

An Economic Analysis Model Of The Effects Of Privatization Of Piraeus Port Authority Into The Greek Economy

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Abstract

The Greek port industry is characterized by the dominance of the public sector in port activities. The ownership of port assets, corporate port governance and services provision develop under strict, direct or indirect state (ministerial) control. As a result Greece stands among the few countries in which the port industry is fully controlled by the public sector. Yet, the context, in which contemporary ports operate impels for greater flexibility in port operations. Several countries worldwide have responded implementing port devolution programs. The latter have been accompanied by an increasing participation of the private sector in port operations. In several EU countries several port reforms devolved the port industry, allowing for the participation of private companies.

Key Words: Privatization, Greek ports, Economy, Economic Recession, Technological Progress

Jel codes: L11, L33, L98, P43, H1, G38

Introduction

The port industry is under an ongoing reform. Radical transformation of the world economy, through globalization, in conjunction with changes in the port industry environment, such as containerization and technological progress had substantial effects in ports, worldwide. As a result ports moved towards the post fordist model (Notteboom and Winkelmanns, 2001) and new 'world of production' (Chlomoudis et al, 2003). Moreover they transformed from a labor intensive to a capital intensive industry (Trujillo and Nombela, 1999).

These changes resulted in a new port environment, which is characterized by competition which in turn impels ports towards effectiveness. To increase their effectiveness ports are investing huge capitals for the modernization of their infrastructures and superstructures. (Pallis, Syriopoulos, 2007)

But due to restrictions in public financing, ports are turned to the private capital in order to finance their investments (ESPO, 2004a). As a result public ports are in a difficult position in this competitive environment (Slack, 1993).

The port of Piraeus, as a pillar of the Greek port system, plays a decisive role in the economy of Greece. To the extent that the port's infrastructure is properly developed and utilized, it could become a lever for further growth in relation to shipping, cruise tourism and many other economic activities. Under the current conditions of a deep and prolonged economic recession, the goal for a sustainable and integrated management of the Greek ports is of particular importance. In this regard, the sale of a majority stake in the Piraeus Port Authority (PPA) to a strategic investor is a measure of particular significance for the Greek economy. (Badri, 1999).

The Governance of a Capital Company in the Privatization Model

The scope of the study is to determine the economic impact of the privatization of PPA over the next decade (2016-2025), under the terms included in the offer of COSCO Group. In particular, the study examines the expected impact on fiscal revenue, investment, administrative cost and PPA activity level upon completion of the privatization agreement. Furthermore, we highlight the catalytic effects in related activities, such as land transport, tourism and logistics. Finally, by taking also into account the direct and catalytic effects, we quantify the macroeconomic multiplier effects, using models of the Greek economy maintained at IOBE. (Baird, 2002)

Since fiscal revenues would continue to be collected, irrespectively of the ownership status of PPA, we estimate the (incremental) revenues to the State treasury in terms of net benefit from the

privatization, subtracting the fiscal revenues that would be collected in the hypothetical case of no change in the current shareholder structure of PPA. Based on the assumptions of the analysis, the net fiscal benefit remains positive throughout the examined period (2016-2025). The highest net benefit is estimated for 2016 (€277.5 million) and for 2022 (€106.3 million), when according to the proposed schedule, the shares of PPA are sold for €280.5 million and €88.0 million respectively. Even without the inflow from the sale of shares, the net fiscal benefit grows steadily over time, due to increased activity and higher efficiency as a result of the privatization. In particular, other net fiscal revenues increase from €6.9 million in 2017 to €20.9 million in 2025. The cumulative benefit over the period from 2016 to 2025 is estimated to stand at €511 million or €475 million in present value terms. (Baird, 2004)

In addition, the concession agreement between PPA and the Hellenic Republic envisages particular investments that should be implemented over two five-year CAPEX periods. Apart from the contractual investments, COSCO may also make other investments if deemed necessary and profitable. Lastly, new investments may come from other enterprises that will develop activities in the wider area as a result of cooperation with the port. The overall size of these investments is estimated at around €867 million over the first decade. This estimate does not take into account investments of other companies that may develop related activities in the wider region of Piraeus as an indirect result of the upgrade of the port. (Pallis et.al.2007)

The privatization of the port and its operation under the conditions of higher efficiency is expected to have a positive impact on the port turnover as well (e.g. in the shipyards and the cruise terminal) and in related economy sectors, such as logistics and rail transport. If a set of particular actions is implemented, the incremental annual output in the Greek economy will range from €17 million in 2016 to €2.6 billion in 2025. This estimate does not include the impact on other branches that might benefit indirectly from an upgrade in the freight transport infrastructure (such as manufacturing and tourism).

