

# Shipping, the State and the Market

The evolving role of the European Union in  
international & Greek shipping politics

Case study on coastal shipping in the 1990s

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On the 16<sup>th</sup> of December 2004 the Union of Greek prefectures together with the island prefectures of the Dodecanese, Cyclades, Lesvos, Samos and Chios organised a large demonstration outside the Ministry of Merchant Marine in Piraeus. The island communities were calling for regular and affordable sea transport services and the recognition by the EU of their exceptional circumstances. Concurrently, the Minister of the Aegean was attending an informal Council of Ministers in Rotterdam presenting evidence on the economic decline of the island communities. The Minister put forward the proposal that coastal transport should be partially financed from EU funds. Back in Greece, the government was under criticism by the opposition party for conducting secret negotiations with coastal shipowners, punishing the island communities that had not voted for the government in the most recent elections. Yet, the coastal shipowners were publicly commending the European Commission for sending a letter of formal notice to the Greek government for not completing the liberalisation of the domestic market.

As illustrated by these examples, the central argument of this research is that globalization and Europeanisation not only have transformed the nature of domestic politics, but are also becoming a new divide around which domestic politics are being configured. Global economic, institutional and ideational pressures and Europeanisation are loosening the ties between the Greek state and organised shipping. In a political system characterised by a unitary state, weak integrated political leadership and thus 'low reform' capacity, it is unlikely that reform will occur if the formal and factual veto points are opposed. Global pressures and Europeanisation entail the provision of material and immaterial resources that can not only empower certain actors but can alter the domestic constellation of actors in favour or against reform.

## **1. Analytical Framework**

The proposed framework is intended to provide a conceptualisation encompassing the global pressures, Europeanisation and domestic dynamics. In the existing literature there is a tendency to either research the interaction between globalisation and European regionalism or the domestic impact of European integration. However, due

to the international character of shipping, a framework concentrating solely on one of these aspects would be insufficient (Berger 2000: 58, Verdier and Breen 2001: 233, Hennis 2001: 83, Graziano 2003: 174, Golden 2004: 1243, Schmidt 2004). Thus, to understand the sources of domestic change in the shipping sector, European integration must be placed within a global context. In clarifying the relationship between globalization and Europeanisation it is assumed that the EU is having a larger domestic impact (Schmidt 2002: 305). However, the nature of this relationship is not taken for a given and can unfold in centripetal or centrifugal ways (Verdier and Breen 2001: 233, Graziano 2003: 186 – 7, Meunier 2004).

The analytical framework draws primarily from new institutionalism. The notion of ‘institutions’ is employed to refer to the ‘formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of the polity and economy’ (Hall, 1987: 19). Political institutions have a first order impact in privileging particular interests through representation and structuring strategic choices and interactions. In tandem, it is acknowledged that political institutions can have a second order effect by shaping the preferences and ideas of collective actors (Hall and Taylor 1996, Swank 2002).

The mechanisms that link the global pressures and Europeanisation to domestic political arrangements have been detailed by Knill and Lehmkuhl. Without evoking the ‘goodness of fit’ hypothesis, the work of Knill, Lehmkuhl and Heritier presents the most sophisticated theoretical framework for analysing the domestic impact of the EU. (Heritier and Knill 2000: 2, Heritier and Knill: 2001). They begin by asking what is the impact of European policies on corresponding policies and patterns of interest intermediation at the domestic level? In response, a framework comprising of three levels is advanced. Firstly is the level of congruence between the EU and the domestic stage of policy formulation. Yet, incongruence does not automatically entail domestic change. Rather, this is related to ‘reform capacity’ at the domestic level. In turn, this has been defined as the number of ‘formal and factual veto points’ that must be overcome to generate change and the ‘provision of integrated political leadership’ (Borzel and Risse: 64, Tsebelis 2002: 19, Pagoulatos 1999: 198, Marsh and Rhodes 1992: 251). A veto point is an institution or location within a political system within which policy reform can be halted (Caporaso 2004). The larger the number of veto

players, the more unlikely change to the status quo becomes (Tsebelis 2002: 19). In tandem, integrated political leadership can be provided by formal majoritarian government, or a successful tradition of consensual decision-making incorporating divergent interests.

In the case of Greece, despite the existence of a unitary state with a one-party majority government, the large number of factual veto points coupled with the traditionally weak political leadership represent considerable obstacles to reform. The relationships between the actors in the shipping industry have taken the form of state corporatism. Business associations and trade unions can block reform because of the power allocated to them by the government and public opinion (Featherstone 2005).

The analytical framework departs from institutionalism in emphasizing agency in interpreting bottom-up dynamics. In the words of Goetz (2003), ‘...how do domestic actors use Europe to shape the domestic arena?’ The responses of the actors involved in shipping policy to the global pressures and Europeanisation affect the power configuration between them (Hennis 2001: 833). The most detailed approach to conceptualising the usage of the EU has been advanced by Jacquot and Woll (2003a, 2003b, Radaelli 2004: 7). An important insight provided by these two authors is that the redistribution of opportunities and resources does not suffice in bringing about political change. Rather, collective actors must recognise these opportunities as resources and act upon them, in other words, ‘there is no impact without usage’ (Jacquot and Woll 2003a: 5, Irondelle 2003: 212, Radaelli 2004: 10). Explicitly, usage is defined as ‘practices and political interactions which adjust and redefine themselves by seizing the EU as a set of opportunities’ (Jacquot and Woll 2003a: 4, Jacquot and Woll 2003b: 5). This is an important observation because the documentation of political change solely from an institutionalist approach leads to significant operationalisation difficulties. Indeed, additional political opportunities and resources may be created, indicating the domestic impact of the EU. Yet, how are these identified if collective actors do not acknowledge and use them? Hence, with the assistance of process-tracing (Checkel 2001) usage can be documented and changes in public-private relations can be deduced from the empirical findings.

