



CRS Report for Congress

Greece Update

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Summary

The conservative New Democracy party won the March 2004 national election. In February 2005, Prime Minister Costas Karamanlis backed opposition politician Karolos Papoulias for President. The government has an ambitious free-market economic policy to enhance growth and create. Its foreign policy focuses on the European Union, relations with Turkey, reunifying Cyprus, the Balkans, resolving a dispute with Macedonia over its name, and improving relations with the United States. Greece has assisted with the war on terrorism, but is not a member of the coalition in Iraq. This report will be updated if developments warrant. See also CRS Report RL33497, *Cyprus: Status of U.N. Negotiations and Related Issues*, by Carol Migdalovitz, and CRS Report RL32172, *Macedonia (FYROM): Post Conflict Situation and U.S. Policy*, by Julie Kim.

Government and Politics

The conservative New Democracy party (ND) won the March 7, 2004, parliamentary elections in Greece with 45.37% of the vote to 40.55% for its rival Pan-Hellenic Socialist Movement (PASOK), thereby gaining a majority of 165 seats to 117 for PASOK out of 300 in the unicameral parliament. The Communist Party (KKE) garnered 5.89% of the vote and 12 seats, while the Coalition of the Left and Progress (Synaspismos) took 3.26% and 6 seats. The rightist Popular Orthodox Rally (LAOS) and the leftist Democratic Social Movement (DIKKI) failed to win 3% of the vote required to enter parliament. DIKKI later dissolved. Constantine (Costas) Karamanlis, the 47-year-old nephew and namesake of the founder of ND, became Prime Minister. The younger Karamanlis entered parliament in 1989 and was the leader of ND for seven years but never previously held a ministerial portfolio. As part of his education, he earned graduate degrees from the Fletcher School of Law and Diplomacy of Tufts University in Massachusetts.

In the June 2004 elections for the European Parliament, ND almost doubled its margin of victory over PASOK, 43.03% to 34.03%; with the Communists taking 9.47%; the Coalition of the Left, 4.15%; and LAOS, 4.11%. In February 2005, former Foreign Minister Karolos Papoulias, the ND consensus candidate and a founding member of the opposition PASOK, won the Greek presidency by an overwhelming parliamentary

majority of 279 out of 296 votes cast. To date, polls continue to show ND and Karamanlis maintaining an edge over PASOK and its leader, George Papandreou. PASOK was disappointed with its showing in the October 2006 municipal elections, when it again lost in the major cities of Athens and Thessaloniki. The next parliamentary elections are scheduled to be held in March 2008, but early elections are possible.

Karamanlis has a relatively large cabinet of 47. In a major reshuffle in February 2006, he named Dora Bakoyiannis, the mayor of Athens and daughter of former Prime Minister Costas Mitsotakis, to become Greece's first woman foreign minister; he also named ND party secretary Evangelos Meimarakis as Defense Minister. Several other key portfolios also changed hands. In 2004, Karamanlis had named Anna Psaroudha-Benaki to be the first woman Speaker of Parliament.

Economy

Greece has a mixed capitalist economy, with the public sector accounting for about 40% of the gross domestic product (GDP). In 2005, per capita GDP was estimated at \$22,300 and the GDP growth rate was 3.7%.¹ The growth rate, which exceeds the average European Union (EU) rate, is attributed to reforms, EU financial assistance, consumer spending, and the 2004 summer Olympics, which stimulated investment. The rate of inflation was 3.5% in 2005.

Upon taking office, the ND government faced multiple challenges of a large public debt, large budget deficit, and high unemployment (9.9% in 2005). It then was confronted by ballooning costs of the Olympics, estimated at U.S.\$16 billion, and discovered that the fiscal situation was even worse than it had expected. In September 2004, the government revised economic data upward for the deficit and ratio of debt to GDP and failed to meet the EU's Economic and Monetary Union (EMU/eurozone) criteria that call for a deficit of not more than 3% of GDP and debt of not more than 60% of GDP. The EU gave Athens until the end of 2006 to reduce the deficit. In September 2006, Greek officials announced that the GDP would be revised upwards for the past six years to include parts of the underground economy; this would at least help the country meet the EU deficit standards. They expect a 2.6% deficit and a debt of 104.8% of GDP for 2006.

