



National Background Paper Republic of Cyprus



European Commission
Employment, Social Affairs
and Equal opportunities

27 National Seminars Anticipating & Managing Restructuring

- A.R.E.N.A.S -

VC/2008/0667

ITC 
International Training Centre



European Commission
Employment, Social Affairs and Equal opportunities

National Seminar – Republic of Cyprus National Background Paper

Anticipating and Managing restructuring Republic of Cyprus

November 2009

Yannis Eustathopoulos*



International **T**raini**n**g Centre
Centre international de **f**ormation
Centro Internacional de **F**ormación

This document is part of an initiative from and funded by the European Commission, Directorate-General for Employment, Social Affairs and Equal opportunities, unit working conditions and adaptation to change.

* Associate Researcher at the Cyprus Labour Institute (INEK-PEO). Many thanks to Eva Soumeli, Senior Researcher at INEK-PEO, for her important suggestions and remarks on the text.

Introduction	5
1. Economic and Labour Market Developments	7
1.1 Overview of Cyprus' Economy	7
1.1.1 A Decade of High Levels of Economic Development	7
1.1.2 Basic Figures for Cyprus' Labour Market.....	8
1.1.3 Cyprus Transformed into a Service Economy	10
1.1.4 Restructuring: A Relatively Limited Phenomenon in Cyprus	14
1.2 The Limited Impact of the Crisis on the Cyprus Economy	15
1.2.1 Recent Labour Market Developments	15
1.2.2 The Impact of the Crisis is more pronounced in Specific Sectors	16
1.2.3 The Public Discourse on Restructuring.....	18
1.3 Restructuring Frameworks.....	19
1.3.1 Legal Framework and Special Funds for redundant workers.....	19
1.3.2 Parties Involved in Restructuring.....	22
2. Measures and Tools for Anticipating and Managing Restructuring.....	25
2.1 Measures and Tools for Anticipating Restructuring	25
2.1.1 Recent Initiatives and Proposals for Dealing with the Crisis and Restructuring	25
2.1.2 Measures and Tools Used in the Past to Prevent Restructuring.....	27
2.1.3 Measures and Strategies Aimed at Coping with Skills Gaps, Educational and Vocational Training and Development of Human Resources	28
2.2 Measures and Tools for Managing Restructuring.....	29
2.2.1 Measures for Managing Restructuring in Cyprus	29
2.2.2 Proposals by Employer Organisations for Managing Redundancies	29
2.2.3 Territorial Strategies and Planning for Economic Development and Revitalization	30
2.2.4 The Cypriot System of Bipartite Social Dialogue: A Fundamental Resource for Managing Restructuring	30
3. Results of Anticipating and Managing Measures/Tools	31
3.1 Active Measures.....	33
3.1.1 Reduction in Working Hours Due to Reduction in Export Market Demand (<i>Muskita and Alco</i>)	33
3.1.2 Utilisation of Social Dialogue to Prevent Mass Layoffs (<i>Arab Bank</i>).....	33

- 3.1.3 Utilisation of Mediating Bodies for Reaching Mutually Acceptable Solutions for Both Company and Employee (*Cyprus Airways’ Ground Handling Services*)34
- 3.1.4 Government Guarantees on Loans Granted to Businesses Facing Problems (*Central Slaughterhouse in Kofinou*)35
- 3.1.5 Employment Offices Operated by Labour Unions (*Pancyprian Federation of Labour & Cyprus Workers’ Confederation*)36
- 3.2 Passive Measures36
 - 3.2.1 Negotiation and Implementation of Early Retirement Measures (*Ports of Limassol and Larnaka*)36
 - 3.2.2 Combining Anticipating and Managing Measures in Major Restructuring Plans (*Cyprus Airways*)37
 - 3.2.3 Utilisation of Social Dialogue to Ensure Higher Compensations than Those Provided For by Law (*British American Tobacco, Vassiliko Cement Works*)40
- Summary and Conclusions43
- References49

Introduction

In comparison with other EU countries, restructuring issues attract limited interest among social partners, policy makers and the mass media in Cyprus. This is due to the particularly limited size, incidence and spatial concentration of restructuring cases in Cyprus and more generally, to the positive performance of the Cypriot economy and labour market during the last decade.

The main instance of restructuring in Cyprus, in the context of public dialogue, is that of the mass relocations that took place in the clothing and footwear sectors during the 1990s, when these industries gradually lost their comparative advantage of low-cost labour. The social and economic consequences of restructuring in manufacturing seem to a large extent to have been absorbed by rapid economic and employment growth. This might explain why public authorities did not seem to put any major effort at the time into seeking alternative competitive strategies based on quality and innovation, in response to the Cypriot garment industry's rapid loss of competitiveness.

From the beginning of this decade till now, the instances of major company restructuring are limited to only five cases of importance, of which three are in "governmental/semi-governmental organisations" (public sector). This is due to the fact that the number of small enterprises in the Cypriot economy is very high. This peculiarity hinders any observation and study of restructuring, particularly when enterprises employ less than 20 employees (and thus do not fall under the provisions of the collective dismissals law).

