

# THE HISTORICAL COURSE OF THE GREEK COASTAL TRANSPORT SERVICES IN THE 20<sup>TH</sup> CENTURY AND ASSOCIATED POLICY RESPONSES<sup>1</sup>

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Maria Lekakou – Irene Fafaliou: The historical course of the greek coastal transport services in the 20th century and associated policy responses.

For more than a century, Greek coastal transport has played a crucial role in national cohesion. However, up to the end of the 20<sup>th</sup> century, the way academics and policy makers responded to the challenges of coastal transport was often improper, inconsistent and non-systematic.

This paper, drawn upon empirical and academic socio-economic evidence, overviews the historical evolution of the coastal services industry from the mid 19<sup>th</sup> century until the end of the 20<sup>th</sup>. It specifically examines the nature and the extent of "the Coastal Shipping Issue", as well as the broad contours of the changes that have made the issue an ever-increasing challenge for public policy and its key causes. The strengths and weaknesses in State intervention are explored and possible barriers to success of the major policy reforms are considered in order to identify a range of adjustments that could enhance policy effectiveness.

JEL classification: L1

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## 1. Introduction: The Coastal Shipping Issue in Greece

With reference to this paper an alternative title could be “the Coastal Shipping Issue”, since the evolution of coastal transport services has been a long-standing issue of major importance and captured the interest of both the Greek State and its citizens. Indeed, Greek coastal transport has played a crucial role in national cohesion in various respects. From a geographical perspective coastal transport connects mainland with islands. From an economic and social perspective sea ferries services influence the population levels of the islands, provide opportunities for economic development,

## Abstract

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and enhance islanders' quality of life. However, from the mid 19<sup>th</sup> until the end of the 20<sup>th</sup> century policy

makers responded differently to the challenges of coastal transport. This paper investigates the links between "the Coastal Shipping Issue" and the approaches employed to solve it. Since there is a research gap in the field, this paper discusses from a historical perspective the socio-economic factors affecting the success of the policies being developed and pursued for more than a century. Special concern is placed on the contribution of different stages of State's regulatory provisions and this is achieved through an examination of both market frameworks which prevailed at times in coastal shipping services and the concrete policy actions which have been formulated to tackle "the Coastal Shipping Issue". Attention is also paid to the impact of the new forms of ownership structure of the coastal shipping companies emerged in the 70's. Finally, the strengths and weaknesses in State evolutionary intervention are analyzed and possible barriers to success of the major reforms are considered in order to identify a range of adjustments that could enhance policy effectiveness.

## 2. The Issue in Context

It is hereby considered that "knowledge" relevant to the historical evolution of Greek coastal shipping is a key element in identifying the development of the "Coastal Shipping Issue", the main factors involved, as well as the policy areas affected. In most cases, such an effort involves discussion of market forms which act as "proxies" for public intervention. This is also assumed to facilitate the identification of transport services' characteristics that form the reference upon which progress in the sector should be measured.

Since the liberation of Greece from Turkish occupation and the formation of the Modern Greek State (1827) till the end of the 20<sup>th</sup> century, the market structure of the coastal shipping services took various forms in consistency with certain State's

approaches employed at times. In particular, until 1932 two dominant market forms have been documented in the literature as being developed in three different chronological periods. These are as follows: a state monopoly regime which was the dominant market form for both the

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period dated from State's liberation until 1892, and right after the Second World War until 1947; in the years between (from 1892 until 1932) conditions of a perfect competition regime characterized the market of the sector, which turned out to be destructive<sup>2</sup>. In 1932 a state intervention regime entered again into effect mainly with regard to ships' age and routes. Furthermore, in 1938, the developments in the market structure of coastal shipping services resulted in the formation of a compulsory Joint Venture, the so-called "Coastal Services Joint Administration"<sup>3</sup>. Within this initiative's framework all coastal ships were incorporated. It should be mentioned that in the mean- time two alternative proposals for private monopoly, had been put forward: the first in 1934 on the part of an Anglo-Hellenic Group, the so-called Ambat- ielos group, and the second in 1946 on the part of the famous Greek ship owner Aristotle Onassis<sup>4</sup>. However, the Government in office rejected both proposals, as they were considered ineffective in economic terms.

From 1947 until the end of the 20<sup>th</sup> century, coastal shipping remained an industry regulated by the Greek State. Although state intervention had not always the same quality features, it is widely acknowledged that the parliamentary voting of the Public Maritime Law Code in 1973 and the promulgation of the Presidential Decree N. 684 of 1976 were of par- ticular importance for the prevalence of the regulatory regime. This stems from the fact that the aforesaid legislative provisions clearly incorporated all elements, which - according to the mainstream industrial eco- nomics theory - characterize a regulated industry, namely the control of the "entry and exit" of shipping companies, the " setting of prices", and the "intervention in the quality features of the service provided"<sup>5</sup>.

It is worth mentioning that the State's regulatory intervention in the field of transport, in general, is not a Greek phenomenon, but rather an interna- tional practice. In the USA, for example, the regulation of transport began in the 19<sup>th</sup> century. The transport sub-sector, where regulation was applied for the first time, was rail transport. This is based upon the fact that the rail- way network in the USA is a service of public interest by virtue of its mass passenger transportation characteristic. If this is case for both the USA and central Europe, with regard to Greece, the role of the leading

carrier is by right attributed to the coastal shipping transport<sup>6</sup>. This is mainly due to both the geomorphological nature of the country (numerous islands and coastal urban centres, in protected and sheltered waters) and the maritime

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capacity of the nation mainly reflected in the Greek maritime tradition. It should be emphasized, however, that despite the more crucial role of the coastal transport in Greece compared to land and air modes, the latter experienced with time a more stable market structure and a more comprehensive institutional regime than coastal shipping.

