Manipulating Rules, Contesting Solutions: Europeanisation and the politics of restructuring Olympic Airways

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Abstract
In recent years much debate has been generated over the reshaping of the European airline industry and the restructuring of many of the heavily indebted national flag carriers across the European Union. The European Commission has sought to orchestrate this reform process by the gradual break up of monopolies in air travel and its associated services and a much tighter policing of state aid practices. The EU’s liberalising agenda in air transport, however, has met with strong domestic opposition in the member states. Nowhere else has the resistance to reform been stronger than in Greece, where for a decade successive attempts to restructure or privatise Olympic Airways have yielded very limited success. By focusing, in particular, on the initiative of the Greek government in 2003 to create a new ‘Olympic Airlines’, the article seeks to shed more light on how European stimuli for reform are mediated and dealt with in the domestic context. By linking the narrative to the conceptual literature on Europeanisation and compliance the article addresses a number of themes including: the contestation of European competition rules and the ability of national governments to manipulate them, policy entrepreneurship and complex problem solving as well as the Commission’s role as a stimulus, but potentially as an obstacle to domestic reform.

1. Introduction
Under what conditions do systems of compliance with international law lead to outcomes that are sub-optimal for each of the parties directly involved? The governance of the European Union (EU) is unique in its system of supranational law. As the EU’s executive agency, the Commission is charged with regulating the internal market: an area in which it has been able to incrementally extend its authority, supported by the European Court of Justice (ECJ). The Commission’s role in the Union’s ‘competition policy’ has a complex, asymmetrical structure, however. Whilst in certain areas, such as the regulation of state aid, its institutional authority is supported by very strong compliance mechanisms, and in others it is backed by EU legislation to enforce market de-regulation; in matters of the overall policy agenda its capability rests on cooperation with the member states (Cini and McGowan, 1998:223). It can thus insist or pull its punches on state subsidies, but it can only seek to build a consensus on specific supply-side solutions, such as privatisation. The
Commission’s role combines specific areas of authority alongside a wider set of preferences and strategy based on softer mechanisms.

Within their own domain, member governments are liable to constraints of the electoral cycle, state patronage and clientelism, and the power of organised interests. Governments may share with the Commission goals such as the restructuring of state enterprises, but themselves be limited in their capabilities to deliver such outcomes. Heavy state indebtedness can establish the logic of restructuring a major loss-making enterprise (and proceeding to its privatisation), but domestic political conditions can oblige a government to seek to manipulate EU rules on state aids in order to ease the otherwise painful transition. A game akin to ‘cat and mouse’ may ensue with the Commission. The latter cannot properly engage in an evaluation of all feasible domestic reform options or the ‘win-sets’ of national actors; rather, it must assess the use of state aids in a particular case against a general backdrop of prohibition. It has a strong negative power – able to veto solutions - but a weak proactive capability in restructuring policy debates. Moreover, the process of Commission investigation and possible subsequent challenge by member states in the ECJ can be a lengthy – and, by its nature, an uncertain - one.

This is a case study of where two key actors – the EU Commission and the Greek government – proclaimed compatible policy goals, but where their respective institutional constraints prevented them from cooperating to achieve them. The case is the attempt of the PASOK (socialist) government (under Prime Minister Costas Simitis) to restructure the ailing national flag-carrier, Olympic Airways, in parallel to the EU’s agenda of market liberalisation of the air transport sector in the 1990s. Whilst the Greek government pursued a variety of reforms after 1994, the paper focuses primarily on the 2003 initiative (the ‘Verelis Law’) to create the new ‘Olympic Airlines’. This led to a breakdown in the previous policy of tentative cooperation between Brussels and Athens, with an investigation by the Commission and a legal challenge in the ECJ – a process that took more than three years and eventually resulted in a legal victory for the Commission. The paper relates to the recent literature on Europeanisation and non-compliance, though its distinctive qualities point in the direction of a failure of cooperation and a sub-optimal bargaining outcome for both the Commission and the member government. The empirical analysis is placed within the conceptual framework of Europeanisation and models of compliance.

*The EU Commission as an actor in the domestic reform process*

The Commission’s competence to act in the air transport sector derives from several sources: the treaty provisions on transport, its powers to intervene on market-distorting ‘state aids’, and the application of internal market liberalization measures to the sector. Air transport in the EU was liberalized in three successive stages: with a first package of measures adopted in 1987 and a second in 1990, and with the final and more substantive third package adopted in 1992 and applied as from January 1993. The ‘third package’ gradually introduced the freedom to provide services within the EU and led in April 1997 to the freedom to provide cabotage, i.e. the right for an airline of one Member State to operate a route within another Member State. It comprised: common rules on the licensing of air carriers, rules on access for Community air carriers to intra-Community air routes, rules on fares and rates for
intra-Community air services and the full application of the competition rules of the Treaty to the liberalized air transport market. ²

In the general area of competition policy, the Commission’s role is an exception from the wider norm: it has supranational authority to act and the objects of regulation are the national governments themselves (Cini and McGowan, 1998: 136). Within this regulatory framework, however, a key element is the Commission’s bargaining, on a bilateral basis, with national governments in relation to industry restructuring. The bargaining process requires the Commission to elaborate its priorities, strategies and tactics, providing scope for interpretation and adjustment. The latter is, inevitably, affected by changing political agendas and leadership personalities. By the 1990s, the stress was undoubtedly on de-regulation and the abandonment of state aids distorting competition. Loyola De Palacio, the Transport Commissioner from September 1999 to November 2004, pursued her strategy with vigour, at times heightening the sense of confrontation with member governments³. In addition to Olympic, the Commission has been embroiled in disputes concerning the restructuring of Air France, Alitalia and Iberia airlines (Doganis, 2001)

The Commission acknowledged implicitly the sensitivities that would arise if it were to call directly for privatisation in the sector, but its repeated assertion of the need for a fully liberalised European market and its insistence that state intervention (in the form of aid, subsidies and patronage) should end showed a clear stimulus to national flag carriers being run on fully commercial lines. The Commission went as far as it could to structure the reform path: indeed, in 1994 it had granted aid to various European companies, ‘which would allow…their possible privatisation’ (EP Questions, 16 November 1999). Loyola De Palacio, as the relevant Commissioner, was clearly frustrated by the lack of reform and the lack of transparency in accounting in the case of Olympic Airways (EP Questions, 16 November 1999).

