

# Telecoms towards 2000 Business can be tricky

The Greek telecoms sector is undergoing rapid development as the clock ticks towards the opening of the global telecommunications industry to the free market in 1998.

Cellular telephony and digital service are now available in Greece, as is direct telephone access to 88 countries.

But to give the Greek sector more time to catch up with Europe, the state telecoms monopoly OTE is requesting from the European Union a five-year exemption from the recent World Trade Organization (WTO) open market agreement.

The WTO decision, which followed three years of negotiations between 70 member countries, is expected to benefit consumers through lower prices, greater choice, technology and quality; it is also expected to lead to more jobs.

For now, OTE retains exclusive operational rights over all telephone and radio communications in Greece, except for two licensed GSM operators.

Private cellular telephony, introduced in 1992, today serves over 300,000 subscribers, mainly in the major urban areas, but new subscribers are being added as the providers expand their networks to eventually cover all the mainland and the islands.

Analysts predict that by the end of this year there will be 500,000 mobile phone users in Greece.

The private cellular telephone market in Greece is divided between two companies that were granted licenses in 1992. Panafon, a partnership of UK's Vodafone (55 percent), France's Telecom (35 percent) and Athens-based Intracom (10 percent), today controls 59 percent of the market. The rest is taken by Telestet, a partnership between Italian company Stet (75 percent), Nynex (20 percent) and Greek company Interamerican (5 percent).

"By 2000, there will be 18 percent penetration of the market," says George Koranis, managing director of Panafon. "This is a couple of years behind the rest of the EU

mobile phone industries."

Now OTE itself is planning to enter the GSM market, a move that has prompted Panafon to challenge it in court for violating the eight-year exclusive rights granted to both itself and Telestet. Koranis claims that Panafon and Telestet paid the highest license fees ever in Europe — \$102 million — to get a head start in the national market.

OTE aims to fully digitize the national phone network by 2000 through a \$2.6 billion investment program.

Call completion rates, which were abysmally low up to five years ago, have improved startlingly with the introduction of optical-fiber cabling. Today, one waits just a few days to get a private telephone line installed. Five years ago it could have taken from six months to two years.

OTE makes a greater profit than the top 20 banks in Greece put together and total revenues represent 2.5 percent of gross domestic product.

A year ago, OTE made an entry into the Athens Stock Market by floating 8 percent of its shares. International response was good and OTE will sell a further tranche of shares on the Greek and international stock markets within months.

Although OTE controls the domestic Greek market, other communications companies are waiting to use Greece as a base for regional business.

US telecommunications giant AT&T is using Greece as its pilot market for the Balkan region. Although Greece is more developed than its neighbors, the other states are expected to reach the same level within a decade.

"Greece is where these countries will be in a few years," says Betty Alexandropoulou, consumer marketing director for Central and Eastern Europe.

AT&T is registered in Greece under offshore law 89, which allows foreign companies to fully own companies in Greece exempt from taxes as long as they conduct business exclusively outside of Greece.

If you want to get a straight reading of the climate for foreign investment in Greece, you might want to talk to John Menoudakos.

He is a naturalized American citizen of Greek origin who earned bachelors and masters degrees in engineering from New York University and for 15 years worked for Control Data, in the United States and Greece.

Menoudakos is a fount of information and experience on the pros and cons of American companies doing business in his homeland.

He says that in a country receiving a great deal of aid from the EU, American companies are at a disadvantage in bidding for government business, since there can be little if any political lobbying on their behalf.

He also says many American businesspeople have found the Greek government's procedures for tendering to be unfair and unnecessarily time-consuming. Very often the selection process is delayed, and even when a final decision is announced it is never taken as final by Greek companies, who often go to court to challenge awards, thus further delaying the whole process.

Greece is "the most unhealthy tendering environment in the world," Menoudakos says, basing this opinion on wide experience in the Balkans and the Middle East, where his MEDACO company operates. "It is worse than in countries like Egypt and Algeria," he complains.