The current economic crisis did not seem, until recently, to have changed dramatically this situation. In contrast to other European countries, Cyprus has escaped, to a large extent, the repercussions of the global recession. It should however be noted that, since August 2009, conditions in the labour market have been worsening, particularly in the tourist and construction industries.

The outcomes of restructuring have been generally favourable for workers, thanks to favourable economic conditions and the efficiency of the Cypriot system of labour relations. Most negotiations are carried out in an amicable environment without any labour disputes. By and large, workers receive larger sums of compensation than are required by law (*ex gratia* payments).

It should however be noted that there are no specific structures in place for the support of workers who lose their jobs as a result of restructuring (e.g. measures to find alternative employment). In other words, workers who lose their jobs because of restructuring fall within the same schemes as people losing their job on an individual basis. The current economic crisis seems to have stimulated developments in this field, both for public policymakers, but also for businesses and social partners. For this reason the crisis is likely to evolve into a source of "institutional innovation" in respect of anticipation and management of restructuring and collective dismissals.

1.1 Overview of Cyprus' Economy

1.1.1 A DECADE OF HIGH LEVELS OF ECONOMIC DEVELOPMENT

For the last ten years the Cypriot economy has expanded at a rate of 3.8% compared to the Euro area's 2.1%. Despite the years 2002 and 2003, which witnessed some of the lowest performances ever recorded in the last thirty years, during the last five years (2004-2008) the Cypriot economy regained relatively high growth rates (4% annually). More specifically, compared to the most developed countries in the European Union on the basis of their annual GNP growth rates between 2002 and 2007, Cyprus came fourth with 3.1%. It is worth pointing out that the equivalent average for all 27 European Union Member States amounted to just 2.0%.

GNP Rates of Expansion (%) 1998-2008

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cyprus	4,8	5,0	4,0	2,1	1,9	4,2	3,9	4,1	4,4	3,7
EE-15	3,0	3,9	1,9	1,2	1,2	2,3	1,8	2,9	2,6	0,6

Source: Eurostat

In **2007** the increase in Cyprus's GNP was one of the highest in Europe at 4.4%, in comparison with the European Union's 15 "older" Member States. Only Ireland exceeded Cyprus in that year with its growth rate of 6%. The equivalent annual increase in the 27 European Union Member States amounted to 2.9%. Moreover in **2008** the Cypriot economy's performance proved even more satisfactory in comparison with the economies of the EU-15, with an increase in GNP of 3.7% *vis-à-vis* just 0.9% in the EU-27 and 0.6% in the EU-15.

Development of Basic Long-Term Economic Figures

Figures	Annual Fluctuation (%) in Cyprus	Average Annual Fluctuation (%) 2004-2007					
		2004	2005	2006	2007	Cyprus	EE-27
1	GNP	4.2	3.9	4.1	4.4	4.1	2.5
2	Employment	3.3	3.0	2.7	5.8	3.7	1.2
3	Unemployment Rate (%)	4.7	5.3	4.5	3.9	4.6	8.3

Source: Ministry of Labour and Social Welfare, Review of the tendencies of the employment market 2004-2007

1.1.2 BASIC FIGURES OF CYPRUS' LABOUR MARKET

Population and Workforce

According to figures from the Statistical Service of Cyprus, 382.852 individuals were employed in Cyprus during 2008, of which 212.218 were men and 170.634 women (of a total population of 758.326). In 2008 active participation in the workforce amounted to 73.1% for men and 55.8% for women. The total percentage of the population over the age of 15 actively engaged in the workforce was 64.2%.

Employment According to Field of Economic Activity

The table below presents those economic activities with the highest number of employed persons during the year 2008.

Employment according to economic activity (2008)

Economic Activity	Number of employed
Wholesale and Retail Trade, Repair of Motor Vehicles and Motorbikes	68.857
Construction	46.217
Manufacturing	37.011
Compulsory Social Security	30,570
Education	27.140
Accommodation Services and Food Industry	25.739
Professional Scientific and Technical Activities	19.933
Financial and Insurance Activities	19.568
Household Activities	16.919
Agriculture, Forestry and Fishing	16.199
Human Health and Social Work	15.677

