SHIPPING FACES A STORM
The world's biggest merchant fleet is tied up by regulations
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TRAFFICKING
Criminals exploit $2bn a year business
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Modernisation campaign faces Olympian test

Staging the Games will stretch both skills and resources, writes **Kerin Hope**

At a glance

Greece finds itself with a high international profile, and not only because it is to host the Olympic Games next year. It lies at a pivotal geographic and diplomatic point, between would-be European Union member and neighbour Turkey, and the relatively prosperous countries of the EU.

The key issues:

- **POLITICS:** The firebrands who opposed the dictatorship of the colonels have aged and face an uphill struggle to win another election.
- **ECONOMY:** Fiscal discipline and entry into the eurozone are seen as one of the Socialist government's biggest successes and it is anxious to preserve its reputation for prudence.
- **SHIPPING:** The Greek-owned merchant fleet is the biggest in the world and faces huge bills to keep up with EU regulations.

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Taking a stand: prime minister Costas Simitis (centre), with Gianna Angelopoulos-Daskalaki (left), president of Athoc, the organising body for the Athens Olympic games

When the last runner in the Olympic torch relay circles the Kalogreza stadium in Athens next August and ignites the flame that will burn for the duration of the games, Greece will come under the glare of the international spotlight as never before.

The criteria for holding a successful Olympics in 2004 are daunting: local athletes must win medals, world records must be broken and doping scandals contained.

Transport systems have to operate smoothly, from the capital's new tramline and suburban railway to the fleet of taxis that will whisk VIP guests staying aboard luxury cruise ships docked in Piraeus port to 30 sports venues around Athens.

"It's a huge challenge, but it's also very exciting to be hosting two weeks of entertainment for the whole world," says Gianna Angelopoulos-Daskalaki, president of Athoc, the games organisers.

Above all, security for the Olympics has to be effective without being heavy-handed. Following the September 11 attacks, the Greek government increased the games security budget to €600m with a provision for additional spending up to €1bn. More than 40,000 Greek police, military and emergency services staff will be involved, with security experts from seven countries, including the US, Israel and the UK, as advisers.

For Costas Simitis, the Socialist prime minister, the games will be a practical test of whether his campaign to modernise Greece has succeeded. Staging a summer Olympics in a country of just under 11m people, will stretch management skills and human resources in the public administration in unprecedented ways. The prime minister has taken personal responsibility for making the games a success.

Yet Mr Simitis may be watching from the sidelines at the opening ceremony on August 13, rather than shaking hands with the world's sporting elite. Opinion polls suggest the governing Panhellenic Socialist Movement faces defeat in parliamentary elections due to be held next April, and that the centre-right New Democracy party will return to power after a gap of more than 10 years.

Under Mr Simitis, Greece shook off a reputation for fiscal imprudence and made its way into the eurozone. Driven by the resulting low interest rates and large transfers of European Union structural assistance, the economy has been growing steadily at 4 per cent yearly. Annual inflation of 3.5 per cent is accepted by the European Commission given Greece's higher growth rate – more than twice the projected average for the EU this year.

Greece earned its partners' appreciation for running an effective EU presidency in the first half of the year, coping with a potentially disastrous split over the war in Iraq and achieving a last-minute consensus on the European constitution and reforms of the Common Agricultural Policy.

Greece also pushed hard during the presidency to win more EU funding for the west Balkan countries – still feeling the impact of conflicts in the 1990s – under a policy to cement relations with all its northern neighbours.

The rapprochement with Turkey, born out of damaging earthquakes in both countries in 1999, is starting to produce results. Under the umbrella of the "Olympic

Costas Simitis may be watching from the sidelines at the opening ceremony

truce" – an initiative of George Papandreou, the foreign minister, to revive an ancient Greek tradition – the network of air corridors over the Aegean Sea is to be widened to ease the flow of international air traffic between Europe and the Middle East. This would mark a small but important step towards settling the long-running Greek-Turkish disputes over sovereignty in the Aegean.

Greece has been just as active promoting efforts to reunify Cyprus ahead of its EU accession next May – and help smooth Turkey's own path towards starting accession talks. If the pro-European alliance of Turkish Cypriot opposition parties wins next month's parliamentary elections in the north of the island, UN-sponsored negotiations for a settlement could start within weeks. Mr Simitis and Mr Papandreou would exert pressure on the Greek Cypriot government, which negotiated accession on behalf of both communities, to complete an agreement at the earliest possible date.

Next month, Nikos Christodoulakis, the finance minister, will visit Ankara to sign a long-awaited agreement on the avoidance of double taxation, which would open the way for Greek companies to start investing in south-east Europe's biggest market. Greek-Turkish trade has almost doubled to about $1bn since tensions started to relax, but without the security of a tax accord, outward-looking Greek businesses, which have already established a profitable presence in the Balkan markets, had hesitated to move into Turkey. As Greece loses a significant share of EU structural funds to the new EU member-states, promoting ties with Turkey will become a priority.

"There is tremendous potential for business. Istanbul alone is a market that's one-and-a-half times the size of Greece," says Constantine Papadopoulos, European affairs adviser at EFG Eurobank in Athens.

However, the government's critics argue that Mr Simitis has focused on the European Union and Turkey at the cost of domestic reforms. Instead of raising the retirement age and increasing contributions, the Socialists opted for patching up the current system – by re-financing the biggest state pension fund to ensure its survival for another two decades.

Rather than carry out full privatisations of big state-controlled companies amid opposition from the public sector trade unions – the bedrock of Socialist electoral support – the government has sold equity stakes in profitable utilities, raising funds to write down public debt, while retaining a firm grip on management.

After more than 20 years in power, with a brief interruption in the early 1990s, the distinction between the Socialist party and the government has become blurred. This has allowed a small group of Greek businessmen with close party connections to make deals with state enterprises and government bodies on preferential terms – with adverse consequences for competition.

Mr Simitis this year sacked two members of his cabinet accused of corrupt practices, and ordered parliamentary deputies to hand over details of their stock market transactions in the past three years. But such measures have failed to shift a public perception that corruption has become deeply entrenched in political life as well as in the bureaucracy.

Greece slipped six places this year in Transparency International's index of perceptions of corruption, and holds the lowest place among the 15 European Union countries, below Italy and several of the new central European member-states.

The slow pace of market liberalisation, together with an unhelpful bureaucracy, has discouraged foreign investors from entering the Greek market. For the second time in three years, investment abroad by Greek companies, mostly in the Balkans, is expected to exceed foreign direct investment in Greece.

But only a small number of Greek businesses have expanded successfully into European markets. Many others are struggling to survive in an increasingly competitive environment. According to a recent study by Kantor, the Athens-based consultancy, only 25 per cent of Greek companies are internationally competitive.

"There's a bottleneck looming and it will take time for new companies to emerge and find a market niche," says Costas Mitropoulos, Kantor's managing director.

Yet Mr Simitis's achievements in macroeconomic management and foreign affairs have earned Greece the respect of its EU and regional partners. Whatever difficulties may lie ahead, this turnround has increased Greek self-confidence and optimism about the future.

If Mr Simitis leaves office after next April's election, Costas Karamanlis, the New Democracy leader, could expect preparations for the Olympics to continue running smoothly. In spite of a party change-over, Mr Karamanlis should also be able to count on the full support of a Socialist-dominated administration – at least until the games are over.

Disunited nation: UN soldiers at a Cyprus crossing point AP

POLITICS

Old leaders face new country

Pasok has travelled a long way since its days opposing the dictatorship of the colonels, writes **Kerin Hope**

Thirty years ago the founders of the Panhellenic Socialist Movement were firebrand Marxists filled with enthusiasm for organising huge rallies, nationalising Greece's biggest manufacturing companies and pulling the country out of the Nato alliance.

Pasok has travelled a long way from its origins in the resistance to the colonels' dictatorship in the 1970s, but its leadership stayed the same.

In power for all but three of the past 22 years, the party faces an uphill struggle to win another election. The most favourable recent opinion polls give the opposition New Democracy party a lead of 6 percentage points.

After the end of communism, Pasok renounced its Marxist charter. Companies that were able to survive a decade of state ownership are back in private hands. A Greek military contingent has been part of Nato's peacekeeping mission in Kosovo since 1999.

However, Costas Simitis, prime minister and party leader for the past seven years knows that the presence of a large group of 1970s politicians in the top ranks of the hierarchy – including himself – makes it hard to re-invigorate Pasok.

As the parliamentary elections approach, he has decided to promote younger people to transform Pasok into a mainstream European social democratic party.

Mr Simitis's decision to move the party to the centre reflects his own transition from leftwing activist – he fled to Italy, then Germany during the dictatorship to escape arrest – to moderate pro-European socialist.

