Hogan Lovells

The Greek Crisis - Threats and Opportunities

The discussion was led by **Mr Dimitris Paraskevas**, Managing Partner of Elias Paraskevas 1933, a leading Greek law firm. This session focused on legal issues and opportunities arising from the current economic crisis in Greece, including strategies and impacts if Greece were to exit the euro, including the potential imposition of capital controls and banks collapse and the ramifications for M&A, privatisation, property investments and so on.

Dimitris Paraskevas is the managing partner of Elias Paraskevas 1933, a leading Greek law firm (www.paraskevaslaw.com), and the only Greek law firm to have been included in the Financial Times' Law 50 Report of the most innovative European law firms.

Mr Paraskevas has 28 years of experience that includes many major investments in and exits from Greece, complex M&A and privatisations, restructurings, insolvency, risk management and litigation.

Prior to returning to private practice in 1999, Mr Paraskevas served as the Secretary for Privatisation of three Greek Governments from 1993 to 1999 and was named "Super Salesman" by the Financial Times (June 9, 1999) for having sold 100 companies and assets for in excess of $10bn.

Tuesday 21st April

2015

Foreword

An Update as at 16 July 2015

On 21 April 2015, Hogan Lovells hosted a presentation and discussion with Mr Dimitris Paraskevas, Managing Partner of Elias Paraskevas 1933, a leading Greek law firm, on the threats and opportunities of the developing Greek crisis. The transcript of that discussion follows below. Mr Paraskevas has now prepared this update to reflect recent events and update his analysis of the implications.

Since our presentation and discussion at Hogan Lovells on 21 April 2015, political developments in Greece have been overwhelming.

On 27 June, the Prime Minister announced a referendum, where Greek voters were asked whether they agree on the bailout conditions proposed by the creditors (EU, ECB and IMF) at the Eurogroup of 25 June. Even though there was a resounding 61.31% “No” vote by Greek voters, the Prime Minister Tsipras rushed to emphasise that a “No” vote was not to be perceived as a rejection of the Euro or of the EU but was to be used as leverage for greater negotiating power vis-à-vis creditors. However, the outcome far from testified to the vote having delivered an enhanced negotiating position post-referendum.

Immediately after announcing the referendum and in anticipation of a re-commencement of negotiations, a forced bank holiday and capital controls were imposed to prevent a collapse of the Greek banking system. Measures included a 60€ per day limit to ATM withdrawals, no money transfers abroad, freezing of capital markets transactions etc. It currently remains unknown when the banks will open again and to what extent transactions will be allowed until controls are lifted altogether – the Cyprus experience showed that what begins as a temporary emergency measure can be kept in place for years.

Greece was faced with increasing distrust during the negotiations and it was now asking to be saved from a far aggravated situation than when the negotiations had started: the country had officially defaulted on a €1.5 billion debt repayment to IMF on 30 June, the capital controls had wreaked havoc on economic activity and banks were about to run out of money. Eventually, after nearly two weeks of negotiations and a marathon summit on 12 July that lasted more than 17 hours, the Prime Minister Tsipras accepted European demands for immediate action in order to qualify for up to €86 billion financing through signing an agreement for a new ESM programme. In this context, Greece had to enact a first set of measures by 15 July 2015 and indeed the Greek Parliament adopted in yesterday’s session, legislation for the purposes of:

- Streamlining the VAT system & broader tax base. The general rule is that VAT rate is 23%, with lower rates for certain goods/services, i.e. 13% for fresh foods, energy, water, hotel accommodation, etc. and 6% for medicines, books and theatre tickets. The Greek government must gradually abolish the special VAT regime applicable to the Aegean islands by the end of 2016;
- Increasing tax for legal entities’ annual earnings from 26% to 29% together with 100% tax prepayment;
- Increasing luxury living tax retrospectively covering incomes from the beginning of 2015;
- Increasing the special solidarity surcharge retrospectively from 01 January 2015 based on the income level, so as to now range from 0.7% (for annual incomes of €12.001 and upwards) to 8% (for annual incomes of €500.001 and upwards);
- Ensuring the full independence of the Hellenic Statistical Authority; and
- Increasing the age limit required for establishing full minimum guaranteed pension rights to the 67th year.

Overall, it should be noted that the adoption of the aforementioned measures by the Greek government does not necessarily lead to a financing agreement. The measures will need to be evaluated for adequacy and further measures, as highlighted in the Euro Summit Statement, will have to be taken by the Greek government before it can enter into negations with the institutions for another Memorandum of Understanding. Having said that, it is a good first sign that following the adopted measures ECB decided today to provide more liquidity to Greece's banking sector, raising ELA by €900m, which some say may lead to the banks resuming operations on 20 July 2015, albeit with on-going restrictions applying.

As repeatedly pointed out (by, amongst other, the Economist and Standard & Poors), and as admitted by the Prime Minister Tsipras himself, the implementation risk – and, accordingly, the Grexit risk – remains high. In any event, it has now become more evident than ever that the capital controls and all the latest developments topping a 5-year crisis will see a great part of the surviving local businesses go bust; this means that ahead lie possibly the best prices in Europe for foreign investors looking for distressed companies and assets.