Source: Statistical Service of Cyprus

Division of Labour According to Worker Category

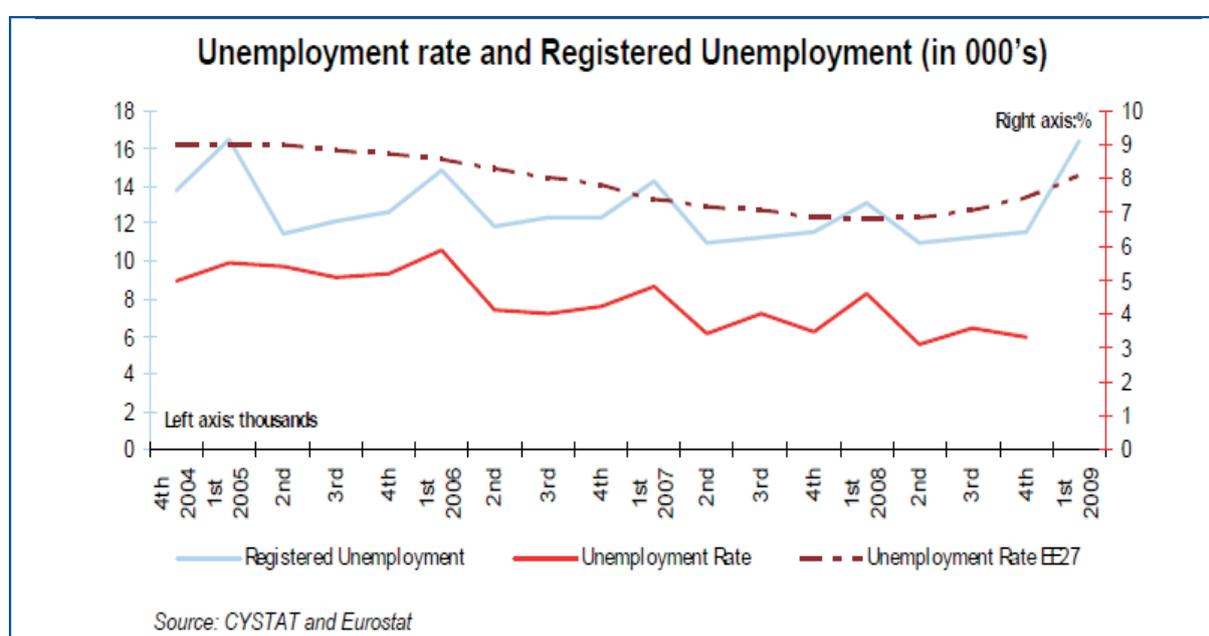
In 2008, of a total workforce of 382.852 people, 306.488 were employees and 47.989 were self-employed while 21.232 individuals were employers.

Of a total of 306.488, only 15.208 were part-time workers of whom 11.159 were women. It is worth mentioning that part-time workers are mainly found in the wholesale and retail trades, in education, and in the accommodation and food industries (tourism).

Unemployment in Cyprus

The average unemployment rate in Cyprus during the period 2004-2008 was 4.4%. According to Eliofotou (2008), this creditable performance reflects a number of factors such as

- Sustained GDP growth.
- High levels of employment and job creation
- Good labour relations due to a system of tripartite social dialogue.
- An income-friendly tax system with low direct taxation, which has not overburdened labour costs and has thus supported demand for labour.



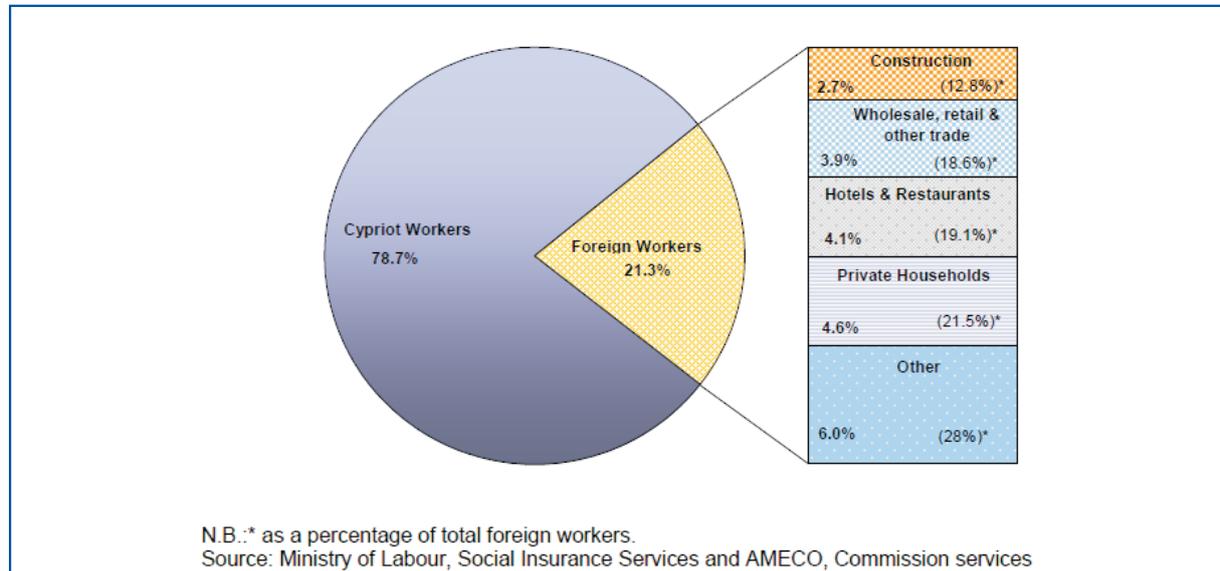
Source: Cyprus Ministry of Finance (2009)

Foreign Workers and Labour Supply Shortages

During the last decade Cyprus had to deal with labour shortages, mainly in low-skill occupations. Labour shortages have been addressed through an increase in working permits issued to foreign nationals, which has fostered a large-scale influx of immigrants. In total, economic immigrants make up 21% of the entire workforce¹. As can be seen in the chart below, as well as being employed in domestic work, economic immigrants work in the tourist industry (hotels and restaurants), in the wholesale and retail trade, and in the construction sector.