But while Mr Simitis shifted position some years before he took over the party leadership, he was willing until recently to accommodate the populist faction.

In July, however, the prime minister signalled a change by sacking Costas Laliotis, the party's secretary general and a symbol of its radical past, and appointing a member of his own "modernising" faction in his place to organise the election campaign.

> 'The party has become too distant ... we have to get out more and listen harder'

Michalis Chryssohoides, the new secretary general, won praise in his previous post as public order minister for securing the arrest of 20 alleged members of November 17, a leftwing terrorist group active since the 1970s. He co-operated closely with UK and US investigators in the hunt.

But he has his work cut out to build a consensus between modernisers and Pasok's old guard, who can be heard addressing each other as "comrade" in the party headquarters.

"There's still time to win back undecided voters who've supported Pasok in the past. But it's going to be a close-fought election," says George Papaconstantinou, a former adviser to Mr Simitis who moved to Pasok with a brief to develop policies.

Pasok is expected to field many younger candidates and more women to broaden its appeal.

"The typical Pasok voter is middle-aged, male and works in the public sector," says Mr Papaconstantinou. "We need to reach a bigger cross-section of the population."

To some extent Mr Simitis is hedging his bets. In a pre-election cabinet reshuffle, he brought back Kimon Koulouris, a prominent member of the populist faction banished from the government when Mr Simitis took over.

As deputy trade minister, Mr Koulouris's job has been to tackle inflation by cracking down on businesses accused of raising prices excessively after the launch last year of euro notes and coins. He made regular visits to street stalls and supermarkets with a television crew – in the style of Pasok's early years,

"Pasok has survived in power as long as it has because it's been able to adapt to changes in the political environment," Mr Koulouris says. "But the party's become too distant from people's lives. We have to get out more, be accessible and listen harder."

Arms and the man: Costas Karamanlis, opposition leader, has a clear lead in the polls AFP

PROFILE
COSTAS KARAMANLIS

Leading in the final straight

With a general election just six months away, New Democracy, Greece's centre-right opposition party, enjoys a commanding lead in opinion polls. Yet Costas Karamanlis, the party leader, is not seen as the best candidate for prime minister.

Polls usually give Costas Simitis, the prime minister, a lead of 1 or 2 percentage points over his younger rival. The main reason, analysts say, is that the opposition leader has never held a cabinet post.

But Mr Karamanlis, 47, is a seasoned politician who lost the last election by only a narrow margin. A lawyer with a postgraduate degree in international relations from Tufts University in the US, he was first elected to parliament in 1989 from the northern city of Thessaloniki.

During six years as leader of the party founded by his late uncle and namesake, he imposed his authority on the elderly party barons who brought down his predecessor and put together a shadow cabinet of moderate pro-European conservatives. He says New Democracy's consistent lead of 7 percentage points in the polls reflects a swing away from Pasok by dissatisfied centrist voters.

"We have support from groups who used to be strongly for Pasok but haven't been doing well – such as farmers and owners of small and medium businesses," Mr Karamanlis says. He points out that in spite of high levels of EU transfers, several Greek provinces are still among the poorest in the Union. While infrastructure projects in southern Greece, such as the ring road for Athens, are close to completion, road and airport improvements in the north have suffered delays.

The Egnatia highway across northern Greece, from the Adriatic to the border with Turkey in Thrace, has been under construction for more than two decades. In spite of cash injections from EU structural funds, "completion is already three years behind schedule, and is likely to take another six or seven years," he says.

However, New Democracy's election platform bears a strong resemblance to Pasok's recently announced "convergence charter" aimed at increasing Greece's per capita income from under 70 per cent to 80 per cent of the EU average over five years.

Both parties pledge increases in health and education spending, a drive to create jobs, and cuts in corporate tax rates – though New Democracy has been less precise about the numbers. But one difference is that Mr Karamanlis is specific about the need to address corruption in the public administration.

"Restructuring the public sector is a priority and that means tackling corruption," he says, citing a recent report by the European Central Bank that put the cost of administrative inefficiency and corrupt practices in Greece at about €10bn yearly.

Both are seen as deterrents to foreign investors, Mr Karamanlis says. A New Democracy government would cut through the bureaucracy, "for example, by reducing the number of permits required to set up a company in Greece from 16 to four".

In foreign affairs, New Democracy would continue to pursue Greek-Turkish rapprochement. To underline the message, on a recent visit to Ankara, Mr Karamanlis undertook to help the Justice and Development Party, Turkey's governing party, acquire observer status among the group of European Union conservative parties.

"We're strongly supportive of EU membership for Turkey," he says. "Greeks can only gain from a Europeanised Turkey. But we have to take practical steps to make the rapprochement real – so far we've only had atmospherics."

Even if Pasok succeeds in winning back disaffected supporters in the next few months, New Democracy will be hard to defeat. While Mr Karamanlis stresses the party "is definitely not right-wing" it would attract rightwing voters, mainly because the small nationalist parties are unlikely to contest the election.

Mr Karamanlis is aware the election will make or break his political career. His main rival, Dora Bakoyiannis, mayor of Athens and a former culture minister, is a frontrunner to become foreign minister in a Karamanlis government. But if New Democracy loses at the polls, she would be first to become a candidate for leader.

Kerin Hope

Area: 131.957 sq km
Language: Greek
Currency; Euro (€)
Exchange rate:
2002 av €1=$0.9458
2003 latest €1=$1.1774

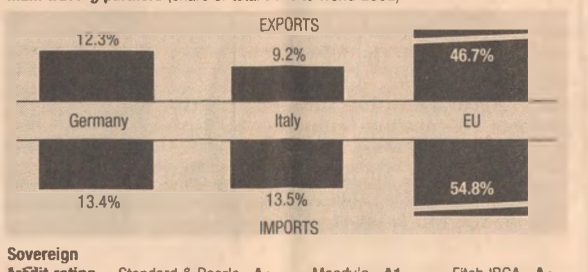
Population: 10.96 million (2001 census)

Main cities & population (2001), m	
Athens	3.8
Thessaloniki	1.1
Patras	0.3

Economic summary

	2003	forecasts 2004
Total GDP (€bn)	148.9	158.0
Total GDP ($bn)	166.1	184.1
Real GDP growth (annual % change)	3.8	4.1
GDP per head ($)	15,610	17,250
Inflation (annual % change in CPI)	3.1	2.7
Agricultural output (annual % change)	0.8	0.5
Industrial production (annual % change)	3.2	3.0
Unemployment rate (% of workforce)	9.8	9.4
Money supply, M2 (annual % change)	5.0	6.0
Foreign exchange reserves ($bn)	6.3	7.5
Government expenditure (% of GDP)	46.7	46.3
Budget balance (% of GDP)	-1.5	-1.4
Total foreign debt (% of GDP)	39.5	36.6
Current account balance ($bn)	-11.3	-9.9
Merchandise exports ($bn)	7.1	7.5
Merchandise imports ($bn)	34.3	37.3
Trade balance ($bn)	-27.2	-29.8

Main trading partners (share of total trade to world 2002)



Sovereign credit rating Standard & Poor's **A+** Moody's **A1** Fitch IBCA **A+**

Source: Economist Intelligence Unit

Constitution

Official name
Hellenic Republic
Legal system
Based on the constitution of 1975
Head of state
President, without executive powers, elected by parliament for a five-year term. The president must be elected by a two-thirds majority or, on the third ballot, by a three-fifths majority. Kostis Stefanopoulos was re-elected for a second term in the the first ballot in March 2000
National legislature
Unicameral Vouli (parliament) of 300 members, which is directly elected by a form of proportional representation for a four-year term, although early dissolution is possible
National elections
March 2000 (presidential); April 9 2000 (legislative). The next presidential election is due by March 2005; the next legislative election by April 2004
Electoral system
Universal direct suffrage over the age of 18 years
National government
Council of Ministers responsible to the legislature, headed by a prime minister appointed by the president on the basis of ability to gain the support of parliament. The Panhellenic Socialist Movement (Pasok) was re-elected on April 9 2000

BANKING

Fierce competition has improved efficiency

The privatisation of Postal Savings Bank may not be the only sale to prompt a battle, says **Kerin Hope**

A fresh round of consolidation looks imminent as Greece's leading banks prepare to do battle over Postal Savings Bank, a special credit institution to be sold under the privatisation programme.

PSB's deposit base of €9bn is one of the country's largest while its loan book is a modest €1.5bn – mainly mortgage loans to public sector employees. Assets also include a €7bn bond portfolio, mainly in high-yielding issues approaching maturity.

A 34 per cent stake in PSB would be offered to a strategic investor who would take over management. But only the big three banks, National Bank of Greece, Alpha Bank and EFG Eurobank, have the financial strength to bid.

