

HEAVY STUFF

Recent years have been a boom period for Greek construction companies. There has been a heavy flow of projects paid for by the EU Community Support Frameworks and many installations and improvements for the 2004 Olympic Games. All the large contractors have huge backlogs and are currently fully stretched. But many of these projects will finish in a couple of years time and there is considerable concern about prospects for the latter half of this decade and beyond. The government has finally come to terms with the notion of concession contracts for the construction of major infrastructure projects such as highways, airports, marinas and parking garages. It is currently in the process of tendering six major highway schemes under PFI-PPP (private finance initiative–public private partnership) arrangements. These will commence after 2005 but even then there is concern about the way forward for the construction companies. The energy sector, for example, was supposedly liberalised two years ago to allow construction companies and other business interests to build private thermal and renewable electricity generating plants. But the lack of a legislative framework and bureaucratic obstacles in obtaining permits means that few of these projects have commenced, a poor augury for other self-financed schemes. Recent legislation has forced many companies to merge. This was designed to give them the critical mass to compete for the largest projects in the domestic market in their own right instead of in clumsy joint ventures. It was also designed to help them to compete in regional markets where Greek firms have a comparative advantage in understanding the workings of developing economies. The merger process is still ongoing and the results remain to be seen.

Construction will contribute as much as manufacturing to Greek gross domestic product this year and next.

According to estimates by the Institute of Construction Economics (IOK), the average contribution of construction to GDP in the three-year period 2002–2004 will be 12% per annum.

According to the National Accounts, the contribution of construction to GDP at current prices in 2002 rose to 8.4% from 7.7% in 2001; manufacturing declined to 10.7%, from 11.2%.

The boom arises from the works under construction for the Athens 2004 Olympic Games and the infrastructure being co-financed through the third Community Support Framework (2000–2006). The former is estimated to worth some €1.2 bn directly (€3 bn if indirect investments are taken into account) and the latter some €11.5 to €16.25 bn depending on how many projects are realised.

Contractors have massive order books ranging between €300 mn to €1 bn. But these will mature in less than two years and the funds to renew them will run out over the next few. There's a grace period till 2008 for CSF III. But there is no guarantee that Greece will

attract anything like the funds it has had till now when CSF IV is drafted. Much of the funding will be re-directed to the former Communist states of central and eastern Europe that will formally become members of the EU in 2004.

So how will contractors survive once the extraordinary funding is exhausted?

Most are looking to diversify into concession projects, real estate, energy and leisure. A number are planning to expand abroad. The problem is that all the construction companies appear to be pursuing the same diversification options and, as in the construction sector proper, there is only a limited amount of business to go round.

The concession projects have been delayed by lack of legislation and differences of opinion within the government about how the policy is to be implemented.

The real estate market is highly uncertain with confusion regarding the planning regime, depressed rates for commercial properties and the possibility of a collapse in house prices in the next couple of years.

The energy market is supposedly liberalised but the Minister of Development, Akis Tsohadzopoulos, has yet to produce a scheme for power sales that

will allow private projects to be financed.

There is considerable reconstruction work to be done in the Balkans and the Middle East. But contractors that plunged into these markets in the past got their fingers burned and companies today are loathe to take on such projects unless they are funded by international agencies such as the European Bank for Reconstruction and Development.

Some companies are positioning themselves to pursue contracts in the new member states of the enlarged EU, so as to benefit from CSF IV monies re-

Selected public works projects, 2001 - 2006

	CSF III (Roads, ports and regional development)	CSF III (Railways, airports and urban transport)	Athens 2004 Olympics
2001	1,544	490	—
2002	1,320	490	573
2003	1,832	490	n/a
2004	1,461	490	n/a
2005	1,548	490	—
2006	1,612	490	—
Total	9,317	2,940 ^a	573

^a Railway restructuring €90 mn; Athens-Thessaloniki high speed link €1,720 mn; suburban railway €190 mn; urban transport €642 mn; airport development €263 mn; transport security €32 mn. Total does not add because of rounding.

Source: Ministry of Economy and Finance

directed to those countries.

This will be facilitated by new legislation which has led to significant consolidation in the sector, creating larger companies with sufficient assets and financial means to participate in the largest projects both at home and abroad.

Many of the projects financed under CSF I and II were too complex or too large for Greek contractors to tackle. Projects such as the Athens metro and the new Spata airport thus went to foreign firms with Greek companies sub-contracted to do basic works. In the process, the Greek firms acquired sophisticated know-how.

Other, simpler projects, such as the national highway networks Pathe and Egnatia, were accessible to Greek con-

tractors but their companies were too small to tackle them except in clumsy joint ventures.

The government, to streamline public works, drafted new legislation¹ governing the size and financial resources of the companies entitled to bid for public works. This forced firms to merge into larger units. From 60 H-class companies with the certification necessary to bid for large public works, the number has been reduced to 14.

The process of consolidation has been going on only since August 2002 and in some cases is not fully completed. So it is not yet possible to offer a proper judgement of the success of the measure.

However, some companies feel that the mergers have been artificial and have

created strains in the new groups that will hamper their development in the years to come.

That said, the largest groups such as Elliniki Technodomiki TEB/Aktor, AEGEK/Efklidis and GEK/Terna had foreseen the transition and had pre-positioned themselves ahead of the legislative changes. For them the transition has been relatively smooth. Their order books are considerably larger than those of their competitors and they are further ahead that many of their competitors in planning diversification for the post 2006 era.

There will probably have to be further consolidation in the sector. If not, and market forces are allowed full sway,² there could be some casualties along the way.

¹ Law 2940/01.

² The government historically has tended to parcel out work in broadly equal shares regardless of the calibre of the companies. This has led to a considerable amount of shoddy work.