Interview transcript

*Dimitris was interviewed by **Sharon Lewis**, Partner and Head of the Finance Practice at Hogan Lovells.*

Sharon Lewis ("**SL**")

Dimitris Paraskevas ("**DP**")

SL Thank you very much for coming today. My name is Sharon Lewis and I head our Finance Practice in Hogan Lovells. I am delighted to have with me Dimitris Paraskevas, who delivered the same presentation in Paris with me a few weeks ago which we both enjoyed so much that he agreed he would come and do it again in London with us.

Since we did the presentation in Paris six weeks ago, my sense is that things have deteriorated a little bit in your country Dimitris. I was stuck on the Eurostar just in front of the tunnel this morning with nothing but the FT to look at which was full of gloom and doom about Greece and the fact that there will be no money shortly, but I think it would be good if you could tell us in your own words Dimitris what you think the actual context is.

DP Thank you all very much for coming on this very glorious sunny day. I would normally joke about the weather in London compared to the weather in Greece but I can't today!

I will speak briefly about Greece so that those of you who do not know about my country will understand a bit better about our economy, about our culture and why we are in the news every day even though we are a small country. Also why people are so much focused on Greece.

Greece has about 11 million people living in it and about another 11 million living outside of Greece, so it is a small nation. We represent approximately 2% of the European GDP and the only areas where we have been quite successful are shipping (where we are allegedly number one in the world controlling approximately 20% of the world's fleet) and tourism where we are approximately top 15 in the world. Other than that, there are quite a few very successful Greek people internationally. I do not know how many of you know that the current CEO of JP Morgan, Jamie Dimon is Greek and speaks Greek. I do not know how many of you know the actor Kojak, Telly Savalas: he was Greek as well. I use these names because they don’t sound Greek at all. There are also other names of actors and actresses like Melina Kanakaredes who is an actress in New York. It is a nation which is quite successful when Greeks live outside Greece but we are not so successful when we live in Greece!

We have a few problems and, to give you an idea of how the population is now I'd say 3 million Greeks are pensioners so we have an aging population which is a problem across Europe, which as a result led to a really bad situation in our pension system. Then we have about 3 million young people, people who are not yet in the job market and we have about approximately 1.5 million unemployed people. We are, together with Spain and South Africa, unfortunately the top performers in unemployment and we only have about 3.5 million people who are supposed to work and feed all these other people. Out of the 3.5 million we have approximately 2.5 million in the private sector, 700,000 in the public sector and we have a greater public sector consisting of government controlled companies like Public Power Corporation and so forth.

So we have a very large number of civil servants and you can understand, even if you are not a columnist, or even if you were not successful lawyers or bankers in London, that this number is unsustainable. It is impossible for a third of the population to continue providing food for everybody. We have to find a solution.

Now a few words about the crisis. The crisis started about 6 years ago. The reasons for the crisis were threefold, we have:

- a very large inefficient and very expensive (and not always very honest and honourable) public sector;
- a private sector that does not pay all the taxes that they should pay; and
- a leadership from politicians who are not the best politicians! Politicians have been very much popularists.

Now after six years in crisis we have lost 25% of our GDP, we have lost about a million jobs; we have had about a third of our companies in Greece go bankrupt and we now have big social consequences (for example sadly about 2 people a day commit suicide as a result of the crisis). Pensions and salaries have been cut by approximately 40-50%, so the situation is bad.

Now in this environment obviously people were fed up. The last coalition government increased taxes very much. Two days before the elections I was in a taxi and the taxi driver told me perhaps the most useful information about what led to the situation we are in today. He told me that he makes about €12,000 a year. Previously this meant he was not paying any tax because €12,000 was below the taxable threshold. But then the government asked that he pay 26% from the first euro he makes and on top of that he has to pay 55% prepayment of tax for the next financial year. As a result he has to pay approximately €5,000 from the €12,000 he makes a year. He cannot live on €7,000 and he has children also; it is impossible for him so he said he would vote for the left in the elections because they said there are not going to tax him.

So now we have this new government which is a natural evolution of what happened in the past. People were super taxed and everybody was miserable and they were tired. This new Syriza government consists of some very interesting people. First of all some of these people, including our prime minister are very young. We are all in favour of young people but this was one reason why he was elected; he is the youngest prime minister in Europe. Some of these people are former communists. The Vice President was a candidate to become the president of the Greek Communist Party, which is one of the few original communist parties in Europe. As a result, these people do not understand how the economy works and we have different ministers saying different things to different people.

This is sending Greeks a message so, as a result of that, in the last six months the Greek banking system has lost €66 billion in deposits. The Greek banking system before the crisis, six years ago, had approximately €250 billion in deposits. Now it's approximately €130 billion. €120 billion has left the Greek economy, either to banks in northern Europe or even to people's houses because there are many Greeks who took their money from the bank who do not have international bank accounts so they keep their money in their houses now. It is one of the reasons for this big crisis.

Now what is going to happen? Is there going to be a Grexit, a big accident and so forth? I can tell you that no matter what will happen it has to happen soon. There is no doubt, and we have this information officially, that we have money for about one to two weeks. I do not think it is possible that we are going to strike a deal within the next two weeks. So between now and let's say the end of August, when we have to pay approximately €20 billion in obligations, something can go terribly wrong. Whether this is going to be bankruptcy outside the euro, outside of Europe (because some people say that you cannot exit the euro without exiting Europe), or there is going to be bankruptcy, insolvency within the euro. As a member of the Eurozone, this is going to mean capital controls. In any event, things in Greece for the short term are going to be very bumpy and for quite some time the outcome is negative.

