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# The impact of economic policy on shipper businesses in coastal line maritime passenger transport in Croatia

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## ABSTRACT

Coastal line maritime passenger transport in the Republic of Croatia, as well as in other EU member states, is regulated through various regulations and legislation, which in turn result in numerous national laws and regulations that affect its development, all of which is legally binding for shippers. Scheduled maritime passenger transport is an extremely important form of transport for the Republic of Croatia since it is the only form of connection with the mainland for many islands. This paper analyses economic policy measures that affect the organization and implementation of coastal line maritime passenger transport. The paper also investigates the demand fluctuation for maritime passenger transport services. The aid measures provided by the state to individual sectors is also analysed, as well as aid for the provision of services of general economic interest. The aim of this paper is to assess the amount of aid granted to maritime transport and its importance, especially in coastal line maritime passenger transport. The paper also explains the importance of establishing the Coastal Liner Services Agency as a regulatory body of the Republic of Croatia, and it further analyses the subsidy amounts granted to shippers in the period from 2014 to 2020.

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## 1 Introduction

The economic policy measures contained in the legal regulations of the European Union, as well as national economic policies contained in the legal framework of Croatia – binding for all who operate within the national economic framework – all of this has great impact on shippers dealing in coastal line maritime passenger transport. European Union regulations relate primarily to equality of access to the market with regard to the provision of services, while national legislation regulates in more detail the degree of this freedom to provide services, which can be limited by the introduction of a public service obligation. Furthermore, countries may request the European Commission to introduce its own additional measures in the event of more serious disturbances in the internal market [1]. Until Croatia's accession to the European Union in 2013, the transport of goods and passengers in Croatia could only be performed by ships registered at the national level and flying the Croatian flag.

In the Treaty on the Accession of the Republic of Croatia to the European Union, in the article related to Transport Policy, a transitional period was agreed for the application of a regulation defining the principles of freedom to provide services in public maritime transport between member states. The transition period lasted until 31 December 2016.

It is especially important to emphasize that the state, due to the necessity of sustainable development of its islands, has the need to influence the development of island transport via transport policy [17]. The goal of the state is to provide a regular transport service between the mainland and the islands on the one hand, and between the islands themselves even when there is no real shipper interest to maintain the lines due to unprofitability or low profitability. In such cases, the state subsidizes the cost of the service to the shipper.

In this respect, the aim of this paper is to assess the amount of aid granted to maritime transport and its importance, especially in coastal line maritime passenger transport.

## 2 Legal regulations concerning state aid shipowners dealing in coastal line transport

Legal regulations concerning coastal line transportation may be divided into European and national regulations. European regulations include [11]:

- Regulation (EU) No. 1177/2010 concerning the rights of passengers when travelling by sea and inland waterway and amending Regulation (EC) No. 2006/2004,
- Council Regulation (EC) No. 3577/92 applying the principle of freedom to provide services in maritime transport within Member states (maritime cabotage)

In the Republic of Croatia, there is a large number of legal regulations which affect the organization and implementation of coastal line transport as well as the benefits for its users. Most of these regulations are passed by the ministry in charge of maritime affairs, while other regulations, which are applied as a *lex generalis*, fall within the scope of the Ministry of Finance, Ministry of Administration, etc. [13]. All rules and regulations are in line with EU legislation.

Among the main regulations governing maritime passenger transport in the Republic of Croatia, researchers Stupalo, Jolić and Žgalić (2012) state the following:

- Scheduled and Seasonal Coastal Maritime Transport Act (Official Gazette 33/06, 38/09, 37/09, 18/11);
- Ordinance on the Conditions and Evaluation of Criteria for Granting Concession and Concluding Contracts on the Provision of the Public Service of Public Transport through Scheduled Coastal Transport Routes (Official Gazette 4/10);
- Ordinance on the Conditions to Be Met by the Ship and the Shipowner for the Provision of Public Transport in Coastal Line Maritime Transport (Official Gazette 130/06, 141/08, 143/10);