In conclusion, the key element in the nature of Greek coastal transport, which at times had influenced the type of the State's intervention, is that coastal services act as "arteries" through which the whole country is expanded and integrated, thus constituting a consistency feature for the cohesion of the national structure. However, despite the fact that the "public good" nature of coastal services has caused the long-standing State's intervention, it has also raised social awareness and mobilization due to ineffective policy provision.

Moreover, the nationwide significance of coastal transport has definitely shown its impact on the formation of the operational framework of the coastal shipping services and, in a wider sense, has eventually determined the market-structure of the sector until the end of the 20<sup>th</sup> century, i.e. that of the regulated oligopoly<sup>7</sup>. If the geomorphological structure of Greece is to be considered, i.e. an extensive coastline (14,854 km) and an insular complex, which includes 3,500 minor and major islands representing 19% of the Greek territory and 14% of the Greek population, public regulation has resulted as a natural corollary. These particular characteristics have determined the historical course of the coastal shipping in Greece, while at the same completely diversified coastal shipping development from that of the Greek ocean going shipping.

It is worth mentioning that the current Greek coastal system serves about 100 islands and includes 200 ports, which are located both at the mainland and the islands. At the dawn of the 21<sup>st</sup> century, the coastal fleet that served the domestic maritime transports consisted of 430 vessels, with a total capacity of 112,000 passengers, 21,000 vehicles, and 3,600 trucks, operated by 170 coastal shipping companies<sup>8</sup>.

In 2001, according to the most recent available data, 19 million passengers, 1.7

million cars, 8 thousands buses, and 600 thousands trucks were transported by the main coastal lines. In the same year 18.5 million passengers, 3.5 million cars, 66 thousands buses and 700 thousands trucks were

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carried in strait-crossings. Half of the users of the main lines were embarked and disembarked in the port of Piraeus<sup>9</sup>. The passenger and cargo demand for coastal services is characterized by intense seasonality, showing peaks during the summer period, in particular in August.

### 3. Historical Development of the Coastal Shipping Issue: Market forms, associated policy responses, and key causes

#### 3.1. From State Monopoly to Destructive Competition (1850-1929)

Until the middle of the 19<sup>th</sup> century, coastal passenger services were exclusively performed by sailing boats. Modern Greek coastal shipping has its origins in postal service, which was established among the ports of liberated Greece. In 1830, a few ships, which had survived the seven-year war and passed under State control, served as the core capacity for the communication not only between mainland ports and islands, but also between locations in mainland, given that road transport was practically non-existent and road networks were actually vestigial. Coastal transport carriers became the Greek Navy<sup>10</sup>. The sailing vessels of the time were often insufficient to cover the existing needs, it thus became necessary to charter other ships, a fact that involved major costs for the public treasury.

Under these circumstances, the State decided to build two ships: the “Government High Speed” named “Methoni”, and the “Maximilian”. Both ships were steamers. In 1836, the Greek State, by means of one of the first-ever-legislative acts entered into force after Liberation, “reserved” the privilege of coastal shipping in favour of the ship-owners flying Greek flags, without however excluding those bearing foreign flags on conditions of reciprocity. The demand for passenger and cargo transport, as well as the postal needs could not be met and the use of Navy ships and boats became a common practice. During this period, that is to say around the middle of the 19<sup>th</sup> century, a State coastal passenger fleet was formed consisting of five steamers, which were granted by the Ministry for the Interior.

Furthermore, in 1855 the Act “SPA” provided for the establishment of a company

having its main activity in the operation of coastal lines between the islands and coastal towns of Greece. As a result, the first company of pas-

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senger ships was established on the island of Syros (under the name: “Hellenic Steam Navigation Company”<sup>11</sup>, and in conformity with the Austrian Lloyd’s standards). Through the enforcement of the above act, the administration of the company was assigned to a well known Captain and naval architect (named G. Tombazis) in an effort to minimize managerial deficits. The Company was subsidized by the Greek State and granted monopoly privileges for 23 years, namely until 1880, while Austrian Lloyd’s and French Messagerie were restricted to the international coastal lines.

Despite state aid, this company did not manage to survive and in 1892 was finally declared bankrupt. Among the reasons stated for the company’s dissolution were<sup>12</sup>:

• Excessive expenses. • Abuses in ticketing. • Maladministration of insurance funds. • Numerous and oversized steamers. • Excessive consumption of coal. • Damages from the operation of certain coastal lines.

However, in 1883, the second coastal company had already been established in Athens under the name “Pan Hellenic Steam Navigation”<sup>13</sup>. Founders of the company were bankers and various financial bodies, while its fleet consisted of nine ships. A year earlier, namely in 1882, another company had been established in Piraeus under the name “Goudis Steam Navigation”, with six ships. After the bankruptcy of the “Hellenic Steam Navigation Company”, a new company under the name of “New Hellenic Steam Navigation” was established on the island of Syros, its fleet pertaining to the ships of the old company. Thereafter, the establishment of “Neorion Steamers” followed, with its successors being the “Cycladic Steam Navigation” and the “Ermoupolis Steam Navigation”. The aforesaid companies, as well as others established later on, were active in the field of coastal lines. Until 1932, they operated in conditions of nearly perfect competition, which often resulted into practices of unfair competition with destructive results, despite the fact that the increase of passenger and cargo traffic created favourable conditions as regards to the ships’ operation.