SL ***The way in which you're describing this has changed quite significantly since our last presentation Dimitris. When we first started talking about doing this presentation we were looking more at the opportunities arising out of the Greek crisis rather than an Armageddon scenario. In this context, it's clear to me that the new Greek Government does not seem to have achieved much at all in your eyes in this period. Do you think the ECB and/or the IMF should be doing more?***

DP First of all this Greek Government has achieved some things. I don't want to sound sarcastic but one of the most important things that they have achieved is that I think Greek people now are much more mature than they used to be before the elections because people tend to want to hope. Hope is a great thing and this was one of the key messages before the elections. The former government, the conservative party, was saying that if the left wing party come to power we are going to exit the euro and this was the fear. So in communication terms the experts' assess that people do not want to hear about negative prospects; they want to hear about hope. This left wing government gave that hope; they promised everything, so people voted for them and now 3 months later people realise that unfortunately no one can achieve magic.

Now day-by-day people see the reality and as a result the approval rate of the Prime Minister has fallen from 70% to 55% within 3 months. We see in the polls that are published periodically how people become much more mature, how people understand that there are other things that need to be done and they are not done.

Now since we last spoke, the government has taken three legislative initiatives which are quite important and have had an impact on Greek peoples' perception of the new government:

- The first has to do with allowing a number of illegal immigrants to leave the camps that they were put in. The illegal immigrants haven’t had employment for quite some time and there is no prospect of employment, and many are now on the streets of Athens.
- The second is they have introduced new legislation for the better management of prisons and as a result a couple of terrorists are going to be released. They are not going to be released to walk the streets but they are going to be under house arrest. This is a major issue now because the United States and the UK sent the Greek Government very, very strong messages that they do not want this to happen because this terrorist organisation (November 17th) had killed about 30 people including some members of the US and UK diplomatic missions in Greece.
- The third thing is that they have reintroduced the old concept of education where you can study in a Greek State University and you can fail and you can study forever using public funding. They have also reintroduced the concept of university asylum, which is that you can go into the university and the police cannot get to the university. Now we live in a globalised world we have to all compete, we have to be better, faster, cheaper, whatever. There are people in this government who live in illusions.

SL ***And what about the relationship with the ECB, the IMF, the European Union? You open the press and you can see that relations were not warm in the first place and seem to be rapidly getting cooler?***

DP As far as the ECB is concerned, as you may know, we have four systemic banks in Greece. 5-6 years ago we had about 50 banks but they all merged and now we have four large systemic banks and systemic banks are now supervised by the ECB. This is the case throughout Europe but obviously also in Greece as well, and our systemic banks, because the withdrawal of money in the last six months alone is €66 billion, they need emergency liquidity assistance from the ECB which the ECB provides on a weekly basis. There is an application by the Bank of Greece every week and this application is considered and has been approved either wholly or partly. So the ECB continues funding Greek banks and it's only because of this funding that the Greek banks can stay afloat.

An additional reason for increased risk is that bad debts have increased by a huge amount in the last few months, because clearly the economy in this environment since the beginning of the year has deteriorated significantly.

So the ECB, in my opinion and in the opinion of many people, is like a fairy princess, because without the emergency liquidity assistance Greek banks will not survive.

On the other hand there are people who criticise the ECB by saying that they could have supported us more. For example, people say that the ECB should allow Greek systemic banks to buy Greek Government debt (the ECB does not allow Greek banks to buy Greek Government debt and as a result the Greek State cannot fund its needs and because of that, recently they introduced legislation by which they take the cash reserves of municipalities and pension funds in order to be able to have additional liquidity to meet our obligations towards the lenders). So this is a criticism of the ECB; I told you my opinion, but this is the criticism.

Now as far as Europe is concerned, I heard Mr Dijsselbloem, the Head of the Eurogroup, speaking very positively about Mr Tsipras a couple of days ago. He said that he has demonstrated leadership qualities and that he can take the heat off introducing the tough measures in the economy and they have been very kind to the new Greek Government. The reason for that is not, as we discussed, that our economy is very important (because as I said we represent only about 2% of the European GDP) but there are two risks: one is the so-called contagion risk and there is a debate as to whether if Greece goes under other countries would follow. You all know what happened after the US Government let Lehman Brothers go under; they thought that it would be manageable, but unfortunately it was almost unmanageable. As a result politicians and central bankers and the regulators are not so comfortable with allowing another European country to go under, where even now we are one of the top 35 economies in the world. There are 16 countries of greater Europe that have less GDP per person than Greece. As a result, although we have all this suffering and all this deterioration, there are many countries that have bigger problems than Greece.

Some people say that contagion risk is not such a problem nowadays - the Greek debt is owned by the ECB not by commercial banks, and as a result commercial banks will not go under if Greece goes under. Some other people, the IMF for example and others, say that you know, if Greece goes under there is going to be turbulence in the system and nobody really knows what's going to happen if we go under. So this is the first risk, which is a financial risk in the markets.

The second risk is the geopolitical risk. As you know, the US had a policy to remove all dictators from our geographical area like Colonel Gaddafi, like Saddam Hussein and so forth and ex-President Mubarak. But in all of these countries, there is a lot of unrest and you read in the press every day that lots of migrants want to come to Europe to find a better future.