In further elaborating the bottom-up process, a distinction is drawn between material and immaterial resources. With respect to material resources, Jacquot and Woll (2003b: 12) distinguish between European institutions, policy instruments and financing. The usage of European institutions can allow domestic actors to participate in the deliberation of policy problems and in influencing the formulation of policy decisions. Usage of EU institutions can bestow credibility to domestic actors and provide them with new ideas or information placing them at an advantage to domestic competitors. Policy instruments can be constraining in the form of directives and court judgments or less constraining, represented by soft law instruments such as resolutions, recommendations communications (Jacquot and Woll 2003b: 12). Financing refers to funds allocated by the Commission for the participation of collective actors in specific projects. In parallel, the EU makes available immaterial resources to be used by public and private actors (Surel 2000: 496 – 7, Phellan 2001: 9, Radaelli 2003: 36, Christiansen, Jorgensen and Wiener 2001, Checkel, Caporaso and Jupille 2003).

Within this analytical framework, it is accepted that actors can use EU material and immaterial resources in cognitive, strategic or legitimising ways (Jacquot and Woll 2003b: 11). These types of usage correspond to specific political stakes relating to the definition of problems and solutions, policy-making and justification.

Cognitive usage is attached to the deliberative stage of the political process, involving one the one hand, the understanding and interpretation of facts and events and one the other, employing persuasion to spread these interpretations amongst other actors (Surel 2000: 500). Strategic usage entails the conversion of resources into political practices with the purpose of achieving a clearly outlined objective. Hence, resources are used in order to influence policy decisions, extend an actor's range of political tools or increase access to the political process. Legitimising usage enhances the legitimacy of domestic policies by making reference to the EU and European integration. Its most common manifestation is in the form of rhetorical appeals to 'European Idea' or 'European constraints' (Surel 2000: 507, Phelan 2001: 9, Jacquot and Woll 2003a: 6-7, Jacquot and Woll 2003b: 9).

The analytical framework will be applied to a single country case study concentrating on the shipping industry in Greece. For the purpose of this presentation, emphasis is placed on the first case study regarding the deregulation of domestic maritime transport commencing from 1992 and covering the controversies in the aftermath of the January 1, 2004 formal liberalisation of coastal transport services. In brief, the expectation of the liberalisation of the domestic maritime transport market incited companies to make economic adjustments with extensive political implications. This prospect increased the concentration in the sector and as a result the size of individual companies. In turn, this affected the composition and power balance within business associations as well as in relation to the state.

## **2. Regulatory Regime in Coastal Shipping**

Legislation on coastal shipping has been concerned with the prevention of destructive competition and predatory pricing and the provision of regular, affordable sea transport all year round to all inhabited islands. Hence, the provision of services across ‘thin lines’ came at the expense of the quality of service and competition (Lekakou 2002, Psaraftis 1996, Psaraftis 2002).

The discretionary power granted to the Minister of Merchant Marine (YEN) in regulating the coastal industry is considerable (Psaraftis 1996, Psaraftis 1998, OECD 2001, Giannopoulos and Aifandopoulou-Klimis 2004, Selkou and Roe 2004).<sup>1</sup> More specifically, YEN regulated market entry, allocation of operational licenses, setting the fares, crew composition, imposition of public service obligations, enforcement of licence terms, certification and inspection of operational and environmental safety (OECD 2001: 27). Indeed, certain sections of the legislation dated back to 1926 specifying the number of cooks and stewards, the prices of on board meals as well as the concessions to a variety of social groups such as members of parliament, to journalists, students, actors, military personnel, and the elderly.

Nevertheless, the haphazard and problematic supply of sea transport between the islands persisted and with the fall of the dictatorship, Presidential Decree 684 of 1976

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<sup>1</sup> Interview of Apostolos Athinaios, CEO of Nel Lines, *Economic Outlook* June 2002

was instituted to prevent ‘catastrophic competition’ between the coastal shipowners. The Decree is of paramount importance as it stipulated as an institutional obstacle to entrance to the coastal market through the issuance of permits for the routes of a vessel (Goulielmos and Lekakou 1993, Lekakou, Papandreou and Stergiopoulos 2002, OECD 2001: 34). This solidified the domination of the existing companies and prohibited the entrance of new providers of coastal shipping.

Central to this regulatory framework was the Coastal Transport Advisory Committee (CTAC) that advised the YEN leadership on all aspects of its responsibilities for the coastal industry (Sturme, Panagakos and Psaraftis 1994: 3, OECD 2001: 28) The CTAT consisted of twelve members, amongst whom six were government members appointed by the Minister. They were complemented by another six members, four representatives of the industry, a representative of the Piraeus Chamber of Commerce and Industry and one member from the National Tourist Organisation as an articulator of the consumers’ interests. Indeed, although the CTAC was designed to offer non-binding recommendations, its opinions on licences and prices were usually accepted by the Minister (OECD 2000: 28). According to the Presidential Decree the authorisation of licences is at the discretion of the Minister of YEN after the Advisory Committee for Coastal shipping gives its opinion. The licences had a long duration as the intention was to assign a vessel to a route for the entirety of the economic life of the vessel (Psaraftis 1996, OECD 2001: 29). In addition, it was stipulated that the Minister has the right to determine the required density of services during the winter and summer schedules and the times of the services.