"We're not indifferent to this disposal," says Theodore Karatzas, NBG's governor. Even if a merger proved too difficult at first, NBG, like its rivals, would welcome the opportunity to channel retail banking products through a second branch network.

Meanwhile, four smaller domestic banks have shown interest in acquiring a strategic stake in General Bank, which has assets of €3bn and is controlled by the Army Pension Fund.

The government is making a second attempt at privatisation, after an unsuccessful attempt last year to lure a buyer from abroad.

However, international institutions have snapped up equity in Greek banks offered through an accelerated bookbuilding process. The government raised €488m from the sale of 11 per cent of NBG, the country's biggest financial group. Alpha, the biggest private bank, sold an 8.6 per cent stake for €273m. Both offerings were more than twice subscribed.

With the economy set for another year of robust growth, confidence is high. Unemployment has been falling and consumer demand is buoyant. Banks saw first-half profits rebound – thanks to a sharp increase in income from core operations and the impact of cost-cutting measures launched last year.

Retail lending continues to drive the Greek market, although the pace of growth is less hectic this year. Mortgage lending is projected to increase by about 20 per cent, against 36 per cent last year and 39 per cent in 2001.

Historically low interest rates, coupled with a nationwide surge in housing prices that has mainly affected first-time buyers, are fuelling demand.

Consumer credit and borrowing by small and medium-sized businesses, which until recently had comparatively little access to bank finance, is growing at slower rates.

"The mortgage market is slowing, but we believe it can sustain growth of 13 to 14 per cent over the next three to four years. Greece is still underbanked compared with the rest of the eurozone," says Nikos Nanopoulos, managing director of EFG Eurobank, part of the Geneva-based Latsis oil, shipping and finance group.

> 'Greece is still underbanked compared with the rest of the eurozone'

Mortgage lending amounts to 12 per cent of gross domestic product, compared with an EU average of 40 per cent. Consumer credit is 6 per cent of GDP, against 11 per cent for the EU, according to Moody's, the international ratings agency.

Competition is fierce, with NBG, Alpha and Eurobank respectively controlling 19 per cent, 17 per cent and 14 per cent of the lending market. As a result, operating efficiency has shown a marked improvement.

"We started looking at products and priced them according to the true cost. Then we came up with as many new products as we could and applied the same process," says Marinos Yannopoulos, Alpha's chief financial officer. "This year we've kept costs almost flat."

The sharpening competition for market share also raises concerns about increased risk.

While credit controls at the big banks are in line with international standards, smaller Greek banks are poorly equipped to monitor consumer loans.

Greece's central bank this year lifted the €23,000 ceiling on individual consumer borrowing that had helped to contain credit risk. It has also tightened regulations on provisioning. Delay in launching a centralised credit bureau has underlined gaps in the system.

The existing database provides information on whether bank customers have defaulted on loans in the past, but does not record total borrowings. Banks' refusal to share their current customer databases means the centralised bureau will cover only new applicants for loans.

However, the appetite for winning new business also extends to operations beyond Greece. After following their corporate customers to the Balkans during the 1990s, banks are turning to the domestic market. NBG, Alpha and Eurobank have all launched retail products in Bulgaria, Romania and Serbia through local subsidiaries or branch networks.

Lending to small and medium-sized business is increasing as the region starts to show sustained economic growth.

The three banks have also followed developments in Turkey, potentially the most lucrative regional market. Next month, Greece and Turkey will mark another stage of rapprochement by signing a treaty to avoid double taxation – seen as a catalyst for furthering bilateral investment.

NBG follows the restructuring of Turkey's banking sector from a representative office in Istanbul. Mr Karatzas believes it may soon be time to make a move: "Turkey is emerging from a period of instability and it may be our next objective. It's our biggest neighbour and the most interesting from the economic point of view," he says.

ECONOMY

Careful to keep their prudent reputation

Socialists are anxious to be seen as efficient managers of the economy, writes Kerin Hope

Nikos Christodoulakis, the finance minister, says bluntly: "I don't share the Commission's view at all."

The disagreement is unusual. For first time in recent years, the European Commission has expressed serious doubts about the size of Greece's budget deficit.

The Commission's latest forecast puts the deficit at 2.4 per cent of gross domestic product, twice the finance ministry projection of 1.2 per cent. This year's budget deficit will reach 1.7 per cent of GDP, according to the Commission, against the government estimate of 1.4 per cent.

However, the finance ministry's forecast that the economy will expand next year by 4.2 per cent, on top of 4.1 per cent this year, is not disputed by the Commission. Growth would again be driven by high public investment and domestic demand.

Mr Christodoulakis pulls out a sheet of paper with the Commission's projections for 2004 revenues. He stabs a finger at the figure for Greece, which shows government income declining from 44.6 per cent to 43.4 per cent of GDP.

"This is where the problem is," he says. "In the previous budget we had a narrower incomes policy and an increase in the tax threshold. For 2004 we have bigger wage increases and the tax system stays the same. Revenues shouldn't decline."

Greek prickliness over the Commission's macroeconomic forecasting reflects concerns about maintaining credibility over fiscal policy – both with Brussels and at home. The hard-fought campaign in the late 1990s to achieve fiscal discipline and join the eurozone is considered one of the Socialist government's biggest successes. With an election six months away, the Socialists are anxious to preserve their reputation as efficient managers of the economy.

However, Mr Christodoulakis accepts spending has come under pressure. The budget includes real pay increases for civil servants and public sector workers amounting to 7.8 per cent, more than twice the projected year-end inflation rate of 3 per cent.

A five-year welfare package aimed at boosting the incomes of farmers and pensioners will cost €1.7bn next year. The government also faces a big contractors' bill for Olympic sports venues and transport systems due to be delivered by April so they can be used for test events before the games in August.

> The finance minister says: 'There is going to be a moment of truth after the Olympics'

"The extra welfare spending has been meticulously costed," Mr Christodoulakis says. "There's a spike in spending on the Olympics in the first half, but it's basically on track because the outlays have been spread over three years."

Parliament is poised to approve legislation providing for budget capping by individual ministries on the basis of expertise provided by the UK treasury experts. Some measures will be applied immediately in an effort to prevent ministries from launching a pre-election spending spree.

"Essentially budget capping is about negotiating with ministries, and it will be harder this year because of the election. But it still has to be backed up with institutional reforms," Mr Christodoulakis says.

He says the government is close to achieving this year's target of €3bn in privatisation revenues. The programme called for sales of equity in state corporation to reduce Greece's public debt by 2 percentage points. By making a series of placements with international institutions through an accelerated bookbuilding process, the finance ministry has avoided overloading the small Athens stock exchange with public offerings. Almost all the offerings have been heavily oversubscribed. The biggest disposals have involved shares in Opap, the state-controlled gaming operator, National Bank of Greece and Public Power Corporation – the latter through a public offering. Three more deals are due this year.

Negotiations are at an advanced stage at Spain's Gas Natural for the sale of a 35 per cent strategic stake plus management in Depa, the state gas monopoly. A float is being prepared for Hellenic Tourism Assets, which controls state-owned hotels, marinas and coastal real estate – all to be offered on long leases to private investors.

The sale of 34 per cent of Postal Savings Bank through a public tender would complete this year's privatisation programme, the most successful to date. But at 102 per cent of GDP, the debt ratio is still the highest in the eurozone after Belgium and Italy.

With the Socialists still reluctant to loosen the state's control of utilities and other profitable corporations, the supply of equity has started to dry up. But Mr Christodoulakis says other companies may be offered for sale next year – for example the state lottery – under a target to write off another €3bn of debt.

Mr Christodoulakis sounds confident that Greece will be able to sustain the recent high growth rates after 2004. Public investment will remain at high levels as disbursements from Greece's €26bn allocation under the current EU structural package accelerate in 2005 and 2006.

Because the €4.6bn infrastructure requirement for the Olympics was financed exclusively from the public investment budget, "funds will be freed up in 2005 for other more productive investments," he says.

Some parts of the Olympic infrastructure would also attract private investors. Buildings in the athletes' village, for example, would be put up for sale shortly after the games.

The biggest question is whether the tourist industry, which accounts for almost 10 per cent of GDP, will be able to exploit Greece's higher profile with visitors once the games are over. "There's going to be a moment of truth after the Olympics. There has to be a qualitative improvement in the tourist industry and it will be up to the private sector to react," Mr Christodoulakis says. "But I'm optimistic they will."

Coining it: economic growth will be driven by high public investment and domestic demand AP

PROFILE
NATIONAL BANK

Boosting its role in the Balkans

National Bank of Greece has completed its expansion in south-east Europe by acquiring 82 per cent of Banca Romaneascu, a medium-sized Romanian bank established by the Romanian American Enterprise Fund.