¹ This percentage includes undeclared foreign workers.

Distribution of foreign workers in Cyprus by economic activity



Source: Eliofotou (2008)

Unemployment in 2008

The unemployment rate in 2008 was 3.7% (3.2% for men and 4.2% for women). The total number of unemployed between the ages of 15-29 was 6.221, that is 43% of the total number of unemployed (14.523). In contrast the percentage of the unemployed in the 50-and-over age group never exceeded 18% (2.590 individuals). It should be noted that the number of unemployed who have remained without a job placement for longer than one year was just 1.975 (that is 13.5% of the total number of unemployed).

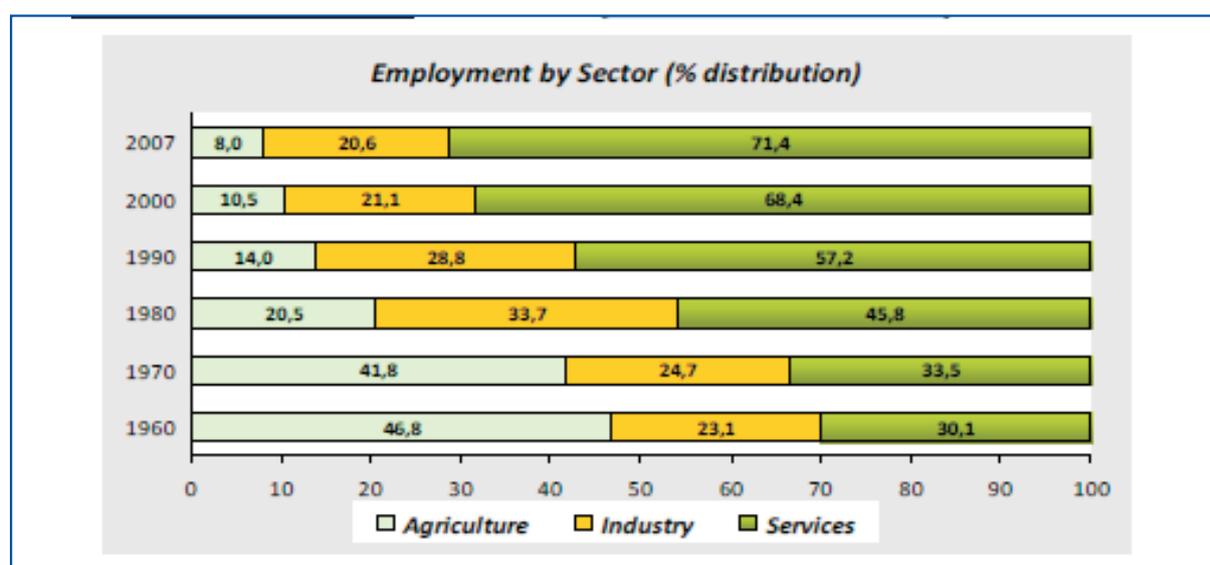
1.1.3 CYPRUS TRANSFORMED INTO A SERVICE ECONOMY

An analysis of the job market by sector demonstrates the evolution of Cyprus' economy into a service economy. For instance in 2007 the tertiary sector accounted for 73.1% of all employment; this reflects on the one hand increased employment in the tertiary sector (trade, real estate, tourism, education, health), and on the other decreased employment in the agricultural and manufacturing sectors. As figures from the National Statistical Service of Cyprus show, employment in manufacturing fell by 6.822 job positions (approximately 16%) during the period 1995-2007.

Industrial Statistics (2007) / Employment in Manufacturing 1997-2007

Year	Number employed
1995	44.027
1996	42.207
1997	40.679
1998	39.475
1999	37.904
2000	37.042
2001	37.700
2002	38.077
2003	38.057
2004	37.953
2005	36.976
2006	37.706
2007	37.205

The country's tendency to de-industrialise is particularly evident when examining the figures for the last thirty years. Specifically, the industrial sector employed one in three workers (33.7%) in 1980, but only one in five (20.6%) in 2007. In brief, the industrial sector shed 40% of its workers during the period 1980-2007. Furthermore, less than half the workforce (45.8%) was employed in services in 1980, compared to 71.4% in 2007. It should however be noted that the most significant reduction is found in the agricultural sector, accounting for 20.5% of all employment in 1980 but only 8% in 2007 (that is a reduction in the order of 60%).