American business culture does not tolerate this, he says, and, in particular, virtually no American company will pay bribes, unlike European rivals.

In Greece, many of the large companies that do business with the government pay substantial sums to the main political parties, PASOK (socialist) and New Democracy (conservative), which have ruled Greece for the past two-and-a-half decades, so that whichever way the elections go they are in a position to call on

favors from the government.

A member of the Vardinoyannis family, which controls the largest private group in Greece, says that Greek companies get large in one of two ways: doing business with the Greek government or doing business internationally.

Foreign companies wanting to compete head on with Greek firms in Greece are at a definite disadvantage because of this pattern. With a lack of transparency in government bidding procedure, there is little chance for success against rivals who are not particular about breaking the rules of fair competition.

As a result, there is no major US participation in the big infrastructure projects now under way in Greece.

Menoudakos points out that companies go to the best markets, and can pick and choose among a wide range of countries courting foreign investments. He believes Greece has not come to terms with this and only looks at its own incentives for investment rather than comparing the overall climate for investment and business with those in other countries competing for investment dollars.

As an example, Menoudakos refers to China, where, he says, the bidding process is quite easy and the problems arise for investors only after they have been hooked.

In his experience, MEDACO, representing the US company Stone and Webster, won a contract to computerize the public electricity company's billing system: although it underbid the actual costs, it delivered the project.

Menoudakos says this is typical of the quality of work done by US companies, distinguishing them favorably in foreign markets. They are conscientious and offer better project management in general than do European competitors.

He says the Europeans still have a colonial mentality, that translates into "hit and run" business tactics. American companies, by contrast, tend to look to

long-term benefits.

As a prime example of this, he points to Aramco, the US-created oil giant in Saudi Arabia that is the heart of that country's petroleum industry. He says in general American companies have more of a sense of developing countries than European companies do because America's own development is fresh in its business psyche.

However, because of bad experiences in the past, he says "it's difficult persuading principle clients to do business" in Greece.

And even if they do pass initial hurdles like the tendering process, the socialist-designed labor laws in Greece are likely to put off American firms. "No American company will want to do business unless it can hire and fire freely," he says.

In the light of these problems, Menoudakos makes a very strong argument for Greece to review its business relations with America. He says, "If you want political support from the United States, why not give them more business?"

He has a point that is echoed by the commercial counselor at the American Embassy in Athens, Patrick Santillo, who says that although US exports to Greece stand at \$1.5 billion, American companies do not yet see Greece as a particularly attractive market.

He points out that companies hate to waste time on major projects through, for example, delays in decisions on tenders. They want consistent policies that are not subject to political changes, and they want the rules of the game to remain constant.

Nevertheless, Santillo is generally upbeat in his assessment of the current investment and trade prospects.

For example, he says American companies he knows praise Greek workers as quick to learn. "Most managers here are very pleased," he says. Their main concern is labor value, not cheap labor.



## OTE's top priority to fully digitize phone network by 2000



The Greek telecoms sector today is modernizing its infrastructure by digitizing its phone lines. Some 46.5 percent of the 5.3 million OTE subscribers of today communicate by digitized telephone lines. This has been achieved by a top priority program, started in 1992, aimed at fully modernizing OTE's infrastructure by the end of the year 2000.

Fiber optics are widely used by the company in order to expand its telecommunications passages abroad, linking Greece with other countries as well as replacing OTE's old national network with new, advanced technology fiber optic lines. Today, almost all Greek islands are connected with each other, the mainland and abroad, by fiber optic lines.

Some 10,000 kilometers of fiber optic lines connect Greece with Russia, Bulgaria, Ukraine and Georgia — through Varna — with destinations in Mediterranean countries and beyond. The BSFOCS uses the latest technology network in the area, providing the right technological way for applying most value added services which will cover all the modern telecoms needs.

Furthermore, an international fiber optic line connects the island of Corfu with Otranto in Italy — a very important international link with Western Europe.