De Palacio outlined the Commission’s approach on a number of occasions⁴:

‘...Europe’s airline industry and economy was not strengthened by unquestioning national support for inefficient national flag carriers and the building of national champions – on the contrary, it was actually weakened. We have seen how difficult Olympic Airways and TAP have found it to develop a successful long-term strategy in spite of state aid and restructuring plans...

Ten years after liberalisation [the establishment of an internal market for transport services in 1992], the true benefits of a clear focus on a liberalised European market – and not on specific airlines – are becoming clear for European consumers…. Our initial objective is to maintain and improve the liberalised European marketplace’ [emphases in original]⁵.

The preferences of the Commission can be inferred from such public statements: the will to act was clear. The Commission’s stress was on efficiency, competition, the abandonment of state aids – broadly defined – and a vibrant European marketplace.

This is a case, therefore, that begins with the Commission taking action over the use of state aids. Indeed, it remains the central basis of the Commission’s competence to act as the case develops. However, over time, the Commission also gave important signals of its preferences in relation to domestic privatisation. No national
government could have failed to recognise the existence of the latter or to have understood that they would serve to define, in part, the range of acceptable policy solutions when flexibility on state aid rules was being sought.

Independent assessments suggest that liberalization in this sector has been ‘one of the Commission’s success stories’ (Cini and McGowan, 1998:174). However, whilst considerable progress has been made in removing the internal market barriers within the sector (Button, 2001), a greater coherence in the system of regulation has been called for (Sebastiani, 2002; Pelkmans, 2001). More generally, well-publicised disputes over the Commission’s decisions on company mergers, under EU competition policy, have provoked ‘increasing public criticism about the quality of analysis underpinning some…decisions’ (Morgan and McGuire, 2004:45). This has been sharpened by ECJ rulings overturning Commission vetoes on mergers. Thus, there is a recent questioning of the technical efficacy and coherence underlining the Commission’s interventions on competition. This would give member governments additional reason – over and above their domestic constraints - to challenge Commission decisions. Member governments, therefore, had to interpret the signals emanating from the Commission on liberalization, alongside the indications of challenge to the Commission’s actions in a series of recent cases.

**Europeanisation and non-compliance**

There are two critical dimensions to this case study: firstly, the strategic interaction between the EU Commission and the Greek government; and secondly, that between the Greek Government and domestic actors with veto-potential. The Simitis Government stood astride both, its strategy determined by the ‘nesting’ of the two arenas (Tsebelis, 1990). The literature on Europeanisation and domestic non-compliance has focussed on similar cases. Indeed, across EU policy sectors, Greece has been a disproportionately high offender (Boerzel, 2001:813) and it exhibits many of the features associated with implementation failure (Falkner, 2004; Mbaye, 2001). Studies of domestic non-compliance have given rise to a number of explanatory hypotheses, developed in the main in the environmental policy sector. A group of authors have applied the notion of ‘fit’ or ‘misfit’ between EU rules, on the one hand, and the domestic institutional and regulatory setting (e.g. Knill 1998; Knill and Lenschow, 1998, 2000; Boerzel, 2000). In this vein, Boerzel (2000) developed a ‘push-pull model’, where non-compliance is ‘most likely if an EU policy causes a significant ‘policy misfit’ and if there is no mobilization of domestic actors pressurizing public authorities to bear the costs of implementing the ‘misfitti ng’ policy’ (2000: 141). Haverland (2000) went further in his coverage of the domestic institutional opportunity structure: unwilling governments can be pushed to comply or governments may be willing but blocked by domestic actors able to veto. Heritier et al (2001) expanded the focus to a catalogue of factors, including the ‘reform capacity’ of a member state. The latter is determined by supportive actor coalitions and veto players. The relevance of veto players to policy outcomes has been most prominently developed, in comparative politics, by Tsebelis. In a recent book, he has argued that ‘policy stability’ is more likely the higher the number of veto players and the greater the (ideological) distance between them (2002:11-12). In something of a synthetic work, Falkner et al (2005a) have developed a typology of ‘three worlds of compliance’. These are intended to overcome the inadequacy of single hypotheses
and cases are to be determined by the relevance of domestic culture in relation to EU adaptation. They posit ‘three worlds of compliance’: a world of law compliance (in which priority is attached to law compliance above domestic concerns); a world of domestic politics (in which obeying EU rules is one goal amongst many and domestic concerns frequently prevail); and a world of neglect (in which EU compliance is not a goal in itself). As the authors acknowledge, culture is a dominant factor in the world of law observance, whilst interests predominate in the other two worlds.

The case of Olympic Airways sheds light on the relevance of a number of these approaches. The role of domestic veto points will be shown to be a crucial constraint on the options considered by the Greek government and on its capacity to implement change. This is not a case of the unwillingness of government to pursue reform (cf. Knill, 1998), however, nor is it one where the domestic mobilisation in support of reform was at a level greater than that of government (cf. Boerzel, 2000). As such, it is closest to the analysis of Haverland (2000), with his account of domestic blockages. The Greek setting is one where the general culture of law observance is relatively low, leaving outcomes to be more likely to be determined by the ‘domestic politics’ of veto players and their interaction (Falkner et al, 2005a). Indeed, when compliance is related to transposition of labour laws, “Neglect is the common feature of all phases of the implementation process in Greece” (Falkner et al, 2005b forthcoming). Koutalakis in his study of environmental compliance in Italy and Greece also chose to stress on the cost/benefit calculations of political actors regarding their compliance, rather than an embedded culture (2004: 756). Yet, the depiction of veto players needs to be sensitive to the structure of power in the sectoral setting. In some respects, Greece has a low number of (institutional) veto players (Tsebelis 2002: 4-5, 78-79) – thus, its record of poor transposition might seem paradoxical (Falkner et al 2005a: 8). In the case of Olympic Airways and EU competition policy, as will be shown later, it is more accurate to identify the veto players affecting the policy implementation amongst the complex of ‘company’ unions and the (partisan) actors affecting agenda setting and implementation within the governing party itself. The institutional weakness of management and the constraints on government are the other side of the same coin.

