Manipulating Rules, Contesting Solutions: Europeanisation and the politics of restructuring Olympic Airways¹

Kevin Featherstone²

Dimitris Papadimitriou³


Draft for comments: not to be quoted without permission

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

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.

² Eleftherios Venizelos Professor of Contemporary Greek Studies and Director of the European Institute, London School of Economics and Political Science, UK. K.Featherstone@lse.ac.uk

³ Lecturer in European Politics, Government, International Politics and Philosophy (GIPP), University of Manchester, UK. dimitris.papadimitriou@man.ac.uk
enterprises, but themselves be limited in their capabilities to deliver such outcomes. Heavy state indebtedness can establish the logic of restructuring a major 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; rather, it must assess the use of state aids in a particular case against a general backdrop of prohibition. Moreover, this process of investigation and subsequent challenge in the ECJ can be a lengthy – and by its nature an uncertain - one. Whilst its negative power is strong, the Commission’s proactive capability is weak. The Commission can thus more readily veto solutions, than shape or determine their content. Moreover, the Commission has little scope to evaluate the ‘win-set’ of any key domestic actor, let alone restructure them.

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 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. 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 rational choice institutionalism.

In the course of the policy narrative, the discussion touches on a number of wider themes: government strategies for responding to EU pressure and handling powerful domestic veto points to reform; the scope for national governments to manipulate EU competition rules; policy entrepreneurship and complex problem solving, as well as the Commission’s role as a stimulus, but potentially also an obstacle to domestic reform. Whilst the case study is necessarily grounded in domestic politics, it has implications for the understanding of the Commission’s ability to coordinate and steer an economic priority area for the Union.

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.  

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 & 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 governments. 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’s ability to act in the domestic reform process has reflected an asymmetric structure. Whilst it has been able to wield sticks against state aid and promote market de-regulation, it has had little remit to prescribe solutions affecting company structure and ownership. 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 occasions:

---

4 For further background information, see: http://www.europa.eu.int/comm/transport/air/rules/competition_en.htm
5 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, Neil Kinnock, formerly leader of the British Labour Party, held the Transport portfolio in the Commission of Jacques Santer, 1995-1999.
6 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...
‘...our objective has been to devise a vision of what the air transport market should look like and to focus on how to ensure air services are provided in the most efficient and competitive way possible.

...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].

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.

Independent assessments suggest that liberalization in this sector has been ‘one of the Commission’s success stories’ (Cini and McGowan, 1998:174). Considerable progress has been made in removing the internal market barriers within the sector (Button: 2001), though 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 to challenge Commission decisions.

Nevertheless, the EU pressure was felt by the Greek government on several fronts. Firstly, there were the three directives on market liberalisation in the air transport sector launched in the early 1990s. Secondly, there was the increasingly rigorous attack on state aids. Finally, there were also the demands of the convergence criteria for entry into the single European currency, creating an additional lever with its stringency on the fiscal stability of national governments. EMU was itself a major pressure across the Greek political landscape (Featherstone, 2003). The relevance of these three sets of EU pressure to the case of Olympic fluctuated over the course of the 1990s, though each involved ‘hard’ rules. The difficulty faced by the Commission was to craft an effective strategy likely to attain Greek compliance.

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.”


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. Knill (1998) refers to the pressure to adapt: the institutional incompatibility between national structures and practices, which may lack capacity for change, and EU requirements. In cases of high adaptational pressure, the implementation of EU requirements is unlikely to be effective, since they challenge core structures and practices of domestic institutions. With more moderate pressure – where EU requirements demand changes, but does not challenge the core of the national tradition as such - the extent of adaptation is shaped by the preferences and resources of domestic coalitions, mediated by structures such as veto points. A wider perspective on domestic mobilisation was advanced by Boerzel (2000). Her ‘push-pull model’, hypothesized that 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 ‘misfitting’ 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.

