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Regulating and financing Greek ports

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Regulating and financing Greek ports

A long-lasting reform period of the Greek port system has already resulted in the privatization of the country's two major seaports, Piraeus and Thessaloniki, while the shareholding sales and concessions for the remaining 10 ports operating as Societe Anonymes owned by the State are either initiated or planned. The Greek port governance scheme is subject to further structural changes. The chapter discusses port (d)evolution in Greece, analysing key port data and the core features of the current port system. It does so focusing on the financial aspect of Greek ports, in the light of the ongoing transformation process. In particular it examines the financial tools available for Greek ports, discussing the impact of the recent economic crisis on port throughput and on port investment financing options as well as the role of the private sector in port investments and governance in Greece.

Key words: Greek ports, Port governance, Port Financing, port reform.

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1. Introduction

An insular country with a lengthy coastline, Greece has an extensive network of seaports varying in size, importance, and governance schemes. With Greek islands accounting for 19% of the country's area and 7,6% of the population living on 112 inhabited islands (H.A.S., 2019), ports are essential facilitators of trade, economic growth, and social cohesion; 18% of imports and 25% of the national trade are seaborne, facilitated by Greek ports (HRADF, 2012). Following long-lasting privatization, Piraeus, the country's principal port, has emerged as a transshipment hub. By the end of 2019 is expected to surpass Valencia as the top container port in the Meditteranean Sea in terms of container throughput served per annum.

This chapter discusses the evolution of the Greek port system's contemporary regulatory regime, detailing the system's structure, critical port data, and the governance model in place. It then presents the financial tools available for Greek ports, discussing how these tools have been strongly affected by the economic recession that hit the Greek economy and forced the pursuit of private financing mechanisms.

2. The Greek port system

The Greek port system's regulatory foundations are dated back to 1923, with the establishment of the first authorities responsible for the management and development of port infrastructures. Since then, Greek ports have experienced several transformations aiming to address emerging challenges.

40 Today, out of more than 1.000 ports and port installations that exist, 585 ports are managed by a port entity (Vaggelas et al., 2018). Two of them are ports of international importance (Piraeus and Thessaloniki). Ten other ones are classified as 'national importance' (Alexandroupolis, Kavala, Igoumenitsa, Corfu, Volos, Elefsina, Rafina, Lavrion, Patra, and Heraklion) and operate as corporate entities. In total, 13 port authorities operate as Société Anonymes (S.A.), facilitating the majority share of the country's seaborne trade and passenger traffic. Figure 1 details the spatial distribution of the 13 corporatized Greek ports and the traffic types each port facilitates.

Figure 1: The major Greek ports

50 The bulk of them is multipurpose ports (**Table 1**), except Corfu, Rafina, and Igoumenitsa, which are passenger ports facilitating Ro-Pax and cruise vessels. Piraeus is the primary container port in Greece, holding 90,1% of the total container traffic, with 80,2% reduced by the COSCO subsidiary P.C.T. (Piraeus Container Terminal S.A.), and 9,9% by Piraeus Port Authority S.A. This is also the only port with a car terminal. Thessaloniki holds the second place regarding container traffic while serving as the major dry bulk port of the country. In aggregate, in 2017, all Greek ports handled 32.63 million tones (excluding liquid bulk terminals operated by refineries) and 62.13 m. passengers (Vaggelas et al., 2018). Containerized trade reached 4.60 m. TEUs (Vaggelas and Pallis, 2018), while cruise passenger movements reached 4.62 m. passenger movements (Hellenic Ports Association, 2018).

Table 1. Greek Port Authorities - Characteristics and traffic data (2017)

60 This categorization, however, is under reconsideration. According to the most recent National Port Policy plans detailed by the Ministry of Shipping & Insular Policy (MSIP, 2012), the Greek port system will eventually be restructured with 57 ports forming its backbone: 16 ports of international importance, 16 ports of national importance, and 25 of local importance. Yet, in late 2019, the newly elected government set this plan under revision.

3. The regulatory framework

70 Greece embarked on the (on-going) port governance reform in the late 1990s, with the conversion of 12 ports of national interest from 'public law undertakings' to government-owned port corporations. Surprisingly, this reform is still in progress. **Table 2** presents the timeline of port reforms over these two decades, while **Figure 2** illustrates the Greek port governance structure as it stood in 2019.