But the Olympic case has further nuances. The EU pressure to adapt was mainly in the form of state aid and competition rules. But, the application of these rules was subject to the Commission’s own interpretation and its negotiation with the Greek government. Inevitably, application and negotiation meant some variation over time in the signals, tactics and strategy of the Commission, creating some uncertainty for the Greek government to factor into its own calculations. The response of the Greek government to the actions of the Commission cannot be fully understood without reference to this unpredictability. At the same time, the Simitis Government faced severe constraints on its options at home.

2. The domestic setting: the politics of non-management

Whilst the interests and strategies of the Greek government are to be understood with reference to the ‘nesting’ of the EU and the domestic arenas (Tsebelis 1990), at home the institutional setting of the Olympic case reflects a triangular structure covering government, management and unions. The complexities and asymmetries within this
structure have largely determined the success of the action taken in relation to the company.

The capability of Greek governments to deliver substantive reform has long been in question, given the nature of state institutions, the power of vested interests and the political culture of clientelism and corruption (Featherstone, 2005). The ‘corporate logic’ of the Greek government has been weak and segmented, with differences of policy and political interest undermining its ability to act. The transformation of Olympic Airways from a privately-run airline to a public utility (Δημόσιος Οργανισμός Οικονομίας Κοινής Ωφελείας, ΔΕΚΟ/DEKO) opened a new chapter for the company’s history. Political parties, the state bureaucracy and a myriad of sectoral interests both in Greece and abroad have all, under the pretext of the OA’s ‘national mission’, sought to use Olympic as a tool for political expediency and easy money-making. Moreover, OA’s position as a public utility made it almost impossible to monitor its financial position with some accuracy. Whilst by the mid 1980s it was already clear that it was suffering heavy losses (see below), the full extent of these were not fully appreciated as the company was not required to produce detailed accounts. The picture of the OA’s finances was further blurred by the fact that the Greek state chose not to pursue the company’s huge tax and national insurance arrears and Olympic was not required to pay airport taxes and handling charges. The difficulties in assessing the scale of OA’s financial problems reflected wider weaknesses of the Greek state to regulate effectively its own public utility monopolies. Whilst the sole shareholder of OA was the Ministry of National Economy, the supervision of the airline industry came under the remit of the Ministry of Transport. The latter, however, has always been a small and relative weak ministry that lacked the expertise and human capital to perform its regulatory role adequately.

Nowhere else have the disruptive effects of clientelistic statism been more vividly manifested themselves than in the management of Olympic Airways. In the thirty years under government control, the top management (i.e. the Chairman and/or the CEO) of Olympic Airways has changed 31(sic) times, often filled with candidates that had little or no experience in the industry. The OA’s Board of Directors has also been a dysfunctional and unstable body. Filled with party-political appointees, ministry bureaucrats and union representatives (in a non-executive capacity), the membership of the board changed very frequently and its members did little to justify the substantial fee the received in order to attend the Board meetings. The net result of this cacophony was, more often than not, a managerial paralysis with no Chairman or the CEO of Olympic been able to work with a Board that was not directly or indirectly controlled by the government.

The relation between Olympic’s management and their political masters in the Ministry of Transport has thus been one of convenience and subservience. Whilst the OA’s management was expected to run the day-to-day business of the company, ministers were heavily involved in all major decisions affecting the future of Olympic, often with blatant disregard to management’s authority and judgment. The government’s increasing reliance on external consultants to perform even the most routine management tasks within the OA group has been indicative this regard. In the very few cases where the airline’s management sought to assert its authority
against the government, the latter was always quick to restore order by sacking those with a more independent disposition.\textsuperscript{12}

The relationship between government and the unions of OA, on the other hand, reflected the complexity, clientelism, corruption and conflict evident in the wider system of Greek labour relations. Within this system, interest mediation has typically been characterised by ‘rent-seeking’ behaviour - with sectional interests competing for favours, resources and subsidies (Krueger 1974; Lyberaki and Tsakalotos 2002; Pagoulatos 2003) - and a ‘disjointed corporatism’ (Lavdas 1997; Mavrogordatos 1988; Koukoules 1984; Tsoukalas 1987). Specifically within the OA group, a total of seventeen sectoral unions have operated reflecting the very diverse range of activities (aviation, technical, handling and administrative) performed by its numerous subsidiaries. All seventeen sectoral unions formed part of the Federation of Civil Aviation Unions (Ομοσπονδία Σωματείων Πολιτικής Αεροπορίας, ΟΣΠΑ/OSPA), the umbrella union for the entire workforce of the OA group. Traditionally, internal union politics were dominated by the divide between ground staff, on the one hand, and the pilots and cabin crew, on the other.\textsuperscript{13} Nevertheless, the OA’s unions have been remarkably united in the fierce defence of their employment conditions (which are widely regarded to be more privileged than those enjoyed by Olympic’s international and domestic competitors) and militantly opposed to the prospect of the Greek flag carrier slimming down its operations or losing its state-owned character.\textsuperscript{14}

In the post-Onassis period, the unions’ influence in the running of Olympic grew. Union leaders acquired direct access to successive ministers, often without the knowledge of the OA Chairman/CEO’s knowledge. Electorally, most of the OA current or former employees and their families lived and voted in the key second Athens constituency (Athens’ B) where 43 of the 300 members of the Greek Parliament stood for election. During the 1980s union strength became all the more evident, as the influential mistress and later wife of PM Andreas Papandreou, Dimitra, herself a leading figure in the flight attendants union (EISF), encouraged a more maximalist union agenda and rewarded her former colleagues with a number of extra privileges (through the so-called ‘Dimitra-laws’). Then, in 1994, a new law gave OSP\textsuperscript{a} two non-executive seats on the OA Board, allowing its unions direct and formal access to company management decisions.