So if Greece collapses there is not going to be defence, there's not going to be police. So all these people will come to Greece and through Greece and Italy, can come to the rest of Europe. So it's very important for Europe to protect its southern borders because of this geopolitical risk.

Some people fear that Greece may become closer to Russia or China and balances can change, because after the Second World War we became a part of the western world, but I don't see this happening.

But I understand that Greece could become a major risk because of this uncertainty in the region and this is why we are so much in the headlines and why people are so focused on us. This is why they help us so much to stay in Europe, because I think everybody in Europe is trying for Greece to remain within the euro and although obviously the percentages may have changed, I continue to believe that we will stay in Europe. Mr Soros said three weeks ago that there is a 50/50 change that Greece was to exit the euro and just two weeks ago this had changed to 1/3 for Greece to exit and 2/3 for Greece to remain. So I actually believe that we will stay in the euro, not because our Government is trying very hard to achieve that, but because other Europeans are trying very hard for us to stay.

SL ***Do you think that within the confines of the Eurozone there nevertheless could be capital controls?***

DP Yes. This is not an unlikely situation. We have experienced this in Cyprus. However, as I mentioned, I think the chances are less than 50% because the European leaders will try their best to have Greece remain in the euro without capital controls. The Greek Government is now under pressure from liquidity and will either have to execute an agreement or, as they have said, refer this issue to a referendum which is another possibility when the agreement is in a final form. The Greek Government may say look this is not what we have promised, we couldn't do anything better than that, we have been negotiating for three months. It's either this or we exit the euro. So now Greek people you take the responsibility, whether you want this, or whether you don't want the "euro".

SL ***You've mentioned that the ECB is the biggest creditor, but if Greece were to default, who would the other principal creditors?***

DP Originally, the vast majority of Greek debt was controlled by the private sector. This is why we had the PSI Private Sector Initiative. Now, the vast majority, approximately 80% of Greek debt (€324 billion and 180% of the Greek GDP), is controlled by the ECB on behalf of countries. So this is the reason why we are not a systemic risk for the banking system. You can assume that if Greece were to default it will be very difficult for all these lenders to get their money back. However, in practice countries that default introduce domestic legislation, where they say that enforcement of foreign court's decisions within their territory (Greece in this case) would be against the public interest. So you will be a creditor, you will have a judgment for one billion, ten billion whatever and then you will not be in a position to enforce that judgment within the Greek territory.

We have experience with Argentina where they introduced similar provisions a long time ago and where aggressive hedge fund creditors arrested a ship belonging to the Argentinian navy which was in the Mediterranean. So a creditor needs to find an asset which is outside of the territory in order for that creditor to arrest the asset and this asset should not be an asset over which there is sovereign immunity because a creditor cannot, for example, auction an embassy of a foreign country to satisfy its debts.

So if Greece were to default and we were to go back to the drachma for example, banks estimate that the devaluation would be between 40% to 80%. Even if we say it would be 50%, it would be very, very difficult for Greece to be in a position to repay its debts. As I already mentioned, the debt is now at 180% of GDP.

Historically there are three ways that nations repay their debts:

- One is by inflation, we are in a deflationary environment so we cannot pay the debt by inflation and also we don't have our own currency, we are part of the family, so it is not within our control.
- The second was growth; there is no country in the western world that has achieved the percentage of growth that is required in order for the debt to go to sustainable levels (we would need to achieve a 100% GDP growth within a reasonably suitable time).
- The third method of repaying debt, traditionally, was with war. If you go to France, Europe, Italy, the borders were always changing every time depending on who won the war. If you win, you take a little bit; if you lose you give a little back.

What the previous Government achieved with the help of the European Union and the financial industry is that although the debt was very high as a percentage of the GDP, we could service the debt, because the debt was structured in such a way that the servicing of the debt was manageable. There are bankers who suggest that it is not important what the actual size of debt is - it is how you service the debt that matters and this is why the only thing that the Government could achieve with our creditors would be to extend the majority of the debt and also to decrease the interest rates. Interest rates are already quite low, but they could go lower, especially since we are in an environment with zero or even negative interest rates.

Question from the Floor	***You mentioned that of the Greek debt some 80% is held by the ECB on behalf of other countries. Do you know what the comparable position is for international Greek corporate debt? I'm imagining it's quite a lot smaller?***
DP	It is much smaller. I can tell you that public and private debt altogether in many other countries is much worse than Greece. This was an argument by the current Governor of the Central Bank, who was the Minister of Finance negotiating with our creditors, that we have very low private debt and as a result, in his opinion and in the opinion of many economists, what counts is the total debt.
SL	***Presumably project finance at the moment into Greece is relatively limited from the outside? Has the risk for creditors in relation to on-going projects been reduced?***
DP	Yes, clearly in the circumstances investment in Greece and credit to Greece, (when we say Greece in this case we mean Greek companies, Greek nationals and so forth), has decreased. For example, since a little bit before the elections, major banks have not renewed their credit facilities to the Greek systemic banks and there is very, very little exposure of major international banks to Greece at the moment. In addition to that, Greek companies have been experiencing great difficulties, an impossible situation, in order to have access to finance because Greek banks cannot currently really provide finance. Therefore, Greek companies cannot get finance and if they can it's very expensive. As a result some of the blue chips of the Greek economy, like a company called 3E Coca Cola (which is a joint venture between Coca Cola company and a Greek family) have moved their headquarters from Greece to Zug, a canton in Switzerland, in order for them to be considered a Swiss company so that they can borrow more easily. There is a principle that a company operating within a country cannot have a better credit rating than the sovereign itself. So where the credit rating with the sovereign is not particularly good you can understand how much this affects Greek companies. So there are some blue chip Greek companies that are either listed or have high yield or other finances with international banks who have moved domicile/listing to continue to be able to access funds. Also, I read in the newspapers yesterday, that a number of big companies are now making their payments on a monthly basis to their employees, not from Greece but from London because they moved liquidity from Greek banks because they were afraid that if these banks go under they will obviously become a creditor of the bank and they will lose their money. So you can be an employee of a Greek company working in Athens or another Greek town and you receive your money every month from a bank in London. The reason for the strength of certain countries, for example Germany and Austria, who as you know now borrow at negative terms is because so much money from the south has gone north as people are afraid of the risk. So the companies can present that they are not risky, you know and borrow on very good terms.

