Ailing Greece Tries National Tag Sale

Wall Street Journal Europe

By Charles Forelle

June 28, 2011

ATHENS—Debt-strapped Greece is about to hold an epic yard sale.

For the taking: four wide-body Airbus jets, a state lottery, a state horse-racing concession and sports book, stakes in a casino, several ports, a national post office, two water companies, a nickel miner and smelter, a munitions maker, electricity and gas monopolies, a telecommunications operator, shares in a half dozen banks, hundreds of miles of roads, a defunct airport, old Olympic venues and thousands of acres of land, including magnificent stretches of Greece's famed coast.

That wasn't what Greece had in mind when it began wrangling with other euro-zone countries and the International Monetary Fund for a second dose of bailout money. But the nation's rescuers are leaning hard on Greece to come up with fresh cash. Selling off government goodies, the rescuers hope, will raise €50 billion (about $71 billion) by 2015. Every euro drummed up that way is a euro that Germany and other healthy countries don't need to lend.

But finding buyers for that grab bag of assets is likely to be a very tall order. Obstacles abound, including unions hostile to selling state-owned companies, citizens opposed to the privatization of state-owned land and a bureaucratic labyrinth that has long thwarted would-be developers.

To make matters worse, many of the available properties have already been offered for years, with no takers. Since 2000, Greece has netted some €10 billion from privatization. Now it must do five times that much in less than half the time.

"The markets in Greece now, as a result of the economic and financial situation, are not good for proceeding to sales," says Yannis Papantoniou, a former finance minister who now heads a think tank linked to the ruling Socialist party. "Prices are low." Hitting the sales target, he predicts, will be "a difficult thing to achieve."
Anavysos saltworks: It stopped producing salt in the 1960s, and the site sits empty. The beach is a mile-and-a-half long. *CHARLES FORELLE/THE WALL STREET*

Hellenikon airport hasn't seen flights in years, but it's not far from central Athens and right on the water. Contains old Olympic arenas.*CHARLES FORELLE/THE WALL STREET*

Greece has no choice but to try. Despite the €110 billion of bailout money it already has received, it is running low on cash and needs another €100 billion or so to pay its bills. The European Union and the IMF have made both privatization and budget cuts a condition for new aid. Greece's parliament will hold a key vote on its five-year austerity and privatization plan on Wednesday.

The Greek finance ministry didn't respond to requests to interview the country's privatization chief or other ministry officials. An EU spokesman declined to discuss privatization. Both Greek and EU officials have said it is essential that the Greeks follow through on the plan.

Several of Europe's other sovereign-debt patients are trying similar medicine. Portugal is hustling to find buyers for its state-owned oil company, electric utility, grid operator, airline, airports and a government-owned bank.

**TT Hellenic Postbank:** Greece wants to sell a 34% stake in the bank, currently worth about €250 million. *AFP/GETTY IMAGES*

In Ireland, a government commission in April recommended selling much of the country's electric utility, privatizing ports, dumping the state's remaining shares in *Aer Lingus*, disposing of forestry assets and a company that makes power from peat, auctioning fishing rights and selling
state tour-bus operators. Also potentially on the block is Ireland's National Stud, a thoroughbred farm that bills itself as "Our National Treasure."

Even Spain, which is in relatively better shape than the other three nations, is planning to sell stakes in its national lottery and airports, in case it needs the cash.

As recently as early last year, Greece had estimated that privatization could yield, at best, €1 billion or €2 billion a year. EU authorities originally asked for just €3 billion in privatization revenue over the period of the first bailout, which runs until mid-2013.

That changed in early 2011. Greece's effort to increase tax revenue was undermined by tax evasion—a common scourge—and a deep recession that pummeled small businesses. To substitute for the missing tax revenue, the bailout's planners settled on privatization. At a press conference in Athens in February, the IMF official in charge of Greece said the fund and the EU expected to see €50 billion raised through privatization.

The EU expects the bulk of the €50 billion to come from the sale of government-owned land. There is plenty of that. An umbrella company for most of Greece's government real estate counts some 70,000 properties. They include beaches, commercial sites in Athens, farmland, government buildings and railroad rights-of-way. A few years ago, the socialist think tank estimated the value of the portfolio at about €300 billion.
European authorities are leaning on Greece to raise €50 billion through sales of state assets and long-term leases on government land. Some prime pieces on the block:

1. Kamena Vourla campground: A sprawling waterfront property with two hot springs.
2. Mont Parnes casino: The state has a stake in a joint venture with resort operator Hyatt.
3. Athens International Airport: The airport, which opened in 2001, is majority-owned by the state.
4. Hellenikon airport: Hasn't seen flights in years, but not far from central Athens and right on the water. Contains old Olympic arenas.
5. Vouliagmeni marina: Ritzy marina in a protected cove south of Athens. Greece says it already has seven solid bids for a 40-year lease.
6. Anavyssos saltworks: It stopped producing salt in the 1960s, and the site sits empty. The beach is a mile-and-a-half long.
7. Afandou golf course: An aging golf resort on the island of Rhodes. Greece has tried to redevelop it for three decades.
9. TT Hellenic Postbank: Greece wants to sell a 34% stake in the bank, currently worth about €250 million.
10. Greek railway The state owns it outright.
But Greece isn't precisely sure what it has, let alone what it is really worth now and whether buyers will regard it as developable. Thousand of parcels are occupied by squatters. The government is hiring assessors to assemble a proper registry and to estimate values—a process that could take a year.