The net effect, in strategic terms, was of the contest between ministers and the unions, with the latter as \textit{de facto} veto players pursuing a reactive and defensive strategy. The government faced known opposition, but with uncertain solutions.


The starting point for the present case study is an agreement in October 1994 between the PASOK Government of Andreas Papandreou and the Commission concerning a rescue plan for OA. With its agreement, the Commission had sanctioned the second largest airline bailout – behind only that of Air France\textsuperscript{15} - and had engaged in a process akin to a shared management of the problem (Doganis 2001; Commission of the EC 1994). As part of the agreement, however, the Greek Government was obliged to introduce a new law (2271/94) involving substantial cuts in staffing costs, a rethink of OA’s international routes and the full implementation of the EU’s third air transport package by the end of 1994. Crucially, the Greek government also promised
to put an end to its interference with the management of OA and grant the airline the full status of a private company. These commitments would come to haunt the government in Athens.

The implementation of the plan, however, soon ran into serious difficulties following fierce union opposition and constant changes in the management structures of Olympic (Doganis 2001:207-9). Against this background, the Commission refused to authorise the release of the second instalment of the government’s planned capital injection to Olympic worth ECU75 million (GDR23 billion) in April 1996 (Eleftherotypia 30.4.96). In its decision, the Commission drew a distinction between its view of the actions of the government and those of the company. Whilst the Commission stated that the airline had met the obligations imposed on it in the context of the 1994 agreement, the Greek government had defaulted, by continuing to interfere in the management of OA and providing unauthorised state aid of ECU36 million (GDR11 billion) (Commission of the EC 1996). The message was there to be picked up. The Commission appeared to accept that OA, with less political meddling and a professional management, could be turned around – and it was thereby signalling a willingness to continue with the saga.

Yet, although the financial position of Olympic continued to deteriorate in 1996 and 1997, the Greek government made no serious reform attempt. The reform of Olympic only re-emerged in early 1998 within the context of Greece’s effort’s to convince its EU counterparts as to the merits of its membership of ERM II and its commitment to enforce fiscal discipline on its public utilities.16 The government pushed through Parliament a controversial new law (2602/98) in April 1998 on the restructuring of Olympic Airways. The new law entailed more flexible working practices and cost-cutting measures. Industrial relations within Olympic faced meltdown and the airline was rocked by a continuous series of wildcat strikes during Easter and summer.17 With these new measures, Athens requested from the Commission the release of the two remaining instalments of capital injection for OA that had been blocked since 1996. In the negotiations that followed, Athens was obliged to accept Commission claims of illegal state aid and to accept a deduction of ECU38.6 million (GDR11 billion) from the two instalments. For its part, the Commission agreed to the immediate release of a second instalment of ECU41 million (GDR14 billion) and authorised state loan guarantees of $378 million for the purchase of new aircraft. The release of the third and final instalment (worth ECU22.8 million/ GDR7.8 billion), however, was made conditional on the successful implementation of the government’s restructuring plan (Commission of the EC 1998). Scepticism and suspicion had entered the process.

In a separate development, the Greek government now attempted another solution for OA – by tying it to a strategic partner overseas. In June 1999, a deal with British Airways via its consultancy subsidiary, Speedwing, was announced. Speedwing would take over the management of OA until the end of 2001, for an estimated fee of £7 million. Rod Lynch, a former BA director, was appointed Chief Executive of OA and his management team was allocated two seats on the OA’s 13-strong Board of Directors. Crucially the deal also included a clause allowing British Airways to purchase a 20% stake in Olympic once the operations of Olympic were streamlined by the new management (The Independent 22.6.99). But, by the time the new management arrived, the situation in Olympic had once again become untenable.
Many of the provisions of the 1998 restructuring plan had effectively been cancelled by subsequent agreements between OA’s former management and the unions, and the airline’s losses for 1999 were estimated as in excess of €75 million (GDR25.9 billion) (Eleftherotypia 24.12.99). Against this background, the Commission, in May 1999, refused to authorise the release of the third instalment of the capital injection planned for OA under the 1998 plan. In addition the OA unions reacted to the Speedwing deal with suspicion and held a series of strikes during the summer months of 1999 (The Observer 5.7.99).

The blueprint of the BA managers for the future of Olympic was published in October 1999; in effect, the third restructuring plan since 1994. Central to the vision of the new management was the drive to win back passenger numbers. Rather than placing all its attention on cutting costs and shrinking the airline’s activities, the plan provided for the expansion and modernisation of Olympic’s fleet, a 1000-strong increase of its workforce and an aggressive restructuring of its network aiming to make Athens a major transit route within the region, whilst retaining its long distance routes. To finance this expansion, Speedwing planned a mixture of borrowing and asset selling.

The emphasis on expansion afforded Rod Lynch a precarious truce with the powerful pilots (EXPA) and flight attendants (EISF) unions (but not OSPA) and the full support of the Minister of Transport Tasos Mantelis. Yet, Speedwing’s plans for expansion were met with scepticism by the Commission, which regarded them as a departure from the 1998 plan and the agreed aid. The Commission’s advisors also expressed concern that the forecast increases of the OA’s revenues were ‘too optimistic’ and could not ensure the viability of the airline in the long run (Commission of the EC 2002). With a general election scheduled less than six months away, Lynch had little time to prove whether his gamble would pay off.

4. Now you see it, now you don’t! The birth of Olympic Airlines

PASOK’s marginal election victory in 2000 brought to Simitis’ new cabinet a number of fresh faces, including the new Minister of Transport and Telecommunications Christos Verelis. A loyal supporter of Premier Simitis, Verelis’ rise had been as an effective manager of public utilities and he was keen to prove his modernising credentials to his new boss.