The first initiative (1999) considered the two 'trans-European port organizations' of the country. The ports of Piraeus and Thessaloniki became corporations at that time, wholly owned by the Greek State (Law 2688/1999). Following a later decision, these ports were listed in the Athens Stock Exchange (Thessaloniki since 2001; Piraeus since 2003). Being the owner of the land, the State signed long-term concession agreements with the respective port authorities which gained the exclusive right of use and exploitation of land, buildings, and infrastructure within the port zones, to operate as 'typical user' ports, i.e., providing port services to all potential port users on an equal basis. In return, port authorities pay the State a concession fee standing at 2% of the annual operating income. The State retained at the time 75% of their shares for almost 15 years – i.e., until the decision to sell 51% to the private sector (see below).

In 2001, 10 more ports of national interest had been converted from to limited companies (Law 2932/2001), supervised by a Secretariat for Port, Port Policy and Shipping Investments. Each company has one share that is owned by the State. The scope is to generate a degree of autonomy regarding port management and operation. These ports are supposed to operate as 'private-sector' businesses with the objective to develop infrastructure and offer qualitative and competitive services. Local and municipality authorities undertook the management of the remaining Greek ports, replacing managing boards directly appointed by the central administration.

The motive for this 'port devolution' (Baltazar & Brooks, 2001; also: Brooks & Cullinane, 2007) was the need to reverse low productivity levels (Goulielmos, 1999), ineffective pricing mechanisms (Psaraftis, 2005), and insufficient investments (Pallis, 2006) that had prevented ports from fulfilling expectations and resulted in frequent cargo losses. Despite the willingness of the port authorities for further reforms and more active participation of the private sector in operations, as was already happening in neighboring Mediterranean E.U. countries (Italy, France, and Portugal), the process was halted by the simultaneous discussion of a potential port policy reform at E.U. level (Pallis and Vaggelas, 2005).

Table 2. Timeline of Greek Port Reform

A long and heavily politicized process (Psaraftis and Pallis, 2012) towards the Piraeus container terminal's concession commenced in 2004. It advanced in 2008 when the Greek government concluded an international tender and was put in force in 2009. The terminal concessioned for 35+5 years to a COSCO Pacific subsidiary company P.C.T. (Piraeus Container Terminal) S.A. Since then, the concession has been followed by two friendly settlements of the initial agreement (see: Pallis and Vaggelas, 2017), altering some of the originally agreed terms. A similar process for the container terminal of Thessaloniki failed as Hutchinson Port Holdings, which had been declared as the preferential bidder, decided to withdraw its interest in the light of the 2008-9 global financial crisis.

The recession of the national economy and the fiscal adjustment programs impacted the regulatory framework of the Greek port system. Severely impacted by the global financial crisis of 2008-9, and the breakdown of the country's fiscal policies in the early 2010s, successive Greek governments decided or were obliged by the institutions monitoring the

Greek economy (International Monetary Fund (I.M.F.), European Commission, and the European Central Bank), to exploit public assets, including ports further, aiming at increasing state revenues but also generating conditions for economic development. Among others, this changed the financing mix of an industry dominated by public control and financing.

The shares of all the corporatized Port Authorities, bar one of regional nature (the recently established Evia Ports S.A.), were transferred to the Hellenic Republic Asset Development Fund (HRADF). HRADF acts as the statutory body in charge of exploiting all assets owned by the State in all sectors of the economy and any corresponding privatization programs. An independent regulatory authority, the Greek Regulatory Authority (R.A.L.), was established in 2013 to supervise legislation compliance, abuse of dominant position, port tariffs, and other regulatory implementation (Law 4150/2013).

In 2016 China Cosco Shipping Corporation Ltd, as the only bidder, bought 51% of the Piraeus Port Authority S.A., with an option for acquiring an additional 16%. The Chinese government-owned company accompanied the offered price with a commitment for a series of compulsory investments. The same year, Law 4389/2016 established a Public Port Authority (P.A.P.) responsible for safeguarding the 'public goods' produced in the country's privatized port and for supervising the internal market in the respective ports. Today P.P.A. has two branches, one operating in Piraeus and one operating in Thessaloniki. A similar selling process was completed in 2018, when a consortium of three companies, including the port-arm of CMA-CGM Terminal Link (33%), Deutsche Invest Equity Partners (47%), and a Greek investor (20%), bought 67% of the Thessaloniki Port Authority shares.