These arguments are compatible with the case of Olympic Airways. 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. Thus, the relevance of ‘rational choice institutionalism’ lies in the role of a select number of actors, pursuing interests which are endogenously defined within the constraining effects of their institutional setting. These actors act rationally in the consistency of their beliefs and preferences and have the institutional power to block reforms. But the Olympic case has further nuances. The EU pressure to adapt was structured 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

---

8 The individual collective actors who must agree to the change before it can happen, see Tsebelis, 2002: 2-3.
reference to this unpredictability. At the same time, the uncertainty created the opportunity for Athens to seek to manipulate the bargaining relationship to its own advantage.

But what ‘advantage’? The strategy of the Simitis government was determined by its interaction in two arenas: the EU and the domestic. The constraints of the latter impelled it to seek ‘slack’ from the Commission – allowing some manipulation of the EU rules – in order to satisfy its narrow domestic ‘win-set’. Indeed, the domestic constraints provided the Greek Government with inducements to manipulate, evade and contest.

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, at home the institutional setting of the Olympic case reflects a triangular structure of power and interests covering government, management and unions. In this analysis of strong veto players and contingent strategies, the conceptual frame of rational choice institutionalism is directly relevant (Shepsle, 1989; Hall and Taylor, 1996; Scharpf, 1997).

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 Greek state – with the paradox of its extensive reach but internal weakness – has been termed a ‘colossus with feet of clay’ (Sotiropoulos 1993; see also Mouzelis 1978; Tsoukalas 1993). It has a large, ill-coordinated, and inefficient administrative structure (Spanou 1996; Tsinisizelis 1996; Sotiropoulos 2004). Yet, an ‘autonomous and effective state’ is typically seen as a necessary condition for the implementation of radical economic reforms, as McFaul noted in relation to privatisation in Russia (1995: 213).

The ability of state institutions to define independent preferences depends, in the first instance, on their internal coherence and capacities. In reality, the ‘corporate logic’ of the Greek government was weak and segmented, with differences of policy and political interest undermining its ability to act. Differences of interest sustained a confusion of ideas over the role and mission that Olympic ought to develop. Commercial criteria were in conflict with social obligations and party clientelistic interests. The Ministry of National Economy (MNE), with its fiscal interests, and the Ministry of Transport (MoT), with its sectoral interests, felt the EU pressure to act and both showed persistence and technical ingenuity in devising strategies for Olympic. At the same time, they were constrained by the interests of other government actors, giving greater priority to the political cost of reform and the competing interests relevant to it. Successive governing parties had used Olympic for clientelistic politics, offering extensive favours. The low quality administrative and policy support available to ministries meant that the reform initiatives came from a centralised management at the very apex of the MNE and, the much smaller, MoT. The ministerial role was both isolated and overburdened, combining policy entrepreneurship, political strategy and implementation management. Reform initiatives were thus dependent on individual personalities and their heroic leadership, compensating for institutional weakness.
There is a very limited literature on privatisation in Greece, but in general it points in a similar direction. Haritakis and Pitelis noted that the ‘particularly inefficient and corrupt public sector’ creates a need for privatisation in Greece (1998:134). Clifton et al argued that the ‘overriding reason for (privatisation) was to reach the convergence criterion to participate in EMU (2003: 69). Indeed, Lavdas (1996:254)) was surely correct to note that, ‘Economic liberalization and Europeanization have been the twin processes gradually reshaping the political economies of the European South since the 1980s’. More directly relevant is Pagoulatos’ study (2001) of the privatisation attempts of the earlier (centre-right) Mitsotakis government. He argued that policy failure was the result of such a concentration and a statist, impositional strategy. This paradox between a statist strategy for anti-statist ends follows the ‘paradox of privatisation’ noted by Wright (1994) and Richardson (1994). Pagoulatos’ case study highlighted particular features of 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.