Within weeks of his arrival in the Ministry, Verelis announced the government’s intention to sell off a stake in Olympic Airways to the private sector and it offered BA a 45-day deadline to exercise its option, under the 1999 deal, to buy a 20% share in the airline (Ta Nea 19.5.00). The Minister’s relationship with the British managers, however, was already showing signs of discord. Leaks suggested that Verelis was critical of Speedwing and that he doubted the sincerity of BA in acquiring a stake in Olympic, particularly in the aftermath of Rod Eddington’s appointment as BA’s CEO in May 2000 (Ta Nea 3.5.00). Thus, BA’s announcement, on 2 June 2000, that it was no longer pursuing the deal with Olympic came as no surprise. Less than a year after his arrival in Athens, Rod Lynch’s Olympic adventure was over as Speedwing’s managers were given two months to vacate their offices and leave the Greek airline (Eleftherotypia 5.6.00).
The departure of the BA management marked a new stage for OA and a clash of interpretations. For Verelis, the termination of the BA deal was a natural conclusion of what he regarded as inept management and a lack of commitment on behalf of BA. To his opponents, however, Verelis had made a huge miscalculation. Many blamed him for being too easily convinced by the unions’ complaints of Speedwing’s management and too ready to pass judgement on its performance. Even if the Minister was dissatisfied with Lynch’s management, the 1999 agreement gave the Greek government the right to ask for his replacement (by BA), an option that was never used. Above all, Verelis stood accused of torpedoing the deal with BA without having secured a viable alternative. In the early 1990s, the Greek flag carrier had repelled the possibility of an alliance with Lufthansa, now it had lost another suitor.

In response to new situation, Verelis moved quickly to announce the sell off of a majority stake (up to 65%) of the whole Olympic Airways group (including subsidiaries) to a private investor who would also be solely responsible for the management of the airline. In an attempt to entice potential investors, Verelis also floated the idea that the government might be willing to assume all of Olympic’s debts (Eleftherotypia 7.7.00; Ta Nea 7.8.00). In the meantime, Verelis announced that an independent consultant (Price Waterhouse Coopers) would undertake a financial audit of Olympic so as to offer transparency prior to the international tender for the sale of OA scheduled for late 2000. The new rescue plan for Olympic was received with dismay by the unions which feared that the government was planning further job cuts and accused Verelis of trying to sell off the airline ‘on the cheap’ (Eleftherotypia 9.8.00).

As Verelis battled with the OA’s unions at home, the reaction to his rescue plan in Brussels was mixed. The Commission had criticised the Greek government over its compensation to Olympic for the move to the new Athens airport (scheduled for 1 March 2000) and refused to release the third instalment of capital injection forseen in 1994 restructuring plan. However, in the aftermath of Verelis’ meeting with Commissioner for Transport, Loyola De Palacio, in October 2000 the Greek Minister appeared confident that the Commission would be willing to accept the write-off of OA’s debts – a perception that would prove critical later - provided that such a move would lead to transfer of the Greek flag carrier to private hands (Eleftherotypia 8.9.00). Encouraged by what he perceived as the Commission’s silent consent to his plan, Verelis pushed ahead with the publication of an international tender for the sale of the OA group in December 2000. The tender made reference to the sale of a majority stake in OA on condition that Olympic will: (a) continue to operate as an airline; (b) be based in Athens; and (c) keep the same name and logo. In exchange the Greek government undertook to cover all past debts of the airline and, crucially, to absorb any ‘excessive OA staff’ by re-employing it in other services in the wider public sector (Ta Nea 7.12.00). The latter was a significant concession from the government’s original proposals in the summer of 2000: Athens was making a big pitch for a sell off.

However, faced with a disappointing response to the international tender and confronted by mounting industrial unrest, the government, in July 2001, announced its decision to start negotiations with its preferred bidder Axon Airlines, a small private Greek airline owned by Thomas Liakounakos, whilst also continuing to talk with the other two short-listed bidders (Ta Nea 6.7.01). The government’s hopes for a quick
sale of Olympic Airways were soon to be dashed by the events of 9/11 and the subsequent global crisis that engulfed the airline industry. By February 2002 negotiations with all three short-listed bidders had ended in failure, leaving the Greek government in limbo. During the same period, pressure by the Commission also began to mount. Following a series of complaints by Olympic’s competitors, the Commission announced its intention to launch a new investigation into state aid to Olympic and threatened that the Greek flag carrier might have to return to the government all state aid authorised since the 1994 restructuring plan, worth in excess of €1.5 billion (Financial Times 19.2.02 and 6.3.02).

As relations with the Commission continued to deteriorate, the government announced in February 2002 yet another plan for the rescue of Olympic. Acknowledging that the potential suitors of Olympic Airways were ‘too small’ to buy the entire OA group (including all its subsidiaries), Verelis was now ready to accept a ‘salami slicing’ strategy for the privatisation of Olympic. According to the plan the most profitable non-aviation subsidiaries of the OA group would be sold separately to private investors. At the same time, all aviation services performed by Olympic Airways and its subsidiaries would be merged under one company and sold off. In order to entice potential investors, the government also promised to terminate OA’s loss making route to Australia and absorb any staff that would not be needed by the airline’s new owners (Eleftherotypia 22.2.02).

Under the threat of a new Commission investigation and the possibility of being forced to return huge amounts of illegal state aid to the Greek government, the interest of potential investors in the purchase of Olympic was predictably limited and confined predominantly to a small group of Greek businessmen. In December 2002, Golden aviation, a consortium led by Greek shipping tycoon Stamatis Restis, was announced as the government’s preferred candidate to buy Olympic (Ta Nea 7.12.02). The initial optimism, however, that the final deal could be finalised within two months was shattered following the publication, in December 2002, of the Commission’s decision on state aid to Olympic. In there, the Commission produced a damning report of the handling of Olympic’s ‘restructuring’ since 1994. Whilst falling short of asking Olympic to return all state aid it had received from the Greek government since 1994 (worth over €1.5 billion), the Commission concluded that such aid was ‘incompatible’ with common market rules as the conditions (i.e. the restructuring of the airline) upon which it was initially authorised were never met. Focusing on fresh allegations of illegal state aid since 1998, however, the Commission concluded that the Greek government should recover from Olympic the sum of €153 million that the airline received as aid in the form of preferential tax treatment over the period 1998-2002 as well as asked for the return of €41 million that Olympic received in the summer of 1998 as part of the second instalment of the 1994 rescue plan (Commission of the EC 2002).