The government had initially intended to reach its targets without revising its calculations — by cutting defense spending, accelerating privatization of state enterprises, reforming taxes, and combating tax evasion, among other measures. ND's policies emphasize the private sector as the engine of growth, and it has cut corporate taxes and passed legislation to provide incentives for investment and entrepreneurship. It also has increased value-added taxes and excise duties on tobacco and alcohol. Although ND has initiated a national dialogue on social security reform, it does not plan legislation on the issue before the next election.

Terrorism

Greek authorities have worked to dismantle two main domestic terrorist groups, the Revolutionary Organization 17 November (17N) and Revolutionary Popular Struggle

¹ CIA, *The World Factbook*, December 19, 2006.

(ELA). The U.S. State Department lists 17N as a Foreign Terrorist Organization (FTO).² The group was responsible for the murders of five U.S. embassy employees in Athens, beginning with CIA station chief Richard Welch in 1975. Since 2002, arrests have been made, trials held, convictions won, and appeals launched; investigations are continuing. In several instances, there have been retrials or acquittals, sometimes leading to the suspects' release. Nonetheless, Greek government actions may be generally effective as neither group has been active for several years. Possible copycats, successor groups, or new names for cells of the older groups include Popular Revolutionary Action (LED) and Revolutionary Struggle, which have claimed responsibility for bombings in the past few years. There also are small anarchist and anti-globalization groups operating mainly in the Athens area. On December 31, 2004, a Greek guard on duty outside the residence of the British military attache in Athens was murdered, and some suggest that a new group may have been responsible.³ Counterterrorism officials are still investigating.

In June 2004, after much delay, parliament passed a law to implement the common EU counter-terrorism policy. In January 2006, Greece began using new, more secure passports with biometrics to comply with EU regulations and executing EU-wide arrest warrants. It also ratified the extradition agreement between the United States and EU. The Greek navy participates in Operation Active Endeavor, NATO's antiterrorism ship monitoring effort in the Mediterranean Sea.

Foreign Policy

As an EU member, Greece remains oriented toward Brussels and takes many of its foreign policy cues from the main EU players, notably France and Germany. It also is a member of NATO.

Cyprus. Cyprus has been partitioned between the Greek Cypriot south and the Turkish Cypriot north since Turkish forces invaded in 1974 in response to a coup on the island backed by the Greek junta, which favored uniting Cyprus and Greece. Greece strongly supports its Greek Cypriot ethnic kin in their efforts to reunify the island. In November 2002, U.N. Secretary General Kofi Annan offered a draft settlement plan to unite Greek Cypriots and Turkish Cypriots in a loosely federated United Republic of Cyprus. Although Prime Minister Karamanlis traveled to Switzerland in March 2004 to show his "cooperation," he did not participate in four-party talks among Greece, Turkey, Greek Cypriots, and Turkish Cypriots as Annan had hoped to finalize his Plan. After separate consultations, Annan put the Plan to simultaneous referenda on Cyprus. Reportedly under pressure from the U.N., EU, and the United States, all of which favored the Plan, Karamanlis cautiously stated on April 15 that the plan had more positive points than "difficulties." He added that it was up to the Cypriot people to decide and that Greece would support their decision. On April 24, 76% of Greek Cypriots rejected the Plan, while 65% of Turkish Cypriots accepted it. The situation stalemated. On July 30, 2005, Turkey officially extended its customs union with the EU to all new members, including Cyprus, but did not recognize the Republic of Cyprus nor open its ports to

² U.S. State Department Country Reports on Terrorism 2005.

³ Panos Bailis, "They are Taking up Where 17N Left Off," *Ta Nea*, January 4, 2005, BBC Monitoring European, citing Mary Bossis.

Greek Cypriot ships. Greece has seconded Greek Cypriot demands, calling on Turkey to recognize Cyprus *de jure* and to fully implement the customs union.

Turkey. Prime Minister Karamanlis vowed to continue the rapprochement with Turkey begun in 1999 and to normalize bilateral relations. Before taking office, he had characterized his personal relationship with Turkish Prime Minister Recep Tayyip Erdogan as one of “mutual trust”⁴ and Erdogan visited Greece soon after Karamanlis took office. Greece is promoting Turkey’s accession to the EU in order to ensure that Turkey is a more stable democracy with its soldiers remaining in the barracks and not threatening Greece. The stalemate on Cyprus has affected relations as a much-anticipated Karamanlis visit to Turkey has been postponed indefinitely.

