

To  
The Honourable Prime Minister  
Mr Lucas Papademos  
Maximos Mansion  
19, Herodou Attikou St  
106 74 Athens

**Cc:** Mr. E. Venizelos, Minister of Finance  
Mr A. Loverdos, Minister of Health and Social Solidarity  
Mr G. Koutroumanis, Minister of Labour and Social Security  
Mr P. Economou, Deputy Minister of Finance  
Mr F. Sahinidis, Deputy Minister of Finance  
Mr M. Timosidis, Deputy Minister of Health and Social Solidarity  
Mr D. Vartzopoulos, Deputy Minister of Health and Social Solidarity  
Mr E. Plaskovitis, Secretary-General of the Ministry of Finance  
Mr N. Polyzos, Secretary-General for Health  
Mr A. Demopoulos, Secretary-General for Public Health  
Mr P. Christodoulou, Director-General of the Public Debt Management Organisation (ODDY)  
Mr. Provopoulos, Governor of the Bank of Greece  
Mr I. Tountas, President of EOF  
Mr C. Voudouris, President of EOPYY  
Mr D. Daskalopoulos, Chairman of the Federation of Greek Industries  
Mr K. Michalos, President of the Chamber of Commerce and Industry of Athens  
Mr Y. Stournaras, Director-General of IOBE  
Mr G. Grammatidis, President of the Hellenic American Chamber of Commerce  
Mr M. Maïllis, President of the Greek-German Chamber of Commerce  
Mr Ch. Hatzopoulos, President of the Greek-French Chamber of Commerce  
Mr D. Torvas, President of the Greek-Swiss Chamber of Commerce  
Mr H. Economopoulos, President of the Greek-British Chamber of Commerce

Halandri, 14 February 2012

**Subject: Exemption from PSI 2 and from the enforcement of CACs of Greek government bonds issued in repayment of hospital debts to pharmaceutical companies**

Dear Prime Minister,

We are well aware of the size and intensity of the historical efforts you are making to rescue our country. We would like to assure you that we greatly appreciate these efforts, which we have been following closely, and convey our wishes for a successful outcome in the best interests of our country and of generations to come. We would like to take up some of your precious time to request that you consider the exemption from the PSI of those Greek sovereign bonds given to pharmaceutical companies.

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We believe that the cost to the government of inclusion of these bonds in the PSI scheme could significantly outweigh the benefit of their exemption.

These bonds constitute “debt settlement” and, unlike investment bonds, their partial non-payment carries the risk of shattering confidence in the Greek government’s ability to honor its commitments, thereby undermining confidence across borders, to the detriment of the long-standing ties of trust between international pharmaceutical companies and their domestic business partners. It would deal a heavy blow to the pharmaceutical industry and jeopardize the availability of essential medicines in the domestic market with serious implications for public health. It would also discourage the flow of foreign investment into existing co-production projects, precisely at a time when the enhancement of such projects is being planned. The cost would be unsupportable, especially given that a disruption of pharmaceutical imports would force the government to proceed with emergency imports that would exact an even greater burden on the national budget.

The government’s injured trustworthiness would considerably discredit similar methods of debt settlement (i.e. through special bond issues) in the future. This would have an impact on the domestic financial market, further reducing the attractiveness of Greek government bonds and Treasury bills as a reliable investment option. The resulting financial loss to Greek pharmaceutical companies will be so severe that many of them would find it difficult to keep supporting the public by absorbing price cuts, fulfilling higher tax obligations in a timely manner, and paying extraordinary levies. Apart from the associated loss of substantial government revenue, the haircut threatens the success of the new fiscal consolidation plan, which relies significantly on expenditure savings from the pharmaceutical sector. Simultaneously, it would cripple the pharmaceutical industry itself, a key knowledge-intensive industry that offers high-quality jobs to 14,500 highly skilled professionals. It should also be noted that a significant part of the haircut cost would be passed on to foreign producers, specifically to companies that export pharmaceuticals to Greece, thereby compounding the cost of the Greek PSI for several countries already participating in the rescue plan. Finally, there is a delicate matter to be considered: to the extent that these bonds were pledged as collateral backing bank credit to pharmaceutical companies, the fact that their current holders cannot be identified causes further complications, in addition to the problems entailed by the haircut in the first place. It may be the case that the pledging banks have traded the bonds on the secondary market, making them impossible to track down. As a result, a large proportion of these bonds may have added to the portfolios of foreign investment vehicles (e.g. hedge funds) motivated to hold out in order to block the Greek PSI. A haircut on such bonds could therefore meet with resistance, and such bonds could be used to acquire a blocking position in order to circumvent CACs.

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For all these reasons and for the additional reasons that we lay out in detail below, we suggest that you consider the exemption of these special bonds from the PSI. We are confident that in making such a decision you will be guided by the same moderation, expertise and sound judgment that you have exhibited throughout your career in the service of our country and we are sure you will continue to do so in the very challenging years ahead.