Figure 2: Structure of port governance in Greece (2019)

For the remaining ports that operate as corporate entities, the government has expressed plans to launch international tender processes to concession port areas and port activities. However, the new government that was elected in mid-2019 stated its intentions for revisiting these plans. The potential to endorse a privatization strategy based on the selling of port authorities ownership, as has happened in the case of the two major ports of the country, has re-emerged. This is even though the prototype of port governance stands as a practice that has been unprecedented at European Union level and has a limited application around the globe (for a multi-country comparison: Brooks et al. 2017). Irrespective of the outcome, it is evident that engaging further the private sector in the ownership and management of Greek ports remains part of a reform plan that has yet to conclude.

Similarly, the restructuring of the governance of those secondary ports currently operating as State or municipal port funds, and the identification of additional financing tools for port investments with an eye on the modernization of port infrastructures and port services, are also in the pipeline. These ports' existing governance schemes generate conflicts and further inefficiencies between four different institutions, either ministries or regulatory authorities, involved in regulating and supervising their operations, with overlapping responsibilities and functions (Pallis and Vaggelas, 2017). This has led to thoughts for reforming the current

governance model to increase their performance, revenues, and attractiveness for investments.

Regarding port planning, this results via a process that applies to all ports, irrespective of the governance scheme in place. Each port authority must develop (a) a long-term master-plan, which includes the upgrade of existing and/or the development of new port infrastructures, and superstructures to serve best the forecasted port traffic, and (b) a short-term (five years) business plan. These plans are subject to approval by a special Port Planning and Development Committee (PPDC) whose members are representatives of eight different ministries. This Committee is responsible for the general planning of the country's ports, the monitoring and implementing the endorsed port programs by the port authorities, and the allocation of public financing to port infrastructure projects.

4. Financial tools

The financial tools available for investments in port infrastructure and, in some cases, for port operation are grouped into four major categories. The first one refers to investments via the use of the port's own funds. The magnitude of these resources depends on the revenues that a port generates. A second group is the public funding via the capital allocated by the State budget. This financing path includes several alternatives, with the major one being the annual Public Investment Programme (P.I.P.), the major governmental tool for financing public works. The third one is private funding in all its potential forms. For the moment, private financing of port development applies to the two major ports of the country only. The fourth category includes the financing tools developed by the E.U.

The funding of port investments is strongly related to the governance model of each port management authority. Among the variety of (co)-financing tools for transport projects of the E.U., three instruments are used by the 25 Greek ports belonging to the core and comprehensive Trans European Transport Network (TEN-T) only (Figure 2): These are the so-called Juncker Plan; (b) the Connecting Europe Facility program; and (d) the European Structural and Investment Funds (ESIF), There are also additional E.U. financing tools available, including the mobilization of capital via the Cohesion Fund, the European Regional Development Fund, as well as tools including the financing of feasibility studies and research dealing with the transport sector. In the early days of the economic crisis that the country experiences, the then publicly owned Piraeus Port Authority secured, exceptionally, a 95% E.U. funding for the construction of a new cruise terminal having a total cost of €141 million. The construction of this terminal has still to commence.

Table 3 summarises the available financing t and how each one applies to the Greek ports depending on the different governance models in place.

Table 3. Financial tools available for Greek ports

5. How sustainable is the current model?

190 In Greece, the majority of port projects have been financed by the State through the Public Investment Program (P.I.P.) and through the ESIF, as the Greek port system followed for long the public service port management model (see: the World Bank, (2000) taxonomy). Since 2010 the mix of port financing in Greece has changed. The fiscal adjustment program resulted in a 36% reduction of the P.I.P. from €9,3 billion in 2009 to just €5,95 billion in 2017, with only a limited share heading to port-related investments. Consequently, the Greek State sought alternative sources of funding.