SL ***You were the former Secretary of Privatisations. Greece does have some assets, including the Greek Islands. Do you see privatisation, if not as a solution, as something that may be brought about?***

DP Privatisation is the most interesting way to make mistakes because everybody is against you - the opposition is against you, the unions are against you, the suppliers of the company are against you, because there are people who make big margins from government controlled companies. If you privatise the company, the people will not make as big margins. Competitors are against you because a Government controlled company is not very efficient and the competitors enjoy that inefficiency.

So, to answer your question there are, of course, many things that can be privatised in Greece. But there are things that cannot be privatised and I say this because in the first days of the crisis people were saying that we have to sell the Acropolis and so forth. Cultural assets cannot be privatised. What can be introduced as far as cultural assets are concerned is better management introducing private sector initiatives. We can generate a lot of income from culture, without a doubt, but we cannot sell cultural assets.

The other two categories of assets are, let's say shares in companies, industrial assets and so forth, which are public corporations. One example is the public gas corporation. There are many examples of companies that are still under government control and also there is a lot of real estate.

Greece has many islands and you can own your own island if you want. There are islands for sale even at around €3 million. I was involved with the sale of Skorpios one of the most well-known islands, the Onassis island, a little while ago. You can acquire an island in Greece not necessarily from the government - there are islands that are owned by private individuals. There are a number of projects concerning big portions of land on major islands and what I would say is that no matter what will happen, even if we exit the euro, Greece is going to remain a tourist destination without a doubt. We can do it even better to focus on certain aspects of tourism like cultural tourism or conferences or high-end tourism let's say. But you know, there is no doubt there is going to be private investment in tourism and there have been quite a few in the last few years and there will continue to be.

SL	***When we started talking about the euro crisis there was a lot of talk and work that was done in relation to euro breakup clauses and redenomination clauses and the like. People generally I think are much less sensitive about that now than was previously the case. In terms of the commercial contracts that Greece has with the outside world, do you see these clauses and how effective do you think they will be if something happens?***
DP	Yes. Obviously we have been instructed by clients to try to advise them on how they should protect themselves from the risk of Greece exiting the euro. As you understand, if you are a Greek company and you have borrowed money from a Greek bank, if Greece was going to exit the euro and we were going to go back to the Greek currency which we used to have (called the drachma), then the debt will be converted automatically from euros into drachma. The problem, the risk, is when you are a Greek company, or a subsidiary of an international or whatever type of company operating in Greece, and you have financings in euro from, let's say a London Bank where the clauses are UK law/London courts and you are not an exporting company, because in this case your obligations will continue to be in euros but your revenues will be in drachmas. The drachmas will depreciate quickly, let's say by 50%, therefore, unless you are an exporting company when you can very quickly adjust your prices, you'll have to prepare for insolvency and this is what we have advised many companies in case there is an exit. Many companies will file for bankruptcy. As far as commercial contracts are concerned the other aspect is obviously the commercial risk. The best thing unfortunately for a little foreign company dealing with a Greek company is to be more cautious when providing credit to the company and as a result unfortunately many Greek companies know they now need to export before they will be paid for their goods.
SL	***So you are seeing prepaid positions and presumably letters of credit and performance guarantees?***
DP	Yes, and also something else that we have seen is that there are companies in China and in many countries in Latin America that don't even accept letters of credit by Greek banks. A Letter of Credit that is issued by a Greek bank that may go bust may not be a particularly great security.
SL	***Supposing you are the creditor of a defaulting Greek business. You've just said that the advice that you've given Greek businesses is to file for bankruptcy. What would your options be as a creditor?***
DP	It will be a problem to litigate in Greece in this environment. Secondly, from a commercial point of view, one needs to be careful and you have to analyse the credit because one thing is security but as you know, banking is not just about security, it is about evaluating credit risk. If the business is a good business, honourable with a good product with competitive costs and so forth, there will be a problem for some time, but the good business will survive without a doubt in any environment. When the circle is down they are not in a position to repay the loans but the banks have been supporting them throughout the centuries. And then when the circle is back they pay their obligations so as a creditor you have to be very careful to whom you give credit.

