As Delivered

"Leading Growth:
The Business and Regulatory Climate in Greece"
Remarks by Ambassador Charles Ries
At the Stanford Club Athens Business Form, Athens Hilton
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Good afternoon, Costas Magiris, distinguished speakers and guests, and welcome to the Athens Business Forum. Thank you for inviting me to speak today, and thanks, also, to the Stanford Club of Greece and to the Stanford Graduate School of Business for organizing this important forum.

Since its founding, the Stanford Club has played an important role in maintaining and strengthening the cultural and educational ties between the U.S. and Greece. I am grateful for your frequent and meaningful cooperation with the Fulbright Foundation in Greece, and for your sponsorship of a New Orleans Jazz night in support of Hurricane Katrina victims. Stanford University itself is closely tied to Greece, especially now through the endowed Mitsotakis Greek Studies chair, which we inaugurated together last year in May. I personally have a close connection to Stanford: my sister received two Stanford degrees and met her husband there. And I graduated from what I like to think of as the “Stanford of the East,” Johns Hopkins University.

“Leading Growth” is an especially relevant topic in Greece today. Greece’s GDP is growing at a rate of 3.3% as compared to 2.1% generally in the EU and 1.8% in the Eurozone, and its push for further economic reforms is promising. Greece is the region’s economic and political leader. It occupies a key geopolitical position as a gateway to Balkan markets, and it is poised to benefit from increasing political stability and reforms in the region. Greek companies have already invested an estimated twelve billion dollars in the Balkans. Applying Greek corporate expertise and capital in the energy, construction, telecommunications, and banking sectors, Greek firms are prospering throughout the region, from Albania to Moldova. Recent estimates place the number of

Greek companies that have an active presence in the Balkans at more than 3,500.

U.S. companies are taking notice of Greece's economic growth and regional expansion. Last year, U.S. exports to Greece were nearly 700 million dollars, and we estimate total U.S. investment in Greece to be about five billion dollars. This is a significant amount but it should be even higher. Companies like Coca Cola, Philip Morris, Duke Power and First Data have significant stakes in the Greek market and want to expand in the region. Looking forward, we expect U.S. business activities to grow especially quickly in the tourism, medical, construction, food processing and franchising sectors.

Despite the many reasons for optimism, there are still many challenges which face foreign companies already established and operating in Greece, as well as companies interested in entering the Greek market. Let me make a few comments about these challenges and then look at two particularly promising areas of the Greek economy: energy and the service industry.

Investment Challenges

There is a paradox inherent in many business success stories in Greece. That is to say, behind some of the most impressive successes, there exist a number of barriers to market entry that can stifle investment. For example, more than 6 years ago, Jasper Energy of Harrison, New York introduced a proposal to build a privately-funded, 10.2 Megawatt wind park on the island of Evia. Recently, Jasper received its final permit for what will amount to a $15 million dollar investment. After construction time and testing, Jasper estimates that it will begin selling electricity in early 2008. So what we have here is a private company that has spent over 7 years attempting to invest a relatively modest 15 million dollars in Greece. The amount of effort required for even this small investment has created the impression that Jasper Energy's time, effort and capital would have been more effectively utilized in another market.

This is precisely the kind of reputation among potential investors that is so detrimental to Greece's efforts to obtain Foreign Direct Investment (FDI). FDI is a remarkably low 13% of Greece's GDP, compared with almost 32 percent on average in the EU. This is one reality that Greece should work to change. The easier an investment is to make and the lower the bureaucratic costs of entry, the greater amount of investment a country can expect to attract. The market for foreign direct investment is competitive, and Greece must be as competitive as possible to secure its fair share.

Tax formalities in Greece also tend to be a barrier. Everyone accepts that paying taxes are a part of doing business. But according to a recent World Bank study, the average Greek company has to visit the tax authorities 33 times and, because of paperwork and bureaucratic requirements, spend 204 hours completing tax formalities for any given year. While Greece is reducing tax rates, and the corporate tax rate will come down to 25 percent this year (2007), the compliance costs are still too high. Greek bureaucracy, business laws and regulations, notoriously difficult even for Greek businesses to navigate, need to be made more understandable and manageable if we expect to attract more foreigners to do business here.

A related area of concern is transparency. Unfortunately, again Greece's reputation is not the best. The well-respected organization "Transparency International" compiles an annual "Corruption Perceptions Index." In its 2006 report, the organization noted that Greece had "performed relatively poorly and shown little or no sign of improvement." Greece was 54th out of the 163 countries rated. Greece ranked ahead of its Balkan neighbors, but trailed every single EU-25 country, with the exception of Poland. This is not where Greece wants to be.

