

## OSE feels the heat in Greek meltdown

Tuesday, June 01, 2010

With debts of nearly €10 billion, Hellenic Railways Organisation (OSE) has come under international scrutiny for its role in the Greek economic crisis. Keith Barrow examines how easy credit has sustained a spiral of inefficiency at OSE that looks set to end in drastic corrective measures.

THIS month the Greek government is expected to release a revised recovery plan detailing how it will rescue debt-ridden OSE, an organisation which traditionally has accounted for more than 0.3% of the entire Greek budget deficit.

Greece's public sector debt is reportedly nudging €300 billion. Included in this figure is around €26 billion of debt from publicly-owned bodies, equivalent to roughly 10.9% of GDP. Around 40% of these debts are owed by OSE. In the past, these bodies have been encouraged to take out bank loans guaranteed by the government, usually with a higher rate of interest than if the government had borrowed the money and then redistributed the funds as subsidy. As these obligations have been assumed by the state, they have become a key issue in the broader debt crisis, and how OSE manages its deficit is therefore coming under close international examination.

A cursory glance at OSE's finances reveals an organisation that was already in dire straits before the economic downturn hit. The company's debt trebled between 2002 and 2008 and by the end of last year total accumulated debts had reached €9.5 billion. Total turnover in 2008 was just €195.6 million, a figure dwarfed by the €428 million cost of servicing debt and a €274.2 million wage bill.

Staff costs have risen quickly in recent years. Between 2003 and 2008 the total wage bill for OSE and train operating company Trainose (a subsidiary of OSE since 2005 and now an independent state-owned company) rose from €240 million to €440 million, even though the workforce fell by 2200 to 9200 employees.

As OSE's debts were effectively gold-plated with a government guarantee, banks were only too willing to lend, yet it is unclear exactly who had ultimate responsibility for the debt the railway was accumulating. Last year a commission set up by the Finance Ministry found that while the government was responsible for guaranteeing OSE's debts, the figures were not present on the government balance sheet.

In April, OSE came under the scrutiny of a joint team from the European Commission, European Central Bank, and International Monetary Fund (IMF), which is negotiating with the Greek government over what measures need to be taken in the next three years under a European Union aid package. According to the daily Kathimerini newspaper, this group of officials visited the Infrastructure Ministry for a briefing on the government's forthcoming OSE reform plan.

The draft plan is expected to consider the individual business cases of all lines except the core Athens - Thessaloniki main line and Athens suburban network, and could stipulate closure of lines where revenues have covered less than 40% of operating costs over the last three years. On large parts of the metre-gauge Peloponnese network this figure is closer to 20% (partly because more than half of the train fleet is out of service, leading to mass cancellations), while on the Thessaloniki - Kozani line it is around 30%.

Wherever the IMF has intervened in ailing economies over the last 60 years, it has tended to prescribe large-scale privatisation of state-owned companies as a prerequisite of any bail out. Greece looks set to follow a similar path and the government has already set out a privatisation programme which it hopes will raise €2.5 billion this year alone.

One company on the shortlist is Trainose, 49% of which will be sold to a strategic partner with the government remaining the majority shareholder. Trainose's accounts were separated from OSE in 2007, when it was freed from any debt obligations, but last year it made a loss of around €250 million. The Transport Ministry installed a new CEO at Trainose in February and the company is planning to restructure its operations with the aim of becoming profitable. It is also likely to take over train maintenance from OSE.

Other parts of OSE could be hived off under the government's reform plan, but even in the most optimistic scenario, the sale of subsidiaries is unlikely to have a significant impact on OSE's vast debts. Opportunities to tackle the deficit through asset sales may also be limited. The railway estimates its fixed asset value to be around €12.6 billion, but most of this is accounted for by core infrastructure.

A reform plan that proposes privatisation and cutbacks is likely to be met with a hostile response from unions which are already venting their fury at the Greek government over the dire economic situation. The country's railways ground to a halt as part of a general strike on May 5 and again on May 20. Further stoppages are expected as more details of the government's austerity plan emerge.

A succession of ministers has vowed to tackle the chronic inefficiency of the railway (IRJ September 2008 p10), but behind the rhetoric the problems continued to mushroom into a fully-fledged crisis that now appears well beyond the grasp of both the government and OSE management. Lenders that were once so keen to cash in on the company's appetite for debt have long since fled, and with its principal lines of finance severed, OSE's plans to invest €9.3 billion between 2008 and 2017 have faded into the stark reality that the network could shrink in the ruthless austerity drive Greece now faces.