Employment by sector in Cyprus

Source: Eurostat, Cyprus in Figures

According to figures and estimates in the Ministry of Labour and Social Welfare's last report on the Cypriot job market², economic development during the period 2004-2007 chiefly benefited the services sector, which grew by an extra 36.000 employment positions (the annual rate of development being of the order of 4%). Indeed it is estimated that nine out of every 10 new job positions were created in the tertiary sector.

1.1.4 RESTRUCTURING: A RELATIVELY LIMITED PHENOMENON IN CYPRUS

The positive performance of the Cypriot economy and labour market during the last decade could indeed explain the particularly limited magnitude, incidence and spatial concentration of restructuring in Cyprus. The main instances of restructuring in Cyprus, in the context of public dialogue, was undoubtedly that of the mass relocations that took place in the clothing and footwear sectors during the 1990s. The number of significant instances of major company restructuring since the beginning of this decade is just five. The current crisis does not so far seem to have changed this situation dramatically.

Restructuring and Relocating in the 1990s: the Case of the Clothing and Footwear Sectors

The largest wave of restructuring in Cyprus took place during the decade of the 1990s. It was during this period that the manufacturing industry gradually lost its comparative advantage in low-cost labour. The business activities most affected were the clothing and footwear industries, which have moved production activities abroad, mainly to countries of the Middle East and the Balkans. It should be noted that in 1974 the clothing industry alone employed around 13.000 people, highlighting its decisive contribution to Cyprus's course of development during a period of particularly difficult political, economic and social conditions³. Even as late as 1998, 20% of all people employed in manufacturing, that is around 6.500 people, were employed in the clothing and footwear industries (a total of 7.530 workers).

Employment in Manufacturing of Textiles and Textile Products (DB Nace Rev. 1.1)

Year	Number of employed
1995	9.586
1996	8.340
1997	7.215
1998	6.323
1999	4.900
2000	3.839
2001	3.592

² Ministry of Labour and Social Benefits, *Review of tendencies in the employment market 2004-2007*.

³ It should be remembered that following the invasion by Turkish troops in 1974 the unemployment rate shot up to 39% and GDP fell by one-third in relation to 1973.

Year	Number of employed
2002	3.224
2003	2.892
2004	2.410
2005	2.025
2006	1.882
2007	1,848

This number fell dramatically to 4.583 in 2000 (- 40%) and to just 2.313 in 2005 (-- 70%). As a result, the clothing industry has ceased to be a source of employment of primary importance for the economy of Cyprus. Overall it is concluded that, on the one hand, *higher labour costs* (and the resultant loss of the clothing industry's basic competitive advantage stemming from high growth rates between 1976 and 1984 and rising living standards) and, on the other hand, *liberalisation of world trade*, have led to increasing competitive pressures, both in the export and domestic markets (Panayiotopoulos, 2000).

Another decisive factor is the shortage of labour which has compelled companies to import workers from third countries. Indicative of this is the fact that in 1994 foreign labour already represented 14% of employment in the industry. In addition firms have been suffering from serious "structural competitiveness" problems (e.g non compliance with European product specification, lack of innovativeness and quality, and lack of skilled employees at all stages of production). It is concluded that these factors contributed to creating the 'right' conditions for the mass relocation of Cypriot enterprises to countries with low-cost labour in the Balkans and Middle East.

Last but not least it should be noted that businesses, as much as public authorities, did not seem to put any serious effort into seeking alternative competitive strategies based on quality and innovation, in response to the Cypriot garment industry's rapid loss of competitiveness.

Employment in Manufacturing of Leather and Leather Products (1995-2007)

Year	Number of employed
1995	1.745
1996	1.389
1997	1.364
1998	1.207
1999	829
2000	694
2001	594
2002	566
2003	414
2004	339
2005	288
2006	256
2007	220

Major Restructuring Cases from 2005 until Today

Instances of restructuring in Cyprus during the last five-year period have been very few, the most significant being⁴:

- 2004 *Refinery of Cyprus* (petroleum products sector).
- 2004-2006 *Cyprus Airways* (national airline).
- 2006 *Arab Bank* (financial credit sector).
- 2006 *BAT* (tobacco industry – relocation).
- 2008 *Ports of Larnaka and Limassol* (port services).
- 2009 (in progress) *Kofinou Slaughterhouse*.

As is evident after a detailed examination of each of these cases⁵, the outcome of the restructuring was generally favourable for workers, thanks to the efficiency of the Cypriot system of social dialogue and the favourable economic conditions. It should be stressed that two of these cases concern organisations of the semi-governmental sector of Cyprus that faced serious competitiveness problems due to the liberalisation of markets after Cyprus' entry into the European Union in 2004.