"There is a large, large state portfolio that has been accumulated through the centuries," says Peter-Panayiotis Mihalos, a real-estate executive in Athens. His firm, Southeast Group, is working to put a price tag on thousands of parcels held by the state railway. They were valued at €4.6 billion in 2005, but the new figure is expected to be significantly lower.

Greece's prime minister has vowed that the state land up for privatization won't be sold outright, but will be offered only under long-term leases.

Greece has had trouble for years eking money out of its government land holdings. More than a decade ago, the state established a special-purpose company to manage—and eventually privatize—the government's collection of hotels, resorts and spas, many of which are a half-century old. Greece tried to partially privatize the company by listing it on the Athens Stock Exchange, but the deal fell through in 2004.

Hellenic Tourist Properties SA, or ETA as the company is known in Greek, has been hit by losses, due in part to write-downs on its property holdings.

George Katrougalos, a law professor who has challenged privatization on behalf of union clients and is writing a book on the topic, is skeptical that the government will get anywhere near its sales goal. "Fifty billion euros," he says, "is a joke."

For would-be buyers, developing property means plowing through a thicket of obstacles.

Step one: It often isn't clear who owns a parcel. Land records and registries are sketchy. Before 1915, it was possible for private citizens to acquire government property if they had occupied it long enough—so people dig through old records seeking to prove claims.

"The courts are deluged with not just legal arguments, but with history," says Mr. Katrougalos.

Owning property is only half the battle. Zoning rules are bewildering. To develop requires permission from myriad government entities—federal offices and ministries and municipalities. A development that impinges on trees requires approval from forestry officials, one on the coast from environment bureaucrats. Since large chunks of prime tourism land are waterfront plots that back onto forests, everyone gets involved. And complaining citizens can tie up the process for years.

It is "very delicate work," says Nikolaos Triantafyllopoulos of the University of Thessaly, who works with ETA.

In a 2006 paper, Mr. Triantafyllopoulos described the saga of a coastal property on the island of Zakynthos. After years of legal sparring over whether it was private or publicly owned, it was deemed private and sold to a pair of Greek-American developers in 1993.
Then the government reversed course and decided it was public. The developers, who intended to build a $500 million resort, sued. The case bounced through the courts. The developers won. The government relented. In December 1999, the investment plans were finally approved.

That same day, a fresh governmental decree came down: The shoreline was a protected habitat for the loggerhead sea turtle and no buildings could be built. The project died.

Greece is proposing a "fast track" procedure that would eliminate some of the requirements. ETA has submitted a list of 10 sites it thinks can be privatized quickest. They include the site of a former saltworks on a mile-and-a-half of beach, an old golf course on the island of Rhodes and a 200-acre waterfront plot with campsites and thermal baths.

The saltworks, an hour south of Athens, shut in 1969. The site is now vacant. There is a sandy beach on a protected cove and a small concession that provides drinks and lounge chairs. ETA has tried repeatedly to attract an investor who would build something. It hasn't worked. A recent effort was derailed by a planning requirement that new construction be at least two meters above sea level. Large swaths of the site are lower.

Hot springs should be a good tourist draw. Avgi Markopoulou, ETA's president, says the Greek state has several spa properties, but that it is "difficult to find someone to run them."

ETA has had some success. Several marinas have been privatized, and Ms. Markopoulou says there are seven strong bidders for a ritzy marina south of Athens. She says she hopes the fast-track process will "help some things." But "the fast track cannot undo laws," she laments.

In the suburban region north of the old saltworks, Anna Skouloudis, a retired Olympic Airlines flight attendant, has that figured out. She plunged into environmental activism in 2004, when a government decree opened up big chunks of the region's shoreline to privatization. She feared a glut of big hotels and private beaches would choke off local access to the shoreline.

"The square meters they authorized for building are going to destroy completely the natural habitat of the coast," she says.

Ms. Skouloudis's small group raised €8,500 for a lawyer to fight the privatization plan. Her complaint, joined by 100 citizens and five activist groups, claimed the government decree was missing signatures of the ministers of culture, sport, maritime affairs and agriculture. A proper environmental assessment, it said, wasn't done. It argued that the development runs counter to Article 24 of the Greek constitution, which says the government must protect "the natural and cultural environment."

The case went before the Council of State, a constitutional court that handles disputes between citizens and the republic. It is respected for its probity, but also is known for its plodding ways—years have been chewed up deciding whether the court has jurisdiction. The case is pending.

Dogged opposition can stall development for years. That's what happened outside of Athens, at the Hellenikon airport. On a recent afternoon, it was quiet. The control tower was empty, the terminals barren. Nothing landed. Nothing has landed for years. A man in the abandoned parking lot banked a remote-control toy helicopter into a stiff Aegean breeze.
Hellenikon was superseded by a modern airport in 2001. But the site remains unused. On satellite photos, it looks as if a giant bite has been taken out of Athens’s urban sprawl. Olympic arenas sit unused and rusting.

Greece has tried in vain to turn the property into something, anything. The government tried to induce Qatar to build something. A Spanish architect has dreamed up plans for commercial space and parkland.

But the mayor of the suburb where it sits, who is staunchly antidevelopment, has fought it at every turn.

—Alkman Granitsas and Daniel Michaels contributed to this article.