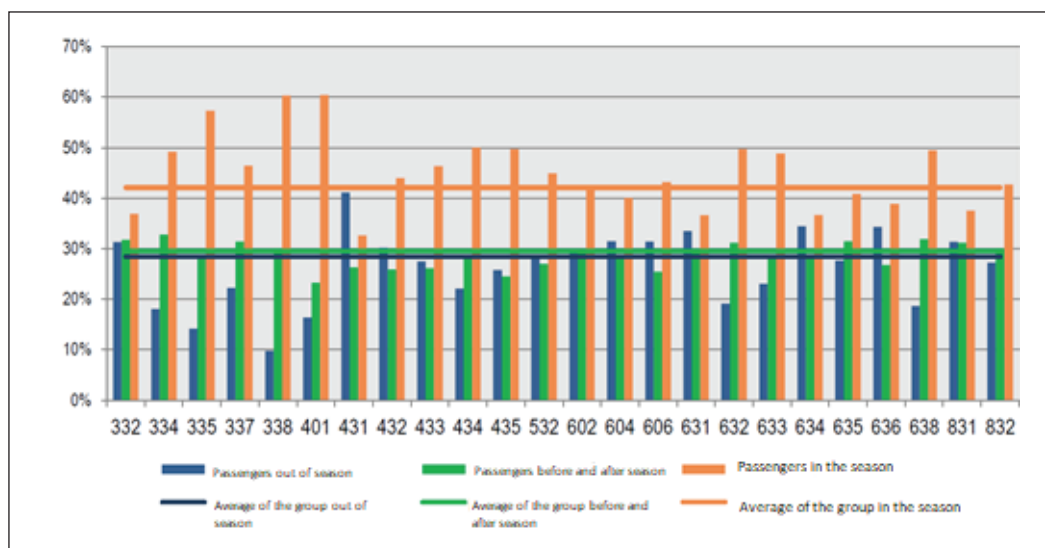
- Ordinance on the Conditions to Be Met by the Ship and the Shipowner for the Provision of International Coastal Line Transport (Official Gazette 130/06, 83/13);
- Decision on the Determination of State Routes in Public Coastal Line Maritime Transport (12/2008, 03/2010, 10/2011, 04/2013); and
- Maritime Code (Official Gazette 181/04, 76/07, 146/08, 61/11, 56/13).

In addition to these, it is important to single out the Ordinance on the Conditions for the Provision of Maritime Cabotage in the Republic of Croatia, the Islands Act, the Ordinance on the Conditions and Manner of Exercising the Right to Special Transport in Public Maritime Transport Routes, the Domestic Passenger Transport Benefits Act, and the State Subsidies Act. The above legislation, in addition to regulating the coastal line transport of the Republic of Croatia, directly or indirectly affects shipowners and their business.

## 3 The impact of demand fluctuation on the cost-effectiveness of services in coastal line transport

Demand for maritime transport services fluctuates throughout the year due to the significant share of tourist traffic. The summer months are marked by high demand, while during the winter the demand is low or minimal. As an example, the structure of the total annual passenger traffic on RO-RO passenger routes in 2017 is shown below.

Based on Figure 1, significant oscillations can be observed in the number of passengers in the off-season, pre-season and post-season periods and during the summer season itself. A significant difference is visible in the busi-



**Figure 1** Structure of the total annual passenger traffic on RO-RO passenger routes in 2017

est lines, where as many as eight RO-RO lines do not even achieve the group average during the summer months, i.e. the summer season. Eleven ferry lines carry fewer passengers than the group average out of season, eight lines in the pre-season and post-season period. According to the National Coastal Line Transport Development Plan, in 2017 the largest share of passengers during the season (60%) is achieved by line 338 (Lopar-Valbiska), which also records the smallest relative share of passengers in the off-season (10%). Of the total number of passengers transported annually by the observed line, only 10% of those were transported out of season, and about 90% during the season and the pre-season and post-season periods. Moreover, this indicates that although the aforementioned line is often given importance with regard to the island population, it is cost-effective only due to the large tourist traffic and because of the importance of tourism for the island economy.

Through legislation the state stipulates the minimum duration of providing service throughout the year by determining the conditions for service provision in maritime passenger transport. Moreover, the state actually entrusts shippers with performing a public service, for which it provides them with compensation (subsidies) from the state budget for services that are not profitable. It follows therefore that granting concessions is in direct correlation with the available budget funds provided for in a particular fiscal year.

The Decision on the Publication of the Rules of State Aid in the Form of Public Service Compensation (OG 39/08) also contains the Rules of State Aid in the Form of Public Service Compensation. These rules arose from the Decision of the European Commission (28 November 2005) on the application of Article 86 (2) of the Treaty Establishing the European Community with regard to state aid granted in the form of compensation to entrepreneurs undertaking services that are of general economic interest.