The right to provide coastal services between Greek ports was granted to

ships flying foreign flags until 1927, by means of stipulated or renewable contractual agreements. However, in 1927, after stipulation of new agreements with countries that until that time were granted the above right (such as Great Britain and Italy), the right of coastal navigation was abolished for ships not bearing the Greek flag<sup>14</sup>.

The presence of foreign companies (until 1927) did not prevent Greek companies (although often with a short business life-cycle) from emerging (i.e. “John Mac Dual & Barbour”, “Efstathiou and Pyrros Makridis Bros.”, “G. Tsoutras”, “Leoussis”, “Destounis-Giannou-latos”, and “V. Maniakis” to mention a few). All these companies have been subsidized to a certain degree, directly or indirectly, by the State through various financial measures, discounts for duties on lighthouse, sanitary and port services.

During the 1912 – 1913 War, the Greek coastal shipping was capable of and ready to offer services for military and food transports, and also to tender supporting services for the Greek Navy. The activity of Greek coastal shipping during the First World War and later, during the Asia Minor expedition, was of great importance although it suffered major losses: Greek coastal shipping lost 82% of its potential. Specifically the contribution made by the Greek coastal shipping in both the transportation of the Greek Army, and collecting and transporting refugees in free Greece was valuable for the country.

In 1917, the State founded the “Maritime Transports Directorate” (MTD) and for the full control of coastal passenger services a Director and Deputy Director (i.e. the ex Minister of Transport and the Captain of Merchant Marine, respectively) was appointed. However, this state effort in the direction of “nationalization” of coastal passenger services failed, since it was not properly organized whilst ship-owners profited enough out of this initiative. It should be noted that the abovementioned Directorate incorporated in its potential all coasters existing at that time. The dissolution of the MTD, which occurred in 1922, left behind a big deficit. The 122 boats, operated under the MTD management, were returned to their owners after having rendered good services in the war operations of that time<sup>15</sup>.

The principal characteristic of the consequent period (i.e. between 1922 and 1929) was the “cut-throat” competition among the existing companies. The competition practices adopted by those companies were mainly the following: simultaneous

departures of ships, discounts in

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tickets prices, and predatory pricing. All the above turned out to produce negative results for the service and quality offered by the ships and of course were practiced at the expense of the passengers. Furthermore, it is obvious that the margin of profit in such a “cut-throat” competition context was really small, thus rendering replacement



of old ships almost impossible. It is worth noting that in 1924 the average ship age was 30.5 years, in 1925, 39 years and in 1929 reached about 42 years. Companies that were trying to keep a low fixed cost in any way possible were not raising capital for ship fleet renewal and were not paying any attention to the quality of the services provided<sup>16</sup>.

In conclusion, the period from 1922 to 1929 was marked up by the negative elements of the unfair competition, lack of planning and rationalization, and excess of capacity, with all these factors preparing the ground for a “regulatory state intervention” regime. This evolution, however, is fully connected to the historical events occurred in the observed period. The disaster in Asia Minor frustrated all expectations of the sector, which was preparing its ranks to meet the transportation needs of Asia Minor coasts. In parallel, the fact that Turkey instituted an exclusive privilege (i.e. cabotage) in favor of the ships flying the Turkish flag had further aggravated the situation. In 1926, a company named “Coasters of Greece” was established and dominated Greek coastal affairs throughout the period between the 30’s and 40’s<sup>17</sup>. It was through this collective effort that Greek coastal services finally managed to survive. The founding members of this company were initially “Giannoulatos Steam Navigation”, “Manouilidis-Panteleontos”, “A. Riggas”, “Vlassopoulos”, “Domestinis”, and later “Togias” joined the group. It is necessary to emphasize that this company constituted the first ever-joint scheme formed on the initiative of private companies; however, not all the existing companies joined in.

### 3.2. The First Steps Towards Regulation of the Coastal Shipping Market (1929 – 1940)

In 1929, the State decided to form a Committee aimed at studying systematically the Coastal matters of the country. In the 1930s the Greek passenger fleet already consisted of 86 ships allocated to 32 ship-owners<sup>18</sup>. The Vice – President of the Government in office was appointed as President of this committee. The Committee completed the assignment and ended in a

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corollary in 1931. The first measure implemented on the basis of the Committee’s corollaries was to set a barrier on entry for ships older than 20 years. In compliance with this measure, 36 boats were to be disposed of at once and another 19 within a five – years period and not later than 1936. Moreover, the Committee suggested that all boats aged over 50 years should be excluded from routes and their owners

indemnified on the basis of scrap value plus a slight increase<sup>19</sup>.