The Greek Minister of Transport responded angrily to the Commission’s decision and accused De Palacio of trying to shut down Olympic at a time when the Greek government was negotiating its sale (Ta Nea 12.12.02). In an attempt to keep the process of privatising Olympic alive, Verelis insisted that the Greek government would resist the Commission’s decision all the way to the ECJ and that the new owners of the airline would not be burdened with €194 million that the Commission had asked OA to return to the Greek state. In the meantime, the airline would continue
to operate as normal (The Times 12.12.02; Financial Times 9.12.02). Despite Verelis’ protestations, however, the cloud that the new Commission decision cast over the future of OA had fatally undermined the negotiations between the Greek government and Golden Aviation which, in February 2003, announced it was no longer interested in buying Olympic (Eleftherotypia 5.2.03).

With the OA privatisation process in tatters and his relations with the Commission suffering a complete breakdown, Verelis announced that the Greek government would now seek to implement a Swissair-like solution for Olympic. For this purpose, the Minister proposed the creation of a new company, called Olympic Airlines, which would take over all aviation activities of Olympic Airways. The new airline would service the entire network of the ‘old’ Olympic, but it would be much smaller than its predecessor. It would employ a total of 1,850 staff (out of the 5,000 employed in the aviation side of the ‘old’ Olympic) all of which would have to sign new revised collective agreements with the new airline. These agreements would provide for salary cuts and a much tighter employment regime in the new airline and they were designed to replace the incredibly complex (and generous) network of 240 sectoral and ad hoc agreements signed between the union and the management of the ‘old’ Olympic. Crucially, Olympic Airlines would be free from all debts of the ‘old’ Olympic which, by the end of 2001, had reached €500 million. These debts, together with the staff that would not join the new airline, would remain in the ‘old’ Olympic which would oversee an early retirement (or redeployment) scheme for excess personnel before eventually being closed down. The new plan also provided for the privatisation of all subsidiaries of the Olympic Airways group which, it was hoped, would generate enough proceeds in order to finance the OA’s early retirement scheme as well as the return of €194 million of illegal state aid from the old Olympic to the Greek government (if Greece lost the case in the ECJ) (Eleftherotypia 9.2.03; To Vima 9.2.03).

In the aftermath of Verelis’ announcements, the government came under a barrage of criticism from the OA unions. Despite the fact that the new plan made no reference to compulsory redundancies, the proposed salary cuts and job loses met huge opposition particularly from the pilots (EXPA) and the flight attendants (EISF) unions. The mathematics of the exercise were indeed challenging. The ‘old’ Olympic had a total of 649 pilots and 1,100 fight attendants whereas the new plan provided for 420 and 600 vacancies respectively. For their part, the unions were confronted with the dilemma of whether to accept the proposed job loses and encourage their members to opt for the early retirement scheme on offer or to resist the changes to the bitter end. The Minister of Transport on the other hand was forced to choose his friends carefully. Having secured the agreement of the ground staff unions to join the new airline, Verelis knew full well that his experiment was doomed to failure if the pilots did not get on board. The cost of achieving this consent was an early retirement package worth €200,000 for each of the 140 pilots who opted to join the scheme. In addition, EXPA was promised that pilots would be given a share of the ‘new’ Olympic once the airline was privatised (Eleftherotypia 5.7.03; To Vima 20.7.03).

Verelis was far less generous to the flight attendants union. EISF had taken a line of total rejection, arguing that flight attendants had already accepted significant sacrifices during the 1990s and that they were entitled to a similar deal to that of the pilots. Verelis refused and EISF engaged in a 76-day long strike. Verelis, however,
moved quickly to recruit fixed-term contract staff to replace EISF’s striking members and keep Olympic operational. As the new law on Olympic Airlines passed through Parliament in September 2003, the momentum of EISF’s strike began to dwindle (Eleftherotypia 19.12.03). By the time the new Olympic Airlines had officially replaced Olympic Airways in December 2003 the majority of EISF’s members had agreed to transfer to the new airline whilst 256 of them had opted for early retirement.

The birth of Olympic Airlines was greeted with enthusiasm by Verelis who argued that the complex handover had gone smoothly. He insisted that the outcome of the 2003 reform was the best possible outcome under the circumstances. Faced with an exceptionally difficult period for international aviation and confronted with what he regarded as the disruptive influence of the Commission in the process of privatising Olympic, the Minister defended his legacy with rigour. The new Olympic Airlines, he argued, was a slimmer, more competitive and debt-free airline that would be more attractive to international investors. By separating Olympic Airlines from the ‘old’ Olympic, the liabilities of the Greek state and future investors were now clear and transparent. For his opponents, however, Verelis’ strategy had achieved little. Four years into his ministerial post, Olympic was still an entirely state-owned airline that continued to lose huge mounts of taxpayers’ money. Having failed to ‘offload’ Olympic from the Greek state, Verelis’ preoccupation during his last eighteen months in the Ministry had been how to avoid the airline collapsing and thus damaging his political career.

In any event, Verelis’ EU nemesis did not take long to arrive. In February 2005, the Advocate General of the ECJ published his Opinion on the Olympic Airways case (C-415/03), the result of the Commission having brought the case following its acrimonious dispute with the Greek government in 2002. The Advocate General agreed with the Commission’s assessment that the Greek government had indeed provided illegal state aid to Olympic Airways (worth €194 million) and that the creation of Olympic Airlines by the ‘Verelis law’ in 2003 “created legal and economic obstacles to the effective implementation” of the Commission decision (ECJ 2005). In the final ruling of the ECJ published on 12 May 2005, the Advocate General’s reasoning was upheld in its entirety (OJ C182/10, 23.7.2005). In the aftermath of the ECJ ruling, the future of Olympic came once again under severe threat. In the meantime, a new centre-right government won the April 2004 Greek elections and a new Minister of Transport, Mihalis Liapis, was given the task of dealing with the ‘hot potato’ of Olympic. Like his predecessor, Liapis soon announced that the government was committed to retreating from the management and ownership of Olympic and he called a new international tender for the sale of Olympic Airways/Airlines (Kathimerini 13.1.05). Given the experience of the past ten years, scepticism on the part of the Commission and the outside world was inevitable.

