



## CRS Report for Congress

### Greece Update

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#### Summary

The conservative New Democracy party won reelection in September 2007. Kostas Karamanlis, its leader, remained prime minister and pledged to continue free-market economic reforms to enhance growth and create jobs. The government's foreign policy focuses on the European Union (EU), relations with Turkey, reunifying Cyprus, resolving a dispute with Macedonia over its name, other Balkan issues, and 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.

#### Government and Politics

Prime Minister Kostas Karamanlis called for early parliamentary elections to be held on September 16, 2007, instead of in March 2008 as otherwise scheduled, believing that his government's economic record would ensure easy reelection. In August, however, Greece experienced severe and widespread wildfires, resulting in 76 deaths and 270,000 hectares burned. The government attempted to deflect attention from what was widely viewed as its ineffective performance in combating the fires by blaming the catastrophe on terrorists, without proof, and by providing generous compensation for victims. This crisis came on top of a scandal over the state pension fund's purchase of government bonds at inflated prices. Under these circumstances, Karamanlis's New Democracy party's (ND) ability to win of a slim majority of 152 seats in the unicameral 300-seat parliament and four more years in office was viewed as a victory. The main opposition PanHellenic Socialist Movement (PASOK) also suffered losses, while three small parties on the left and right registered significant gains and won seats. One of these, the ultra-nationalist, xenophobic Popular Reforming and Orthodox Rally (LAOS) party is entering parliament for the first time. Its leader, George Karatzaferis, was expelled from ND in 2000, has praised Hitler, questioned the Holocaust, defamed Jews, opposes immigrants and immigration, and vows to "keep Greece for Greeks."

On September 18, Prime Minister Karamanlis announced a new, smaller cabinet. He abolished the Public Order Ministry, which had been responsible for fighting fires

among other tasks, and merged it with the Interior Ministry. Foreign Minister Dora Bakoyianni, a reputed favorite of the Bush Administration and rival of Karamanlis, retained her post, as did Minister of Economy George Alogoskoufis and Defense Minister Evangelos Meimarakis. The government is expected to continue tax reforms and privatization of state enterprises and to try to reform the pension and university systems. Karatzaferis has said that LAOS would back the government “in whatever positive” and be against it “in whatever gray.” The meaning of his statement is unclear, but perhaps LAOS will be giving the Prime Minister a more secure majority on some issues.<sup>1</sup>

In February 2005, former Foreign Minister Karolos Papoulias, the ND consensus candidate and a founding member of the opposition PASOK, won the presidency with 279 out of 296 votes cast in parliament. His term expires in 2010.

## Economy

Greece has a mixed capitalist economy, with the public sector accounting for about 40% of the gross domestic product (GDP). In 2004, the ND government faced a large public debt, large budget deficit, and high unemployment. Since then, it has cut the budget deficit to 2.6% of gross domestic product (GDP) from 7.8%, leading the EU to end special budgetary supervision. It cut taxes on corporations and raised tax revenues due to an average annual growth rate of 4% and a crackdown on tax evasion. Unemployment decreased, but 20% of the population remains below the poverty level.

The economy benefits from Greece’s membership in the European Union (EU) and the euro zone. Greece received \$8 billion (est.) annually from the EU between 2000 and 2006 and expects to receive about \$3.8 billion a year from 2007 to 2013. Its participation in the eurozone is believed responsible for controlling inflation.

## Terrorism

Greek authorities have worked to dismantle two main domestic terrorist groups, the Revolutionary Organization 17 November (17N) and Revolutionary Popular Struggle (ELA). The U.S. State Department lists 17N, which was responsible for the murders of five U.S. embassy employees in Athens, beginning with CIA station chief Richard Welch in 1975, as a Foreign

Basic Facts	
Population	10.7 million
Gross Domestic Product Per Capita	\$24,000
GDP Growth Rate	4.2%
Unemployment Rate	9.2%
Inflation Rate	3.3%
Exports	food and beverages, manufactured goods, petroleum products, chemicals, textiles
Export Partners	Germany, Italy, Bulgaria, United Kingdom, Cyprus, Turkey
Imports	machinery, transport equipment, fuels, chemicals
Import Partners	Germany, Italy, Russia, France, Netherlands, South Korea
Currency	euro
Source: CIA, <i>The World Factbook</i> , September 6, 2007; all figures are 2006 estimates.	

<sup>1</sup>“LAOS Leader Thanks Voters for Party’s Parliamentary Entry,” *Athens News Agency*, Sept. 17, 2007.

Terrorist Organization (FTO).<sup>2</sup> Although arrests and convictions of 17N leaders and members have been made since 2002, retrials and acquittals have led to the release of some of those convicted. Neither 17N nor ELA has been active for several years. Possible copycats, successor groups, or renamed cells of the older groups, including Popular Revolutionary Action (LED) and Revolutionary Struggle (EA), are active as are small anarchist and anti-globalization groups which operate mainly in the Athens area. On December 31, 2004, a Greek guard on duty outside the British military attache's residence in Athens was murdered and counterterrorism agencies have yet not caught the suspects. A January 12, 2007, rocket-propelled grenade attack on the U.S. Embassy in Athens, which caused no casualties and did little material damage, was claimed by EA.

In June 2004, parliament passed a law to implement the common EU counterterrorism 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. Reportedly under pressure from the U.N., EU, and the United States, Karamanlis cautiously stated on April 15, 2004, that the plan had more positive points than "difficulties," adding that it was up to the Cypriots 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 settlement process then stalemated. In July 2005, Turkey extended its customs union with the EU to all new members, including Cyprus, but did not recognize the Republic of Cyprus or open its ports to Greek Cypriot ships. Greece has seconded the Greek Cypriot's demand that Turkey recognize Cyprus *de jure* and fully implement the customs union. It also seeks implementation of a stalled July 2006 accord between the Greek Cypriot and Turkish Cypriot leaders on resuming talks.