200 The privatization process produced the new owners' commitment to proceed to necessary investments with their funds for the two major ports. In Piraeus, according to the published financial accounts, between 2009-2017, the container port's concessionaire invested €467 million, among others, in upgrading Pier II, the construction of Pier I,II, and the procurement of new cargo handling equipment. Moreover, China Cosco Shipping is committed to investing €350 million until 2026, with the company's master plan foreseen the total investments to reach €800 million. In the Thessaloniki Port Authority, the new owner committed to investing €180 million to upgrade port infrastructure and cargo handling equipment. The presence of international terminal operators in both ports creates conditions for further port development via Foreign Direct Investments (FDIs) and positive throughput trends.

210 However, private investments remain focused on the most profitable port infrastructures and operations, at least for the moment. In the case of Piraeus, the vast majority of the investments refer to the container terminals. Only few of the other foreseen compulsory investments have been completed or are already on track. While it is too early to conclude on the actual reasons for this happening, delays in parts of port development plans are notable.

220 Private ownership has not always been enough to secure the advancement of private investments, though. In Piraeus's case, the aforementioned applied planning procedures have led to controversies as regards specific types of port expansion, despite the willingness of the owner (Cosco) to finance them. The new owner developed within 15 months a master plan. More than a year later, the designated public Committee (PPDC) has rejected the owner's proposals related to the capacity expansion of both the container and the cruise terminals. The recent (October 2019) partial approval has been granted following a request to re-discuss several proposals, i.e., those for which local communities have expressed questions referring to commercial activities, such as malls and hotels. While the transformation of port-city relations to an area of conflict is not a rare phenomenon, the situation highlights that port governance and financing decisions remain embedded in the broader culture and institutional context within which the economy develops (Jacobs 2007; Ng and Pallis, 2010; Notteboom et al., 2013). It remains to be seen whether this slow decision-making process observed is an *ad hoc* difficulty, or the present structures of private-public interests interactions limit the prospects of on-time port development.

The above is reconfirmed by the fact that private financing in Thessaloniki faces similar challenges. A year since privatization, the significant investments for the expansion of port infrastructures have yet to start. At the time of writing, early-2020 stands as the set day for this commencing. For the moment, the new owner has invested in some straddle carriers only, as they renegotiate with the government the initial agreement, and in particular the potential transfer of €20 million investments from real estate to investments in container terminal expansion. This request, which for the time being is rejected by the Greek State, would mean that €150 million out of the €180 million of compulsory investments will be allocated to the container terminal, reconfirming the priority that private investors assign to the particular market. Even in those cases that private financing seems to have been secured, the balanced development of all port units and markets, rather than the most profitable business alone, remains under question – bringing back in the discussion the need for mechanisms that would allow such balanced development to take place.

While sustaining financing of Greek ports' modernization and development via FDIs is viable in the case of the two major ports, this potential stands questionable in other major ports. Over the last decade, the expressed unsolicited private interest in investing in these ports has failed to turn to concrete actions. Conditioned by several factors, this interest might fail to materialize in the future as well. Still, financing for all Greek ports included in either the core or comprehensive European TEN-T seems probable via E.U. funds.

What remains as a significant question is the development of the country's secondary ports. The majority of them do not have sufficient traffic; hence they lack the essential revenues. Yet they are vital from both economic and social perspectives. The increase of the P.I.P. to €12,5 billion for 2019 provides some but not all funds needed. Private interest is absent; thus, financing their needs will continue to be covered by public funds. This increases the importance of applying a consolidation plan - i.e., through mergers - aiming at the formation of authorities having the potential to rationalize investment plans, improve the effectiveness and the efficiency of existing operations, improve day-to-day management practices, and, perhaps, systematically exploring the possibility of further private investments in some of the Greek ports. A combination of economic and geographical proximity criteria would result in 13-15 new entities, rather than the 91 bodies that currently manage these ports in a costly and ineffective way.

6. Concluding Remarks

The Greek port system has long relied heavily on the public sector, with the State being responsible for financing, managing, and operating all port projects. The last decade's port governance reforms lifted the barriers for the involvement of the private sector in Greek ports.

This lifting had a significant impact on port development. An international terminal operator at Piraeus container port, whose parent company (China COSCO Shipping Corporation Ltd) soon turned to owner, was accompanied by subsequent FDIs. Along with the integration of rail services to dry ports in central Europe and the contribution of the existing clustering (cf.