The Committee also suggested the following measures:

- ñ Avoidance of simultaneous departures of ships with no specific reason
- ñ Establishment of special administrative bodies to deal with these lines (i.e. unprofitable routes)
- ñ Actions to relieve seafarers deprived by these measures. The Committee directives as described above constituted the fundamentals of the government policy for the last decade before the war and were depicted in the Act: 6059 on “coastal shipping transports and passenger” services of 1934<sup>20</sup>. In conclusion, it was instituted that all ships aged over 55 years would be withdrawn from service and thus 24 ships instead of 36 were finally withdrawn. The State, in order to affront the indemnity of the ships withdrawn instituted the “Passenger Fleet Liquidation Fund” to which all ship-owners having ships in service were contributing. Unfortunately, not even this arrangement managed to resolve the “Coastal Shipping Issue” and thus, the major coastal companies decided to establish a “Common Fund” aimed at the successful arrangement of coastal shipping matters and the prevention of excessive (unfair) competition. In the same period, and particularly in 1934, a company under the name of “Anglo-Hellenic Industrial Investors Inc” submitted to the Greek Government a proposal on the monopolization of the coastal services. This group of investors is known as the “Ambiatelos group” named after a well-established ship-owner E. Ambiatelos who was represented it. The most important points of this proposal were the following<sup>21</sup>:

- ñ A forty-year monopoly period
- ñ Coastal services would be performed by 38 ships, 14 of which were new-built
- ñ Undertaking of explicit obligations for compulsory performance of cer-

ñ Support to tourism (through establishment by the same company of offices abroad)

ñ Favourable treatment by means of a state subsidy amounting to 80,000 pounds annually, tax relief, free export of foreign exchange for the distribution of dividends, and the right to establish and operate hotels.

ñ Special arrangement/regulation for the seafarers This proposal was a breakthrough in conceptualization of coastal services, because it approached their organization from a different perspective, i.e. that of operating as an integrated system, and foresaw measures to support low and seasonal traffic. It seems that the already established companies were worried about the new developments and in response to that proposal, they submitted a plan for the foundation of a Maritime Transport Organization under the name “United Coasters”. The suggested organization would represent an organized co-operation for the running of domestic transport, while the subsidy requested from the state was only 40,000 pounds on an annual basis. The Committee, which was formed by decision of the Deputy Minister of Mercantile Marine, deemed that the proposal of the Ambatielos Group was more advantageous<sup>22</sup>. However, the special Committee formed in May 1937 in order to study the matter more thoroughly, finally rejected the proposal to stipulate an agreement for the following reasons: ñ The proposal was actually creating a monopoly in favour of foreign interests; ñ There was no provision for any scheme of automatic repurchase of the ships by the Greek State after the expiry of the privilege term; and ñ The significant contribution of the Greek ship-owners was disregarded. In 1939, on the brink of the war, and within the context of a rehabilitation effort, a new collective body was formed by means of a compulsory Statute. This was the «Joint Administration of Coastal Services» (JACS) having as its main objective the management of all ships pertained to its property (above 100grt<sup>23</sup> and up to 50 years old) and also taking care of the passenger fleet renewal under the supervision of the Ministry of Mercantile Marine. The above statute also provided for binding and specific obligations of all members grouped in this compulsory joint venture. By that time, 64 passenger ships were in service, 47 of which were

had a positive reaction because the scheme provided a more rational ship distribution in the various existing lines, regularity and punctuality in the operation of routes, and improvement of the sanitary conditions. The war suspended this effort. Statistics show that in 1940, 40 ships, allocated to 20 owner-companies, were operating in the principal domestic lines with 12 of those ships being under the management of the *societe anonyme* company named “Coastal Shipping of Greece S.A.”<sup>24</sup>.

The 1941 April bombings practically ruined the Greek coastal shipping fleet and at the end of the war it was reduced to only three ships (i.e. the “Korinthia”, “Mary M”, and the “Ionia”)<sup>25</sup>. The post-war situation proved to be a complete disaster, mainly due to the lack of insurance provisions against war risks. War actually resulted in a “violent solution” to the problem of mismatch between supply and demand of coastal services, as well as to that of over-age Coasters.

### 3.3. State Monopoly or State Controlled Private Monopoly? (1947 – 1950)

Liberation found Greece practically without passenger ships, since even those that survived the war were under requisition by the allied forces. Sea transports were performed very intensively since both land transport and the road network were ruined. When the Greek passenger ships were finally released from requisition and returned back to the Greek State, the fleet had been extended through the addition of some cargo vessels granted by the allies, 7 corvettes purchased successively by the State, 5 ships acquired by means of the German war reparations and 21 motor ships coming from “spoils” of war. Passenger transport was still difficult due to the unsuitability of the ships used for that purpose. To resolve the problem a new committee was formed, which ended in October 1945 with the conclusion that 24 steamers were required for the operation of the coastal routes<sup>26</sup>.

The suggested alternative solutions of the “Coastal Shipping Issue” regarding the post-war organization and operation of the coastal lines may be classified in three categories:

• State monopoly • Private coastal companies under state regulation

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• State-controlled private monopoly for the operation of the coastal services

By that time, and specifically in 1946, the ship owner Aristotle Onassis submitted a proposal for a monopolistic exploitation of domestic sea transport<sup>27</sup>. He suggested

the following:

- ñ Exclusive privilege for all sea and air transports with right to international operation.
- ñ Incorporation of a limited company with share capital equal to the amount required for the purchase of 8 frigates and 3 airplanes, given that these means would be the “floating stock” of the enterprise.
- ñ Favourable treatment of the company and in particular tax exemption for the material imported, tax relief for the construction of hotels, and exemption of the company from the foreign exchange laws in force.
- ñ Restriction of the State right to proceed to requisition of boats for national necessity reasons and for free mail transport.
- ñ State subsidies for the conversion of frigates into coasters and the construction of hotels, port infrastructure, etc.
- ñ Fares based on the international conditions (and not domestic conditions).
- ñ Company’s administration would consist of eight members, five of which would be appointed by the ship owner. The Committee, which was formed by the Government to study the proposal<sup>28</sup> concluded unanimously on rejection of the said proposal because of the following reasons:
  - ñ The proposed terms and conditions were deemed particularly onerous.
  - ñ The ships that would be at the disposal of the company could not meet the existing needs.
  - ñ The fares determination system would produce significant charges on passenger and cargo transports. On the contrary, the committee was of the opinion that it would only be fair to study the concession of the same above terms and conditions for the existing ship owners who also had the required experience. In 1947, the Greek State drew up a new plan. This project had as its principal subject the sale to the Association of Coastal Passenger ship- owners of the ships that were performing coastal services under state control, and the granting of certain accommodations and facilities with the aim of financial support for the Association<sup>29</sup>. In particular, the measures