SL	***You are corporate lawyer; what's keeping you busy at the moment?***

DP For the last six years, we did very well because we almost worked exclusively for international clients so we didn't have any of the problems of our competitors. But this year it's true that interest in Greece went down and I'm giving you an honest answer because I think the only way you can have a relationship is by credibility and the only way you can have credibility is by being honest. So I have seen more than 110 clients in this past four months and asked them what we can do and what they can do and so forth and for the moment nobody is really interested in doing anything positive. The work we do this year is with regards to insolvency, credit control and also strategies for default. We act for a couple of stock exchanges who use local banks as custodians. So this year is about very bad economy, very bad economy type of business.

What has been very interesting in our business is that as a smaller law firm we are not as specialised as Hogan Lovells is, and therefore we have to shift our skills, the changed skills turn an insolvency lawyer to let's say a mineral lawyer and when the economy is bad the mineral lawyer becomes again an insolvency lawyer.

I think every government should, in order to understand the market, ask the top 20/30 law firms what type of business they are involved in, as an indicator of what the market believes about a jurisdiction.

For four and a half years we advised many companies to either decrease their presence in Greece, to lay off people (to "right size" as is the politically correct expression) or to exit the jurisdiction. Most of them sought domestic investors because when you have an international operator with a global perspective, if Greece is not interesting they have other operations in other countries that are more interesting but the local operator who lives in Greece who has family in Greece doesn't have many other options. So when you have this kind of situation it is not unlikely that the only interested investor will be a local operator. We sold a number of subsidiaries of multinational companies to local operators.

Last year was the first year of positive economy types of work. We advised major investors on part of the approximately €15 billion of investment last year in Greece. So it was a positive that everybody was very happy that Greece was coming back. The five-year bond was trading at less than 5% for a period of time. So Greece entered the market and people were hoping that Greece will come back and there was a lot of investment so we were involved in good economy type of business. This year, when everybody thinks that Greece will go under, we are involved in insolvency kind of work.

SL	***When we spoke a few weeks ago, we ended our talk on a very positive note – we asked about what the opportunities were. I'm not sure I see these opportunities quite as well now but perhaps you could end on an optimistic note…***

DP Without a doubt there have been and there will be more and more distressed opportunities and when we talk about distressed opportunities I can think of three categories:

- The first is loan portfolia sales by banks. There have been, and there will be, transactions where banks will have to sell portfolios at a discount.
- Another category is sales by high net worth individuals. There are a number of successful people who are in their 50-60s. Normally very successful first generation business people have children who are interested in more interesting things like painting, arts and so forth. So people who are 60, they have €50-100m in the bank but their children do not want to take on their business - they have to sell it. Because we don't see much hope in the foreseeable future, multinational companies with younger people, more aggressive, more international who can turnaround the companies, who have better access to finance, better more sophisticated management techniques, and so forth could acquire these businesses. There are good quality companies in Greece. You should always remember when you speak about Greece that Greeks in the United States have in the last 20 years been either the first or the second best educated minority in the United States. So they are very, very educated people; there are people who are academics in top Universities around the world so Greek people in general are good quality workers. And there are some very, very good companies.
- Then there's distressed real estate and if you look at real estate prices in the top spots, whatever the crisis, prices will not go much lower. Prices have not gone down that much. I have a friend who buys distressed studios and one bedroom flats. We have an office in Monaco and our concierge in the office told me in a conspiratorial mood "Mr Paraskevas there is a garage for sale and it is an opportunity". I asked how much is the garage? "€300,000". I said are you kidding me, €300,000 for a parking place?! €300,000, 7% tax on €300,000 and then you have 1.2% return. With €300,000 you could buy 20 studios in Greece and you could have a 15% return and in 10 years if you come back it's going to be 100% capital appreciation. Obviously you know one has to be careful - the tenants are not going to be thrilled to pay the €100 a month for rent - but if you are a good operator you will make money in this environment.

SL	***I think that's a good way to end this and think about buying studios in Greece for our holidays.*** ***Does anybody have any questions? Thank you.***

Question 1	***Do you have any thoughts on how a Greek exit from the euro might happen? What sort of steps would push towards an exit because obviously there is no Treaty route to do it and there is no legal route to do it? What's a viable scenario?***

DP When there is no legal platform you have to create one.

If we were to exit in an orderly manner, over a long weekend a number of important politicians would meet in a nice place and they would draft the new framework which would be voted on very, very quickly for this to happen. This is one possibility.

The second possibility is that we are going to default not in an orderly manner. So one day when we say sorry there is no money, you go to take your salary or pension and then, there is something that is called an "IOU". And the Greek Government is going to pay by IOU's. So you are a good pensioner and you have €1,000 of pension and you receive in your bank account €500 and 500 IOU's. So in this case obviously we would have to introduce domestic legislation as to how those IOU's are going to work, ie. whether there is going to be a market for them, whether the pensioner can take the unit of IOU and go to the supermarket and pay by IOU and so forth.

It's going to be really difficult but I cannot be very charming when I answer this question because this is a very good question and there is no precedent. I can be creative (but not very creative) because this is not a happy subject as there is no doubt given that we produce only about 20% of what we consume that the next day the country will become a third world country and there are going to be issues from a security perspective, from a quality of life perspective and so forth. You may have seen recently in Venezuela, its Government nationalised the supermarkets and they had to put guards outside the supermarkets so I will not be surprised. In Argentina they say that when the crisis happened, in some villages, people were killing other people in order to feed themselves. So human nature is quite surprising sometimes as far as to how tough it can be.

If we were to default in a non-orderly fashion we will need to receive humanitarian aid.