Vaggelas et al., 2017), Piraeus emerged within a decade to the fifth-biggest container port in Europe and the 37th biggest container port in the world in terms of TEU throughput. From a financing perspective, COSCO demonstrated the capacity to provide the vital port funds, taking advantage of its global reach. Given the new owners' commitment, it is safe to conclude that similar will be the effects as regards the financing and development of the recently privatized Thessaloniki port. Besides, private operators' presence has generated euphoria as follows the prospect of both ports, accelerating both private and public plans for investments in logistics, supply chains, and the expansion of the overall port-related cluster (see: Vaggelas and Pallis, 2019). All these in a period that the economic crisis limited the potential of public funding at an unprecedented lower level in the country's history.

For Greece, the change of port governance scheme has facilitated the financing of its two major ports, alas at the expense of losing public ownership control of the respective port authorities. Comparing to trends in other countries in Europe and beyond (see: Brooks et al., 2017), the decision made was to follow a very 'Greek prototype' of port governance, the real implications of which remain to be realized. The discussed disagreements between private interests and public perspectives need to be closely monitored and researched to accurately conclude the actual magnitude of the expenses if any, that the detailed governance model comes with.

It also remains to be seen whether this private interest will expand to the other ports of national interest, as currently projected, and in what terms. What is even more critical, and perhaps questionable given the State of public accounts, is identifying mechanisms that would allow the mobilization of funds to maintain and improve the country's smaller ports and the effective use of these funds in the port level planning and implementation. While E.U. financial tools provide a potential mechanism for securing some of these funds, a reform of secondary ports governance that would include the merging of the too many small in size and low expertise authorities would work towards rationalization of port planning and financing decisions.

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Figure 1: The major Greek ports