Cabotage in coastal shipping was instituted in the Public Maritime Law Code (Psaraftis 1996, Lekakou 2002).<sup>2</sup> Coastal shipping is defined as transport of passengers and cargo between Greek ports. Coastal shipping is reserved solely for vessels carrying a Greek flag. For a vessel to carry a Greek flag it must be registered on the Hellenic Ship Register. For the approval of the registration it is indispensable that the vessels are recognised as Greek. Greek vessels are classified as those that are

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<sup>2</sup> PMLC, Article 11

owned in excess of fifty per cent either by Greek nationals or a Greek legal entity of which fifty per cent of their equity is owned by Greek nationals.<sup>3</sup>

The provision of services for unprofitable routes is regulated by the Code and a series of Ministerial decisions of which the most significant is the YEN decision on the ‘general terms for conducting competitions to service main thin and thin tourist routes’.<sup>4</sup> It is maintained that the system of ‘thin lines’ is central for the preservation of a satisfactory level of services to islands communities with limited transport needs, especially during the winter season. There is much legislation on the organisation of competitions for servicing unprofitable routes. In exchange for receiving the permit for a specific route, the shipowner is required to service less profitable routes. The ministry determines not only the parameters of the unprofitable route such as frequency, but also the profitability that the shipowner ought to anticipate (Sturmeay, Panagakos and Psaraftis 1994: 4).

### **3. Abolishing Cabotage**

#### **3.1 (1993 – 2000) Fleet modernisation and Consolidation**

Eventually in June 1992, arduous negotiations at the EU level led to an agreement on the elimination of cabotage with Greece accomplishing the longest phase-in period until January 2004. For cruise ships a transitional period of six years was accomplished, whilst for passenger and freight movement between the islands, eleven years (Psaraftis 1996).<sup>5</sup> Regulation 3577/92 was passed in December 1992 by the EU Council of Ministers. Article 1 of the Regulation specified freedom to provide maritime transportation services within the entire EU to all ships flying the flag of any EU member state commencing from January 1, 1993.

In the immediate aftermath of the negotiations the regulatory framework remained stable with the bulk of change occurring in the structure of the coastal transport market. Market consolidation, fleet modernisation and corporate restructuring are the features of change. The emergence of new private actors has had political

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<sup>3</sup> PMLC, Article 5

<sup>4</sup> YEN Decision, No. 90062/090279

<sup>5</sup> *Lloyd's List*, July 6, 1992.

implications in the composition of business associations and the relations with the state. The erstwhile dominant coalition that opposed liberalisation in the early 1990s was weakened as smaller longstanding coastal companies disappeared through mergers and acquisitions. Over this period, the state and trade unions continued to oppose any proposal to accelerate deregulation of the market.

Certainly, the private sector witnessed major changes in the years following the 1992 agreement. Fleet modernisation was perceived as an imperative in preparing for the opening of the market in 2004. Throughout this period, rumours were circulating of the eminent liberalisation of the sector by the government.<sup>6</sup> Nevertheless, the formal policy of YEN did not indicate any move towards deregulation. Rather, the emphasis was on the renewal and modernisation of the fleet, securing affordable fares and concession prices for various social groups and ensuring that the larger ferry providers would be servicing smaller, unprofitable routes.<sup>7</sup> However, it has been maintained that the Greek government was encouraging shipowners to invest in newbuildings.<sup>8</sup>

The Adriatic Sea corridor linking Greece to Italy became the forerunner of changes to come in the domestic market. This corridor connects the Greek ports of Patras, Igoumenitsa and Corfu to the Italian ports of Brindisi, Bari, Ancona and Trieste. Traditionally dominated by Italian state-owned shipping operators, the route was transformed by EU induced deregulation.<sup>9</sup> Indeed, over the phasing-in period, Greek shipping firms would be granted access to the coastal trades of the other member states. Hence, several private carriers, mainly of Greek origin flocked in, introducing new, modern vessels and superior services.

Gerasimos Strintzis introduced the first ‘fast ferry’ in the liberalised Adriatic market in 1993.<sup>10</sup> Superfast has since introduced a further eight new vessels into service, four ships on the Adriatic, and similar ships on the Baltic Sea between Hanko in Finland and Rostock, Germany. In May 2002, a further pair of ferries was brought into service connecting Scotland and Belgium across the North Sea (Rosyth-Zeebrugge). In

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<sup>6</sup> *Lloyd's List*, June 26, 1999

<sup>7</sup> *Lloyd's List*, October 6, 1997

<sup>8</sup> Interview of Apostolos Athinaios, CEO of Nel Lines, *Economic Outlook* June 2002

<sup>9</sup> *Financial Times*, June 10, 1999

<sup>10</sup> *The Times*, November 24, 2000

addition, this route is financed by the European Union through the community program PACT (Pilot Action for Combined Transport).<sup>11</sup>

The European market and liberalisation figured prominently in the strategies adopted by these coastal companies. Upon adding two more ferries to their fleet in November 1999, the chief executive of Anek Stellios Zampetakis maintained that “with the purchase of the two ferries we are accelerating the renewal plan of our fleet which is becoming established as a dominant force in the European ferry shipping industry”.<sup>12</sup> Similarly, Superfast’s Managing Director Alexander Panagopoulos commented after winning the international tender to ply the Scottish routes, that “the Scottish economy will reap many benefits from a direct connection with its European Union partners using our brand new luxury vessels”.

Nevertheless, cabotage regulations in Greece obstructed the introduction of faster ferries in the Aegean routes. In September 1997 Attica Enterprises and Strintzis Lines applied to YEN for a licence to introduce a vessel on the route between Piraeus and Heraklion, Crete.<sup>13</sup> Attica Enterprises would be using one of its newbuilding fast ferries, reducing the travelling time by thirty percent. The Cretan lines and particularly Minoan Lines that traditionally controlled the Cretan routes vehemently objected to allowing Attica Enterprises to enter this route. Refusing to deregulate this route, YEN supported the position of the Cretan lines. A meeting was organised between the YEN Minister and the Cretan operators and in its aftermath, the Minister Soumakis stated that “...we are not going to upset stability in coastal shipping in the name of competition”.<sup>14</sup> Eventually, YEN did not grant a licence on the grounds that port facilities could not accommodate increased capacity and that the existing operators were providing an efficient service (OECD 2000: 27). In exchange, the current licensee, Minoan Lines promised to continue servicing smaller unprofitable lines and introduce a faster vessel in the coming years.