On the whole, the international financial and economic crisis does not so far seem to have dramatically changed the restructuring situation in Cyprus. As discussed below, the effects of the crisis on the Cypriot economy remain – compared to other EU countries – fairly limited, although the situation in the labour market has been worsening rapidly during the past four months.

⁴ Other smaller restructuring cases that have been recorded since 2005 are those of KEO, Vassiliko Cement Works, Thekona Press Ltd, AC Nielsen, Tsokkos Hotels, Société Générale of Cyprus, etc.

⁵ See chapter 4.

1.2 The Limited Impact of the Crisis on the Cyprus Economy

In contrast with other European countries, Cyprus seems to have escaped, to a large extent, the repercussions of the international financial crisis. The Cypriot economy had a 3.8% GDP growth in 2008 and the depth of the recession in 2009 (- 0,7%) seems limited in comparison with other European economies⁶. In spite of a substantial rise during the last four months (August – November), unemployment in Cyprus during the month of November continued to be low in relation to the Euro area average (6.2% and 10.0% respectively). Overall, these rather positive performance factors explain why no major cases of restructuring or bankruptcy in Cyprus have been recorded over the past few months, as confirmed both by an extensive review of the daily press and by interviews conducted with Employer’s Unions, Labour Unions and executives at the Ministry of Labour.

1.2.1 RECENT LABOUR MARKET DEVELOPMENTS

As is evident from the table below, the total unemployment rate in Cyprus showed an increase of the order of 2.2% during the period from December 2008 until November 2009. Despite this increase the rate of unemployment in Cyprus was the fourth lowest in the European Union in November 2009, after the Netherlands, Austria and Luxembourg. This performance is particularly positive if one takes into consideration the fact that part-time employment in Cyprus is not at all widespread compared to other Member States. On the basis of the figures of the Statistical Service of Cyprus (adjusted for seasonal variations), the number of registered unemployed in November reached 20.623 persons, an increase of 1.6 % compared to the previous month. The trend in the registered unemployed showed a tendency to stabilise between May and July 2009 following an intensely steep climb during the period December 2008 – April 2009. But unemployment has risen again sharply during the last four months (August to November).

Rate of Unemployment According to Gender (Eurostat)

Total population

Month	Dec. 2008	Jan. 2009	Feb. 2009	Mar. 2009	April 2009	May 2009	June 2009	July 2009	August 2009	Sept. 2009	Oct. 2009	Nov. 2009
Unemployment rate	4.0	4.1	4.3	4.6	5.0	5.2	5.3	5.4	5.7	5.9	6.1	6.2

The increase in unemployment since the beginning of the year was higher for men in comparison to women (i.e. 2.6% for men during the period January – November 2009 compared to 1.7% for women).

⁶ According to DG ECFIN Autumn Forecasts.

Men

Month	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	10/2009	11/2009
Unemployment rate	3.6	3.6	3.9	4.3	4.8	5.0	6.0	6.2

Women

Month	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	10/2009	11/2009
Unemployment rate	4.5	4.6	4.8	5.0	5.2	5.4	6.1	6.3

The crisis seems to have affected younger age groups to a greater extent. As can be seen in the tables below, the unemployment rate among the 15-24 year-old age group increased by almost 4% during the period January –September 2009 compared to only 1.7% for the 25-74 year-old age group.

Unemployment Rate According to Age

15-24 year-old age group

Month	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	8/2009	9/2009
Unemployment rate	9.3	10.8	10.8	10.8	12.8	12.8	14.7	14.7

The average rate of unemployment for young people between the ages of 15-24 in the Euro area was 20.3% in September 2009.

25-74 year-old age group

Month	12/2008	1/2009	2/2009	3/2009	4/2009	5/2009	9/2009	10/2009	11/2009
Unemployment rate	3.3	3.4	3.6	3.9	4.2	4.4	4.9	5.0	5.1

The corresponding average rate in the Euro area in November 2009 was 8.7%.

1.2.2 THE IMPACT OF THE CRISIS IS MORE PRONOUNCED IN SPECIFIC SECTORS

Five sectors of economic activity seem to have been affected comparatively heavily by the international recession (construction, trade, real estate and manufacturing, hotels /restaurants); but the effects of the crisis seem to be particularly pronounced in the construction industry, where there has been an increase in the number of unemployed of almost 2.000 persons between December 2008 and December 2009.

Unemployment according to economic activity (actual data)

	December 2008	March 2009	April 2009	May 2009	June 2009	July 2009	October 2009	November	December 2009
Manufacturing	1230	1.553	1.572	1.586	1.630	1.613	1.767	1.886	1.783
Construction	1272	2.376	2.506	2.574	2.579	2.636	2.945	3.157	3.136
Wholesale and retail trade	2232	2.812	2.819	2.809	2.964	3.069	3.259	3..575	3.248
Real Estate	937	1.189	1.180	1.124	1.238	1.256	1.430	1.671	1.576
Hotel and Restaurants	3.109	3.335	2.480	1.725	1.574	1.576	1.818	3.776	4.065

Source of figures: Statistical Service of Cyprus

The Case of the Construction Sector

The boom in construction activity during the last decade has had major effects on the growth rate of the Cypriot economy. Employment in this sector has not only been increasing steadily (and through it disposable income and GDP), but it has also had important inter-sectoral relationships with the domestic system of production⁷. As illustrated by the table below, there was a significant increase in employment in the construction sector of up to 9.450 employment positions (that is 35% approximately) during the period 1998-2007.