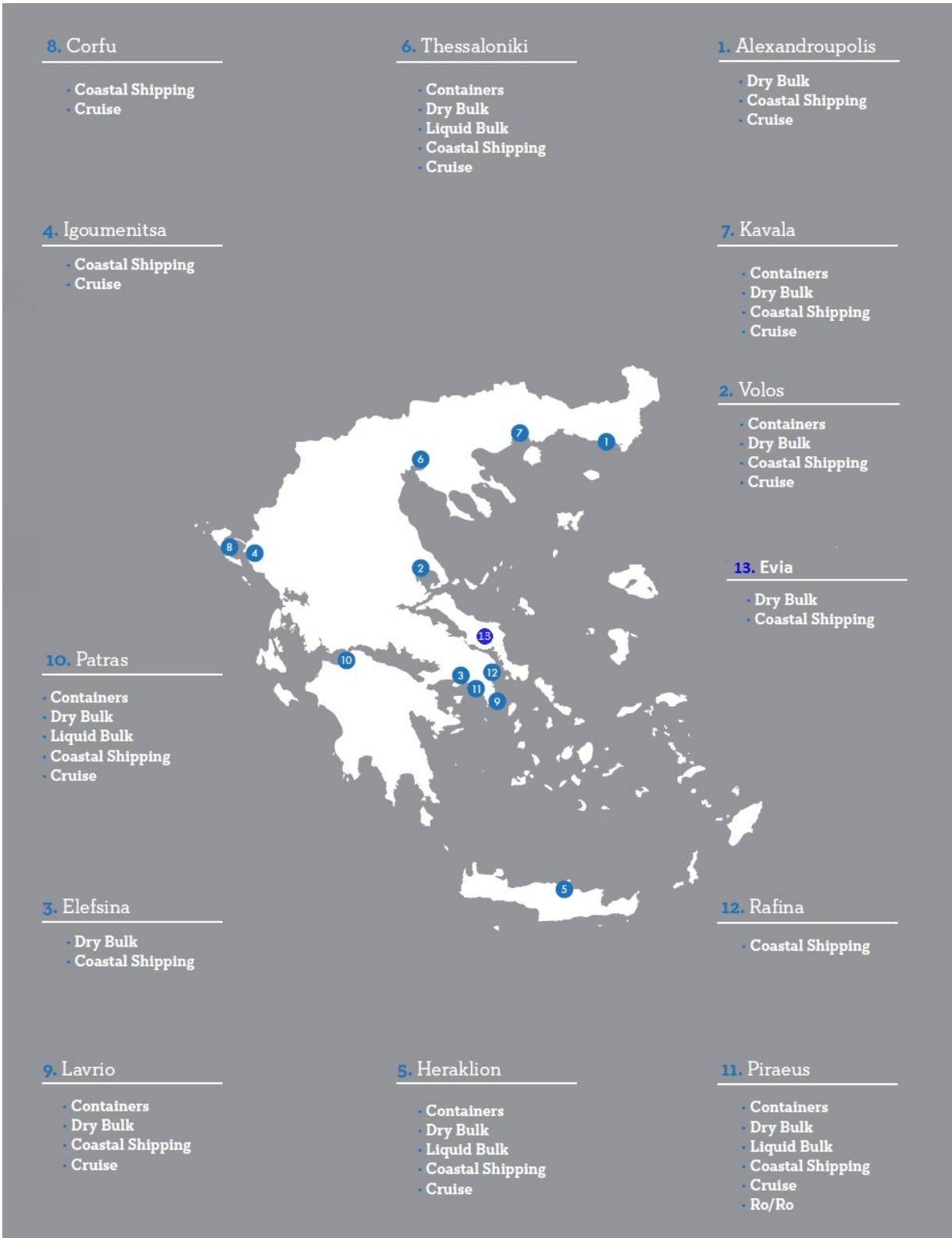


Table 1. Greek Port Authorities - Characteristics and traffic data (2017)

| Port Authority S.A. | Number of ports | Dry bulk (tn) | TEUs | Ferry (Pax) | Cruise (pax) | Cars (Units) |
|---------------------|-----------------|---------------|-----------|-------------|--------------|--------------|
| Alexandroupolis | 1 | 118.965 | - | 146.208 | - | - |
| Corfu | 6 | - | - | 1.840.975 | 679.681 | - |
| Elefsina | 5 | 426.817 | 420 | 452.659 | - | - |
| Evia | 18 | 428.008 | - | 1.631.306 | - | - |
| Heraklion | 1 | 85.803 | 21.353 | 1.542.244 | 181.693 | - |
| Igoumenitsa | 1 | - | - | 2.677.303 | 9.088 | - |
| Kavala | 4 | 629.308 | - | 2.173.582 | 3.226 | - |
| Lavrio | 1 | 13.687 | 15.463 | 464.402 | 17.406 | - |
| Patras | 1 | 191.671 | - | 521.349 | 952 | - |
| Piraeus | 1 | - | 4.145.071 | 15.555.123 | 1.055.559 | 431.157 |
| Rafina | 2 | - | - | 2.248.454 | - | - |
| Thessaloniki | 1 | 3.186.888 | 401.473 | 47.939 | 2.424 | - |
| Volos | 1 | 867.102 | 19.017 | 330.896 | 7.618 | - |

Source: Vaggelas and Pallis (2018)

Note: Liquid bulk cargoes (oil and oil products) are facilitated through private port infrastructures owned by the companies operating the country's refineries.