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introduced were the following: concession of three cargo vessels, tax free fuel and supplies import, revision of manning requirements, and non- intervention of the State in the relations of the associated members. The ships sold constituted the core of the passenger coastal fleet in the course of reconstruction. This action was in fact the first effort in the direction of rehabilitation of coastal shipping.

### 3.4. Scattered Measures instead of Comprehensive Policies for Coastal Shipping (1950-1976)

This period is characterized by the emergence of scattered and unco- ordinated public measures instead of comprehensive and systematic policy initiatives. Again, changes in the profile of coastal shipping, in terms of ownership structure (i.e. a large number of small individual companies), gave impetus to such public responses.

Specifically, in 1950 a significant event occurred: four sister ships were built in Italian shipyards in consideration of the Italian war reparations: Miaoulis, Kanaris, Karaiskakis, and Kolokotronis. These ships were acquired by Greek ship-owners {three by Thiraiki Company /Nomikos/ and one by P. Potamianos}, under favourable and convenient payment terms, and were the only new buildings of the Greek coastal fleet. Shortly after the end of the state monopoly era, and specifically in 1950, 30 ships owned by 17 ship owners served the main domestic lines<sup>30</sup>.

In the ensuing decade (1950-1960), the same persistent problems existed, namely qualitative and quantitative insufficiency of the fleet (35 ships) and fragmentation of the coastal sector into a large number of small independent companies (18 companies). These firms were not capable of meeting the existing passengers' needs due to their poor organizational structure.

According to the Joint Committee<sup>31</sup> formed in 1959 by the Ministry for Co-ordination and the Ministry of Mercantile Marine, it was considered necessary, for a radical change, to implement the following steps:

- ñ Determination of the necessary number and proper type of ships (at that stage, approx.25 ships of two main categories tonnage-wise were required to serve the main lines).

- ñ Loans by courtesy of the State covering half of the ship's value, granted

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for a ten-year period with interest rate of 5%.

ñ Graduate increase of passenger fares.

ñ Five-year contracts with the State to serve unprofitable lines by B class ships (in terms of tonnage).

ñ Protection of coastal shipping enterprise by determining a saturation ceiling for each line.

ñ Securing safety and comfort standards for passengers.

ñ Co-ordination of sea, land, and air transports.

ñ Establishment of a high-level Committee to monitor coastal shipping issues. These proposals were not implemented in due time, and even worse the proposal of the Committee regarding the match of transport needs (demand) with the number of ships per line (supply) was not accepted by the Government. In fact, the “entry and exit” of ships in the sector without a valid action-plan which would enhance the domestic maritime transport, was continued. Resulting from the aforementioned administrative deficit, in 1960 the main coastal services (Argosaronikos Gulf Lines included) were served by 30 ships operated by 14 ship owners<sup>32</sup>. Finally, in 1963, the State, through the Greek National Tourist Organization (EOT), decided to repeat the undertaking of placing an order to Italian shipyards for another three ships (ferries of 4,500grt). A significant part of the ship building cost would be covered by the pending war reparations still owed by Italy. In this way, three newly built ships were recruited in the Greek seas (i.e. Adonis, Eros, and Aphrodite)<sup>33</sup>. Furthermore, in 1964 a new bundle of measures for Greek coastal shipping were launched, including: ñ Increasing the number of routes;ñ Doubling the number of unprofitable lines;ñ Doubling the number of mail lines;ñ Bidding procedures for the contractual agreements of all those lines. In December 1966, the main coastal lines of the country were served by 41 ships, operated by 16 shipping companies (Argosaronikos Gulf Lines included). This increase (in terms of ships’ numbers) is to be attributed to the increase of the number of ships operating the Argosaronikos lines<sup>34</sup>. However, the event that was going to have an enormous effect on the

Greek coastal shipping sector for the next half of the 20<sup>th</sup> century was the loss of the ferryboat Iraklion.

### 3.5. The Emergence of the Multi-stakeholders' Coastal Companies (1967)

In the morning of December 8<sup>th</sup> 1966, the Iraklion sank sailing from Chania to Piraeus and 250 people were lost<sup>35</sup>. The accident was attributed to manufacturing defects and improper lashing of a vehicle on board. The heavy climate of sorrow and indignation caused by the tragedy was the background on which the idea for a collective perspective on the coastal transport issue was developed. In the aftermath of this tragedy (1967), the creation of ANEK Lines (Maritime Company of Crete S.A.) took place and in September 1970 the ship Kydon, the first ship ever owned by a user basis company, was put into service<sup>36</sup>. The Chanian model was followed by many other islands and towns: Iraklion, Mytilini and Naxos in 1972, Thassos in 1974, and then a long list of island and coastal towns was formed including Samos, Chios, Dodecanese, Symi, Zante, Rethymnon, Lassithi, a list which expanded constantly<sup>37</sup>.