5. Conclusion:

This has been a case study of non-compliance in the Europeanisation process that raises questions of the interests, instruments and strategy of the Commission on the one hand, and the interests, capabilities and strategy of a member government, on the other. It is a different type of case from that considered in a number of other instances of ‘non-compliance’, however. It is not one of the transposition of EU directives, but
rather of the Commission possessing executive authority in certain areas (state aids) and utilising them across a broader agenda on which its direct competences are more limited (the form of restructuring, privatisation). A critical dimension is of the member government straddling two arenas: negotiating package deals with the Commission and satisfying or ‘neutralising’ domestic veto players. Moreover, the case is not one of stable positions and a test of compliance: both the Commission and the Greek government shifted their bargaining positions, to some degree, and the latter was not simply evading the prior instructions of the former. The agenda shifted, as solutions were tried and failed. Ministers in Athens showed themselves to be involved in a learning process: the options seen as feasible changed over time, not least in relation to the expectations of the Commission. Moreover, they were aided by the fact that ‘statist’ solutions received less and less support from domestic public opinion.

This has been a case, then, of a dynamic bargaining process leading to a conclusion that appears sub-optimal to both the Commission and the Greek government. Though its internal divisions meant that reform initiatives had to be carefully crafted politically, the Simitis government in fact displayed a rational set of preferences on the future of Olympic. The essential interest was one of divestment of OA from the state and this was consistent with a range (and sequence) of solutions. The Commission, for its part, acted in line with the priority to eradicating state aids and promoting a more competitive market. Athens and Brussels therefore seemed to pursue parallel strategies, albeit leading to breakdown and an ECJ clash. The fundamental question that arises is: why?

The concern here is neither with praise or blame. The extent to which strategies and outcomes were determined by political cunning or ineptitude on the part of the Greek government is unclear. Both may have played a part. The context encouraged inventiveness by the government vis-à-vis the Commission (in a ‘cat and mouse’ character) when seeking solutions in a tightly constrained process.

The representation of bargaining positions in terms of win-sets highlights the key points. In 1994, the Commission and the Greek government had win-sets that partially overlapped with each other – both accepted the need for a rescue package for OA, both shared views about the need for OA to shift towards a more commercially-based operation – whilst the unions’ win-set also connected insofar as it embraced new financial aid. By the Verelis law of 2003, the win-sets of the Greek unions must be disaggregated as a result of the differential impacts on the employment contracts of the distinct groups of workers. Some marginally overlapped (ground staff, pilots) with that of the government; others did not (flight attendants). Crucially, however, by 2003, the win-set of the government barely touched that of the Commission.

The Commission and the Greek government veered away from each other, as a result of differences over the clarity and consistency of the signals each gave; the time horizons each operated within; and the credibility and trust each had with the other. A sub-optimal outcome appeared the result of a relationship between the EU Commission and the Greek government somewhat akin to a ‘paradox of cooperation’. Cooperation had broken down as both parties felt their interests were being challenged, rather than accommodated, and the incentives diverged. A story of compliance that began with a shared management of the problem (the 1994 package
of measures), finished with an issue of enforcement and coercion (the ECJ case). The twinning of cooperative and coercive instruments by the Commission is more likely to succeed in achieving domestic compliance (Tallberg, 2002). The cooperative element in such twinning depends, however, on shared agendas and interests, as well as on the existence of institutional capabilities to deliver. In the area where it was most dependent on cooperation – the form and timing of restructuring – the Commission eventually shifted to confrontation. It settled for its veto power, rather than a proactive role in finding a workable solution in an area where it had little direct authority. Palacio’s liberalising vigour had certainly accelerated this trajectory of conflict. The inability of the Greek government to deliver on its reform pledges had made the breakdown inevitable. Along the way, neither party was able to meet their initial objectives. Over a decade since the 1994 restructuring plan, Olympic remains an entirely state-owned airline with combined losses for 2003-2004 in excess of €110 million (eKathimerini, 7.8.2005).

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Notes
1 The present draft is part of an ongoing research project on Europeanization and structural reform in Greece. The authors would like to express their gratitude to the large number of actors within the sector in Athens – from government, unions and management – who made themselves available for personal interviews. The authors have respected their desire to remain anonymous. Moreover, invaluable comments have been received from seminar presentations given at the universities of Athens and Sheffield and at the ECPR Joint Sessions, 2005. Any errors remain ours.
2 For further background information, see:
3 Loyola De Palacio was a leading member of the centre-right Partido Popular in Spain, having previously served as Minister of Agriculture and as a member of the European Parliament (briefly). She was appointed as Vice President of the Commission, responsible for relations with the European Parliament, alongside the Transport and Energy portfolios, under President Romano Prodi. Previously,

“A more general outline of her policy perspective was given in a speech in Spain: “Air transport within the European Economic Area is now governed by common rules on licensing, market access and pricing freedom. After eleven years of implementation it can be said that thanks to these measures there has been an unprecedented expansion of air transport in Europe. Old monopolies have been swept away….European aviation has moved from a highly regulated market to a highly competitive single market...

...In the area of State aid we are still faced with the problem of restructuring of some still heavily indebted flag carriers and the attendant issue of state aid and competition that this implies. The Commission has pursued a very strict policy to avoid distortions. For the first time in Europe even flag-carriers have gone bankrupt. This policy must continue in the future in order to be more competitive and efficient.”


The individual or collective actors who must agree to the change before it can happen, see Tsebelis, 2002: 19.