#### 4 Analysis of state aid according to sectors

The Republic of Croatia grants aid through various economic policy instruments, some of which are:

- (A1) subsidies and direct loan interest subsidies,
- (A2) tax exemptions, remissions, tax and contribution reliefs,
- (B) capital investments,
- (C1) soft loans and
- (D) state-issued guarantees and activated or protested guarantees. [10]

Coastal line maritime transport is mainly subsidized by the abovementioned measures in specific sectors, which include aid for the provision of services of general economic interest. The share of sectoral aid in 2019 in the total aid granted in the Republic of Croatia was 32.1%, with the share in GDP being 1.22%. Total sectoral aid granted in 2019 was in the amount of HRK 4,875.3 million, which is 8.3% less than in 2018 and 3% more compared to 2017. [10] The largest share in aid in 2019 went to the shipbuilding sector with 41%. This is followed by grants in the transport sector with 30% or in the total amount of HRK 1,462.7 million. Based on the above, it can be concluded that in addition to shipbuilding, most of the sectoral aid relates to transport.

With regard to the instruments for granting aid to special sectors in 2019, as much as 58.9% of aid was in the form of subsidies, with 41.1% being guarantees.

Further, the granted aid trend for the transport sector from 2003 to 2019 is shown below (Figure 2).

Analysing aid granted in the period from 2006 to 2013, the trend did not change significantly, while from 2013 to 2019, oscillations can be observed in the amount of aid granted to the transport sector. In 2014, the amount of aid granted increased significantly, whereas in 2015 it fell below the amounts granted before joining the European

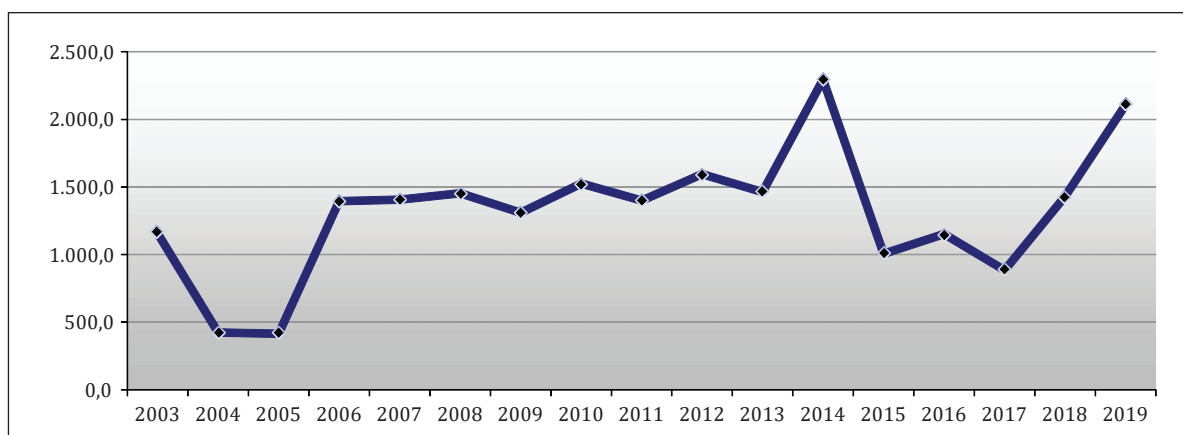
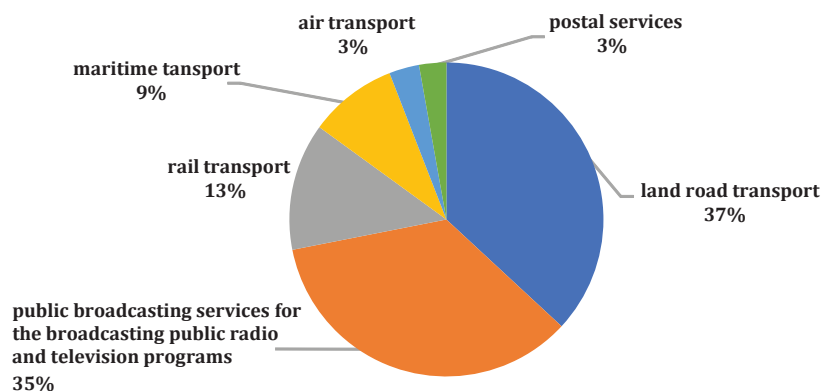


Figure 2 Aid granted to the transport sector from 2003 to 2019 (in millions (HRK))



**Figure 3** Aid for the provision of services of general economic interest granted in 2019

**Source:** Made by the authors according to [10]

Union. From 2017, granted aid started to increase. The authors were unable to find a link in this respect.