Construction and Housing Statistics (2007): Statistical Service of the Republic of Cyprus

Year	Number of employed
1992	26.019
1993	25.549
1994	25.428
1995	27.749
1996	27.441
1997	26.849
1998	26.165
1999	26.174
2000	26.160
2001	26.600
2002	27.314
2003	29.518
2004	31.140
2005	33.609
2006	34.058
2007	35.590

⁷ Cyprus Labour Institute, *Economy and Employment Report 2008*.

Various indicators appear to confirm a slowdown in construction activity (fewer building licences, a decline in the confidence index for the construction sector, etc.). According to the Statistical Service of Cyprus 3.697 building licenses were issued from January to May 2009, an increase of 5.0% compared to the corresponding period of the previous year. The total value of these building licences decreased by 1.1% and the total building area decreased by 9.5%. The number of dwelling units recorded a decrease of 10.1%. This development appears to have brought about a substantial increase in layoffs, mainly in small contracting companies. As an indication, the number of unemployed in the sector increased from 870 in October 2008 to 2.945 in October 2009.

1.2.3 THE PUBLIC DISCOURSE ON RESTRUCTURING

As mentioned earlier, the consequences of the international economic crisis in Cyprus have not accelerated the incidence of restructuring or collective redundancies. All public, employer and labour organisations interviewed in the context of the present review seemed to share the view that the consequences of the crisis, in relation to other countries, had been painless up until September⁸. In summary, various reasons seem to support this particular view:

- **First**, unemployment (generally in the construction sector, although also in tourism) seemed at first to have been mainly affecting foreign workers (either permanent or seasonal) in Cyprus, owing to shortages in the supply of labour. Therefore there had been no great concern over the sacking of domestic workers. It is worth mentioning that two of the Ministry of Labour's most important initial measures for dealing with the crisis and with unemployment were policies on employment of non-domestic workers. Specifically the Ministry is pushing for an evaluation and reassessment of the Foreign Workers Employment Strategy, the objective being that each relevant sector of economic activity should cover its human labour needs with indigenous workers. A second component of the policy on employment of foreign workers concerns a stepping-up of the campaign to combat undeclared employment of non-EU citizens in Cyprus.
- **Second**, according to members of labour organisations in the field, the most visible sign of the crisis in the construction market was the drastic reduction in overtime, which in the past would reach up to five hours a day owing to the rapid growth of the Cypriot construction industry in recent years. In other words, instead of layoffs the crisis led to a reduction in working hours which fell back to "normal" levels.
- **Third**, the relatively more positive forecasts on the Cypriot economy *vis-à-vis* those of other European countries, together with the quality of social dialogue in Cyprus, combined to sustain a climate of restrained optimism as to the ability to contain the consequences of the crisis for the labour market and the Cypriot economy in general.

⁸ These interviews were held during the month of July 2008.

1.3 Restructuring Frameworks

1.3.1 LEGAL FRAMEWORK AND SPECIAL FUNDS FOR REDUNDANT WORKERS

Grounds for Collective Dismissals

Legislation relates to collective dismissals on grounds not related to the individual workers concerned (breach of workplace rules, etc). Redundancies due to economic or technical reasons fall within the scope of the Collective Redundancies Law of 2001. Cases of voluntary termination of employment, or termination of employment as a result of the expiry of a fixed-term contract, are not considered redundancies.

Definition of Collective Dismissals

Minimum Size of Company Covered

The law does not apply to companies that employ twenty persons or less.

Minimum Redundancies Required

To fall within the scope of legislation, employers must plan to dismiss or make ten or more employees redundant within 30 days.

Variation with Enterprise Size

Employers must plan to make ten employees redundant in a total workforce of between 21 to 99 persons, 10% of the workforce redundant if between 100 to 299 workers are employed, and 30 employees redundant if 300 or more are employed.

Groups Excluded

Civil servants, workers employed by semi-private organisations, local authorities, legal entities covered by public law, seamen and workers on fixed-term contracts are excluded from the legislation.

Consultations with Employees

In Cyprus formal or informal consultation on planned restructuring is the result of the employer's obligation to inform and consult employees, under the provisions of different pieces of legislation. The most relevant legal framework refers to the following laws:

- *The Collective Dismissals Law* No. 28(1) was adopted in 2001 in order to bring Cypriot legislation into line with the Collective Dismissals Directive 98/59/EC.