The acquisition gives it a presence in all the Balkan countries that have attracted significant Greek investment. In Bulgaria and Macedonia, NBG controls local banks, while in Serbia and Albania it operates branch networks.

Like other Greek banks, NBG followed its corporate customers to the Balkans a decade ago, opening branches in the region's capital cities. Greek companies have poured more than €7bn into the region led by investments in telecoms, oil refining, product distribution, soft drinks and metallurgy.

But the acquisition of banks with a sizeable domestic franchise – United Bulgarian Bank and Stopanska Banka in Macedonia – has enabled NBG to broaden its strategy. With the addition of Banca Romaneasca, group assets in the region total €1.7bn.

"We're focusing on providing retail banking services for local customers," says Agis Leopoulos, general manager for international operations. "The aim is for NBG to be the bank of choice for households across the region."

After several years of improved political stability and economic growth averaging more than 4 per cent yearly, the Balkans are becoming "a place where many more people want to acquire credit cards and mortgages," Mr Leopoulos says.

The level of financial intermediation is growing fast although from a low base. More "mattress money" is coming into the banking system as confidence recovers after a decade of dislocation.

NBG's research department says Balkan-based banks saw the deposit base increase to more than 30 per cent of gross domestic product last year from just a little over 20 per cent in 1998. This compares with more than 50 per cent of gross domestic product for central European countries.

Banking on the future: a National Bank of Greece branch Brana Radovic

Retail lending is projected to exceed 20 per cent of GDP this year, driven by declining interest rates.

"Operations have developed at different speeds, but by next year we plan to offer all our retail products in each country," Mr Leopoulos says. "For example mortgages are doing well in Albania, but we have still to launch credit cards there."

NBG faces stiffening competition in the Balkans from other foreign banks. Hungary's OTP, Raiffeisen of Austria and France's Société Générale are all increasingly active. However, NBG has the biggest network. The acquisition of Banca Romaneascu, with assets of $140m and 15 branches around the country, increases the number of outlets to 230 across the region.

NBG has not disclosed how much it paid for the bank, but Bucharest-based analysts put the price tag at around €30m. NBG is expected to offer a shareholding of up to 15 per cent to the European Bank for Reconstruction and Development when it takes over the bank next year. The EBRD already holds minority stakes in UBB and Stopanska.

UBB, the second-biggest bank in Bulgaria and the market leader in retail lending, is NBG's most profitable Balkan operation. By contrast, Stopanska, the biggest Macedonian bank, which was burdened with a high percentage of unrecognised bad loans, is expected to break even this year.

However, Apostolos Tamvakakis, NBG's deputy governor, says the 15 branches in Serbia, established after the overthrow of the Milosevic government, were all profitable in their first year of operation: "They have been relatively cheap to set up, while there's a strong demand for international standard banking services."

He says the Balkan operations contributed 7 per cent of group first-half pre-tax profits of €380m, "but we expect this percentage to triple over the next three years as retail lending takes off."

Kerin Hope

FINANCE AND INFRASTRUCTURE

Closing the prosperity gap

EU accession of 10 states will sharply reduce the Athens government's share of funds, writes **Robert McDonald**

The gleaming new Athens international airport, the capital's underground railway extension complete with marble-clad platforms, and the Attiki Odos – Greece's first toll highway built to international standards – are showpiece infrastructure projects.

But without the assistance of successive aid packages from the European Union, these projects and many others would still be at the planning stage.

Greece has relied heavily on transfers from the EU structural funds to provide financing for infrastructure and other projects intended to help close the prosperity gap with the rest of the 15 member states. Under the current package, known as the third Community Support Framework, Greece stands to receive €26bn from Brussels towards a total investment programme worth €51.2bn

The current EU funding has contributed significantly to Greece's above-average rate of economic growth over the past three years. Transfers from the current package amount to 3 per cent yearly of gross domestic product. They are estimated to add 1.2 per cent to the yearly growth rate.

But the accession of 10 member-states, all but one poorer than Greece, will sharply reduce the Athens government's share of funds from the next structural package, due to be launched in 2007.

Greece's allocation could fall to between €13bn and €17bn, depending on the amounts the EU makes available and the quality of programmes submitted, according to government officials.

The expected cuts in funding raise questions about whether some unfinished projects will be completed, and whether Greece will be able to sustain the drive towards real convergence with its European partners.

"The fundamental choice of the Greek government is going to be whether to continue financing heavy infrastructure, and whether the Union is going to say yes to that, or whether to give more attention to softer measures like human resources development – or to address issues where there are problems such as business development and the attraction of foreign investment," says Giorgios Markopouliotis, director of the European Commission representation in Greece.

Greece has so far concentrated its structural fund allocations on investments in highways, airports, ports, bridges, sewerage and solid waste management projects, devoting only limited resources to improving the business environment and to education and training. The country's public investment budget is proportionally one of the EU's highest.

Better transport and communications would help to promote exports both to western Europe and the new EU member-states in central Europe, and make Greece more attractive to foreign investors, the government argued. In a country where tourism is the biggest industry, the waste disposal projects were seen as essential to boosting environmental standards.

The infrastructure projects have created several thousand jobs. But some ambitious projects, such as the 700km Egnatia highway across northern Greece, a north-south highway in western Greece, and the modernisation of the railway system, are running several years behind schedule.

Moreover, the focus on infrastructure has had only a limited impact on boosting Greek prosperity. When the first structural package was launched in 1989, Greek per capita income stood at 64 per cent of the EU average. At the end of 2002 – after the country had received about €25bn in EU funding, this figure had risen to 67 per cent. This compares with Ireland's leap in per capita income over the same period from 70 per cent to 122 per cent of the EU average.

The government has revised its target for achieving full convergence with the EU 15 from 2010 to 2015, on the basis that Greece could achieve growth rates at least 3.5 percentage points above the EU average. But the opposition claims this is still unrealistic.

"The average economic growth rate during the past six years has been something like 3 per cent. If we stick to that figure and the EU 15 stick to their average growth rate which is about 2.5 over the same period, it will take us something like 80 years to achieve convergence," says George Alogoskoufis, the shadow economy minister.

However, Greece is expected to propose more "soft measures" in programmes submitted for allocations from the post-enlargement package – although it will still seek funding to complete the unfinished infrastructure projects.

"Infrastructure was the primary need. In the next phase the primary need will be to organise government and the country," says George Hardouvelas, economic adviser to the prime minister. "Our objective should be to ensure that we create a business-friendly environment."

To secure the maximum amount of funding from the fourth package, Greece will select programmes that dovetail with EU policy priorities – mainly the Lisbon Agenda, which emphasises job creation, and measures to support small and medium sized-enterprises and develop the knowledge-based economy. Measures to improve education and training, including programmes for civil servants, would also be a priority.

Vassilis Rapanos, senior economic adviser at the finance ministry, says: "What is needed now is further improvement in liberalising markets, and boosting the performance of labour markets and the efficiency of the public administration."

On the rails: workers place tram tracks – the country has relied heavily on EU structural funds AP

SOCIAL ISSUES – ATHENS MOSQUE

Seeking the right place for a foundation stone

The Saudi-financed project appears to have stalled in the face of Greek Orthodox opposition, writes **Iason Athanasiadis**

Kneeling on the al-Salam mosque's green carpet, 30 Arab men perform the Muslim sundown prayer as another day in the holy month of Ramadan fades over the white apartment blocks of Athens.

Devotion is followed by food – an iftar meal of chicken, rice and oven-baked potatoes in the mosque's communal kitchen.

The al-Salam mosque – a ground floor room and basement – is among the largest of 20 informal Muslim prayer rooms dotted around the city's working class districts.

Slated for obsolescence by the imminent building of a central, Saudi-funded mosque said to be in the final stages of planning, the low-profile prayer-rooms in which Arab, Balkan and Asian Muslims pray are under a media spotlight.

In a country that is 98 per cent Greek Orthodox Christian and experienced four centuries of Ottoman rule, coverage is seldom positive.

"I see headlines in the newspapers referring to secret mosques," says prayer-leader Mahmoud Mounir, a Sudanese doctor and Arab community leader who has lived in Greece for 30 years.

"Not the case. We're proud Muslims, not hiding from anyone but forced to practise our religion in an underground way. This doesn't mean we're doing something secret or dangerous. You can't compare this space," he says, gesturing around the room, "with secret theological schools where terrorists meet."