The Economic Impact of the Privatization of the Piraeus Port Authority

Using suitable econometric models that are maintained at IOBE and describe the full interaction of the main macroeconomic aggregates, we estimated the positive impact on the Greek GDP and the support of the fiscal stabilization effort and debt reduction, emanating from the sale of PPA. (IOBE,2016)

Overall, the level of GDP would be higher by 0.8% in 2025, compared with the baseline scenario. Real wages grow steadily over the examined period while the inflationary pressures remain exceptionally weak. The demand factors related to construction works and the operation of the port create more than 31,000 new jobs overall. Moreover, effects of a more permanent nature come from supply factors that express the growth of productivity and potential production capacity, with an impact lasting beyond the completion of the construction works. Furthermore, the

investment in the port contributes to a long-term reduction of public debt by 2.3 percentage points of GDP. Taking into account the regional composition of GDP and employment in Greece (about 50% of Greek GDP is produced in the Attica region), the aforementioned impact will be felt stronger in the regions of Attica and in the area of Piraeus, in particular. (IOBE,2016)

We emphasize that the estimations in the study are limited to the effects that are directly related to this particular agreement, which however is an element of a wider dynamic for the revival of production activity in the country. The attraction of a large investment in a key sector of the Greek economy, as is transport, may signal a significant change of the investment climate and provide the impetus for further growth in the sectors examined in the study, such as transport services and tourism, but also in other sectors of the economy in need of foreign direct investment (such as manufacturing, water supply, energy, waste management and other services). Therefore, in the study estimates should be considered relatively conservative, with the impact likely to surpass the estimates in practice, if other factors contribute to the task of improving the conditions and prospects for the Greek economy. (Chlomoudiset.al.,2004)

In summary, one of the key problems faced by the Greek economy today is the lack of domestic savings that can prop up an investment program, strong enough to ensure satisfactory growth rates and to help with the ambitious fiscal targets set by the adopted economic adjustment program. The current feebleness of the banking system to play its intermediation role in an effective manner

hinders the process of turning savings into investment, exacerbating this problem. The inflow of foreign resources is a necessary condition and essentially the only solution to set the country on a path of growth and ultimate exit from the crisis. Therefore, what is required today is a boost of the country's credibility in order to make it a safe investment destination and to attract the required resources. (IOBE,2016)

The sale of 51% of the shares of PPA to COSCO, and subsequently of an additional 16%, and the further development of the port of Piraeus could play a catalytic role in the direction described above, sending a strong signal to the markets that Greece is a safe and favorable investment destination. The development of the port of Piraeus and the creation of an international hub for logistics, trade, cruise shipping and other forms of tourism, is expected to have multiple positive effects on the domestic economy and society, through direct investment effects, synergies and other vertically integrated business activities.(Chlomoudiset.al.,2003)

The beginning of 2016 finds the relationship between Greece and China in a better status in comparison to the same period of 2015. The recent decision of the Greek Asset Development Fund to call COSCO the 'preferred investor' to buy the Piraeus Port Authority¹ can theoretically pave the way for a win-win co-operation. Such a collaboration based on investments and common economic interests constitutes the core of a pragmatic approach in the Sino-Greek partnership. It also contradicts illusions of last year that China could provide bilateral loans to Greece

challenging the country's Euro-Atlantic orientation and its stay in the Eurozone. As Vice-President of Greece Ioannis Dragasakis said in an interview during the pre-election period of September 2015 his government had unsuccessfully attempted to find a loan in third countries before the so-called 'Agreement'.² Former Finance Minister Yanis Varoufakis goes even further suggesting that a phone call from Berlin blocked an alleged Sino-Greek financing deal.(IOBE,2016)