Table 2. Timeline of Greek Port Reform

| | Year | Reform |
|---------------------|-------------|---|
| First Round | 1999 | Piraeus Port Authority (P.P.A.) and Thessaloniki Port Authority (ThPA) converted to Sociétés Anonymes (S.A.) (Law 2688/1999) |
| | 2001 | 10 Port Authorities converted to S.A.s (one share owned by the State) (Law 2932/2001) |
| | | Establishment of the General Secretariat of Ports and Port Policy (Law 2932/2001) |
| | | ThPA S.A. listed in Athens Stock Exchange (State retains 74,27% of shares) |
| | 2003 | P.P.A. S.A. listed in Athens Stock Exchange (State retains 74,14% of shares) |
| Second Round | 2008 | Public tenders for the concession of (i) Thessaloniki Container Terminal; (ii) Piraeus Container Terminal Pier II (operation); & Container Terminal Pier III (greenfield) |
| | 2009 | Piraeus Container Terminal (P.C.T.) S.A., a COSCO Pacific subsidiary, commences operations of Pier II |
| | 2010 | National economy experiences crisis – intervention of International Monetary Fund (I.M.F.) and European Institutions (European Commission; European Central Bank) |
| | 2011 | P.P.A. commences operation of Container Terminal Pier I |
| | 2012 | "Friendly agreement" between P.P.A. S.A. and P.C.T. S.A. to revise concession terms |
| | | All shares of Port S.A.s transferred to Hellenic Republic Asset Development Fund (HRADF) |
| | | One more port is transformed to S.A. (Evia Port Authority) |
| | 2013 | Non S.A. ports capacity to operate under a Port Authority S.A. form (Law 4150/13) |
| | | Establishment of the Ports Regulatory Authority (controlled by Ministry of Mercantile Marine) |
| | | Second "Friendly agreement" between P.P.A. S.A. and P.C.T. S.A. to revise concession terms |
| Third Round | 2016 | China COSCO Shipping Corporation Limited wins a tender call for buying 67% of the shares of the P.P.A. S.A. Greek Parliament endorses the decision. |
| | | Conversion of the Ports Regulatory Authority to an independent authority |
| | | Establishment of a Public Port Authority (P.P.A.) having one branch (Piraeus, P.P.A.) |
| | 2018 | South-Europe Gateway Thessaloniki wins a tender call for buying 67% of the shares of the Thessaloniki PA S.A. Greek Parliament endorses the decision. |

Source: Adjusted from Pallis & Vaggelas (2017).

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graph TD
    MSIP[Ministry of Shipping and Insular Policy] --> RAL[Regulatory Authority for Ports (RAL)]
    MSIP --> GS[General Secretariat for Port, Port Policy and Shipping Investments]
    MSIP --> PAP[Public Authority for Ports-PAP]
    RAL --> PO[6 Port Offices]
    GS --> MPF[75 Municipal Port Funds]
    GS --> SP[10 State Port]
    GS --> PA[12 Port Authorities]
    PAP --> PPA[Piraeus Port Authority S.A.]
    PAP --> TPA[Thessaloniki Port Authority S.A.]
    MI[Ministry of Interior] --> TCT[TEN-T Core ports]
    MI --> TCH[TEN-T Comprehensive ports]
    TCT --- PO
    TCT --- MPF
    TCT --- PA
    TCH --- PPA
    TCH --- TPA
  
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Ministry of Shipping and Insular Policy

- Regulatory Authority for Ports (RAL)**
 - 6 Port Offices
- General Secretariat for Port, Port Policy and Shipping Investments**
 - 75 Municipal Port Funds
 - 10 State Port
 - 12 Port Authorities
- Public Authority for Ports-PAP**
 - PAP-Piraeus Branch*
 - Piraeus Port Authority S.A.
 - PAP-Thessaloniki Branch*
 - Thessaloniki Port Authority S.A.

Ministry of Interior

- TEN-T Core ports**
 - Piraeus, Thessaloniki, Igoumenitsa, Patras, Heraklion
- TEN-T Comprehensive ports**
 - Chalkida, Chania, Chios, Elefsina, Kalamata, Katakolo, Kavala, Corfu, Kyllini, Lavrio, Mykonos, Mytilini, Naxos, Paros, Rafina, Rhodes, Santorini, Skiathos, Syros, Volos.

Source: Authors

Table 3. Financial tools available for Greek ports

| Financing Tool / Port governance model | Port Authority S.A. (public) | Port Authority S.A. (private) | Municipal Port Fund | State Port Fund |
|---|------------------------------|-------------------------------|---------------------|-----------------|
| Own funds | | | | |
| Cash and cash equivalents | √ | √ | √ | |
| State funding | | | | |
| Ministry of Shipping and Insular Policy | √ | | | √ |
| Ministry of Interior | | | √ | |
| Ministry of Transport and Infrastructures | √ | | √ | √ |
| Regions | √ | | √ | √ |
| Municipalities | | | √ | |
| Private funding | | | | |
| Stock Exchange | | √ | | |
| Bonds | √ | √ | | |
| Concessions | √ | √ | √ | √ |
| Bank loans | √ | √ | √ | √ |
| E.U. financing | | | | |
| Various tools | √ | √ | √ | √ |

Source: Authors

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