Admittedly, the United States has work to do in this area as well. The U.S. ranked 20th in the same survey: a relatively poor ranking and one that we need to improve. We look forward to seeing government officials, business executives, and others persevere in their efforts to increase transparency and fight corruption in both our countries. This will benefit both foreign and domestic businesses alike.

International corporations are also looking to invest in countries where they can deploy their labor force in a flexible manner. Greece took an important step forward in this direction in July 2005 when it passed a labor reform law that provides for more work hour flexibility. As you know, these efforts are noticed by companies looking for new investment partners. Every advancement made today can pay off many times in the future in terms of greater direct investment in-flows, lower unemployment, higher state revenues, and greater economic and social welfare.

But as you also know, Greece has much more to do in applying these labor reforms to the full range of the Greek economic system.

Another priority is in the area of intellectual property rights enforcement, or IPR. Although Greece has excellent IPR laws on the books, these laws need to be much more firmly enforced. Companies are not going to bring their valuable intellectual property to be developed or sold in Greece if they are not confident that they will be able to protect it and realize its full value. Strong IPR enforcement is crucial for the kind of cutting-edge foreign direct investment that Greece wants to attract.

To attract more foreign direct investment, the regulatory climate in Greece will have to change and economic reforms currently on the table will need more serious attention and impetus. At the same, the business climate in Greece has considerable potential to expand and grow. I would like to discuss now just two promising areas for economic expansion in the Greek economy.

Energy is an Opportunity

Energy, and energy security, certainly makes up an important area in which Greece is beginning to make a place for itself, both domestically and regionally. I speak often about energy security and Greece's role in energy transit corridors.

But energy in Greece is bigger than just transit routes. In the past we may have mostly thought of energy as hydrocarbons – oil, coal and natural gas. Increasingly, however, this isn't the case. With growing concern about greenhouse gases and global climate change, renewable energy sources hold the key to meeting our new energy needs.

Renewable energy helps combat climate change while increasing security of supply. Greece is a notably sunny and windy country with significant water sources, ideally placed to take advantage of renewable sources of energy.

Greece has a target to produce 20.1 percent of its energy requirements from renewable sources by 2010. Unfortunately, Greece is having difficulty meeting this target, and will need to step up installation of renewable energy production in the next few years.

The U.S. and Greece are working together on these efforts. Energy Photovoltaics, an American company, and Themeliodomi, a Greek company, have formed a joint partnership to build a factory that will produce photovoltaic panels in Kilkis. The partnership takes advantage of Greece's proximity and access to the Balkans and Western Europe markets, government investment incentives, and well-educated labor force. The partnership company, Heliodomi, hopes to begin production by the end of 2007.

Greece becoming a Service Economy

But the future for Greece is not in production or manufacturing, although these are important sectors and will always play a role in the Greek economy. We are living in an information age – and Greece's transition to a service-based economy reflects Greece's fundamental understanding of the changes taking place in all developed nations.

Services, including shipping, tourism, and financial services, now account for 80% of Greece's GDP annually. This figure is only going to climb in the coming years. Greek shippers have been ordering new ships at an impressive rate, expanding from traditional bulk carriers to new liquid or compressed-natural gas carriers to meet the world's growing thirst for gas. Tourism in Greece has been growing well, with arrivals increasing 5 to 10 percent annually since 2004. Greece is the largest banking power in the Balkans, capitalizing on an impressive business savvy to bring modern financial services to the entire region. All of these gains augur well for Greece's future.

Education

In closing, I would like to return briefly to my initial comments, and to the admiration I expressed for Stanford's involvement in educational exchange here in Greece. Education is integral to the growth of any economy, and educational exchanges between countries can help global educational systems and global economies, grow and improve. The U.S. welcomed nearly 600,000 international students last year, more than any other country, and continuing this tradition is a top priority of our government.

There are over 2,000 Greek students studying in the states, and last year, we issued over 1,500 student visas to Greeks planning to study in the U.S., one of the highest rates in the world proportionate to population. Many of these students assume leadership positions later in their lives. For example, both Prime

Minister Costas Karamanlis and opposition leader George Papandreou studied in the U.S.

Stanford University and the Stanford Club of Greece are at the forefront of international educational exchange. I would note this program, which has brought together top representatives of the Greek business world together with top U.S. academics, as an excellent example of a truly valuable international exchange program. I encourage Stanford to build on successful programs like this one. Thank you very much for giving me the opportunity to welcome you as you begin your program. I wish you all a productive and interesting day.

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