More than 100,000 Muslims – 2 per cent of Greece's population – live in Athens, the only EU member-state capital without an official mosque. Some 30 years after the idea was first floated, the Greek foreign ministry has allocated a 30,000 sq metre plot of land in the distant Paeania suburb, 20km north-east of Athens, for this purpose. "The Greek government gave its approval, the Arab side is ready for construction [to start], the Saudi government is financing the project and the Church has even given its blessing," says Abdallah Abdallah, Palestinian Authority ambassador and the project's chief negotiator with the Greek foreign ministry.

'They want to build it for prestige and because the IOC is leaning on them'

The choice of location was decided after Archbishop Christodoulos, head of the Greek Orthodox church, demanded the mosque be placed well outside central Athens, foreign ministry officials say. "If we don't take the game in hand and create a space in which a massive section of the population can pray or bury its own, they will rent 100 storerooms in awful places around Athens, in five or six of which you'll find Al-Qaeda supporters developing secretly," says one foreign ministry official.

But with Greece set for a general election next year, the mosque project appears to have stalled.

A large cross stands on the site in Paeania – evidence of popular, Orthodox Church-led opposition to the project.

In the capital's oldest Arab coffee house, The Nile, regulars drift in after iftar to smoke shisha, play cards and watch the Al-Jazeera station on satellite television. A well-stocked bar boasts everything from vodka and martini to whisky and ouzo. Customers – exclusively male – voice opposition to the Paeania mosque. "If they put the mosque in the [city] centre, we would willingly pay for it out of our own pockets," says a night-time security guard.

"But they want to build it for purely prestige reasons and because the International Olympic Committee is leaning on them."

That pressure is to build a mosque for the capital in time for next year's Athens Olympics.

SOCIAL ISSUES – TRAFFICKING

Criminals exploit $2bn business

The country is a favoured destination for people smugglers, writes **Kerin Hope**

The half-dozen freshly painted bedrooms, computer room and pile of textbooks and CDs for learning English suggest the building in a low-income Athens neighbourhood is a student hostel. But the presence of a broad-shouldered security guard and a surveillance camera above the front door tell a different story.

The Athens branch of "Doctors of the World" has opened the first official shelter in Greece for victims of trafficking, as part of a programme financed by the Greek foreign ministry.

The residents are a handful of young women from east Europe who had been forced to work in Greece as prostitutes.

One of them, a 30-year-old Russian book-keeper, who gives her name as Christina, says she came to Greece expecting to work as a dancer but found she had been "sold" to a Greek trafficker. She was driven around Athens with a bodyguard to spend evenings with his clients at their homes or in luxury hotels.

"I lived with another girl in a small apartment, with just one man guarding us. We were careful, we didn't make trouble," she says. "The day he forgot to turn the lock we left and took a taxi to the Doctors of the World office."

Greece's foreign ministry came up with €2.4m in grants to finance six shelters for trafficking victims after the US government this year threatened to impose economic sanctions.

According to the US state department's latest annual report on trafficking, published last June, Greece was placed in Tier 3 – the lowest ranking – among 15 countries that failed to meet the minimum standard on combating the problem.

By September cabinet ministers had put their signatures to a presidential decree needed to implement a framework law making trafficking a crime. The state department has since promoted Greece to Tier 2, the same ranking as the other Balkan countries, which it says are making "a significant effort" to deter and punish traffickers.

Greece is a destination for trafficking in illegal immigrants, child workers and prostitutes, mainly from the Balkan countries and the former Soviet Union and about 18,000 people arrived last year, according to the state department report.

Prof Grigoris Lazos, a sociologist at Athens University, says about 20,000 women work in the commercial sex industry in Greece. They come mainly from Moldova, Romania, Russia and Ukraine. Some are smuggled across Greece's borders with Bulgaria and Albania, while others arrive as tourists.

"This is a business worth over €2bn a year in Greece with close links to organised crime both here and elsewhere in the region," Prof Lazos says. Because Greece lacked legislation against trafficking, small-scale operations involving a few women were able to flourish. Prof Lazos says a Greek trafficker would spend "€3,000-€4,000 to acquire two or three women from a local trafficker in Bulgaria, for example, and bring them to Athens."

Andreas Loverdos, deputy foreign minister, says the government is preparing measures to bring Greece in line with its European Union partners on counter-trafficking measures. Funding will be allocated from a €600m Greek aid package for the Balkans to NGOs in neighbouring countries to finance rehabilitation programmes for trafficked women who return home.

"We are determined to crack down," Mr Loverdos says. "These women are being recognised as victims of trafficking rather than illegal prostitutes and we are funding the activities of civil society in Greece and in their home countries to protect them."

"Christina" says she was lucky because her "buyer" had allowed her to make several visits to a dentist who gave her the address of the Doctors of the World office.

Many trafficked women picked up in police sweeps of bars and nightclubs have been kept in custody as illegal immigrants and then deported. Several traffickers have been arrested, and some have been fined for procuring. But there have been no convictions yet under the new law.

Nikitas Kanakis, a Doctors of the World representative in Greece, says that mandatory repatriation of foreign women working in the sex industry has failed to reduce the extent of trafficking, and that trafficking victims should be allowed to apply for residence and work permits in Greece.

"Women being sent back by rail to Romania say they found their pimps waiting for them at the first station after the train crossed the border," he says. "And some women are too ashamed to return home because of what's happened to them and drift back into prostitution."

The Athens shelter, modelled on similar projects in Italy, is intended to provide trafficked women with a safe environment and psychological support for several months, he says. Doctors of the World and other NGOs in Athens will try to find jobs for the first group of residents in the shelter, several of whom say they want to stay in Greece.

"These women have a good standard of education – that's one of the reasons they didn't want to stay in their own countries. They are keen to learn more Greek and English so that they can get jobs here," Dr Kanakis says.

MINORITY RIGHTS

Young Muslims get mobile

Confidence is growing, writes **Bruce Clark**

Having grown up on a one-hectare farm in northern Greece, 29-year-old Ali is an impressive example of upward mobility. He read architecture at a foreign university and expects to work in that field soon, once the authorities in Athens endorse his degree.

His sister has gone abroad to study medicine, and hopes to practise her profession in her native Greece. One of their friends is a lively 27-year-old woman who chats eagerly about the computer programming business that she and her husband plan to start in their home town.

What makes this story unusual is that all the people involved are Turkish-speaking Muslims from the north-eastern province of Thrace, part of a minority that has often been a diplomatic football between Athens and Ankara. Like almost all the high achievers in their community, these young people completed their education in Turkey.

Had they been born a few years earlier, they would have planned their careers almost anywhere but Greece, because their ethnic and religious background would have made it difficult to register a company, obtain a professional licence, or even to rent or construct a building.

Most of these obstacles have been removed, but arguments over their community's welfare, status and even its precise composition still sputter on, in Athens and Ankara, and are involving European institutions to an increasing extent.

But the emergence, albeit on a small scale, of a new class of professionally successful Muslim Greek citizens, bilingual in Turkish and Greek, is helping to change the grudging intercommunal stalemate that made the tobacco country of north-eastern Greece a tense, sullen and slow-moving place.

Doing it by the book: arguments over the Muslim community's welfare, status and even its precise composition, still sputter on AFP

The fact that Greece is well entrenched in the European Union, while Turkey may have many years to wait for membership, has made Greece a much more attractive place to plan a career. The legal guarantees offered by European institutions have increased the confidence of Muslim Greek citizens that they will not face intolerable discrimination.

But the issue of minority rights has been a sensitive one in both Greece and Turkey since the 1923 Treaty of Lausanne. This provided for a massive compulsory exchange of religious minorities but spared the Ottoman Muslims of Thrace and the Orthodox Christians of Istanbul, with specific guarantees for their cultural and religious rights.

Even the terminology needed to discuss minority issues is controversial. The Greek state acknowledges having a 100,000-strong Muslim minority in the region of Thrace, of whom the majority speak Turkish. But Athens has insisted, for the past 20 years, that the word Turkish must not be used to describe the community as a whole – or even institutions within the community. This policy has been challenged at the Greek supreme court, and many observers believe it will be overturned sooner or later by the European Court of Human Rights.

Names and labels are one source of contention between the Greek government on one hand, and community leaders in Thrace, backed by Ankara, on the other. A second is the Muslim community's demand that their muftis, who act as judges in matters of family law, should be elected rather than appointed by the Greek state.

A third issue is posed by Muslim complaints of excessive Greek government interference in the management of their religious foundations, or vakoufs, from which the salaries of muftis and Muslim teachers are paid.

However, the policy priority of the Athens government has been to advance the educational achievements, within the Greek system, of the minority. Hundreds of teachers and academics have been drawn into an EU-assisted programme designed to boost the ability of young Muslims to read, write and function in Greek.