Indeed, many attempts though less successful, followed; but one thing is certain, the profile of the Greek coastal shipping changed when island-based maritime companies walked in, a fact that positively contributed to the improvement of sea transport standards. The consequences of the Iraklion tragedy determined future developments in the sector. But the latter should be combined with two other factors in order to capture the complete picture: on one hand a clear turn to ferry boats instead of passenger ships (as the preferred ship type in compliance with international trends), and on the other hand the fleet aging factor that became a “national” feature. Within this climate, with coastal shipping being once again in the political forefront, certain measures were taken aiming at the optimization of sea transport. So, towards the end of the sixties an intense mobilization at both local (with the island-based companies) and national administration level - by adopting measures such as the age limit for compulsory exit (35 years), the determination of 3 coaster types, and incentives to build ships in Greek shipyards - was developed<sup>38</sup>.

The measure of compulsory exit after expiry of 35 years of service, which is still maintained in effect today, was aimed primarily at re-building the passenger safety confidence and secondly at forcing “out of the market” certain aged ships. The broad and extended social mobilization also brought



the issue of the “obsolete” institutional framework (still based on the pre-war legislation) to the forefront and raised awareness for its innovation.

### 3.6. The Institutional Regulation (1973 and 1976)

In 1973, the institutional gap was filled by promulgation of the Public Maritime Law Code, wherein a special chapter for coastal shipping was contained. This legislation act set forth regulations with regard to all coastal shipping aspects, from the flag and the cabotage issues for Greek ships, ships’ categories, routes, manning terms, and fares determination to agents’ obligations. Notwithstanding, the institutional gap was filled, the standing problem of imbalance between supply and demand was not resolved; on the contrary, it worsened due to numerous “approvals” for loans, which were granted by the military regime for obvious “political” reasons<sup>39</sup>. It is indicative that the number of ferries operating in the main lines was doubled within five years (1970 – 1975), from 15 to 30. In parallel, this same period saw the definite and complete prevalence also in the Greek seas of the ferryboats over the traditional passenger ships, which were reduced, from 26 to 11<sup>40</sup>.

After a period of intense mobility and initiatives that brought about a significant increase in the number of ships, the State, in an effort to prevent developments of destructive competition effects, made an intervention in 1976 by promulgating the Presidential Decree N. 684. This laid down the most important institutional barrier to entry – that is the obligation to issue a License prior to a ship’s entry into service. In this way, the already existed operators were “secured” and the entry of new operators was substantially “hindered”. The philosophy of this measure was to view national maritime transport not as an integrated transportation system but on a “per line” basis or even further on a “per ship” basis. To put it differently, the measure was based on the assumption that the baseline for the development of the maritime transport is the ship. Heavy criticism was passed, especially with regard to the low documentation standards required for the application. The composition of the consultative Committee was formed with the purpose to consider the applications (no representation of users). Consequently, the absolute power of the Minister of Mercantile Marine to decide whether to grant a license or not was established. The cartel which was formed due to the entry barrier, basically consisted of the companies operating

principally with ferry lines<sup>41</sup>: Karvoundis, Eftimiadis, Agapitos Bros., Shipping Company of Lesvos, Minoan Lines, ANEK Lines, Frangoudakis, Stathakis, Nomikos, Shipping Company of Naxos, Strintzis, Latsis, Ventouris, Karras, Togias, Tyrogalas, Miras and Lazopoulos<sup>42</sup>.

The course of events demonstrated that the decision to qualify the ship as the basic axle of the coastal shipping policy was not finally justified. It was not compatible with the characteristics of the domestic sea transport system, especially with the requirement for flexibility, arising from the heavy seasonal nature of the insular lines; in parallel, the said direction was enhancing individual entrepreneurs and preventing the formation of collective, more flexible, and powerful business schemes<sup>43</sup>.

Of course, it should be mentioned that in the context of the inter-cartel, competition soon developed and collective schemes (island-based companies) finally prevailed mainly because they managed to create a feeling of trust and safety among end-users of coastal services. On the contrary, the elimination of traditional companies from the picture is to be attributed either to maritime casualties (Iraklion and, Eleana) or to the failure of following up the demands of the new era. During the same period (1975-1985) collective efforts launched at islands (Samos, Ikaria, Naxos, Cefalonia, Ithaca, etc.) to resolve the transport problem, were of course of local nature, but unfortunately resulted in failure due to various internal and external socio-economic factors<sup>44</sup>.

The major internal and external factors were namely the poor management of such companies and the outbreak of the 1981-1984 crisis, respectively. As a result of the failure of these companies the State chose to form a *societe anonyme* coastal shipping company (the first and unique in the post-war era). In 1985 the Hellenic Coastal Shipping S.A. was formed as a subsidiary of the Hellenic Bank of Industrial Development (ETVA) having as its main objective the rehabilitation and operation of the ships of the ailing island-based companies. Unfortunately, this company did not manage to carry out its mission due to the following reasons: poor management, incorrect business choices, mal-operation of ships and big loan obligations<sup>45</sup>. As a result, the company was declared bankrupt in 1991 and the effort for a viable mixed structure between State, banks, shipyards, and local business initiatives failed in the end. Such a scheme, if supported by an experienced, sound, and inde-

pendent management, could make a major contribution to fill in the gap in transport needs of small islands. In these islands, on one hand, there are low traffic volumes and, on the other, the rendering of reliable transport services constitute an indispensable condition for “survival”, however there is no interest on the part of individual ship-owners to provide quality services.