The background to the present case study is that 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. High fuel prices and the subsequent worldwide recession caused by the 1973 oil crisis hit the airline industry hard. Onassis’ persistent requests for the Greek government to provide assistance to OA met the refusal of Greece’s (then) military rulers. By then Onassis had allegedly come to the conclusion that OA was a ‘bucket of sewage’ which once it was about to overflow he would ‘flog’ it to the Greek state. A year later, a new democratic government under Konstantinos Karamanlis had returned to Greece following the collapse of the military dictatorship in early 1974. The new government soon came under pressure from Onassis to buy OA, but then Minister of Co-ordination (Finance) Panagis Papaligouras resisted this prospect. Papaligouras’ objections, however, were eventually overruled in Cabinet, which finally gave the green light to the deal in late 1974. As a result, Olympic Airways came under the ownership of the Greek state on 26 June 1975 (Law 96/75).

The transformation of Olympic Airways from a privately-run airline to a public utility (Δημόσιος Οργανισμός Κοινής Ωφελείας, ∆ΕΚΟ/DEKO) opened a new chapter for the company’s history during which its relentless exposure to the clientelistic practices of the Greek party-state has become the defining feature of its operations. 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. 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. Political parties too developed a destructively close relationship with OA. In addition to their excessive interference over appointments and personnel

9 The establishment of Olympic Airways followed the acquisition by Onassis of the tiny Greek state-owned airline ΤΑΕ (Τεχνικά Αεροπορικά Εκμεταλλεύσεις)
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 well-below-cost prices. Political patronage has also allowed a number of private business interests to exert undue influence on the business plan of OA. 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 as 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 (Doganis, 2001: 189).

Olympic’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 OA 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 whereas 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.10

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 chairmanship of Olympic Airways has changed 31(sic) times, often filled with candidates that had little or no experience in the industry. The company’s top management scheme has also remained fluid, reverting - according to political expediencies of the day - from a ‘dual leadership’ (i.e. distinct roles for the Chairman and Chief Executive Officer- CEO) to a ‘single authority’ (i.e. a combined Chairman and CEO role) and backwards. Over the same period, the changes in the membership of the OA’s Board of Directors have been ever more frequent reflecting an almost endless appetite by successive governments to use the well-paid management positions in OA in order to reward their political friends. At no stage during the past thirty years has the 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

10 This role has almost entirely been delegated to the Hellenic Civil Aviation Authority (Υπηρεσία Πολιτικής Αεροπορίας, ΥΠΑ/ΥΠΑ), 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.
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.

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; Featherstone forthcoming; Lyberaki and Tsakalotos 2002; Pagoulatos 2003) - and a ‘disjointed corporatism’ (Lavdas 1997; Mavrogordatos 1988; Koukoules 1984; Tsoukalas 1987) involving problems of representation and social dialogue (Ioannou 2000; Papadimitriou 2005; Featherstone, forthcoming).

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. Owning to its diverse and fragmented membership, OSPA has always been a rather board church. 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. Yet, despite their internal quarrels 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.

---

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

12 Recruitment and procurement policies have been two of the areas where excessive political interference with the management of Olympic has had its most devastating effects. During the 1970s and, particularly, the 1980s staffing levels in OA rocketed as a result of party-political electioneering. 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. Procurement strategy was also affected by the need of different governments (at different times) to appease powerful international allies. As a result, in the early 1990s, Olympic’s 55-strong fleet contained 7 different types of aircraft, thus contributing to substantially increased maintenance costs (Lavdas 1997: 1995).

13 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. The Pan-Hellenic Socialist Party (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. Whilst the failure to open up their membership is officially blamed on administrative oversights and practical obstacles, many senior union leaders
The unions close involvement with the management of Olympic has been a persistent feature of the company’s history dating back to the days of Onassis when employees (particularly the pilots) were encouraged to develop a strong sense of co-ownership of the airline’s fate. In the absence of a strong management in the post-Onassis period, however, the unions’ influence in the running of Olympic grew out of all proportions. During the 1980s their 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’). Over the same period, the credibility of the airline’s management in the eyes of its employees diminished further with many union leaders expressing open contempt for their bosses or bypassing them altogether, opting instead to lobby directly government ministers and party bosses with whom they enjoyed open channels of communication through their party-political affiliations.