Soon, work will be complete on another fiber optic cable that will connect Corfu with Mavrovunio and Belgrade.

Special reference should be made to OTE's participation in the construction of an international fiber optics system, the most important investment OTE has ever participated in. The low cost, high-quality investment will help transform OTE into one of the main telecoms axes over the next 15 years. This system, known as SEA-ME-WE, will connect more than 32 countries on different continents.

With OTE's participation in that active network, Greece is expected to play the role of the 'main entrance' of telephone communication to the Balkans, the Adriatic Sea and the Black Sea regions, adding value to all the above-mentioned international investments made by OTE. The total cost of that network amounts to \$1.15 billion, while OTE's participation in it will amount to \$108 million.

In the sector of international communications networks, OTE has

already participated — as shareholders — in international satellite organizations such as Inmarsat, Eutelsat and Intelsat, investing about \$50 million.

OTE's mobile satellite communications services, through Inmarsat, provide the company's customers — whether traveling or working on planes, ships and cars — the facilities of telefax, data, telephony and telex.

The personal satellite communication that will make international mobile telephony possible will be provided after 1998 through OTE's affiliate Hellas Sat Mobile.

The completed call factor, or Answer Rate (ASR), for real calls, according to AT&T's statistics, is 58 percent. In other words, Greece's telecoms operation is among the top 15 countries worldwide, above Germany at 56 percent, Cyprus at 51 percent and Belgium at 50 percent, while some countries are lower than 10 percent.

The frequency of the congestion signal for real calls during a 24-hour period is lower than 0.6 percent and the fail signal for real calls is lower than 1.2 percent.

Also, according to the results of quality improvement between AT&T and OTE in 1996, the amount of false calls was 35.7 percent.

The international targets that countries all over the world aim for today are the following:

- Percentage of effective calls during a 24-hour period: 70 percent.
- False calls during a 24-hour period: 1.2 percent.
- False calls caused by subscribers' absence: 29 percent.

Apart from the dramatically increased quality of telephone lines since 1994, the national network system has the highest penetration in Europe, not to mention that the telephone density for OTE is 49.5 percent — the highest in Europe.

OTE is also expanding into the Balkans. At a recent press conference the directors of OTE declared that the rate of the corporation's expansion was such as to render inevitable its development beyond the Greek

borders.

The country's geographic location, coupled with OTE's large cash flow, is giving the company a dominant role in the Balkans, the Black Sea and the Eastern Mediterranean regions. This has made it possible for OTE to participate in local and international projects from Bulgaria to the Ukraine and Iran.

Based on its strategic plan for international expansion, OTE has set up a general directorate for international planning and cooperation, and is applying its 1996-2000 operational plan.

This plan aims at making profitable investments abroad through alliances with foreign telecoms companies and participating in all major multinational telecommunications projects. The target countries are the Balkans and the Black Sea region, Central and Eastern Europe, the Middle East, Africa and other developing markets.

The flotation of 8 percent of OTE on the Athens Stock Exchange is indeed a successful privatization move, since shares are extensively distributed to a very large number of private and institutional investors.

Today there are 170,000 OTE shareholders. Moreover, the offer consisted of 24 million new shares representing 6.034 percent of OTE's enlarged equity capital and, in addition, the state offered eight million shares to international investors, representing 2 percent of the company's equity before the capital increase. This additional package was sold because of massive over-subscription.

According to the latest official data, the status of shareholders indicates that the majority of global institutional investors, such as mutual funds, pension funds and government bonds, strongly believe in OTE's profitability and prospects. They have bought, held and continuously increase their share. In short, they own the largest chunk of the floating shares (60 percent).

OTE's projected turnover for 1997 is Dr797.5 billion (\$3.067 billion) and the projected profit for the same period is estimated under Greek accounting standards at Dr304.5 billion (\$1.522 billion).

The data clearly shows that OTE is a successful and promising company.