In the 80s, a further boost of the successful island-based multi-stakeholders companies was noted, especially in those lines serving with high and regular traffic volumes. Of critical importance in this positive development was the support by the local population, but also the big investments implemented by taking advantage of the financing provided in the framework of the Integrated Mediterranean Programmes and the Development Act. In the same period, private shipping companies were established or consolidated (i.e. Agoudimos and Strintzis to mention but a few) by taking advantage of the same finance sources and filling in the gaps of the coastal shipping system<sup>46</sup>.

In the early ‘90s, an increased business activity had manifested owing mainly to transfer of profits from the operation of the international line Greece – Italy. It is to be highlighted that the investments realized in this as well as in the preceding period were connected with conversions and not new constructions of ships. Finally, after many years, in 1992 Eleftherios Venizelos of ANEK Lines was introduced into the Greek coastal shipping market as the first newly built ship.

#### 4. The Situation of Coastal Shipping Services at the end of the 20th century and in the eve of the 21st century.

The last five years of the 20<sup>th</sup> century have been characterized by the introduction of new technology ships towards the renewal of the Greek fleet. While this process is still on course, it is interesting to examine the “map” of the shipping companies as formed after 20 years from the enforcement of the entry barrier (i.e. licensing) and the formation of the historical Cartel. The companies operating the main coastal lines of the country are the following: A. Agapitos, G. Agoudimos, Mouloupoulos, Ventouris, Nomikos, Stathakis, Goutos, Strintzis, ANEK, Minoan Lines, DANE, NEL, LANE, and Rethymnian. The island-based Multi-stakeholders Companies have strengthened their position against the private ship-owners and have

operated the most profitable lines as regards regularity of transport demand<sup>47</sup>. Their position was further strengthened when they started serving destinations beyond their place of origin. With this background, at the setting of the 20<sup>th</sup> century Greek coastal shipping changed profile. This was realized by both following up the global trends towards acquisitions and mergers and responding to the big capital investments required for the fleet renewal<sup>48</sup>, whilst keeping up with the rapidly increased demands for quality standards. Mergers and acquisitions were initiated by the “Minoan Flying Dolphins Company”, through taking over smaller players such as Ventouris, Agapi-tos, Nomikos, Mouloupoulos, Goutos, and others. The takeovers extended significantly the “Minoan’s” activities. The other “big players” in the market have tried to follow suit, in order to increase their market share also. Company consolidation had been intensive, resulting to only two big groups, i.e. Attica Enterprises with its partner Strintzis Lines, and Minoan Lines. In the sector there are also three medium size companies, the ANEK, NEL and DANE (that had formed a strategic alliance), and a big number of small and mainly local companies of minor importance. The sector’s modern profile is a limited number of companies operating a great number of ships and targeting at the modernization of managerial methods. In this way, they have tried to comply with the new concept of coastal transport services according to which the focal point of their mission is the necessity to meet transport needs by implementing a system that its basic parameters are fourfold, i.e. “the island – the port – the ship, and the support services”, contrary to the “ship-oriented” system of the past<sup>49</sup>.

By exploring the situation of the Greek coastal shipping during the last decade of the 20<sup>th</sup> century, we ended our discussion of its evolution. In the dawn of the 21<sup>st</sup> century, the researcher looks with skepticism at the future of this sector, due to the new institutional environment and its intense competitive requirements. However, two very important developments occurred in the coastal shipping sector in 2001, namely: the Express Samina accident<sup>50</sup> and the reformation of the institutional framework that liberalized the market of the coastal shipping services in accordance with the European Union Regulation<sup>51</sup>. These developments raised social dialogue that is still in progress and further research is required in order to evaluate present situation.

Nevertheless, the significance of coastal shipping, namely its role as a “bridge” that connects the mainland with the islands, and the evident

change in the sector's anticipation by both the State and the private sector, hopefully mark up more stable scenery.

## 5. Policy suggestions

From the analysis made throughout this paper it became clear that coastal shipping services were essentially supplied-driven and public regulation responses in the field were based on protectionism and unsystematic interventionism in favour of the status quo. However, the recent economic reality (e.g. higher growth rates for Greece, macro- economic and structural reforms, improvement in administrative and managerial skills, etc.), and the increased pressure from the EU for the liberalization of coastal services, as well as Greece's position as the sole EU member in the region incorporated in the European single currency zone, and raised consumers' awareness have made clear that the only way to compete in the field is to move from the supply-driven model to one which is demand-driven (user-centred).

It is herewith supported that a demand-driven model requires taking into account all the "actors" concerned. The most recent development is towards a coastal shipping market characterized by "sustainable mobility." This is defined as "striving to meet the multiple needs of present while ensuring that future generations will have adequate resources to meet their needs" (TRNews 193,1997).

Transport systems and especially passenger transportation networks must fulfill certain criteria. The system's accessibility is of crucial importance. In addition, affordability, safety/security, and quality requirements such as frequency, cleanliness and comfort are preconditions for making transport more attractive. Finally, well-qualified and motivated staff is necessary for meeting quality criteria.

In the case of coastal shipping, after years of sticking to the old, government-heavy solutions, the last few years have seen new ideas entering the market (Green Book: The citizens' network, 1996).

The principles applied to solving the issues like coastal shipping can be boiled down to three:

ñ Democratic consultation

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ñ International expertise ñ Independent research.

The realization of these principles could be related with information and knowledge gained also by this paper and could conclude to the development and establishment of a new Coastal Shipping Policy. This new policy, according to our view should be the outcome of a “concerted action” under- taken by various “players”. This crucial procedure had already begun with serious institutional and structural transformations but a serious knowledge deficit still exists. The researcher of the future, referred to this paper will be empowered with experience and will be better informed on the strengths and weaknesses of coastal shipping services and the associated policy responses in Greece.