**Turkey.** Greece began a rapprochement with Turkey in 1999. It is promoting Turkey's accession to the EU in order to ensure that Turkey is a more stable democracy, meeting EU standards, with its soldiers not threatening Greece. The two neighbors share interests in regional peace, bilateral trade, a natural gas pipeline, and combating terrorism and illegal immigration. However, the impasse on Cyprus and the failure of Ankara to

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<sup>2</sup> U.S. State Department Country Reports on Terrorism 2005.

authorize the reopening of the Greek Orthodox seminary of the Turkish island of Halki impede further progress in improving bilateral relations.

Greece and Turkey have held exploratory talks on Aegean Sea sovereignty disputes over air space, territorial seas, continental shelf, and related issues for several 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.<sup>3</sup> Athens wants Ankara to rescind a 1995 *casus belli* declaration that authorized any steps, including military ones, if Greece exercises 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. Greece also objects to Turkey's infringements of Greece's claimed 10-mile air space over the Aegean and to Turkish commanders' references to (Greek) Aegean islands/islets not named in treaties as "gray zones" that must be demilitarized.

**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 Greece's largest province, also called "Macedonia," which borders the former Yugoslav republic. Due to Greek objections, Macedonia joined 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 elections partly due to his perceived compromises on the name issue.

In 1995, Athens and Skopje signed an interim agreement to normalize relations and settle all outstanding disputes except for the name, and Greece ended its 18-month long trade blockade of the FYROM. Since then, officials of both governments have met with the U.N. Secretary General's personal envoy Matthew Nimetz to discuss the name, but they have not reached a mutually acceptable solution. Nimetz expects Macedonia's desire to join the EU and NATO to influence developments. Greece could veto Macedonia's accession to both organizations if the name issue is not resolved. Both organizations expect Macedonia to undertake domestic political reforms before inviting it to join, which may delay or preclude a Greek veto. Despite the name problem, Greece is the top investor in the FYROM, and bilateral trade is strong. The international trend in name usage favors Macedonia, with 117 governments recognizing it as the Republic of Macedonia.

**Other Issues.** Greece hopes that all of its Balkan neighbors eventually will become members of the EU in order to strengthen the region's stability. Greeks and Serbs have close ties based on their common Orthodox Christianity, their alliance during the 20<sup>th</sup> century Balkan wars, and Greek empathy during the division of Yugoslavia. Greece favors the creation of a democratic, multi-ethnic Kosovo, with the approval of Serbia,

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<sup>3</sup> Interview with Angeliki Spanou, *Tipos Tis Kiriakis*, October 17, 2004, FBIS Document GMP20041018000031.

and opposes the province's possible unilateral declaration of independence as an act that could destabilize the region.

**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. 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 a Greek mechanized brigade still serves in NATO's peacekeeping force in Kosovo (KFOR).

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 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; most were later withdrawn. Today, Greece has 120 army engineers supporting road-building and other humanitarian efforts and a mobile medical unit of 45 in Afghanistan. It also provides economic aid. Greece did not grant 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 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) which 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.

In response to the 2007 wildfires, the U.S. Agency for International Development Office of Foreign Disaster Assistance (OFDA) provided more than \$600,000 in emergency aid for the purchase of firefighting equipment and relief supplies for the Hellenic Red Cross. An additional \$1.35 million in technical assistance will be provided via agreements with the U.S. Department of Agriculture Forest Service through the remainder of 2007 and throughout 2008. In FY2007, Greece also received \$566,000 in International Military Education and Training (IMET) funds; the Administration has requested \$590,000 in IMET funds for Greece for FY2008.

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.

There have been some tensions in bilateral U.S.-Greek relations. In November 2004, the United States formally recognized Macedonia by its constitutional name, the

Republic of Macedonia, prompting a Greek demarche. The State Department said that the decision was not directed against Greece but intended to bolster Macedonia's stability and ensure its path toward a multiethnic, democratic state within its existing borders. President Bush added that the United States still would embrace any name that emerges from negotiations between Athens and Skopje. The Republic of Macedonia, as such, signed an agreement with the United States exempting U.S. personnel from extradition to the International Criminal Court. The Administration calls for negotiations between Greece and Macedonia with the support of U.N. envoy Nimetz. H.Res. 356, introduced on May 1, 2007, and S.Res. 300, introduced on August 3, would express the sense of Congress that the FYROM should stop violating interim agreement provisions regarding "hostile activities or propaganda" and work to find a mutually acceptable official name.

Greece is one of 12 EU member states not part of the U.S. Visa Waiver Program (VWP), which allows short-term visitors to enter the United States without a visa. Greece had failed to meet the eligibility criteria by the time the program was frozen after 9/11. The Greek government began issuing the more secure passports in 2006 and has made joining the VWP a high priority. H.R. 2526, introduced on May 24, 2007, would designate Greece a program country for the purpose of the VWP. In September 2007, U.S. Department of Homeland Security Deputy Secretary Michael Jackson stated that the process of including Greece in the VWP had begun. Greek control of its relatively porous borders is expected to be closely scrutinized in the process, which does not automatically lead to inclusion.

The Bush Administration is concerned that Greece's energy ties to Russia may undermine Europe's efforts to ensure its energy security by diversifying sources. The Burgos-Alexandroupolis pipeline to transport Russian oil via Bulgaria to Greece and the South Stream natural gas pipeline linking Russia, Bulgaria, Greece, and Italy are the specific objects of U.S. concerns.

Although official U.S.-Greek relations are generally 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. interference 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.