The strategic disposition of the OA unions was to be reactive and conservative in the face of government reform initiatives. Union strength was evident in their strike capacity and successive governments had acted in fear of them. Moreover, given the record of failed attempts at reform, the unions could rationally adopt a scepticism towards the will and capability of fresh government projects. The Olympic unions were, in short, perceived by government as veto-players (Tsebelis, 2002). An effective government strategy would require divide and rule tactics.

As a result of these institutional conditions, the reform process relevant to the case of Olympic was marked by:

- Doubts over the internal cohesion (of purpose and interest) on the part of government, questioning the extent of political will.
- The limitations of administrative and technical support across the relevant state institutions, leaving responsible ministers isolated and overburdened;
- The political power of ministers over OA’s management, with a long tradition of government interfering into its decisions and operations.
- The entrenched power of the OA unions and the complex structures of employment contracts.
- The financial weakness of the company, masked by a lack of transparency and a web of regulations, with an extensive social constituency dependent on the continued state protection of OA

The net effect, in strategic terms, was of the contest between ministers and the unions. However, the social reach and status of the company was extensive and this made the calculation of interests more complex. Added to this, a government objective of selling-off Olympic faced the severe risk that, given the company’s parlous state, no serious bidder would wish to purchase it. The government faced known opposition, but with uncertain solutions. Moreover, the solutions that appeared domestically acceptable had to confront the regulatory power of the EU Commission, a factor that 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.
could easily thwart them. Interests, solutions and capabilities were, thus, very much in question.


As the Commission’s drive for opening up the EU’s civil aviation market gathered momentum during the early 1990s, the financial position of Olympic Airways continued to worsen. In 1994, the Socialist government of Andreas Papandreou submitted to the Commission a rescue plan for Greek flag carrier which involved a recapitalisation programme worth in excess of ECU1.7 billion (GDR545 billion). 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. Following intensive negotiations between the Commission and the Greek government over the summer months, the proposed bailout (the second largest in the EU behind that of Air France) was finally approved in October 1994 (Doganis 2001 chapter 8; Commission of the EC 1994).

The Commission’s approval, however, had come at a heavy price for the Greek government. As part of the Olympic’s restructuring programme, a new law (2271/94) was introduced in November 1994 in which the Greek government sought to enshrine into domestic law a series of commitments it undertook against the Commission, including substantial cuts of staff 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. In addition, the Greek government promised to put an end to its interference with the management of OA and grant the airline the full status of a private enterprise. The implementation of the 1994 restructuring 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 listed a series of defaults from the rescue plan agreed in 1994 and concentrated its criticism on the continued political interference with the management of Olympic, as well as the government’s decision to retain the OA’s preferential tax regime and finance the airline’s programme of voluntary redundancies in 1994-5 to the tune of ECU36 million (GDR11 billion). This, the Commission argued, constituted unauthorised state aid to the Greek flag carrier (Commission of the EC 1996). As the financial position of Olympic continued to deteriorate in 1996 and 1997 the Greek government made no serious attempt to intervene in order to place OA back in the path of recovery. The reform of Olympic would re-emerge on the government’s agenda 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.15

---

15 Greece entered ERM II on 14 March 1998.
The government pushed through Parliament a controversial new law (2602/98) on the restructuring of Olympic Airways amidst an atmosphere of tension and mutual recriminations with the OA’s unions in April 1998. 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).

In the aftermath of the Law 2602/98, industrial relations within Olympic faced meltdown and the airline was rocked by a continuous series of wild-cat strikes during the Easter vacations and the summer months of 1998 causing Olympic an estimated loss of 600,000 passengers (Ta Nea 29.4.98; Eleftherotypia 20.7.98).