It was becoming evident to the coastal shipowners that increased competition would require newbuildings entailing much higher capital requirements. An oligopoly was

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<sup>11</sup> ANA September 9, 2000.

<sup>12</sup> ANA November 25, 1999.

<sup>13</sup> *Financial Times*, June 10, 1999

<sup>14</sup> *Lloyd's List*, October 6, 1997

emerging as the largest operators merged and acquired smaller family-owned operators. Attica Enterprises, Blue Star Ferries (formerly Strintzis Lines), Minoan Lines, Anek Lines and NE and Hellenic Flying Dolphins (formerly Minoan Flying Doplhins) have gradually dominated the market, by acquiring or merging with smaller companies or obliging them to service secondary itineraries.

Established in 1998, MFD was the product of a merger between Minoan Lines' new technology ferry lines with Ceres Flying Dolphins fleet of hydrofoils and catamarans with a network comprising more than fifty ports. As Minoan Lines was concentrating on the lines between Piraeus and Crete and Greece an Italy, MFD was perceived as a vehicle for entering the Aegean island trade.<sup>15</sup> Minoan Lines, together with long-time associate Pantelis Sfinias and another partner owned seventy percent of the joint venture, while Peter Livanos' Ceres group retained thirty percent.<sup>16</sup> Initially, MFD was granted two controversial licences for the route to the north-eastern Aegean islands of Chios and Mytilini, ending the longstanding monopoly of local NEL Lines.

In contrast to the EU induced movement towards deregulation and competition MFD attempted to incorporate the entire Aegean coastal trade within its operations. Pantelis Sfinias was the person who orchestrated a string of mergers and acquisitions of MFD with numerous smaller companies. In addition, his legitimacy and influence was enhanced as the President of the Union of Greek Passenger Shipowners. Sfinias was able to persuade the smaller owners to offer their tonnage within the larger structure MFD by propagating the formation a strong Greek coastal industry that would deter the entrance of EU ferry operators.<sup>17</sup> Markedly, in 1999 thirty-two ferries were bought from smaller, long-standing companies.<sup>18</sup> Agapitos Express Ferries, Agapitos Lines, Goutos Lines, Nomikos Lines, Mouloupoulos, Moiras, Lazopoulos, Stathakis, Tyrogalas, Kavounides, Frangoudakis and Efthymiadis were acquired by MFD. As these were family-owned companies, the agreements were consensual and the smaller owners received MFD stock equivalents of their tonnage.<sup>19</sup>

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<sup>15</sup> *To Vima*, April 29, 2000.

<sup>16</sup> *Lloyd's List*, February 19, 2000

<sup>17</sup> Interview of Klironomos, President of Minoan Lines, *To Vima*, February 18, 2001.

<sup>18</sup> *The Times*, November 24, 2000

<sup>19</sup> *Lloyd's List*, February 19, 2000, *To Vima*, December 3, 2000.

Consolidation and fleet modernisation are linked to another change in the corporate practices of ferry operators. In an effort to raise the necessary capital, the five largest operators, Attica Enterprises, Minoan, Strintzis, Anek and NEL are listed on the Athens Stock Exchange. Indeed, this is a break from the practices of the mainly family-owned companies that traditionally serviced the coastal routes. Illustratively, through its Initial Public Offering, the objective of Anek was to raise \$67m that would be used to finance its first ever newbuilding, to upgraded its fleet in accordance with Solas requirement and cover working capital needs.<sup>20</sup>

One the other hand, the largest trade union, the Panhellenic Seamen's Federation continued to oppose the deregulation of the market.<sup>21</sup> The main reason cited was that half of its membership was employed in the coastal industry. It was anticipated that increased competition would oblige shipowners to minimise crew costs. Even further, the trade unionists were concerned that YEN would lose its discretion in designating crew composition. With the influx of foreign competitors and flags of convenience, crews from developing countries would be employed, dislocating the Greek crews with their larger wages, pension and health care expenses. In the words of George Velissaratos, president of the country's Masters and Mates Union, "...most of the community ships which will be eligible to compete will be manned with low-waged foreign crews".<sup>22</sup>

### **3.2 Express Samina and the acceleration of reform**

Against the background of fleet modernisation and consolidation, in April 2001 new leadership was appointed to YEN that was more in favour of deregulation. It appeared that cabotage may be abolished earlier than 2004. Nevertheless, YEN, the trade unions and the large Cretan lines remained largely opposed. However, one of the largest accidents in the ferry history of Greece in September 2001 would serve as a catalyst for reform.

This discrepancy between the coastal companies was evident in the internal proceedings of their industry associations. In the aftermath of 1992, according to the

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<sup>20</sup> *Lloyd's List*, December 16, 1998

<sup>21</sup> *To Vima*, November 26, 2000.

<sup>22</sup> *Lloyd's List*, January 15, 1998

Managing Director of NEL, the coastal shipping industry had been divided over the competition for licences. Hence, from 1999 to 2001, the coastal industry was effectively without institutional representation. Whilst YEN was developing a set of objectives and policies with the aim of deregulating the sector the coastal shipowners were unable to agree upon a coherent policy towards the YEN.

In the elections for the executive council of the EEEP in April 2000, Minoan Lines and Minoan Flying Dolphins elected two members, the President of both companies, Costas Klironomos and the General Manager of MFD, Nicholas Vikatos. Concurrently, Periklis and Alexander Panagopoulos were elected as well as Gerasimos Strintzis. The presence of the Minoan Group in EEEP was interpreted as the confrontation in EEA moving to EEEP.<sup>23</sup>

Subsequently, the President of Minoan Lines, Costas Klironomos proposed to the EEEP to merge with EEA in the creation of a unified and strong union to represent the interests of Greek coastal shipping.<sup>24</sup> President of EEEP, Andreas Potamianos and EEA, Padelis Sfinias declared their intention to form a united platform for promoting the interests of the coastal industry. This would be in the benefit of all stakeholders in mobilising not only at the national but also the European level.<sup>25</sup>

In response, the Attica Group, Strintzis and ANEK made public their intention to establish a new coastal association to represent their interests. Both Panagopoulos and Sifis Vardinogiannis (largest shareholder of ANEK) made public their intention to create a new association as it was felt that Minoan was attempting to dominate both associations.<sup>26</sup>

Nevertheless, in September 2001 the ferry Express Samina operated by MFD sank off the island of Paros with a loss of eighty lives. This was recognised as the largest ferry accident for over three decades. The public outcry was considerable and the timing seemed appropriate for accelerating the abolition of cabotage. Illustratively, the Greek daily *Kathimerini* wrote that the sinking of Express Samina is “the tragedy necessary

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<sup>23</sup> *Naftemporiki* April 4, 2000.