Greece and Turkey have held exploratory talks on Aegean Sea sovereignty disputes over air space, territorial seas, continental shelf, and related issues for more than three years. Greece did not take the disputes to the International Court of Justice (ICJ) in December 2004, as proposed by the 1999 EU summit in Helsinki, which reaffirmed Turkey’s candidacy for EU membership. Greece accepts the Court’s jurisdiction, but Turkey does not. Greece officially recognizes only a dispute over the continental shelf and referral to the Court might mean acceptance of Turkey’s multiple claims.⁵ Former Foreign Minister Petros Molyviatis said that exploratory talks should continue “for as long as it takes.” Athens also wants Ankara to rescind a 1995 *casus belli* declaration that authorized any steps, including military ones, if Greece exercised a right to a 12-mile territorial sea as allowed under the Law of the Sea Treaty. (Greece is a signatory of the Treaty; Turkey is not.) In addition, Greece regularly objects to what it views as Turkey’s infringements of its claimed 10-mile air space over the Aegean. The two governments averted major tension in May 2006, when Greek and Turkish F-16 fighter planes collided over the Aegean, killing the Greek pilot, and later agreed to confidence-building measures. The two neighbors continue to share interests in regional peace, bilateral trade, a natural gas pipeline, and combating terrorism and illegal immigration.

Macedonia. The former Yugoslav republic of Macedonia declared its independence in 1991. Its territory covers 39% of the historic region of Macedonia; the remaining 51% is in Greece and 9% is in Bulgaria. Macedonia asserts its right to use and be recognized by its constitutional name, the Republic of Macedonia. Greece objects, claiming that the name usurps Greece’s heritage and conveys irredentist ambitions against a region of northern Greece also called “Macedonia,” which borders the former Yugoslav republic. In the early 1990s, the name issue inflamed Greek nationalism and public opinion. Macedonia entered the U.N. in 1992 under the provisional name of The Former Yugoslav Republic of Macedonia (FYROM). The last ND Prime Minister, Costas Mitsotakis, was defeated in the 1993 parliamentary elections partly due to his perceived compromises on the name issue.

In 1995, Athens and Skopje signed a bilateral agreement to normalize relations and settle all outstanding disputes except for the name, and Greece ended its trade blockade of the FYROM. Since then, officials of both governments have met with U.S. lawyer

⁴ Anthee Carassava, “10 Questions for Kostas Karamanlis,” *Time Europe*, March 22, 2004.

⁵ Interview with Angeliki Spanou, *Tipos Tis Kiriakis*, October 17, 2004, FBIS Document GMP20041018000031.

Matthew Nimetz, the U.N. Secretary General's personal envoy, to discuss the name, but they have not reached a mutually acceptable solution. Greece says that it will veto Macedonia's accession to the EU and NATO unless the issue is resolved. Although political relations between the two neighbors are frozen, Greece is the top investor in the FYROM, and bilateral trade is strong.

The trend in name usage favors Macedonia, with international actors commonly and officially using the shorthand "Macedonia" in lieu of the more cumbersome FYROM; even some of Greece's fellow EU members are using it in their bilateral relations with Macedonia. According to Macedonia, more than 100 countries have recognized it as the Republic of Macedonia. The U.S. House of Representatives passed H.Res. 540, on March 11, 2004, by a vote of 411-0, expressing solidarity with the people of Macedonia and the government of Macedonia on the occasion of President Trajkovski's death. The Republic of Macedonia signed an agreement with the United States exempting U.S. personnel from extradition to the International Criminal Court. In November 2004, the United States formally recognized Macedonia by its constitutional name, the Republic of Macedonia.

Other Issues. Greece hopes that all of its Balkan neighbors eventually will be members of the EU in order to strengthen the security and stability of the Balkans. Greeks and Serbs have especially close ties based on their common Orthodox Christianity, their alliance during the 20th century Balkan wars, and Greek empathy during the division of Yugoslavia. Greece favors a negotiated solution to create a democratic, multi-ethnic Kosovo, with the approval of Belgrade, in order to provide equal rights for all inhabitants, including Serbs.