The problem I have is that I don't see enough local discipline and expertise. You know it's a small country and the level of sophistication is not always very impressive. For example if we were to go back to the drachma you know we have to print the money. You cannot print that much in Greece. There are two factories in Europe I understand that print currencies. One is in Switzerland and one is in Germany. So if we were printing any other currency, we will have to organise orders to this factory to print this new currency in confidence. And for this information not to leak, is very, very, very difficult. So if there is some kind of default, and it seems to me that there will be, it must be orderly.

Question 2	***My question would actually follow what you are saying with the drachma. Because there was talk the last time (over three years ago) that it looked like Greece might exit the euro that the new currency had already been ordered and that it was printed and ready to go. How far do you think the current government are into having that in place so that if the talks fail then they can have physical drachma?***
DP	Personally I do not think that this story is correct because in order for the government to procure something, they need to go through tenders. If we were to print currency, we will need to organise a tender for the company who is going to print our currency and there is going to be some transparency, as under European legislation or domestic legislation it is not so easy for a minister or a prime minister to give an order to a factory in Germany or a factory in Switzerland to print this currency. So I do not think this story is true. Some will say I am not in a position to confirm this but I tell you because it has been in the market that we can produce coins in Greece but not paper money. We have the facility to produce coins because we used to produce coins in Greece and there is a place in Athens which used to produce the coins. Now are we going to produce coins and everything is going to be metal? I mean it is really inconceivable. All payments I think could be done electronically and people will be given 30 days' notice to issue credit cards and so forth. If everything is done electronically there are a number of advantages. In general I would be in favour of electronic payments because the tax evasion goes to zero, the recovery of VAT goes to 100%. There is income to the banks, if they charge 1% let us say, the country has now 180 million GDP. So 1% is a lot of money for the banks, even the market capitalisation will go up if the banks will have additional revenues. If everything is by credit card, there is no corruption, no tax evasion, no VAT evasion and not so much crime, because at the moment, obviously, in a situation like that, people, especially elderly people, are a target for a number of criminals. So if people knew that nobody has any cash in his or her house then it is going to be much safer. So this is an idea.

SL	***To a delegate from a UK clearing bank: Do you have any news from your Cyprus experiences?***
Delegate	We saw that when capital controls came in, it made life very, very difficult for people on the ground. For example, we had to send out people with cash in suitcases to pay staff because the Cyprus government announced, I think it was seven or eight concurrent days of bank holidays, so people just could not get access to cash. Life was being made very, very difficult. In fact, with the capital controls, what was interesting was the effect it had on the local population because the Central Bank of Cyprus ("**CBC**") was desperately trying to keep the international banks appeased so they could keep servicing customers because obviously Cyprus relies often on international trade. We were getting, for the first few weeks, new directives, every few days and they were extremely poorly drafted. So we would get them translated, we would then be going back through amendments with the CBC, saying did you really mean this, don't you mean this? It was all done on the hoof. And then you get a directive come out every Thursday evening and on Friday morning our first job would be to go in and see what the changes were, but it did have a massive impact because domestic clients couldn't take their money out. And then when the next wave came through, international clients could not take their money out and domestic clients could only transfer to another domestic bank, so it was quite a powerless state of affairs.

DP If this were to happen in Greece, obviously, it would have been much, much more difficult, because it is a bigger economy. It is about ten times the size of the Cyprus economy and also in Cyprus there is, I mean, I do not want to flatter the Anglo-Saxons but since Cyprus was a former member of the British Empire, the administration side is much more sophisticated. To give you an example, in Cyprus there is a Land Registry which is sophisticated; you can do transfers very easily. In Greece if you go to buy an island, it is a challenge to do the correct title search. It is not as well modernised in some areas as it is in Cyprus. So the administration in Cyprus is better and their level of professionals, because they are geared towards servicing international clients because Cyprus is an offshore centre, is very, very high. They obviously have a particular expertise but there are lot of professional accountants and lawyers that are, very, very sophisticated professionals and Cyprus is in my opinion a first class offshore centre and this is why I said, despite the crisis, Cyprus has not been hit, as an offshore centre. It has been hit as a banking centre but not as an offshore centre. People continue to incorporate companies in Cyprus, to register some vessels in Cyprus and so forth. It is a good jurisdiction; the Cyprus trust law is a very competitive trust legislation and so forth.

So in the end, the economy is much more manageable because it is smaller. I do not know how many companies you have in Cyprus but if we have let us say a million companies in Greece (because last time I checked there was 900,000) and all these people are calling the banks, to order the right authority to get permission to make a payment, you know, even the telephones will not work!

Question 3 ***Impossible question for you to answer, but bearing in mind where we are now, what is your best guess as to what is going to happen over the next six to eight weeks? Because at the moment it looks like it is (as described in the press) just a slow car crash?***

DP This is a very good question and obviously your guess is as good as mine, anything can happen.

In reality there are two issues.

- One is the relationship between Greece and the euro.
- And the other is the euro itself because there are some people who say: “the euro is an artificial currency”, especially in the UK. You cannot have Germany and Greece as partners at the same table, two different economies, different cultures, different people. And therefore there is a risk for the euro, and I understand that euro as a currency internationally, as a reserve currency, has gone down dramatically in the international banking system in the last few weeks.

Therefore there is a question for the euro (and this is I think reason why the Greek Government has some leverage). Because otherwise we do not have any leverage. €300 million is not that much for Europe they can say we forgive you and good luck.