<sup>24</sup> *Express*, April 18, 2000.

<sup>25</sup> *Naftemporiki*, April 18, 2000.

<sup>26</sup> *Naftemporiki*, April 20, 2004.

to shake the foundations of state protectionism over both trade union interests and big capital in the shipping industry".<sup>27</sup>

However, the accident instigated a broader discussion on the unregulated expansion of MFD in the late 1990s. Criticism was levelled against a close-knit community of Ministry advisers that allowed the MFD to acquire a dominant position in the Aegean coastal trade.<sup>28</sup> Concurrently, the EC Transport Commissioner sent a letter requesting for details on Express Samina sinking. In addition, the EC official Francois Lamoureux of the Transport Directorate sent a letter to YEN to criticise the poor safety standards of the Greek coastal shipping fleet.<sup>29</sup>

Further, the accident had implications for the composition and role of the Union of Coastal Shipowners (EEA). Its president Panteldis Sfinias committed suicide in response to criticism levelled against MFD. As the President of the UCS he had promoted the necessity of consolidation to prepare the industry for the opening to European competition. This was put into practice with the creation of MFD as a vehicle for acquiring smaller shipowners.<sup>30</sup> Stelios Zampetakis, CEO of Anek Lines replaced Sfinias as the President of the EEA. Under this new leadership, the EEA lobbied vigorously at the domestic and European levels on changing provisions of domestic law on the liberalisation of the domestic ferry market. At the EU level the executive committee and general assembly of EEA had decided to challenge the national legislation on coastal shipping through judicial processes.<sup>31</sup> More specifically, the EEA was opposed to the imposition of fare controls by YEN, the Ministry's expressed aim of reducing the maximum age for ferries from 35 to 30 years and provisions related to Greek crew manning of ships.<sup>32</sup>

As a response, the government announced the abolition of cabotage by November 2002 and the dismantling of the system of licences.<sup>33</sup> In securing regular and efficient services for unprofitable routes, the European Union exemption for public service would be utilised in providing subsidies. With respect to the average age of the fleet it

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<sup>27</sup> *Kathimerini*, October 1, 2000

<sup>28</sup> *Financial Times*, December 13, 2000, *Lloyd's List*, December 9, 2000

<sup>29</sup> ANA, October 2, 2000.

<sup>30</sup> *Lloyd's List*, December 9, 2000

<sup>31</sup> *Express*, September 25, 2001.

<sup>32</sup> ANA, August 1, 2002.

<sup>33</sup> *Economist Intelligence Unit RiskWire*, March 29, 2004, *Lloyd's List*, October 20, 2000,

was agreed that it would be decreased to thirty years until 2006. In addition, the government pledged to improve training, including the establishment of private nautical colleges, improved safety and the establishment of a vessel traffic control system for Aegean.<sup>34</sup>

In June 2001, the Greek parliament passed Law 2932 for the 'freedom of offer of maritime transport services in Greece, and other issues'. According to one interpretation, the law stipulates that the domestic maritime transport market should be open to operators from any of the EU member states (Giannopoulos and Aifandopoulou-Klimis 2004). The market would determine tariffs and supply per route, whilst non profitable services would again be available within an open bidding yet the operators would be subsidised (Lekakou, Papandreou and Stergiopoulos 2002, Psaraftis 2003, Psaraftis 2004).

The bidding process is on an annual basis and to be completed within seven months commencing in the November of the previous year. Hence, by the end of May one-year contracts should be authorised and signed for the companies to provided services for the line chosen. Already there is criticism of the bureaucratic and organisational burden of undergoing this procedure entails every year. In November of each year, the government offers a 'desired' number of lines to operators from any EU member state. On their side, operators are required to specify the line, frequency, timetable of services and fares. In addition, the operators can propose to provide services on lines that do not belong to the 'desired' lines. Accordingly, the government proceeds to approve a first set of services. At this stage, the government does not select between operators and will only intervene if too many operators have requested the same or overlapping time intervals for arriving and departing at ports. Evidently, the ports can refuse these on the grounds of limited capacity and port congestion. Subsequently, a second round is organised for the lines for which offers were not made by operators. If these lines remain unwanted, then the government either abandons the line or on the ground of public service, a third round is organised but this time the lines are heavily subsidised. One of the factors determining the final selection is on the lowest subsidy required. In addition, Law 2932 entails the reduction of the maximum age of ferry

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<sup>34</sup> *Lloyd's List*, October 9, 2000, *EIU RiskWire*, May 13, 2003, *To Vima*, June 25, 2000.

ship from thirty-five years to thirty years by 2006 (Giannopoulos and Aifandopoulou-Klimis 2004, Psaraftis 2002, Psaraftis 2003).

