article do not support this interpretation. Cross-national and cross-sectoral similarities were found also in the selection of "national champions" which are recognized to be "capable of competing abroad, of opening new markets for other Spanish business, and supplying new technologies to the country" (del Real Valdivielso 2001, 171). These policies are major expressions of mercantilism and are complemented by the final set of similarities that we wish to emphasize. Both countries, in both sectors, supported the internationalization of their companies, which expanded their operations in the direction of Latin America rather than Europe.

If we are to derive our expectations from the policy sector approach, we should look out for cross-sectoral variations in liberalization; these should certainly be greater than national-level variations. Specifically, we should predict a higher degree of liberalization in telecoms than in electricity because of the greater constraints on competition in electricity. Yet we have found only limited support for these predictions, as both sectors made considerable progress toward liberalization, with the technological and economic effects of higher barriers for competition affecting mainly household consumers of electricity. The legal and regulatory framework enables competition, while technology and economics limit competition in household supply. Thus, the variations across sectors are grounded less in politics than in technology and economics. Our expectations of cross-national variations were based on the impact of European pressures on state traditions, namely, the corporate etatism of Spain and the social etatism of Portugal: Specifically, Portugal's social etatism was expected to result in a lesser propensity for liberalization. What we observe are significant processes of liberalization in both countries that cannot be explained fully by Europeanization, but with different policy strategies in each country. Indeed, observing the output of policy change, we found that the Portuguese moved more slowly in market-level changes but faster in governance reforms. To some extent, Spain did the contrary. Regulatory authorities in the two sectors were more autonomous in Portugal than in Spain, and Portuguese policymakers were freer to delegate than their Spanish counterparts. Yet at the market level, reforms moved faster in Spain in both sectors. Such variations in national liberalization processes are additional evidence that the EU is not the driving force behind the process.

This critical observation is set out in Table 2, where we argue that cross-sectoral variations are greater in Spain than in Portugal. This is reflected mainly in the lesser degree of independence that was granted to the Spanish electricity authority than to the telecoms agency (CMT) and the greater emphasis on competition in telecoms than in electricity in this country. Sectoral variations are more pronounced in Spain probably because of the strong position of private electricity providers in Spain and their close association with central and regional governments. Although these established electricity providers jumped on the liberalization bandwagon, they were careful to oppose changes that potentially threatened them. In Portugal, where nationalization preceded the restructuring of the market and of governance, the government did not have to take into account the interests of the private industry, and thus we see a more unified outcome that represents the "national patterns" of policymaking. In Spain, by contrast, these interests, together with the state, were reluctant to grant too much authority to a new independent regulatory body. It is this entrenched private ownership of the electricity market in Spain that seems to explain better why delegation was easier in Portugal than in Spain, and by implication, the greater variations in the privatization process.

Conclusions

Our emphasis on the limits of Europeanization should not be surprising at this stage. First, while we found that liberalization progressed faster after the creation of EU-level regimes for telecoms and electricity in both countries, we doubt whether this is indeed a direct effect of the EU regime. Our doubts were first based on cross-regional analysis by Levi-Faur (2004a) and are confirmed in the context of the comparative analysis of this article. For all the cases examined, liberalization preceded the creation of an EU regime and indeed went further than its requirements. This is all the more evident when one examines the recent change in the electricity regime (2003/54/CE), which follows rather than leads development at the level of the nation-states. Second, we found significant variations in the patterns of market integration and governance reforms, which cannot be explained as an outcome of Europeanization. At the level of market integration, we found that, despite considerable and (from the point of view of the early 1990s, surprising progress) we cannot really point to any integration of Iberian telecoms and electricity markets into a Europe-wide region. What we have in effect are two distinct national markets with varying degrees of liberalization (we believe that this is not exceptional situation across EU member states). At the level of new governance structures, we find national variations that are independent of the process of market integration, but related to domestic institutions and policy processes.

Third, and most important, we did not find evidence that the more limited degree of delegation upwards to the EU in electricity than in telecoms had an impact on the national regimes in the sense that it made them less prone to liberalization. Liberalization at the national level in electricity moved swiftly beyond the requirements of the EU regime and, as has already been argued, before the EU followed these developments with the most recent regime change in the sector. Fourth, we observed that while adherence to the rules of EU regimes constrained uncompetitive behavior by governments and market incumbents, it did not curtail it. In fact, there are still wide margins for strategic behavior by politicians to pursue their "national interest" policies. The two countries stuck to their "national champions" policies; and what is most puzzling is the extent to which governments and national communities could adhere to EU rules on the one hand, but find particular ways to continue to be engaged in mercantilist policies on the other. Finally, the telecoms and electricity operators' strategies of internationalization seem to be directed more to Latin America and former colonies than to Europe. While arguments about Europeanization and the "single market" lead us to expect that telecoms and electricity companies' strategies of internationalization would correspond to the new opportunities and constraints of the European regulatory regime, the evidence for this is limited, at least at present.

Our findings on the limits of Europeanization—both as an explanatory argument for policy change and as a result of policy change itself—have two important implications. First, we suggest that Europeanization should not be viewed as the motor of liberalization and thus, that we should look elsewhere for an understanding of the diffusion of liberalization politics around the world. Elsewhere, we called this process of change the diffusion of regulatory capitalism (Levi-Faur and Jordana 2005). Second, we suggest that, even under the EU-level regime, there is enough legal and political room for national actors to pursue domestic and mercantilist policies. It does not seem that variations in the role of Europeanization have a clear impact on the ability of the Spanish and Portuguese policy communities to pursue such policies.

One caveat before we conclude: While we focus on the limits of Europeanization, we do not suggest that it is not important. Europeanization, unlike liberalization, might move too slowly to be clearly visible. It may well be that the formation of a single market will take longer than was expected. Indeed, it may still take several decades, and there is no certainty about the result. Yet, unlike Europeanization, liberalization in a national context was a quite rapid policy change, which suggests again that Europeanization was not the central driving force behind this process; and while it has certainly not prevented mercantilist policies, it has established another set of policy constraints and opportunities for Spanish and Portuguese actors to take into account.

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Notes

1. Information Society Directorate-General (DG) XIII. In 1999 it became the Information Society Directorate.
2. A few years later, in 2003, the EU updated the regulatory package, providing for a single regulatory framework for media, data, and traditional communications. However, the distribution of responsibilities and the institutional organization of the sector between member states and European institutions did not change.
3. However, the changes that were introduced by the new directive of 2003 substantially altered this situation and may reduce the differences between the EU telecoms and electricity regimes.
4. Retevision itself was fully privatized in 1999.

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