## 6. Conclusions

This paper has focused on both the investigation of the main socio-eco- nomic characteristics of the coastal shipping market in Greece and the associated public policy responses. From the analysis made the main eco- nomic features of the coastal shipping market observed, can be summarized as follows:

- 1.High concentration in the sector (a small number of firms dominated the market)
- 2.A large number of individual users (e.g. passengers, transport compa- nies, tour operators) that express a flexible and heavy seasonal, but steadily increasing demand for coastal services
- 3.Incomplete knowledge of the market from all the involved parties (i.e. suppliers, users, port authorities, local authorities, and the State) mainly due to managerial, training, and research deficit.
- 4.Cross-purposes among key “actors”. For example, coastal companies aimed at profit maximization, and at maintaining their share in the market. Users sought transport for different reasons (e.g. professional, leisure, health, social, administrative, etc.). The State intervention rhetorically aimed at the protection of the end-user, the effectiveness of the coastal industry, and the improvement of transport system in overall.

5. Differentiated service (i.e. spatial and qualitative differentiation).
6. High institutional and economic “barriers to entry” (e.g. licensing system, high investment cost, networking requirements etc).
7. Limited mobility of coastal companies (mainly due to high sunk-costs).
8. Indivisibility of supply (ships come in specific sizes with certain capacity despite the flexible and seasonal nature of demand).
9. Short-term forecasting capacity.
10. High fixed production cost of coastal services, low variable cost and almost constant and low marginal cost.
11. Pricing was determined and regulated by the state, was mainly based on the distance and the cost of services, whereas the demand-side was ignored as well as the competition in each line.

All the above oligopolistic features together with state policies and tactics led to instability in the Greek coastal shipping market and to low quality services for the end-user. Although there is not enough data available for the profitability in the sector, due to the special tax system covering the maritime sector in overall<sup>52</sup>, the performance of the sector is considered poor<sup>53</sup>.

## NOTES

1. A draft version of this paper has been presented at the 2<sup>nd</sup> International Maritime Conference: "Geopolitics of the Sea", Chios (26-27/09/ 2002), Greece.
2. Ministry of Mercantile Marine, 1931 (in Greek).
3. Ibid.
4. Ibid.
5. For further information on regulated markets and industries, see for example Scherer, 1980 or Stigler, 1971.
6. Kahn, 1991.
7. Lekakou, 1994, p. 228 (in Greek).

8. The data were collected and calculated by the authors from the Ministry of Mercantile Marine. The official issue has not been published yet.

9. Ibid.

10. Papathanasopoulos, 1988, Ch. 1 (in Greek).

11. Ibid

12. Ibid.

13. Tzamtzis, 1999, p. 23 (in Greek).

14. Ministry of Mercantile Marine, 1931 (op. cit.).

15. Ibid

16. Stambolis, 1961 (in Greek).

17. Tzamtzis, 1999, Ch. 3 (in Greek).

18. Association of Coastal Cargo Ships, 1950 (in Greek).

19. Ministry of Mercantile Marine, 1931, op. cit.

20. Tzamzis, 1999, op. cit.

21. Ministry of Mercantile Marine, 1939, op. cit.

22. Ibid.

23. Grt stands for gross register tonnage.

24. Association of Coastal Cargo Ships, 1950, op. cit.

25. Stambolis, 1961, op. cit.

26. Ministry for Co-Ordination, 1959 (in Greek).

27. Naftika Chronika , Issues of 1946, 1947.

28. Naftika Chronika, op. cit.



29. Association of Coastal Cargo Ships, 1950, op. cit.
30. Stambolis, 1961, op. cit.
31. Ministry for Co-Ordination, 1959, op. cit.
32. Stambolis, 1961, op. cit.
33. Naftika Chronika: Various Issues of 1963, 64 (in Greek).
34. Ibid.
35. Arhontakis & Vavouras, 1997, Ch. 1, (in Greek).
36. Vavouras & Arhontakis, 1982, Ch. 2, (in Greek).
37. Arhontakis & Vavouras, 1997, Ch. 4, (in Greek).

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38. Naftika Chronika, Issues of 1973 (in Greek).
39. Lekakou, 1994, op. cit., Ch. 6.
40. Argo several issues of 1974, 1975, 1976, 1977 (in Greek).
41. Goulielmos and Lekakou, 1992, pp. 301-315.
42. Argo, Ibid.
43. Lekakou, 1994, op. cit.
44. Arhontakis & Vavouras, 1997, op. cit.
45. Organization for Ailing Companies, 1984 (in Greek).
46. Data collected from the archives of the Ministry of Mercantile Marine and the Ministry of National Economy.
47. Arhontakis & Vavouras, 1997, op. cit.
48. These investments were estimated as a total of 1.2 bn Euro by "XRTC", a financial consulting firm specialized in coastal shipping.

49. National Bank of Greece, 1998 (in Greek).
50. In September 2001, the Express Samina sank sailing from Piraeus to Paros and 80 civilians lost their lives.
51. For further information on the matter, see European Union Regulation 3577/92 and the Greek Law N. 2932/2001.
52. The taxation is based on tonnage capacity instead of revenues (the Athens Stock Exchange (ASE) listed coastal companies exempted).
53. The taxation is based on tonnage capacity instead of revenues (the Athens Stock Exchange (ASE) listed coastal companies exempted).

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