Although the Law was presented by YEN as a move towards the deregulation of the sector, several clauses allow for the YEN to retain an influential role. YEN reserves the right to refuse a licence to an operator. In addition, citing public service reasons, YEN can oblige ferry operators to provide services in unprofitable routes. Although some flexibility is recognised in the determination of fares, YEN continues to determine concession fares for a variety of social groups. Furthermore, any vessels operating in the coastal market are obliged to employ Greek crews or alternatively demonstrate Greek language proficiency for non-Greek crew members.<sup>35</sup> Both the shipowners who opposed liberalisation and those who supported it criticised Law 2932 as being hastily drawn and for the lack of consultation with the relevant stakeholders.<sup>36</sup> Indeed, the intention was to further deregulate rate fixing, itineraries and crew composition.<sup>37</sup>

Moreover, the application and monitoring of the new system would be conducted a new authority, the Monitoring Authority for Inland Maritime Transport (RATHE).<sup>38</sup> Certain commentators have described RATHE as an institution allowing the European Commission to intervene in the regulation of the coastal industry.<sup>39</sup> More specifically, RATHE is authorised to ensure that competition in line with EU legislation is conformed to and to prohibit cartel practices in the setting of prices or routes. Offenders must provide explanations for their practices and RATHE has the authority to impose fines. According to the legislative framework, the members are appointed by the YEN Minister for periods of five years. In addition, the appointment of the President and Vice-President requires the opinion of the Maritime transport issues Committee of the Parliament.<sup>40</sup> The existing YEN bureaucracy was sceptical of the new authority as its responsibilities were seen to overlap with the Ministry's portfolio. However, private actors such as Attica Enterprises and Strintzis Lines that had been marginalised from coastal shipping policy welcomed the new institution. Expressly,

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<sup>35</sup> *Lloyd's List*, March 7, 2001

<sup>36</sup> *Transport Europe*, November 16, 2000

<sup>37</sup> *To Vima*, August 8, 2002

<sup>38</sup> RATHE Official Website, <http://www.rathe.gr/pages/main.htm>

<sup>39</sup> *To Vima*, February 18, 2001

<sup>40</sup> *Lloyd's List*, March 7, 2001

Alexander Panagopoulos, Managing Director of Superfast Ferries approved of RATHER as it represented the entirety of the industry.<sup>41</sup>

Any pending applications for licences would be granted as long as necessary technical requirements were fulfilled. Indeed, Attica Enterprises and Strintzis Lines had five pending requests for five newbuildings. After several failed attempts to penetrate the Aegean inter-island market, dominated by the Crete-based Minoan Lines, Attica's Superfast Ferries has obtained licences from the government to operate services on the important Piraeus-Crete and Piraeus-Rhodes routes. A further licence has gone to Strintzis Lines to commence Strintzis' second service connecting the mainland with the Cyclades.<sup>42</sup> Minoan Lines and Anek vehemently opposed the provision of licences to other ferry operators. The president of Minoan Lines, Klironomos accused the YEN Minister C. Papoutsis of collusion with the ownership of Superfast ferries. Even further, he publicly threatened that Superfast Ferries not to “dare” to commence its service to Crete.<sup>43</sup> He went on to call upon Cretans not to use the Superfast ferries in the interest of Crete.

In May 2002, the EC gave its first formal response to the complaints of the coastal shipowners regarding Law 2932. Indeed, the EC acknowledged that the shipowners' responses were valid, particularly in relation to the system for administering licences to coastal companies. However, it was noted that the EC could not initiate any legal procedures against the Greek government with respect to the implementation of Regulation 3577 before January 1, 2004 with the end of the derogation period (Psaraftis 2003).

### **3.3 The arrival of January 2004**

The arrival of the formal liberalisation date on the 1<sup>st</sup> of January 2004 issued forth further controversy and bargaining over the terms of liberalisation. Indeed, the coastal shipowners through the EEA are pushing for the immediate implementation of EU legislation in liberalising the coastal market. On the other hand, the seafarers' unions and the islands communities are mobilizing against these measures. The EC is siding

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<sup>41</sup> *To Vima*, August 8, 2002

<sup>42</sup> *Financial Times*, December 13, 2000

<sup>43</sup> *To Vima*, October 29, 2000

with the shipowners whilst the state is trying to preserve the role of the YEN in determining fares and ensuring that all island communities are serviced by the coastal transport system.

In an April 2005 statement, the EEA insisted on the immediate implementation of EU Directive 3577/92 and the abandonment of the current legislation that is obstructing the smooth operation of coastal companies and undermining the prevalence of market principles and fair competition in the sector.<sup>44</sup> The EEA accused YEN of not proceeding with full liberalisation of domestic market. In May 2004, after a General Assembly meeting, it was announced that the member companies of the EEA would be proceeding with a so-called self-liberalisation of the coastal transport market. It was made clear that this decision rested on the legal superiority of EU Regulation 3577/92 over the relevant national legislation.<sup>45</sup>

In June 2004, the EEA sent a memorandum to YEN detailing the positions and requests of its members. To cover the increased costs related to fuel and bunkers, the shipowners estimated that an average 15% increase across all types of fares would be required. In addition, it was calculated that current levels of fares were 62% lower than the entitled due to arbitrary reductions over the period from 1993 to 2003.<sup>46</sup> The requests of the EEA are the liberalisation of the domestic market according to EU legislation, the abolition of compulsory special and discounted fares in line with the requests of the European Commission, the application of Community Directives 2003/23 and 2003/24 in the case that maximum age for vessels was revoked and the reconsideration of state aid in line with Community guidelines.<sup>47</sup>

Further, the EEA is in a position to impose internal discipline. The executive council made clear that any member company that would submit the letters of guarantee would be automatically expunged from the association.<sup>48</sup> In addition, the EEA is pushing for the abolition of maximum vessel age at 35 years. It has been noted that by 2010 approximately sixty vessels must be withdrawn from active operation if the age

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<sup>44</sup> *Naftemporiki*, April 22, 2005.

<sup>45</sup> *Naftemporiki*, May 27, 2004.

<sup>46</sup> *Naftemporiki*, July 1, 2004, November 25, 2004, June 13, 2004.

<sup>47</sup> *Naftemporiki*, July 16, 2004.