China has followed a careful and systematic policy vis-à-vis Greece since 2009 when COSCO started its investment in Piraeus. Prioritizing its relations with major EU powers such as France and Germany, it has not sought to become critically involved in the Greek debt crisis and unilaterally provide liquidity. Considering the problem a European one per se, it highly supports Greece's stay in the Eurozone and has only played a secondary role. According to an interview given by former Greek Prime Minister George Papandreou in the pre-election period of January 2015 Beijing had bought Greek sovereign bonds worth of 6 billion euros at the beginning of the economic crisis.⁴ This amount is not insignificant but much lower compared with loans provided by Greece's creditors when the first bailout was agreed in May 2010. China's interest in Greece is interwoven into the port of Piraeus at the economic and geopolitical level. The management of piers II and III in the port of Piraeus by COSCO has contributed to an increase of its profits. Its revenue from the terminals business rose by 13.6% in 2014 and this - according to the

Chinese company - was attributed to three of them, namely Piraeus, Guangzhou South China Ocean Gate Container Terminal and Xiamen Ocean Gate Container Terminal.⁵ Furthermore, the Piraeus port is a key point for China's 'One Belt and One Road' policy.⁶ It marks the passage from the maritime Silk Road in Europe to the land-based one (Economic Belt) towards the Old Continent. Specifically, Beijing seeks to establish trade links from Greece to Central and Eastern Europe via the Balkans. This strategy was made straightforward during the '16+1' meeting in Belgrade on 16 December 2014.⁷ Sino-Greek relations have slowly but steadily improved since 2009. COSCO's profits along with the announcement of the Silk Road plan by President Xi Jinping in September 2013 paved the way for a deeper co-operation. In June 2014, China's Premier Li Keqiang visited Athens and discussed with the then Prime Minister of Greece Antonis Samaras the possibility for further collaboration in infrastructure projects including shipping, logistics, ports, airports and maritime affairs.⁸ From a Greek perspective, a stronger co-operation with China could also boost tourism as well as the real estate sector. The number of Chinese tourists visiting Greece was 12,203 in 2012 and went up to 28,328 in 2013 and 37,196 only in the first nine months of 2014.⁹ As far as real estate is concerned, foreign citizens have since 2013 the opportunity to acquire a long-term entry visa in Greece, if they decide to buy a property worth of 250,000 euros or more.(IOBE,2016)

Data and Specification of the Privatization

The privatization of the port The 'Agreement' of 12 July 2015 gave an end to Grexit fears. From that day onwards and especially after the snap election of 20 September 2015, the SYRIZA-Independent Greeks government started to employ a completely different approach in carrying out privatizations. Despite ideological opposition and some new delays leading to the partial amendment of the concession agreement of the Piraeus Port Authority, the sale had already entered its final phase. The deadline for the submission of bids by interested companies was set for 21 December 2015. The withdrawal of APM Terminals and International Container Terminal Services facilitated the attempt of COSCO. A few days later, the Greek Privatization Fund confirmed that the Chinese company had been the only candidate investor but asked it to improve its offer.¹⁵ COSCO improved its offer indeed and on 20 January 2016 it became the preferred bidder offering 368,5 million euros. In a detailed statement the Greek Privatization Fund presented the benefits of the agreement for the concession of the Piraeus Port Authority.¹⁶ According to the Fund's assessment, the total value could amount to 1,5 billion euros, including future investments by COSCO in the port. The Chinese company offered a higher price in comparison not only to the share price of the Piraeus Port Authority on the day of the agreement but also to that of two independent appraisers. In fact, COSCO agreed to pay 22 euros per share while the price range of the independent appraisers was from 18.4 to 21.2 euros per share and the share price at close of trading was 12.95 euros on Wednesday 20 January

2016. Following the recent decision by the Greek Privatization Fund the tender envelope will be directly filed with the Court of Auditors for a pre-contractual control. The Greek Parliament will also have to approve the concession. The way ahead is not without obstacles. Greece is already under pressure by a recent conclusion made by the European Commission. In particular, the Commission argued in March 2015 that Greece had granted COSCO some benefits - such as tax exemptions and preferential accounting treatment - providing the Chinese company with an undue advantage over competitors in breach of EU state aid rules. Therefore, it asked COSCO to pay back the advantage received to the Greek state and encouraged the latter to avoid further distortions of competition.¹⁷ In parallel with the recommendation from the European Commission, Athens will be also encountered with reactions by trade unions operating in the port of Piraeus as they are losing their privileges and are not prepared to accept new labor conditions. The sale of the Piraeus Port Authority is an obligation of the Greek government in the context of the bailout agreements. Therefore, the beginning of 2016 finds the relationship between Greece and China in a better status in comparison to the same period of 2015. The recent decision of the Greek Asset Development Fund to call COSCO the 'preferred investor' to buy the Piraeus Port Authority¹ can theoretically pave the way for a win-win co-operation. Such a collaboration based on investments and common economic interests constitutes the core of a pragmatic approach in the Sino-Greek partnership. It also contradicts