Despite the turmoil within Olympic, however, the new restructuring plan equipped the Greek government with sufficient credibility to request 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, the government accepted the Commission’s claim that the financing of the OA’s early retirement scheme and the airline’s preferential tax treatment beyond 1994 constituted illegal state aid and agreed that a total of ECU38.6 million (GDR11 billion) be deducted from the subsequent two instalments of capital injection to the airline. The Commission, on the other hand, agreed to the immediate release of a second instalment of ECU41 million (GDR14 billion) and authorised state loan guarantees of $378 million to be provided to OA by the end of 1997 for the purchase of new aircraft. The release of the third and final instalment (worth ECU22.8 million/ GDR7.8 billion), though, was made conditional on the successful implementation of the government’s restructuring plan (Commission of the EC 1998).

In a separate development, the Greek government announced, in June 1999, a deal with British Airways which through its consultancy subsidiary, 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 in the OA’s 13-strong Board of Directors, with a promise by the Greek government that its representatives in the Board would back Speedwing’s main strategic choices. 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). By the time the new management was installed in its position, 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 estimated in excess of €75 million (GDR25.9 billion) (Eleftherotipia 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 rescue plan. In addition to the pressure from Brussels, the arrival of the British management was also met with suspicion by OA unions, which ‘welcomed’ the new deal with 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; the third restructuring plan since 1994. Central to the vision of the new management was the drive to win back passenger numbers who had abandoned
Olympic during the 1990s. 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\(^\text{16}\) and an aggressive restructuring of its network aiming to make Athens a major transit route to the Balkans, the Middle East and Africa. The airline’s routes to the US, Canada, Australia and South Africa would be retained. To finance this expansion, Speedwing planned a mixture of borrowing and asset selling, including Olympic’s real estate portfolio in London and New York as well as the selling-off of minority stakes in its subsidiaries Olympic Catering and the Galileo booking system.

The emphasis on expansion (rather than cost cutting) afforded the OA’s new boss, 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 agreed basis upon which the 1998 financial aid to Olympic had been agreed. 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. As a new political leadership arrived in the Ministry of Transport in April 2004, relations between the Greek government and the BA managers were to be tested to breaking point.

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. Verelis was among the ‘new breed’ of PASOK politicians who had made much of his political fortune as manager of public utilities during the 1990s, where he had acquired a reputation for efficiency and good partnership with the unions. A loyal supporter of Premier Simitis, Verelis was keen to prove his modernising credentials to his new boss and relished his extended responsibilities which included the preparation of some of the country’s key infrastructure in view of the 2004 Olympic Games, the opening up of Greece’s closed network industries (particularly in the telecommunications, electricity and gas sectors) in line with EU requirements and, of course, the search for a remedy for the long-suffering Greek flag carrier. This was an agenda, which, if pursued successfully, could propel the ambitious Verelis within the higher echelons of PASOK.

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. Leaked information to the media suggested that Verelis was dissatisfied with the performance of Speedwing and that he doubted the sincerity of BA’s interest in acquiring a stake in Olympic, particularly in the aftermath of Rod Eddington’s appointment as BA’s CEO in May 2000 (Ta Nea

\(^{16}\) In 1999 OA employed 7,000 permanent and 3,000 seasonal staff. See To Vima 14.4.2002.
This mistrust was further reflected in the fact that, during the course of negotiations with BA, the Greek government made its contingency plans very public, suggesting that, 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). Against this background, 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 major new development in the saga of Olympic Airways that generated a great deal of controversy in Athens. For the Minister of Transport, 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 put their money where the mouth was in order to buy a stake in Olympic. For his opponents, however, Verelis has made a huge miscalculation. Many blamed the Minister of Transport for being too easily convinced by the unions’ complaints of Speedwing’s management and too ready to pass judgement on its performance in less than a year, without having waited for the financial results of the summer months which normally boost Olympic’s revenues. Even if the Minister was dissatisfied with Lynch’s management style, 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 for Olympic. In the early 1990s, the Greek flag carrier had repelled the possibility of an alliance with Lufthansa, one of Europe’s largest airlines. A decade later the Greek government seemed to have lost a second opportunity of linking Olympic’s destiny with a major European player, a mistake that, many argued, would be fatal for its long term survival.