About 160 Thracian Muslims a year now enter Greek universities. That is some improvement on the 1980s, when not a single Muslim had completed a Greek high school. The number would be higher still if the "affirmative action" quota – setting aside 0.5 per cent of university places for Muslims – were fully taken up.

Thanks to the EU-backed Programme for the Education of Muslim Children, the previously abysmal performance of Thrace's 240 "minority primary schools" has improved. Pupils are being taught Greek as a foreign language, reflecting the reality that in country districts, many arrive at school knowing barely a word of their country's official tongue.

This in turn makes it easier for them to enter Greek state high schools – and to get round the problem posed by the virtual absence of secondary education (apart from two private schools) geared to the minority's needs. About 3,000 Muslim youngsters now attend Greek government high schools. Until very recently, many members of the community – especially girls – either left school at 12, or went to Turkey for secondary education. "Ever since it became clear that Greek universities were open to Muslim candidates, the demand from parents to educate their children within the Greek system became stronger," says Dr Thalia Dragona, an educational psychologist and co-founder of the education programme. "Greek society has a strong ethos of self-improvement and Muslims share that."

However, the fact that young Muslims are doing better in the Greek environment will not satisfy all the community's demands. They want some provision for the Turkish language, and Islam, in schools. In due course, say Greek officials, Turkish may be introduced as a second language in high schools at least.

The policy on education is one encouraging sign that Greece may be turning into a society where Muslims can plan their future without fear of discrimination from the authorities. The harder question is how well minorities can be accepted by Greek society, where for most of the last century people were taught that the country was home to a single language and ethnicity – Greek – and a single religion, Orthodox Christianity.

SPECIAL REPORT GREECE

Floating asset: more than 600 vessels similar to this container ship being built by Hyundai have been ordered, mainly from Japanese and South Korean shipyards Hyundai

ATHENS – REFURBISHMENT

Making up a fresh face to display to the world

Kerin Hope sees the centre of the city being upgraded

Billboards and neon signs are disappearing from rooftops in central Athens and some of the city's finest neoclassical buildings are back on view, refurbished in their original colours of ochre and pink.

Much of a 2.5km pedestrian route, a broad paved walkway sweeping around the base of the Acropolis hill, is complete. Next year it will reach the Kerameikos cemetery, one of the city's most atmospheric archaeological sites with its marble sculptures of the wealthy Athenian dead.

The walkway will link six sites and monuments, enabling visitors to take a traffic-free stroll through Athens' classical past.

Elsewhere in the city's historic centre, four public squares are being renovated, trees planted and ramps installed for the disabled.

Next year's Athens Olympics have given a sense of urgency to the ponderously named Company for the Unification of the Archaeological Sites of Athens (EAXA) – a joint venture between the culture and public works ministries.

EAXA was set up with a 10-year mandate to upgrade central Athens and improve life for residents. Operated as a private company, it has spent €115m over the past six years on rehabilitation projects, working with architects, planners and archaeologists.

The priority is to refurbish as many building facades as possible in the run-up to the Olympic Games, especially on streets that will appear on television worldwide as a backdrop for sports events.

The walkway, partly financed with grants from the European Union, is EAXA's most ambitious project to date. But there are plans to expropriate and demolish buildings around Kerameikos – mostly former warehouses and workshops – to create a green space.

"We tend to be deeply unpopular with residents when we start a project because of the upheaval it brings and storeowners complain they're going to lose business. But when it's done, people are usually very pleased," says Giannis Kalandides, EAXA's president and chief executive.

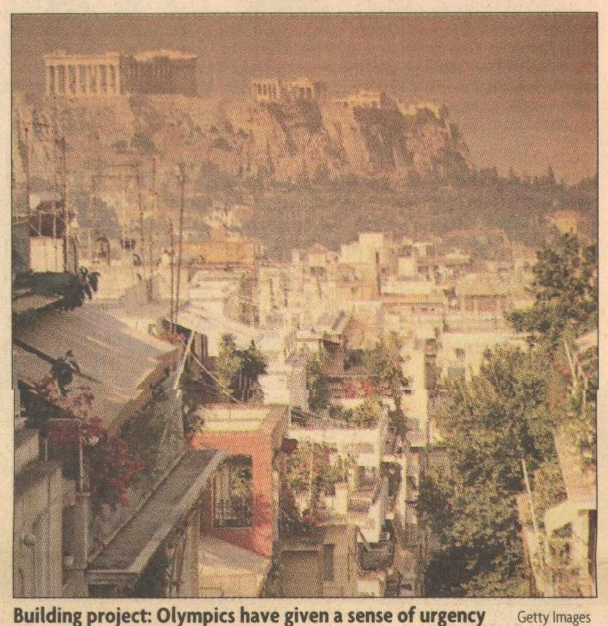
EAXA has brought back to life a maze of narrow streets in the "commercial triangle" – a district of small shops – by extending pedestrian zones and planting trees that can flourish in near-permanent shade.

Buildings in neo-classical style, the distinctive architecture of 19th century Athens, are first in line for rehabilitation. But Mr Kalandides is enthusiastic about preserving merchants' homes built in the 1920s and 1930s, with elaborate balconies and exterior decoration, and a number of box-like glass and concrete buildings from the 1960s.

But EAXA faces problems at two of the four public squares that were intended to be showpiece projects for the Olympics. A €2m redesign of Omonia square has outraged Athenians because of its austere lay-out, unrelieved by trees or comfortable seating, and may undergo a rapid makeover before next August.

Architects and archaeologists are bitterly divided over how to renovate Monastiraki square in Plaka, the oldest city district. The Central Archaeological Council, a body of senior experts that has the final say, has rejected a plan to use paving materials in a variety of designs, textures and colours.

Fotis Giannopoulos of EAXA says: "Time constraints are to blame. The architects should be able to experiment at length with paving materials in different lights and weather conditions to get it right. But there's huge pressure to get a project done so people can start using it."



Building project: Olympics have given a sense of urgency Getty Images

SHIPPING

Owners face stormy waters

The costs of complying with EU regulations will be high, writes **Gillian Whittaker**

The Greek-owned merchant shipping fleet is the biggest in the world and faces huge costs necessary for the work needed to comply with European Union regulations.

The EU ban on single hull tankers carrying heavy grades of fuel oil from EU ports came into effect 11 months after the sinking of the Prestige, a 26-year-old Greek-owned tanker, off the coast of Spain. It went down in November last year without loss of life, but its cargo of 77,000 tonnes of fuel oil caused extensive pollution at sea and along a broad stretch of coastline. Like the sinking of the Erika in 1999, which spilled 17,000 tonnes of heavy fuel oil off the French coast, the Prestige disaster accelerated the tightening of EU regulations on tankers.

For the Greek-owned merchant shipping fleet, the world's biggest, the costs of complying with new regulations will be high. In addition to the ban announced in October, the European Commission has barred single hull tankers of 23 years or older from EU ports. The Commission has also brought forward the deadline for phasing out single hulls altogether from 2010 to 2005. The withdrawal schedules have been pulled forward twice in two years.

Greek owners control 770 vessels that can carry crude oil or petroleum products out of a fleet totalling 3,300 ships – representing 9 per cent of commercial vessels worldwide, and 18 per cent of world tonnage. Greek owners last May had another 122 crude oil tankers on order from shipyards around the world.

Almost 500 vessels would have been affected by the tightening of regulations after the Erika sinking. More than 300 will be taken out of service by 2005.

The European Commission is also pressing the International Maritime Organisation (IMO), which regulates world shipping, to adopt the EU deadlines for phasing out single hull tankers. The IMO is due to discuss the issue next month.

"We're talking about withdrawing ships from active commercial service between five and eight years earlier than the commercial lifespan decided by Marpol (the international convention on preventing maritime pollution)," says Nikos Efthymiou, president of the Union of Greek Shipowners.

The EU regulations would require the withdrawal of 74 per cent of single-hulled tonnage in two specific years, 2005 and 2010, according to a report issued by the Greek Shipping Co-operation Committee, a London-based owners' group. If these regulations were adopted by the IMO, almost 750 tankers would be pulled out of service in 2010. The resulting worldwide shortage of ships could drive up oil transport costs by a significant margin.

International regulations for dry bulk carriers are also being tightened. But while the role of double hulls in preventing or reducing oil spills in a tanker accident is undisputed, debate is fierce over their usefulness for bulk carriers – which as a rule carry non-polluting cargoes.

The IMO has decided that from 2007 bulk carriers must be built with double hulls, but the phasing out of single hull vessels has not been addressed. The decision followed pressure from UK representatives after the re-opening of the case of the bulk carrier Derbyshire, which sank in 1980 with the loss of 44 lives.