Relations with the United States. U.S.-Greek bilateral relations are based on historical, political, cultural, military, economic, and personal ties and are good. The active, well-organized Greek-American community advocates pro-Greek positions and seeks close U.S.-Greek ties. In 2005, the United States exported merchandise worth approximately \$1.2 billion to Greece and imported an estimated \$884 million in merchandise from it.⁶ That December, Greece agreed to buy 30 F-16 fighter planes.

Prime Minister Karamanlis has visited the White House twice, most recently in May 2005, when President Bush stated that their two countries shared "a strategic cooperation." Greece and the United States share interests in stability in southeastern Europe. Greece contributed to NATO peacekeeping forces in Bosnia-Herzegovina and Macedonia until the operations ended in 2003, and 800 Greek soldiers still serve in NATO's peacekeeping force in Kosovo (KFOR). U.S. recognition of the Republic of Macedonia had prompted a strong Greek demarche. The State Department said that the decision was not directed against Greece but to bolster Macedonia's stability and ensure its path toward a multiethnic, democratic state within its existing borders. In a letter to Karamanlis, the President added that the United States still would embrace any name that emerges from negotiations between Athens and Skopje.

The Greek government responded to the September 11, 2001 terrorist attacks on the United States with strong political support, unimpeded U.S. and coalition use of Greek airspace, and military assets for counterterrorism. More than 1,300 Greek troops and

⁶ Information from TradeStats Express - National Trade Data.

support elements and two Greek C-130 aircraft deployed during the U.S.-led Operation Enduring Freedom to oust the Taliban and Al Qaeda from Afghanistan, but they were subsequently withdrawn. Today, Greece has 128 army engineers supporting road-building and other humanitarian efforts and a 45-man mobile medical unit in Afghanistan. In addition, from December 2005 through March 2006, 44 Greek air force officers were in charge of security at Kabul Airport. Greece has not granted NATO's request that it create a Provisional Reconstruction Team (PRT) for northern Afghanistan.

Like some other EU countries, Greece does not view the war in Iraq as part of the global war against terror and is not part of the coalition there. It also refused to participate in training the Iraqi army in either Iraq or Greece and, along with five other EU member countries, refused to allow its military personnel assigned to NATO's international command staff to join a senior officer training mission in Iraq. However, Greece has trained Iraqis at a camp in Bulgaria, sent 100 BMP-1 armored personnel carriers to Iraq to help equip the Iraqi armed forces, contributed financially to the cost of training Iraqi police, and provided Greek commercial vessels to transport NATO military equipment to Iraq. The United States operates a naval support facility at Souda Bay on the Greek island of Crete under the terms of a mutual defense cooperation agreement (MDCA) and allows U.S. ships to visit the base for personnel leave. U.S. aerial refueling aircraft (tankers) from Souda reportedly serviced U.S. planes en route to the war in Iraq in 2003.

The United States has encouraged the rapprochement between Greece and Turkey, believing that direct bilateral talks are the best route to normalized relations. Both Greece and Turkey participate in the U.S.-initiated Southeast Europe Brigade (SEEBRIG), a rapid reaction force consisting of contingents from seven regional countries.

Although official U.S.-Greek relations are cordial, there is a strong strain of anti-Americanism in Greece, stemming from U.S. support for the Greek military junta that ruled from 1967-1974 and U.S. failure to prevent the Turkish invasion of/intervention in Cyprus in 1974, among other issues. Unsupported allegations of U.S. involvement in Greek internal political affairs surface regularly. Anti-American sentiment was intense during the wars in the Balkans in the 1990s, when Greeks sympathized with the Serbs, and has been evident in recent years due to the war in Iraq. It is manifest in periodic mass demonstrations mobilized by Communists, anarchists, unions, antiwar activists, and anti-globalization forces, whose influence is disproportionate to their numbers in society. A recent poll indicates that 87% of Greeks disapprove of the role of the U.S. in maintaining world peace, and 78% disapprove of its role in the war on terror.⁷

⁷ Yeryios Dhelastik, "Anti-Americanism in Greece, *I Kathimerini*, November 6, 2006, Open Source Center Document EUP20061122143002.