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opportunity to acquire a long-term entry visa in Greece, if they decide to buy a property worth of 250,000 euros or more. The misunderstanding In January 2015 Antonis Samaras inaugurated the beginning of works by COSCO to extend Pier III in the port of Piraeus confirming the spirit of solidarity between Greece and China. Nevertheless, after the victory of SYRIZA in the election 25 January 2015 and for a period of approximately six months Sino-Greek relations entered a new period of relevant misunderstanding. Before the snap election and in its immediate aftermath, some ministers of the new cabinet and other members of the governing SYRIZA party started to put into question the necessity of the debate on whether this decision is wise or an alternative could exist, leads nowhere. What matters more is that after the conclusion of the deal and the expansion of Chinese investments, the Piraeus port can be transformed into a transshipment hub, boosting trade, attracting new domestic and foreign investors and strengthening the geopolitical and strategic importance of Greece. In that regard, several local actors and businessmen have endorsed the agreement and expressed their optimism.(Tzogopoulos,2016)

All in all, as President of the Piraeus Chamber of Commerce and Industry Vassilis Korkidis puts it 'the impact of the recent agreement will be safely in the future' when potential investors will be specified and tangible results will be apparent.¹⁹ Last but not least, the amount of 368,5 million euros to be offered by COSCO might seem

sufficient taking the ongoing financial crisis and the stock market continuous fall into account but is certainly much lower than the real value of the Piraeus Port Authority under normal circumstances. If this privatization had taken place earlier, economic benefits for the Greek state would have been much higher. Thus, the important lesson learned is that political instability constitutes a negative factor not only averting foreign players from investing in Greece but also reducing the cost of their future transactions. Unavoidably, the two-year delay in proceeding with the sale of the Piraeus Port Authority has had serious repercussions on the Greek national interest.(Tzogopoulos,2016)

Concluding Remarks

After the Piraeus port sale Sino-Greek relations are expected to improve. Increased high-level meetings will be high on the agenda of both countries. An official visit of Greek Premier Alexis Tsipras to Beijing is expected to take place soon on the invitation of his Chinese counterpart Li Keqiang. If this happens, Mr Tsipras will be escorted by a group of Greek businessmen looking for new deals with Chinese partners. Further to this, the Greek side is elaborating on a three year plan of bilateral co-operation with China. This idea was first suggested in March 2015 during the meeting between foreign ministers Nikos Kotzias and Wang Yi in the Chinese capital. The development of close relations between Greece and China creates some skepticism in Western circles regarding potential geopolitical implications. That is because the latter has the

opportunity to access Europe via the former by obtaining control in critical infrastructures. However, as Thanos Dokos puts it, even when it comes to the geopolitical consequences of having close relations with China, Greece does not consider its position as fundamentally different from that of other European Union states.²⁰ In the final account, Greece – as opposed to several European states including Germany, France, Italy and Britain – does not participate in the Asian Investment and Infrastructure Bank (AIIB). Further to this, international media have proven to be wrong in speculating Greece's hypothetical adhesion to BRICS New Development Bank. In the coming months Greece will insist on combining the privatization of the Piraeus Port Authority with potential future benefits for its national economy. Pillars of this strategy include the launch of additional investments by Chinese companies around Piraeus, principally in ship building, maintenance and logistics as well as the increase of Greek exports towards China. Additionally, the significant rise of tourists visiting Greece having China as their country of origin is another objective. The launch of new Air China flights connecting Beijing with Athens from 1 June 2016 outlines the will of the Chinese administration to respond to the logic of a win-win co-operation. To sum up, China's New Silk Road - as it is developing via Piraeus – is not a panacea for the Greek economy. But it can contribute to Greece's growth, also sparking new infrastructure projects in Europe. Financing can be guaranteed by a new European instrument, Juncker's Investment Plan where China

participates.²¹ In that regard, the role of Piraeus will be central. It is not a coincidence that China's Ambassador's to Greece Zou Xiaoli publicly emphasizes - after the port deal - the Sino-Greek future collaboration 'to build the China-Europe Land-Sea Express Route to connect the maritime Silk Road with the Silk Road on land'.

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