Now what is going to happen? There is no doubt that we are running out of money. This is two weeks. The prime minister, who is a young guy, and I think he has demonstrated that he has some very good qualities. He is a sharp guy. He is not stupid. He will have to manage a very, very difficult situation where he will either default, go into the unknown or compromise and I think he will compromise. Now the question is how he is going to sell it. This is why he is a prime minister, it is his problem. But he is a smart guy and he has been very determined when he wants to get rid of his opponents and he can be very efficient, so I think, he will have to take a decision otherwise you know there is chaos.

Question 4 ***Looking at the government, given that they were elected on a very specific mandate, do you think that if Mr Tsipras has to compromise against what he promised that he would perhaps call an early snap election? Or do you think he would try to see it through?***

DP This is another good question. There are three possibilities here.

- One, is that they will compromise and sign the deal and that is it and they will try to sell it and then the government has a fresh mandate, they have another four-year appointment. Within these four years if the economy goes up, then we will say we changed but you know how to do it and probably give more money to the World Bank whatever but they will manage.
- The second is a referendum.
- The third is elections.
- And there is another possibility, sorry, there are four possibilities. The last possibility is without referendum, without elections, government could change the existing coalition partners from the existing partner (a party which is a little bit extreme right) to another party, which is called The River, who are more mainstream people and there are people who believe that this is a possibility as well.

Now the problem is that a referendum and snap elections are not easy to organise within a very short period of time. We will need at least 40 days under the constitution and also we need the mechanics: to print ballots and for the cabinet to organise elections. There is no time. So for this practical reason I do not see the possibility of a referendum but there may be reshuffling in the government with other partners and so forth. But nothing can be excluded of course.

Question 5 ***You talked earlier about privatisation being a dirty word in Greece. Is securitisation a similarly dirty word?***

DP Okay, now before I answer your question I have to say that in Greece we do not say privatisation. We call it "*denationalisation*"!

Now securitisation. The answer is we have followed what the norm is in international markets, when securitisation was a sexy word we embraced securitisation, and then when securitisation was not anymore in fashion we stopped securitisation. Actually we were involved in the last major aborted securitisation transaction which was a €5 billion securitisation of the unpaid taxes. There was an idea of the then government to securitize the unpaid taxes and there was a mathematical method that you could pass through to do that. There have been securitisations in the case of banks that have securitized credit card payments that way and so forth. So there has been securitisation in the private sector.

In the public sector as far as I am aware there has not been any securitisation but the government is discussing with the government of Russia to receive future revenues from a pipeline called Turkish Stream. In Greece we do not call it Turkish Stream we call it "*Greek Stream*"! So there is possibility but we will securitize this kind of revenues for the future.

So they are not ideologically imposed to securitisation then?

DP You are raising a question which could turn into business because if you are very sophisticated, you have better ideas. If you go public with a bank that has a very nice idea of how you securitize something, you could go to the Greek government and try to sell it. They are desperate for money. And yes they are not ideologically against.

Question 6	***Because Greece has got to get a handle on tax collection can we expect a Greek FATCA (ie the government trying to trace Greek people's money hidden abroad)?***

DP There are many major changes as you know very well in the international banking market. First of all, there is no more Swiss banking secrecy and that traditionally Switzerland was the country where wealthy Greeks banked. As a result it is very difficult for a Greek national to open an account with any major bank unless he or she can certify that the money has been officially declared. The new government proposes to introduce a wealth register where allegedly every Greek national will have to declare all his/her immovable and movable assets including works of art and so forth.

There is no doubt that there is more international cooperation. There is no doubt that the Greek government has received technical assistance from the European Commission and other organisations. There is a taskforce in Greece, consisting of experienced people who advise the government on these issues and there is no doubt that the tax evaders' days are few.

Now I will tell you something opposite but you will understand why it might be like that. The new government wants to increase the minimum wage. Very small companies, like small restaurants and so forth, now agree with an employee to pay the minimum wage but then they request that the employee returns money back so that they seemingly comply with the minimum wage obligation but they actually do not and so avoid the costs which this requires, either because of greed or because people cannot survive if they are to increase their costs. This is apparently quite widespread. So when there is a crisis as you know, people become more creative to survive.

So I will not be surprised if a segment of the Greek economy becomes even less transparent than it is now. Because everybody will compromise. So the answer to your question is quite complicated. In certain areas I think there is going to be more transparency and you know top sophistication, controls and all this stuff.

Now also it is very difficult because there are so many cases of people who have transferred money abroad and so forth. The administration does not have the manpower to control all people who have evaded taxes and it is not unlikely that they will introduce a tax amnesty. I think this at some stage would be a pragmatic solution. The courts are so busy, you go to court to have a hearing that is two years later because everybody is in court these days. At some stage the government, and as a country and as a society, we need to make a fresh start where we say you know you have to pay this based on your revenues or whatever, of what you have declared as a, let us say, flat tax. And from that day onwards we make a fresh start. If this is the case we have experiences of amnesty laws in Italy and other places where the governments were successful in making a lot of money from tax amnesties. And then people can invest the money again to officialise the money in the economy.

SL	***We shall end on thanking you very much, Dimitris for this very interesting, not introduction because it is a continuation, talk about Greece and I hope that we will continue to liaise with you and your firm over the following weeks as we see what happens.***

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