In the structure of sectoral aid granted, the largest share refers to aid for the provision of services of general economic interest. This refers to fees for the provision of public services, mostly services in land, sea and air transport, airport services, public broadcasting services for the broadcasting public radio and television programs, postal services and electricity. In these cases, aid for the provision of

public services actually entails compensation for the provision of services of general economic interest. In 2019, HRK 3,417.6 million in aid for the provision of services of general economic interest was granted through subsidies, which accounts for 70% of total sectoral aid [10].

It can be concluded from Figure 3 that the share of aid for maritime transport is only 9%, which is 28 percentage points less than land road transport and 4 percentage points less than rail transport, even though maritime

**Table 1** Aid for the provision of services of general economic interest granted in 2019, category: Maritime transport

Support category	Name of aid	Instrument	Amount (in HRK/million)	Share
Maritime transport	State aid program for services of general economic interest in the form of compensation for the provision of public service of public coastal line maritime transport on state lines: 338 Valbiska – Lopar, 501 Brodarica – Krapanj and 612 Komiža – Biševo	Subsidies	4.4	1.41%
	State aid program for services of general economic interest in the form of compensation for the provision of public service of public coastal line maritime transport on state ferry lines, No.: 431, 432 and 632	Subsidies	9.3	2.98%
	State aid program for services of general economic interest in the form of compensation for the provision of public service of public coastal line maritime transport on state ship lines:	Subsidies	6.2	1.99%
	State aid program for services of general economic interest in the form of compensation for the provision of public service of public coastal line maritime transport on state ferry lines during the period from 2018 to 2023, with the option for compensation extension until 2027:	Subsidies	125.9	40.35%
	State aid program for services of general economic interest in the form of compensation for the provision of public service of public coastal line maritime transport on state ferry line No. 635:	Subsidies	2.9	0.93%
	State aid program for services of general economic interest in the form of compensation for the provision of public service of public coastal line maritime transport during the period from 2018 to 2020, with the option for compensation extension until 2029:	Subsidies	57.9	18.56%
	State aid program for services of general economic interest in the form of compensation for the provision of service of public coastal line maritime transport on state high-speed lines during the period from 2018 to 2023, with the option for compensation extension until 2027:	Subsidies	105.4	33.78%
<b>In total</b>			312	

**Source:** Made by the authors according to [10]

transport is the means of connection to the mainland for most Croatian islands.

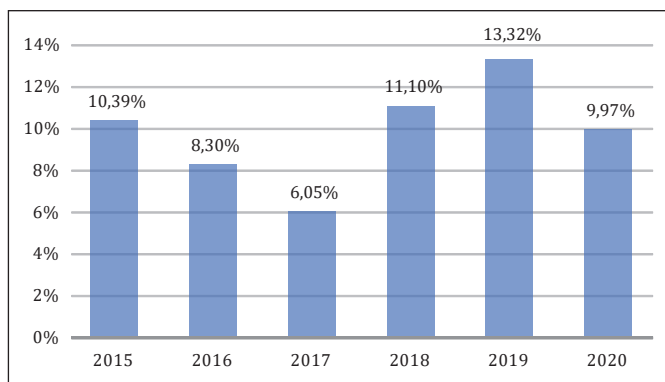
Table 1 shows the structure of individual forms of support in coastal line maritime transport in 2019.

It can be seen from the Table provided above that the largest share of subsidies, 40.35%, is paid out in the form of compensation for the provision of public service of public coastal line maritime transport – in particular on state ferry lines – during the period from 2018 to 2023, with the option for compensation extension until 2027: However, this amount accounts for only 3.7% of total aid for the provision of services of general economic interest. This is followed by subsidies for the provision of public coastal line transport services by high-speed lines for the period from 2018 to 2023, with the possibility of extension until 2027 – with a share of 33.78%.