In response to the collapse of negotiations with BA, Verelis moved quickly to announce the government’s intentions to sell off a majority stake (up to 65%) of the whole Olympic Airways group (including all of OA’s subsidiaries) to a private investor who would also be solely responsible for the management of the airline. In an attempt to entice potential investors, the Minister of Transport also floated the idea that the government may be willing to assume all of Olympic’s debts so that the airline can be sold without the financial burden of its past management (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 publication of the government’s new rescue plan for Olympic was received with dismay by the unions which feared that the government was planning further job cuts in Olympic 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 to start its operations on 1 March 2000) and refused to release the third instalment of capital injection provided for 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 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.

Faced with a disappointing response to the international tender and confronted by mounting industrial unrest in Olympic, 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, however, 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 may 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 such as Olympic Catering, the Galileo booking system, Olympic Fuel and, in time, the OA’s technical base and handling services would be sold separately to private investors. On the other hand, all aviation services performed by Olympic Airways and its subsidiaries (Olympic Aviation and Macedonian Airlines) would be merged under one company which would consequently be sold as a fight operator. 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,

---

17 These were: the Cypriot flag carrier, Cyprus Airlines, and Integrated Airline Solutions (IAS), an Australian consortium led by Greek tycoon Pavlos Vardinogiannis.
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 European Court of Justice (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 been 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 was 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. Ever since the new plan was announced, EISF had taken a line of total rejection, arguing that flight attendants had already accepted significant sacrifices during the 1990s and that no one from their members would accept the ‘Verelis plan’ unless the government was prepared to concede a similar deal to the one offered to the pilots. Faced with Verelis’ refusal to do so, EISF engaged in a 76-day long strike in an attempt to put pressure on the government. Verelis, however, moved quickly to recruit fixed-term contract staff in order 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 the Minister of Transport who argued that the complex handover between Olympic Airways and Olympic Airlines has gone ahead with minimum disruption. Verelis 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 tax payers’ money. In the process, the Minister was accused of having torpedoed the deal with British Airways in 1999 and then

---

18 60 more pilots agreed to be redeployed in the Civil Aviation Authority.
being forced to negotiate with ‘small fish’ that could not offer the solutions that Olympic so desperately needed. Having failed to ‘offload’ Olympic from the Greek state, Verelis’ preoccupation during his last eighteen months in the Ministry of Transport was how to avoid the airline collapsing in his hands and thus damaging his political career. The ‘cat and mouse’ game that ensued with the Commission was damaging both for the airline’s fortunes and the country’s credibility in the European Union.

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). With the ECJ now widely predicted to rule against the Greek government on this case, the future of Olympic was 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’ that is Olympic. Like his predecessor had done earlier, 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 that suggests several analytical aspects. It is a 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. The will and capability of the member government to act in compliance cannot be understood apart from this nested game. 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.

A crucial feature of the case study is, therefore, the dynamism of the bargaining process, between the Commission and Athens, and the associated pressures that led to the outcome of confrontation in the ECJ. This has been a case study involving a conclusion that appears sub-optimal to both players, and indeed all the key actors
involved. 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 to divest the state of the indebtedness of a major public corporation, whilst retaining a national flag-carrier. 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. The EU 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. The various iterations of the bargaining game involved outcomes that were unstable and unsatisfactory to both parties. Finally, the Verelis package on restructuring led to a major conflict in the ECJ. With parallel strategies, neither obtained the solution they had worked so hard to achieve. The fundamental question that arises is: why?