<sup>48</sup> *Naftemporiki*, October 21, 2004.

limit were to be retained. The EEA remains consistent in requesting the free management and operation of coastal vessels and fair competition after the abolition of cabotage commencing from January 1, 2004.<sup>49</sup>

The coastal shipowners unilaterally announced that they would be increasing fees by ten percent. The YEN Minister Kefalogiannis described such actions as illegal and in contravention to national legislation and specifically law 2132/2001. Notably the Minister claimed that unilateral actions are not commended especially without prior consultation with YEN. However, the President of the EEA, Sarris pointed out that the “de facto, European legislation overrides member state legislation”. The formal position of the EEA is that the Greek state is breaching European laws and Directives in preserving an approach of state intervention in the market.<sup>50</sup> In addition, it was pointed out that the member companies had to preserve shareholder value.<sup>51</sup>

Concurrently, after holding the position of Secretary General of EEEP from 1997 to 2003, Alexandros Panagopoulos president and managing director of Superfast ferries played an instrumental role in reviving the High Level Ferry Group within the European Community Shipowners’ Association (ECSA). In June 2003 he was elected President of the Group. In the words of Panagopoulos, the objective of the group is “...is to have an active role in shaping issues that concern passenger shipping in the European Union”.<sup>52</sup> The Group will be representing a number of EU shipping companies.<sup>53</sup> Aside from Superfast the only other Greek owned company to join is the G. Yannoulatos, the Chairman of Hellenic Mediterranean Lines.

Indeed, as it had explained to the coastal shipowners, with the advent of 2004, the EC was in a position to legally pursue the liberalisation of the Greek coastal transport market. On February 3, 2005 the Vice-President of the Commission Loyola de Palacio sent a letter to Ministries of Foreign Affairs and YEN. In this letter the Greek state

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<sup>49</sup> *Naftemporiki*, July 25, 2004.

<sup>50</sup> ANA, July 24, 2004, ANA, May 28, 2004.

<sup>51</sup> *Naftemporiki*, June 3, 2004.

<sup>52</sup> *Naftika Chronika* June 12, 2003.

<sup>53</sup> The HLFPG comprises the following member companies: Brittany Ferries, Color Line AS, Corsica Ferries, DFDS Seaways, Hellenic Mediterranean Lines, Irish ferries, P&O Ferries, Rederi AB Gotland, Scandlines, Sea Container Ferries, Sea France, Silja Line Oy, Société Nationale Maritime Corse-Méditerranée, Stena Line AB, Superfast Ferries, TT-Line, Viking Line AB.

was heavily criticised for not fulfilling its obligations arising from Directive 3577/92 on the free provision of maritime services within member states. Also, the recognition of public service lines was put into question as the Commissioner stated that each service should be judged on an individual basis. In addition, explanations were requested with respect to Greek legislation on the issues of imposing a maximum age on vessels, certificate of Greek language for EU seafarers and the obligation of shipowners to appoint a representative in Greek and establish a representative office. YEN requested an additional month in order to provide an explanation for not opening entirely the domestic coastal industry as of January 1, 2004. The formal deadline was April 5, but YEN asked for the date to be moved to early May.<sup>54</sup> It was reported in the press that the YEN Minister had telephone discussions with EEA.

The Commission sent a second letter of formal notice to YEN in April 2005 regarding the inconsistencies between law 2932/01 and community legislation.<sup>55</sup> In the letter it was noted that the interpretation of YEN regarding the EU Directive was restrictive with respect to the crew numbers and the provision of services by maritime companies. In addition, it was noted that Presidential Decree 101/95 on the regulation of issues such as ship equipment, percentage of economy class passengers the pricing of food on board were inconsistent with EU legislation. The shipowners agrees that free market principles should be applied to those coastal lines that remain commercially viable. The remaining lines should be seen as public service according to the stipulation of national and EU legislation.<sup>56</sup>

On the other hand, YEN insists on articulating the provision of maritime transport as a 'social cohesion' issue. Therefore, amongst a number of points of contention between the state and organised shipping continue to be crew composition, the fixing of rates, third party dues built into fares, concession rates for various social groups as well as the servicing of small islands throughout the year.<sup>57</sup> In responding to the Transport Commissioner de Palacio, the Secretary General of Yen, Ioaanis Tzoanos maintained that the provision of coastal transport is not an instance of perfect competition. Rather, it naturally tends towards an oligopoly and instances of destructive

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<sup>54</sup> *Naftemporiki*, March 29, 2004.

<sup>55</sup> *Naftemporiki*, April 25, 2005.

<sup>56</sup> *Naftemporiki*, March 29, 2004.

<sup>57</sup> *To Vima*, July 04, 2004, *Lloyd's List*, July 14, 2003, *To Vima*, 03 October 2004.

competition and market failure will result in many small island communities being neglected.<sup>58</sup> This would be compounded by the seasonal character of the market. Hence, YEN claims that if the market was entirely deregulated private operators would gravitate towards providing services in the summer months. Heavy subsidising would be required to attract shipowners in operating their vessels during the winter months.

#### **4. The EU, Greek politics and coastal shipping**

The effect of the negotiations in the period between 1986 and 1992 was minimal on the domestic institutional framework. Over this period and until the mid-1990s, the veto points, YEN, coastal shipowners associations, the trade unions and local politics were opposed to the liberalisation the market and deregulation and any change to the existing system of licences. The only exceptions were individual coastal companies, namely Attica Enterprises and Strintzis Lines. Hence, in a unitary state with weak integrated leadership, the convergence of the veto points against reform denoted that the adaptation pressures that were mediated through the EU would not effect much change to the domestic institutional configuration. Even if EU material and immaterial resources were becoming available, the domestic actors would not recognised these to effect domestic change.