> 'Quality of operator, crew and manager of ships is essential to keeping the sea clean'

"What many people outside this industry don't realise is that the Derbyshire was a double-hulled bulk carrier and a relatively new ship at the time she sank," Mr Efthymiou says.

The technical specifications for building double-hull bulk carriers have still to be decided. Debate is heated among specialists over steel thickness, the amount of space between the two hulls and whether the space should be used, as in tankers, for ballast.

Greek owners say the lack of technical specifications makes it hard to plan investments. Bankers have warned that financing may be more expensive, because they believe it may be more difficult to maintain double-hulled bulkers.

"We don't mind financing them for the first 10 years. But we'd prefer the extra money was used to pay for thicker steel in single-hulled vessels," says Sjur Agdestein, managing director of Nedship Financial Consultants in Athens.

Bulk carriers are as important to the Greek shipping industry as tankers. According to figures published in May, Greek owners control 1,300 ore and bulk carriers totalling 75m deadweight tonnes (dwt) with another 48 vessels totalling 5.2m dwt on order.

Greek owners are estimated to have spent well over $10bn in the past five years to carry out an unprecedented fleet renewal, which included tankers and bulk carriers. More than 600 vessels have been ordered, mainly from Japanese and South Korean shipyards. Lending by international banks to Greek owners stood at $28.5bn at mid-year, according to Petrofin, the Athens-based shipping analysts. However, the conventional wisdom among Greek owners is that good maintenance of vessels, whether single or double-hulled, matters more than the mandatory building of ships to one specific configuration.

"Double-hull technology is good enough if you have the knowledge to operate it well. But the quality of the operator, crew and manager of ships is essential to keeping the sea clean," says Emmanuel Vordonis, executive director of Thenamaris Ships Management.

PROFILE
TSAKOS GROUP

Charting a fresh course

Panayotis Tsakos started his career as an cadet officer aboard the "Liberty" ships transferred to Greece by the US and became founder of the Tsakos shipping group.

Today, he still works full-time from a penthouse in the group's Athens headquarters, overseeing container shipping and tanker operations. Tsakos Shipping and Trading (TST), its private arm, currently manages the group's 54-strong fleet.

Meanwhile, his son, Nikolas, a financial expert with degrees from Columbia University in New York and City University in London, is charting a new course for Tsakos Energy Navigation (TEN), a tanker operation which was listed last year on the New York stock exchange.

TEN is one of only a handful of international shipping companies listed in New York. Launched 10 years ago as a joint venture between Tsakos and a group of US-based investors, including George Soros, the company was initially floated in Oslo as the Maritime Investment Fund.

Mr Tsakos says the joint venture was set up to meet changing conditions in the shipping industry after the introduction in 1992 of the US oil pollution act. Tankers serving US ports faced stricter regulations, requiring double hulls and other environmental protection measures.

The more stringent regulations called for more modern tanker tonnage and a public offering provided easier financing for an already capital intensive industry.

The $35m proceeds from the Norwegian IPO helped finance the acquisition of three products tankers and one crude oil carrier. TEN's fleet has since grown to 27 vessels, which are managed by TST.

The New York offering raised $110m to help finance a building programme which will increase the fleet to 34 vessels by 2006. In the last five years TEN has invested $1.2bn to build 25 double-hulled tankers, equipped with additional safety features to prevent accidental pollution.

"We're building ships today which our clients will need in the future," Mr Tsakos says.

The Tsakos family owns 27 per cent of TEN. The second-biggest investor is Fidelity Investments of the US with around 15 per cent, with other US and European institutional investors holding smaller stakes.

TEN reported a leap in second-quarter net income to $18.7m from $2.2m last year. "This reflected the favourable charter market and the fortunate timing of the expansion of our fleet," Mr Tsakos says.

Tankers saw an unexpectedly high market earlier this year with international charter rates approaching record levels.

TEN took delivery in the first half of one tanker of 107,000 dwt and three of 68,400 dwt. At mid-year TEN had 18 vessels locked into time charters and eight operating in the spot market.

The combination of the two types of employment offers both security and an opportunity to take advantage of higher rates if the market improves.

The Tsakos group is also active in oil trading, and has interests in construction, IT and telecommunications. It controls a Montevideo-based shipyard as well as investments in forestry and farming in Uruguay.

However, Tsakos last month failed to acquire the loss-making Varna shipyard on Bulgaria's Black Sea coast, which was offered for sale under the government's privatisation programme.

The Varna yard would have provided an opportunity to carry out repairs for an increasing number of vessels trading in the Black Sea.

Gillian Whittaker

ATHENS OLYMPICS

A long jump on the road to the Games

Kerin Hope meets the Crete lawyer who is masterminding preparations for the events that will be a showcase to the world

Greece has taken a qualitative leap forward in what it can show to the world, believes Gianna Angelopoulos-Daskalaki, president of Athoc, the organising body for the Athens Olympic games.

She likes to recall a seminar on Greece that she organised almost 10 years ago at Harvard University. The event brought together Greek and US politicians and economists to consider why individual Greeks were able to excel but successive governments had been unable to modernise Greece's weak institutions and inefficient public administration.

"The thrust was that collectively we weren't competent, that we'd never shown we were able to work as a team," she says. "But that was in the mid-1990s." since then Greece has moved on, she argues.

Mrs Daskalaki believes Greece has solved the problem of teamwork, at least for the Olympics, and will be able to stage a successful games in August. Athoc, with a young and mostly foreign-educated workforce, is setting standards for co-operation among public sector organisations, she says.

Athletes, sports federations and the International Olympic Committee have voiced satisfaction with Athoc's performance in organising test events, in spite of problems with high winds at the junior world rowing championships this summer. The sports venues tested were operated to the required standard and 80 per cent of volunteers – a higher percentage than Sydney – showed up.

"Each of the 60 Olympic venues has become home to a dedicated team – from the security and technology people to the garbage disposal person. It has to be a very disciplined unit but there's still space for individuals to make decisions," she says.

At Athoc Mrs Daskalaki is sandwiched between the International Olympic Committee, which makes regular visits to Athens inspect progress with preparations for the games, and the Socialist government, which is responsible for constructing sports venues and transport systems and managing security for the games.

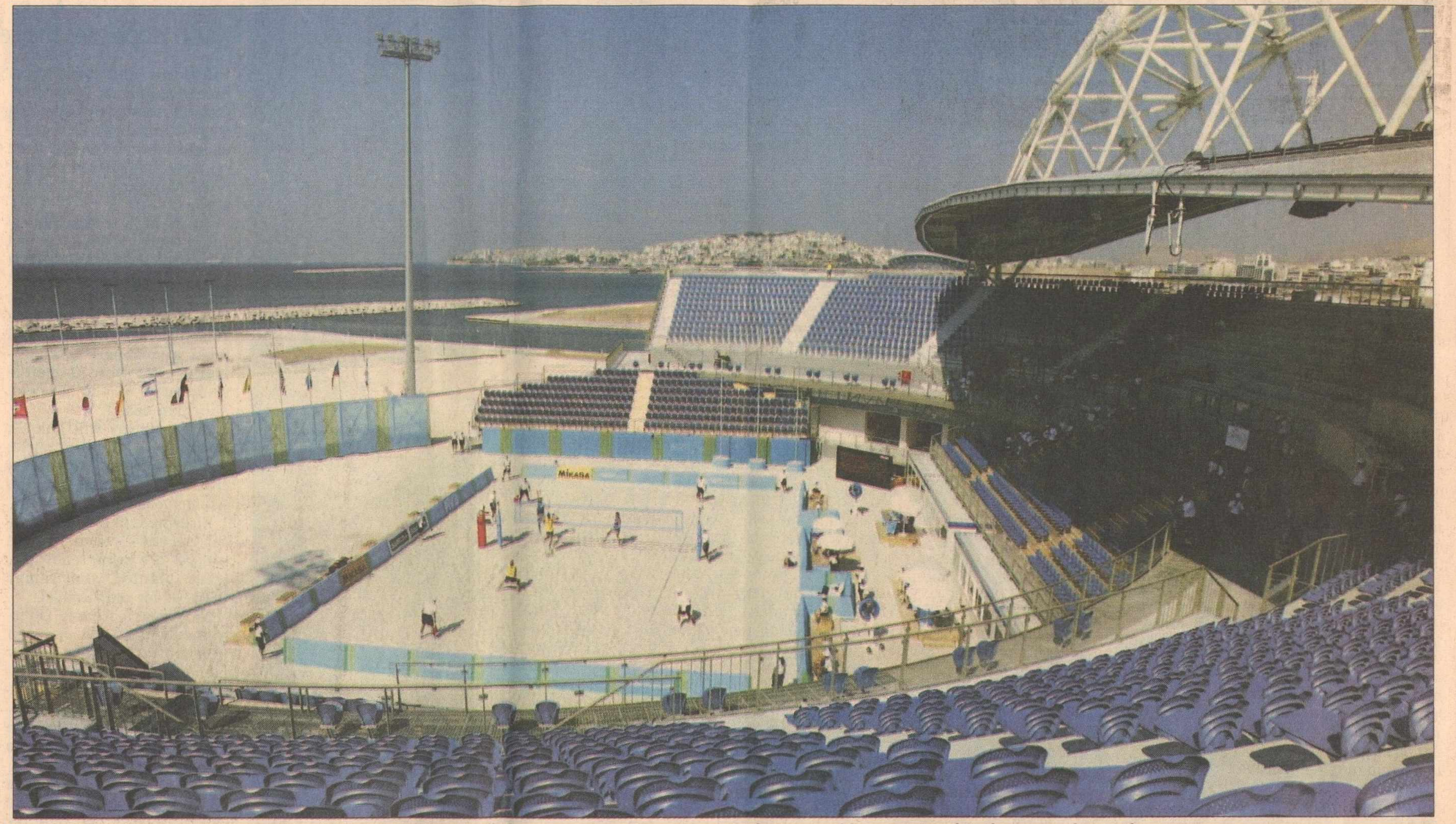
"This is a once in a lifetime job," she says. "But nobody can prepare you for it because every country has to find its own model for staging the Olympics. The IOC briefs you and is ready to give you expertise but you have to make the decisions."