The concern here is neither with praise or blame. Instead, the intention has been to explain the outcome by reference to the conflicting pressures that have overcome the seemingly compatible interests of both parties. Several themes appear to form such an explanation:

a) **Consistency of approach.** The EU Commission questioned whether the partnership with Speedwing, and its solution of expansion rather than retraction, was consistent with the terms and objectives of the 1994 package of measures agreed with the Greek government to bail out Olympic. Subsequent reform plans from Athens involved further state aids, not their curtailment. To the Greek government, however, innovation was necessary in order to acknowledge that previous plans had run aground.

b) **Clarity:** The Greek government had difficulty in understanding the Commission’s policy signals and the limits to which solutions it would find acceptable.

c) **Time horizons.** In recognition of the domestic interests threatening reform, the Greek government sought more time before reducing or terminating state subsidies in order to ease the path to reform. The Commission developed a new stringency against renewed state subsidies: it had agreed to massive subsidies by instalments after 1994, but on the understanding that they were to lead to OA being sold off. Its position was one of no more concessions.

d) **Credibility.** The Commission became increasingly sceptical of the feasibility of the revised solutions put forward by Athens and doubted whether the latter was committed to an acceptable type of reform. Indeed, Athens also doubted the Commission’s motives with an implicit assumption that, under Palacio, DG Transport was determined to pursued OA’s bankruptcy.

e) **Stability:** At no stage over the last decade did the position of OA, with respect to reform, appear stable. Neither the Commission nor the Greek government found the position of OA acceptable and its future was an item of long-term negotiation.

Thus, the two key players pursued a rational set of preferences, but their interaction in negotiating a solution was structured so as to lead to conflict. The institutional setting
of both differed. The Commission had shown flexibility in the past on state aids, but it had resolved to maintain a tougher stance. Its credibility and reputation, in an international environment, were at stake. The Greek government, by contrast, faced severe domestic pressures and ultimately no ‘slack’ on the part of the Commission. The Commission’s stance and the failure of earlier reform initiatives, meant that over time the range of solutions acceptable to Athens narrowed considerably. The interests of the Commission and of the Greek government were, in fact, diverging.

With solutions disappearing, the capability of Athens to deliver reform became increasingly in doubt. The Verelis restructuring plan at first appeared to conjure up a solution and ministerial tactics had manoeuvred a scheme into place that would have seemed political magic in an earlier era. In the event, the Commission adopted a new resolve and launched a direct legal challenge. The Commission disrupted the available solution: it was both a regulator and a strategic player, interpreting the EU ‘interest’ and deciding to go for broke. In doing so, it appeared to give little priority to the domestic ‘win-set’ of the Greek government; instead, it gave preference to the conditions of a competitive European market and a faith that this market would determine a solution. This could be seen as either exasperation after a long period of attempted cooperation on reform or a paradigmatic shift to neo-liberal solutions.

A sub-optimal outcome appeared the result of a relationship between the EU Commission and the Greek government somewhat akin to the ‘paradox of cooperation’. 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). 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, in the 1994 package of measures, finished with an issue of enforcement and coercion (the Commission’s ECJ case). This raises wider questions about the nature of coordination and the system of compliance as the EU accumulates more competences in economic reform. 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 of restructuring, the option of privatisation – the Commission 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. The Commission doubted the domestic will to reform and became more assertive with its liberalizing agenda, whilst the Greek government was squeezed by entrenched union pressure and the repeated failure of its own domestic solutions. Neither side achieved their highest preferences; both were on a path to a major breakdown in their relations.

References


EIRO, European Industrial Relations Observatory, newsletter, Dublin

Eleftherotypia, newspaper, Athens.


Featherstone, K. (forthcoming) ‘“Soft” Coordination meets “Hard” Politics: The European Union and Pension nReform in Greece’, *Journal of European Public Policy*,


H Kathimerini, newspaper, Athens.


*The Financial Times*

*The Observer*, newspaper, London.

*To Vima*, newspaper, Athens.