Initially, it was the expectation of reform in January 2004 that pawned changes in the structure of the industry and business practices of the coastal shipowners. These economic changes had significant political implications in resulting in a few large private actors that supported and promoted reform individually and through their reconfigured industry associations. Corporate restructuring, fleet modernisation and consolidation through mergers, acquisitions and joint ventures changed the scene within the coastal market. In addition, the availability of capital through the growing equity market provided further opportunities for fleet expansion and market growth. If the EU induced expectation of the market opening did not exist, Attica Enterprises would have been prohibited from gaining market access. Indeed, the European Commission continuously reminded the domestic actors of the 2004 deadline. Hence,

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<sup>58</sup> *Naftemboriki*, May 21, 2004.

as Attica Enterprises succeeded in the Adriatic market and by raising capital in the buoyant Athens Stock Exchange it obtained the financial resources to purchase a controlling part of one of the major actors in the domestic market, Strintzis Lines. The latter was also in favour of liberalisation so this may have facilitated the agreement between the management of the two companies. Concurrently, actors opposing liberalisation, such as the trade unions began to recognise the political significance of the EU by seeking direct contact with the European Commission.

Nevertheless, the system of licences remained robust well into early 2000. This is exemplified by the attempts of Strintzis Lines and the Attica Group to secure licences from YEN to operate vessels on the Cretan routes. Yet, the relationships between YEN, the Cretan shipping companies and local politics, underpinned by bureaucratic clientelism was too strong to allow for competing companies to enter the lucrative Cretan lines. Similarly, Sfinias was not halted by the Greek state as he attempted to maintain the status quo by internalising it within Minoan Flying Dolphins through an aggressive spree of acquisitions and joint ventures. Against this background, the Express Samina accident accelerated the liberalisation of coastal shipping although it remains inconsistent with EU legislation.

As the deadline for January 1, 2004 approached, there is considerable evidence of usage of EU material and immaterial resources. Material resources in the form of EU institutions and policy instruments were used by the domestic actors in shaping domestic political results. Direct contacts between domestic industry associations and EC officials, particularly the Transport Directorate as well as MEPs were pursued. After 2004, the coastal shipowners have legal resort at EU judicial institutions. Panagopoulos, the Managing Director of Superfast Ferries revived the High Level Ferry Group within the ECSA as an indirect channel of contact and influence with the EU Commission and Parliament. Similarly, the state used the EU institutions in shaping the domestic political game. Illustratively, in constraining the opportunities for the Greek coastal shipowners, the YEN Minister sought the adoption of a maximum vessel age at the EU level. Similarly, alongside the traditional means of protests, strikes and consultation with government ministers and state officials, the trade unions sought contact with the EU Commission and Parliament. In tandem, the indirect route through European level trade unions was utilised in seeking to halt the

liberalisation. Further, the islands communities organised committees at an island and Panaegean level, planning protests, utilising the Ministry of the Aegean in representing their interests at the EU level and mobilizing through European island community unions.

There is a marked increase in the usage of policy instruments, particularly after the adoption of Law 2932 on the liberalisation the domestic market. The coastal shipowner associations cited innumerable times the EU Directive 3577/92 in statements, speeches, declarations, memoranda and letters in pursuing an open market in the provision of coastal transport services. In parallel, EU legislation was used in expanding their commercial activities beyond Greece and most notably successfully dominating the Italy-Greece sea routes. To a lesser extent, YEN used the same Directive in grounding its intervention in fares and the 'thin lines' to ensure social cohesion across the Greek territory. In the same vein, the trade unions and the island communities are making reference to broader EU guidelines and declarations in favour of employment and the protection of island communities.

Regarding immaterial resources, there is primarily evidence of the usage of legitimizing resources by domestic actors. In the aftermath of the consolidation of the industry the government, coastal shipowners, trade unions and local committees used the notions of 'European interests', 'European constraints', 'European economy', 'European competition' and the 'European Idea' in furthering their interests. The usage of the EU as a legitimizing device was in order to further reform as well as preserve the status quo.

Thus, these economic and regulatory changes have spawned change in the existing model of state corporatism. A weakening in the preferential ties between the state and private actors can be witnessed. Domestic actors that were once excluded from state corporatist arrangement such as newly established companies and the island communities have more resources available in influencing policy-making.

On the one hand the state has become more inclusive as the longstanding machine politics are being dismantled. This evinced in the internal reform of YEN and the establishment of RHATE, a more transparent and representative body for the

formulation of coastal shipping policy. Indeed, Alexander Panagopoulos, Managing Director of Superfast Ferries approved of RATHÉ as it represented the plurality of interests in the industry.<sup>59</sup> In addition, the system of licences that underpinned a bureaucratic clientelistic arrangement encompassing the YEN, traditional coastal shipping companies and local politics being replaced by a more transparent and market based system of allocating routes. In addition, small island communities such as Ikaria can proceed with establishing local companies to serve their transport needs, an option that did not exist under the previous regulatory framework.

It is possible to contend that changes have occurred to the patterns of public-private relations. Importantly, the formal veto points (YEN) has been internally reformed and a new authority RHATE allows for the complete articulation of the interests of the coastal industry. This entails the dismantling of longstanding relations between YEN with certain shipowners and local interests. Also, the industry's associations are not controlled by the traditional operators offering another channel of influence for operators that were erstwhile marginalised. Hence, domestic and even European ferry operators as well as consumer groups and shippers are able to articulate their interests both at the national and European levels. Indeed, this is demonstrated in the current disagreement over the degree of deregulation. However, the opposing actor constellations are more evenly represented and the EU may tip the balance in favour of those actors seeking further deregulation. Five years ago this would have been quite improbable.

Thus, over the longer period of nearly one decade, state corporatism in coastal shipping industry has weakened. The longstanding machine politics that characterised the industry are being dismantled as new actors muscled into the political process whilst existing private actors either disappeared or underwent restructuring. Alongside the top-down effects that the European integration entails, EU material and immaterial resources were made available to the domestic actors. Regardless of their position on the liberalisation of coastal shipping, domestic actors have recognised, legitimised and used the EU in the formulation of domestic coastal shipping policy.

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<sup>59</sup> *To Vima*, August 8, 2002

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