Below we detail reasons why the Greek government bonds issued for the repayment of hospital debt to pharmaceutical companies should be exempted from PSI 2 and from the enforcement of CACs.

1. **The bonds issued under Law 3867/2010 (“Law 3867 bonds”) were one of the tools for addressing Greece’s fiscal problem:** Unlike the other Greek government bonds that will be the subject of PSI 2, Law 3867 bonds were issued after Memorandum 1 was adopted. **That is, these bonds represent repayment of obligations incumbent upon the Greek government, having been taken over by the latter after the magnitude of the fiscal problem was revealed.** Their inclusion in Memorandum 1 created the legitimate expectation that they were obligations of the Greek government, the fulfillment of which was effectively provided for, and indeed in awareness of the fiscal problem (**as explicitly stated in paragraph 9 of Memorandum 1**). In brief, the inclusion of Law 3867 bonds in PSI 2 or the imposition of a haircut on their nominal value would run against the legitimate expectations of suppliers, which - instead of taking legal action – accepted the substitution of their claims vis-à-vis public hospitals with bonds that would be redeemed in full.
2. **Law 3867 bonds were not acquired for investment purposes, but were rather issued in lieu of payment, thus they are “special type” bonds.** Law 3867 bonds are “special type” bonds and not investment bonds. Their issuance served the purpose of debt repayment by public hospitals to suppliers of pharmaceutical products and they were exclusively issued to such holders. In other words, the acquisition of Law 3867 bonds was not an investment choice on the part of suppliers but a - virtually forced - solution that would ensure the full satisfaction of their claims on public hospitals. Accordingly, the inclusion of Law 3867 bonds in PSI 2 and the imposition of a haircut on their nominal value would cause their holders to suffer the consequences of an investment that they did not chose but which was instead forced upon them.

3. **Holders of Law 3867 bonds have already suffered an impairment of the nominal value of their claims:** Holders of Law 3867 bonds have already suffered a significant impairment of the nominal value of their original claims on public hospitals. First, Law 3867 bonds were issued in 2010 to cover suppliers' verified claims on public hospitals, dating back to 2007, 2008 and 2009 and repayable over a horizon of more than four years, i.e. in 2011, 2012 and 2013, respectively. That is, the bonds represent claims which, although overdue, were repayable free of interest within about four years of their due date, implying a financial cost for suppliers. In fact, Law 3867 bonds are non-interest bearing (**zero coupon**), which confirms the above argument. In assessing the full size of this impairment, account should also be taken of the cost of holding these bonds to maturity (e.g. by using them to obtain bank financing), as their outright sale would cause even higher losses to suppliers against the backdrop of the current adverse financial market conditions and the negative implications for their market valuation. Therefore, the inclusion of Law 3867 bonds in PSI 2 or an additional impairment of their nominal value **would automatically cause even higher losses to their holders, further to the loss they suffered by acquiring the said bonds under Law 3867/2010 and thereby waiving an important part of their original claims on public hospitals.**
4. **Risk to the survival of pharmaceutical companies and to hospital supplies:** A participation of Law 3867 bonds in PSI 2 and the imposition of a haircut on their nominal value would reinstate the problems that Law 3867/2010 was supposed to address, jeopardizing both the survival of suppliers and the smooth supply of pharmaceuticals to public hospitals. In particular, the chronic failure of public hospitals to fulfill their obligations vis-à-vis suppliers is likely to impact adversely both on suppliers and on public hospitals themselves. As noted in the explanatory report on Article 27 of Law 3867/2010, "...[the legislator] acknowledges that for many companies [suppliers of public hospitals] it can be hard to survive because of the delays in the repayment of the debts of the years 2007 and 2008 ..." and "as a result of these delays there is an imminent risk of disruption in pharmaceuticals supply and health provision in public hospitals". Article 27 of Law 3867/2010 was aimed to address precisely these risks. However, those of Law 3867 bondholders that pledged such bonds as collateral to secure bank financing for their business would face once again a risk to their survival following a sharp and involuntary impairment of the nominal value of the Law 3867 bonds they own, which would automatically reduce their available collateral value. And of course, as noted in the explanatory report of the aforementioned law, suppliers' difficulty in surviving would once again pose an imminent risk of disruption in the supply of pharmaceuticals and health provision in public hospitals.

In view of the above, Law 3867 bonds should be exempted from PSI 2 and **in any event from the enforcement of any Collective Action Clauses (CACs) that may be adopted for the purpose of imposing an involuntary haircut on their nominal value.**

Sincerely,

Fotis Mangalousis  
Director General

Vasilis Neiadas  
Vice-President

Dionysios Filiotis  
President