Mrs Daskalaki, a lawyer from Crete, enjoys skiing but had never been particularly interested in sport before she became involved with organising the games. She goes jogging and cycling to keep in shape, but unashamedly lights up a Cuban cigar as she leaves the Athoc building after work.

"When I started, my anxiety level was completely over the top. But you can't do something like this unless you really enjoy it, You have to decide things fast, you have to keep up with details – and if you can do it all with style, that's even better," she says.

The biggest management project she had previously undertaken was the construction of a new family home in Athens. But her background in politics has made the job at Athoc easier. She started in local government, being elected first as an Athens city councillor and later as an MP for an Athens constituency with the centre-right New Democracy party.

Costas Simitis, the prime minister, turned down a suggestion by Juan Samaranch, the former IOC chairman, that Mrs Daskalaki should be made a cabinet minister to help speed decision-making for games-related projects. But she has managed to build alliances with the Socialist ministers who run the Olympic project.



Net result: the volleyball centre – while Athoc's budget is tightly controlled, government spending on the games has increased from a projected €2.4bn to more than €4.6bn Getty Images

"I know how politicians react because I've been there," she says. "You have to get things done, so you're co-operative. You try to find ways to slow down procedures if they're wrong, correct decisions, or stop mistakes from being made."

Mrs Daskalaki resigned her parliamentary seat after marrying Theo Angelopoulos, a Greek shipping billionaire based in Switzerland. She joined the Angelopoulos family business as a member of the legal team. Her spell at Harvard – she was vice-dean of the John F. Kennedy school of government – turned her into an energetic international networker.

With Mrs Daskalaki chairing the bid committee, Athens narrowly defeated Rome to win the 2004 Olympics, but then fell behind with preparations. Three senior Greek managers with international experience resigned in quick succession before she took over Athoc.

> 'Every country has to find its own model for staging the Olympics'

Athoc has grown from 150 to more than 3,000 employees, making Mrs Daskalaki the manager of one of Greece's bigger state enterprises. She moved the organisation out of its downtown premises to a refurbished textile factory in a low-income suburb of Athens and hired her own management team from the private sector.

One of her first moves was to set up a special unit to control Athoc's $1.9bn budget, covering the Greek share of funds from international broadcasting rights as well as contributions from local sponsors. She keeps in close touch with Athoc's sponsors, bankers and marketing associates.

"The sponsors are a real asset. It's not just the money but the human resources and the technology they make available to you," Mrs Daskalaki says.

While Athoc's budget is tightly controlled, government spending on the games has increased from a projected €2.4bn to more than €4.6bn. The security budget rose sharply after the September 11 attacks in New York, while the rush to complete venues on time has sent construction costs soaring.

Together with her record of pulling Athoc into shape, Mrs Daskalaki's enthusiasm and self-confidence go some way towards reassuring the IOC that Greece will deliver all the Olympic facilities on time.

She admits to being worried about three ambitious construction projects that are running behind schedule: a 30km suburban rail line that will link the Athens international airport with the main Olympic sports complex; a 23km tramway to carry spectators from the city centre to Olympic venues in southern Athens; and the installation of a metal-and-glass roof over the main Olympic stadium, designed by the Spanish architect Santiago Calatrava.

"These deadlines are looking very tight," she says. "We have to count on the assurances of the government that they'll all be ready in time for us to test them."

SOCIAL ISSUES: CONSTRUCTION SAFETY

Building a safer site to work on

There is growing concern over conditions, write **John Manos** and **Kerin Hope**

Mehmet Kastrati, an immigrant worker from Albania, says he joined the Greek construction workers' union after his employer, a sub-contractor on a project for the Athens Olympic games, sacked him for reporting an accident at the site.

Through his contacts at the union, Mr Kastrati, an experienced builder, was able to find another job at another games-related construction site. But hours are long and working conditions are hard, he says.

"We put in 14-hour days several times a week because of the rush to get the project finished. But the overtime isn't recognised in our wages. And the rush also means that safety regulations are ignored," he says.

Immigrants make up about 30 per cent of Greece's estimated 350,000 construction workers, according to the Federation of Greek Construction Workers. Albanians are the most numerous but many skilled Polish and Romanian workers have found jobs in Greece.

The construction sector is booming, driven by public sector infrastructure projects worth €11.5bn, which are co-financed by European Union structural funds and an expanding market for private sector housing. In the Athens area alone, projects for the 2004 Olympics are worth over €2.5bn.

However, there is growing concern about the safety of workers in the sector. Fatalities at construction sites have shown a steady increase in the past three years, reversing a previous declining trend. Last year 80 workers died in construction accidents, compared with 66 in 2000 and 76 in 2001, according to figures published by the labour ministry's health and safety inspectorate.

The figures represent an incidence of 25 fatal accidents for every 100,000 workers – double the EU average for the construction sector.

With most Olympic sports venues close to completion, fewer workers at games-related sites are putting in exceptionally long hours. Yet the figures look worse this year, with more than 60 fatalities reported in the first six months, representing a 50 per cent increase in risk over the previous year.

Six workers have died during construction of the Olympic Village, one of the biggest games-related projects. Because of delays in tendering procedures, the project to provide housing for 16,000 athletes and trainers was split among four companies that have raced to meet pressing deadlines.

"We believe that bad practices that have emerged in the past few years have become entrenched," says Giannis Pasoulas, secretary general of the federation of construction workers. "Workers are under pressure to carry out double shifts or operate machinery without the necessary qualifications."

Private Greek construction companies carry out most public works projects, forming consortia to undertake the biggest projects. The sector is dominated by a dozen big groups, which hire local sub-contractors to carry out jobs that require lower skill levels and less sophisticated machinery.

Mr Pasoulas says the number of deaths may be under-reported because there are no measures in place to record those that are the delayed result of injuries suffered in construction site accidents. Moreover, occupational diseases are still not officially recorded in Greece.

The federation co-operates with the labour ministry inspectors to report and record accidents "because the inspectorate is seriously understaffed and can't get around to as many sites as they should," he says.

> 'We put in 14-hour days several times a week to get the project finished'

While legislation bringing Greece in line with EU directives on occupational health and safety was approved seven years ago, the regulations started to be implemented only in 2000 for big public works projects. Contractors are required to appoint a safety co-ordinator, keep health and safety files and have a doctor in attendance at construction sites where more than 50 workers are employed.

Ilias Banoutsas, managing director of Ergonomia, an Athens-based occupational safety and health consultancy, says the delay in implementing the law at a time of activity has had a significant cost: "We've had an increased level of fatalities after a period when the health and safety picture in Greece had been improving and the overall level of occupational injuries had been steadily declining, in line with the rest of the EU."

However, the labour ministry inspectorate has launched a two-year enforcement campaign to make contractors comply with the regulations. Their first "blitz" last June involved surprise visits to almost 1,300 construction sites. Work was temporarily halted at more than 100 sites and prosecution proceedings were started against 22 contractors.

Mr Chronis Polychroniou, special secretary at the health and safety inspectorate, says: "The degree of compliance regarding occupational safety in the Greek construction sector is changing positively and rapidly. Greece is comparable with other European countries regarding the quality of enforcement, in spite of the large number of Olympic works in progress."

Concrete results: workers wearing safety gear scrub a floor at the volleyball centre AP