## 5 The role of the Coastal Liner Services Agency and its impact on shipowners

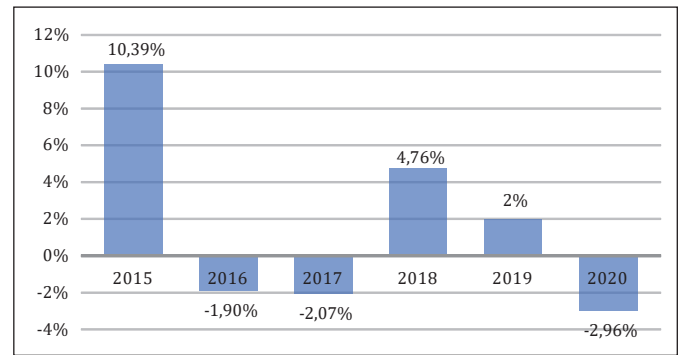
During the negotiations on the accession of the Republic of Croatia to the European Union, it was pointed out that there is a need to establish a regulatory body for ensuring efficiency, transparency and supervision over the granting of concessions and subsidies for public coastal line maritime transport. This authority was therefore given to the Coastal Liner Services Agency, which is in charge of all issues related to public transport in coastal line maritime transport. Among its most important tasks are announcing public tenders for granting concessions and forming transport contracts on all state lines in public coastal maritime transport, as well as ensuring allotted funds from Croatia's state budget are used appropriately for the maintenance of maritime connections with islands [2].

Figure 4 shows the rates of change in the total amounts of subsidies granted by the Agency for the period from 2014 to 2020, specifically, subsidies related to coastal line maritime transport. Rates of change were calculated in comparison to 2014.



**Figure 4** Rates of change in the amount of subsidies compared to 2014 for the period 2014 to 2020

Source: Made by the authors based on [3, 4, 5, 6, 7 and 8]



**Figure 5** Annual rates of change in the amount of subsidies for the period from 2014 to 2020

Source: Made by the authors based on [3, 4, 5, 6, 7 and 8]

In the observed period, Figure 5 shows that the annual rates of change in subsidies compared to 2014 were positive and ranged from 6.05% in 2017 to 13.32% in 2019. Such trends are primarily a consequence of the benefits that Croatia has received by becoming a member state of the European Union.

By analysing the annual rates of change in the amount of subsidies for the period from 2014 to 2020, it can be seen that the annual changes in the amount of subsidies in the observed period oscillated within 5% compared to the previous year. The exception to this is 2015, when the amounts of granted aid increased by 10.39% compared to 2014.

With its island development policies as a specific segment of regional development, the Republic of Croatia strives to establish the right to special transport on state lines by implementing: a) island passes for maritime passenger transport, b) island passes for maritime transport of vehicles and vignettes, student documents and c) certified travel documents [15]. The ultimate goal of all subsidies is to prevent depopulation, which means supporting sustainable development of islands, which is especially important for countries such as the Republic of Croatia, which has a large number of islands and a significantly indented coastline.

## 6 Conclusion

To conclude, economic policy in the European Union, and thus in the Republic of Croatia, has a significant impact on the operations of shipper businesses and on tariff formation for coastal line maritime passenger transport. The state, especially due to the necessity of sustainable development of its islands, has the need to shape its coastal line maritime passenger transport through transport policy. With its island development policies as a specific segment of regional development, the Republic of Croatia strives to establish the right to special transport on state lines for certain groups of passengers.

Research indicates that the share of sectoral aid in 2019 in the total aid granted in the Republic of Croatia was

32.1%, with the share in GDP being 1.22%. Furthermore, the share of aid for the provision of services of general economic interest for maritime transport is only 9%, which is a significantly lower share compared to road and rail transport. The largest amount of maritime transport subsidies is in the form of compensation for the provision of public service of public coastal line maritime transport on state ferry lines during the period from 2018 to 2023, with the option for compensation extension until 2027. However, this amount still accounts for only 3.6% of total aid for the provision of services of general economic interest. In the period 2014-2020, the annual dynamics of changes in the amount of subsidies that the Coastal Liner Services Agency gives out varies within 5% with the exception of 2015, when an increase of 10.39% occurred compared to the previous year. Based on the conducted analysis, we believe that fund allocation and support for coastal line passenger maritime transport should be increased. From a microeconomic point of view, this would contribute to shippers being able to operate better, and from a macroeconomic point of view, it would have positive effects on the sustainable development of islands.

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