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Greece's airline faces Olympian task to stave off crisis

By Daniel Dombey in Brussels and Kerin Hope in Athens

They are whispering it in Brussels: Olympic Airways is the next big drama in Europe's crisis-torn aviation industry.

Already Swissair and Belgium's Sabena have collapsed in the difficult atmosphere since the terrorist attacks of September 11. The Belgian case was testimony to the European Commission's firmness in denying European Union airlines new subsidies. Now the spotlight is on the Greek airline, which analysts say may run out of money in February.

The issue is of immense importance to a government desperate to have a national airline during the showpiece 2004 Olympic Games.

Athens is working to a self-imposed deadline of selling a majority stake in the state-owned group by the end of the month. But the only bidder was previously merely the third most favoured group out of three potential buyers – and its first business plan has already been rejected.

Even if its current approach were to prove acceptable, it would take some time to carry out the €200m ($176m, £122m) recapitalisation that the airline needs. Any covert government attempts to support the airline during that time – such as waiving fees, or hidden subsidies – would be illegal under EU law and add to the problems of the case.

The faces of Commission officials cloud over when the word "Olympic" is mentioned. Yet the airline is trying hard to avert collapse. Fares have in effect been raised 30 per cent but ticket revenues have still fallen more than 20 per cent since September 11.

This month Olympic raised an estimated €30m by selling its remaining shares in Galileo International, the airlines' computer booking system. That, however, is equivalent to just one month's payroll. Olympic has also arranged with the government to pay overdue social security contributions and some taxes in instalments, as well as cutting about a fifth of domestic flights.

Nikos Christodoulakis, the Greek finance minister, is personally overseeing talks with Integrated Airline Solutions, an Australian venture capital group that has put together a consortium of Greek and international businessmen. Analysts are pessimistic, however, of the chances of a deal.

IAS plans to acquire 51 per cent of "new" Olympic Airways, a start-up venture in which the Greek state would hold the remaining 49 per cent. IAS would provide €102m as its equity contribution, with the government contributing €98m.

The existing Olympic would be liquidated and its assets offered for sale. But the division between a "good" company for the investors and a "bad" one that the state would take care of might also excite Brussels' concern.

In 1994, as a condition of Commission approval of a €1.9bn assistance programme, Athens agreed to "grant no further aid to Olympic Airways in any form whatsoever" and to intervene no longer in the airline's management. However, Brussels and EU law may be more flexible on the issue of Olympic's "social" flights to isolated islands.

Pressure from the Commission last year led Olympic to pay its arrears in landing fees to the state-controlled Athens International Airport company. People close to the airline say that it has kept up to date since then.

In still graver circumstances, the Belgian government extended Sabena a €125m loan to meet operating expenses and keep the airline alive until a more permanent solution could be found. In the event the money was transferred to Sabena's subsidiary, DAT, for which investors have now assembled €180m-€200m of funds. Analysts say a similar plan could enable Olympic to meet its obligations until May, when the tourist season begins, and give the government breathing space to find another investor.

But this course too would need Brussels' blessing. The Commission knows it must soon get to grips with the case. It is well aware of the airline's cash drain – its 2001 losses are estimated at more than €80m – as well as the importance of the Olympics and even Greece's presidency of the EU early next year. But then Belgium has held the EU presidency over the past six months – and that did not stop Sabena from going bankrupt.

Nikos Christodoulakis: Greek minister overseeing talks with Australian venture capital group