There is a very limited literature on privatisation in Greece, but in general it points in a similar direction (Haritakis and Pitelis, 1998; Clifton et al, 2003; Lavdas, 1996). In Pagoulatos’ study (2001) of the privatisation attempts of the earlier (centre-right) Mitsotakis government, he argued that policy failure was the result of a statist, impositional strategy. He highlighted administrative ill-coordination (indeed ‘intragovernmental feudalisation’: 2001:138), lack of policy preparation, the isolation of key technocratic advisers, and the cavalier and arrogant attitude of ministers – key factors undermining effectiveness and coherence.

Olympic Airways (OA) was founded in 1957 by the Greek magnate Aristotle Onassis. During Onassis’ reign, Olympic was closely associated with its founder’s glamour developing a reputation for excellent service and an extensive international network that made it arguably the first Greek company with a truly global reach. By the early 1970s, Onassis’ love affair with Olympic, however, began to wane, concluding that OA was a ‘bucket of sewage’ and he would ‘flog’ it to the Greek state. The post-dictatorship government of Konstantinos Karamanlis came under pressure from Onassis to buy OA, though the then Minister of Co-ordination (Finance) Panagis Papaligouras objected. Eventually, he was overruled in Cabinet in late 1974. As a result, Olympic Airways came under the ownership of the Greek state on 26 June 1975 (Law 96/75).

The company, for example, was for years forced to operate loss-making routes to remote Greek islands and transport freely state officials without ever being compensated by the Greek state. In addition to their excessive interference over appointments and personnel matters within the company, all major political parties received significant travel benefits from OA. The most astonishing of these was the obligation by OA to transport party supporters during national, European and local elections at heavily discounted prices. Political patronage has also allowed a number of private business interests to exert undue influence. Under pressure from the powerful Greek Diaspora, for example, Olympic had agreed to pay extortionate commission to Greek travel agents in the US and Australia where influential press barons in Greece had also managed to negotiate special deals with Olympic for the transportation of their press outlets at only a fraction of international prices (Dogannis, 2001: 189).

This role has almost entirely been delegated to the Hellenic Civil Aviation Authority (Υπηρεσία Πολιτικής Αεροπορίας, ΥΠΑ/YPΑ), a powerful and well-consolidated quasi-independent authority (reporting to the Ministry of Transport) whose extensive competences included, amongst others, safety, air-traffic control the running of Greece’s airports (all state-owned) and the production of statistics on flight and passenger numbers.

Between 1990 and 2000, the government awarded over 14 consultancy contracts that covered the whole range of the activities performed by the OA group.

By the early 1990s, the Greek flag carrier had accumulated a workforce in excess of 11,500, more than double its size in the early 1970s and well over the staffing levels of similar sized airlines across the world. In the same period, Olympic’s 55-strong fleet contained 7 different types of aircraft, thus contributing to substantially increased maintenance costs (Lavdas 1997: 1995).

Due to their numerical strength within the OA group, the unions of manual and administrative staff were able to control the leadership of OSPA, which often looked with suspicion on its two more powerful members: the pilots (Ενωση Χειριστών Πολιτικής Αεροπορίας, ΕΧΠΑ/EXPA) and flight attendants (Ενωση Ιπταμένων Συνοδών και Φροντιστών, ΕΙΣΦ/EISF) unions. Party political loyalties
also affected the shape of unionism within OA. PASOK, for example, has always been very influential in OSPA, where as the centre-right New Democracy party (ND) has traditionally controlled the pilots union (EXPA). The partisan affiliation of the flight attendants union (EISF), on the other hand, has been more volatile shifting from PASOK to ND and backwards according to the political expediencies of the day.

14 The unions of OA have also taken a rather narrow view over their membership and objectives, despite the fact that their names are, with no exception, defined in national or industry-wide terms. As a result their leadership has not yet allowed employees from private competitors or other foreign flag carriers operating in Greece to enrol as members. Many senior union leaders within OA remain openly hostile to this prospect fearful that an enlarged membership would dilute their opposition to the importation of ‘dark age’ working conditions from the private sector into Olympic.

15 The proposals of the Greek government for Olympic provided for: (a) the write-off of ECU1.4 billion (GDR427 billion) of accumulated debt; (b) the conversion of ECU209 million (GDR64 billion) of debt into equity; (c) a capital injection of ECU177 million (GDR54 billion) in three yearly instalments between 1995 and 1997; and (d) the extension of 91.6 billion GDR of state guarantees to Olympic until the end of 1997.

16 Greece entered ERM II on 14 March 1998.

17 The provisions of the new law included, amongst others, a substantial increase of flying hours for cabin crew; more flexible working hours; reduction of rest time after transatlantic flights and fewer numbers of cabin crew per flight as well as significant cutbacks on pilots’ per-mile compensation and the abolition of food allowance for cabin crew (EIRO April 1998). The subsequent wildcat strikes caused Olympic an estimated loss of 600,000 passengers (Ta Nea 29.4.98; Eleftherotypia 20.7.98).

18 In 1999 OA employed 7,000 permanent and 3,000 seasonal staff. See To Vima 14.4.2002.

19 This mistrust was further reflected in the Greek government making its contingency plans very public: if the deal with BA did not materialise, a minority (or possibly a majority) stake in Olympic would be sold through a new international tender (To Vima 14.5.00; Ta Nea 2.6.00).

20 These were: the Cypriot flag carrier, Cyprus Airlines, and Integrated Airline Solutions (IAS), an Australian consortium led by Greek tycoon Pavlos Vardinogiannis.

21 Sixty more pilots agreed to be redeployed in the Civil Aviation Authority.

22 The divestment strategy was consistent with an array of potential solutions: placing OA under a major foreign strategic partner, seeking a foreign purchaser, and creating a new company as part of a radical restructuring plan. Each were intended to bring to an end the continuing drain on the state posed by OA’s position; in that sense, they were indeed compatible with an end to state aids and the shift of OA to a fully commercial criteria of operation.

23 Two sets of rational behaviour, shaped by distinct (though overlapping) institutional conditions, produced an outcome that both had worked hard to avoid (Shepsle & Bonchek, 1997:204).