- *The Termination of Employment Law, 1967 (TEL), amended in 2001.*
- *The Industrial Relations Code (IRC) was negotiated and signed by the Government, employers and trade unions in 1977. It is a purely voluntary agreement, and any adherence to it is dependent on the goodwill of the parties. Nevertheless, at least its procedural part is of considerable importance in practice.*
- *Laws 104(I)/2000 and 39(I)/2003, laws on safeguarding and protecting the employee's rights in the event of the transfer of undertakings, businesses or parts thereof.*
- *Law 78(I)/2005, a law on the adoption of a general framework to inform and consult the employees.*

Parties to Consult

Employers must consult with trade unions or employee representatives. This obligation is specified by the Collective Redundancies Law of 2001 and the Industrial Relations Code.

Minimum Period of Consultation

Workforce

The Collective Redundancies Law of 2001 does not specify a period of advanced notice concerning the workforce. Provision for information is made in the Industrial Relations Code. According to the IRC, employers should notify the trade unions of their intention to proceed to dismissals at least two months before the date of the redundancies.

Public Authorities

Legislation states that employers notify public authorities 'the soonest possible' on the following issues: a) reasons for the redundancies planned; b) number of employees to be made redundant (and, where possible, their occupation, names and responsibilities); c) number of persons normally employed; d) the period over which the redundancies will be effected. According to the legislation, the employer must forward a copy of the above notification to the employee's representatives.

Employees to be Made Redundant

The Termination of Employment Law of 1967 stipulates the minimum periods of notice to be given by employers depending on length of service: one week's notice for 26 to 51 weeks of service; two weeks' notice for 52 to 103 weeks of service; four weeks' notice for 104 to 155 weeks of service; five weeks' notice for 156 to 207 weeks of service; six weeks' notice for 208 to 259 weeks of service; seven weeks' notice for 260 to 311 weeks of service; and eight weeks' notice for more than 312 weeks of service.

Specific Issues to be Covered

Legislation specifies that as a minimum employers should consult on: a) avoiding collective dismissals or reducing the number of employees to be affected; and b) moderating the impact through social measures, such as the re-training of affected employees and their reintegration into the labour market.

Information to be Provided by Employer

According to the Collective Redundancies Law of 2001, the employer should supply the following information to the employee's representatives: a) the reasons for the planned redundancies; b) the number and categories of employees to be made redundant; c) the number and categories of employees normally employed; d) the period over which the redundancies are to take place; e) the criteria for the selection of the employees to be made redundant.

Compliance Arrangements

Legislation specifies various low-level fines on employers for failing to comply with legislation. According to the Collective Redundancies Law, any employer violating any provision of the Law in respect to information, consultation and notification is subject to a monetary penalty that may not exceed the amount of 1,708 Euros. If the collective redundancies are effected before the authorised period (collective redundancies take effect no earlier than 30 days from the date of the notification to the Ministry of Labour and Social Insurance), the employer is subject to a fine of up to 3,414 Euros. Employees or others can take legal action in court against employers who do not comply with legislation.

Redundancy Compensation

The employee's entitlement to compensation in accordance with the Termination of Employment Law remains unaffected by the provisions of the Collective Redundancies Law. Employees which have been working for the same employer for more than 104 weeks are entitled to payments from **the Redundancy Fund**. The amount of compensation depends on the duration of employment. Higher compensation can be (and often is) awarded under agreement between employer and employees.

The Industrial Relations Code

The Industrial Relations Code was the main provision for restructuring prior to the adoption of the EU Directive. According to the Code, "it is desirable that collective agreements should contain provisions on the issues of dismissals".

Protection of Employees in Case of Bankruptcy

The legislation for the Protection of Employees Rights in Case of Employer Insolvency covers workers against bankruptcies. In particular, all outstanding payments by employers to employees are safeguarded by a special fund established for this particular purpose. The fund is financed exclusively by employer contributions, 16.6% of the contributions being transferred into the Redundancy Fund, more specifically the **Fund for the Protection of Employees Rights in Case of Employer Insolvency**.

The employee is entitled to the following payments from the Fund:

- all unclaimed wages due from his/her employer for the last thirteen weeks of employment, occurring within a period of the last twenty-six weeks up until the date the employer's insolvency commenced;
- the equivalent of all unclaimed paid leave for the above thirteen weeks (in the event that the employer possesses a certificate of exemption from payment of contributions to the Central Holidays Fund); *and*
- the equivalent of the thirteenth and fourteenth salary, or the wages of the 53rd--56th weeks for the same period.

1.3.2 PARTIES INVOLVED IN RESTRUCTURING

The participation of parties in procedures for managing the effects of a restructuring fall into four areas:

- Consultation.
- Worker support.
- The creation of employment opportunities in areas affected by restructuring.
- Wider initiatives and proposals for the prevention of restructuring.

Parties Involved in Consultation Procedures

In Cyprus formal or informal consultation on planned restructuring is the result of the employer's obligation to inform and consult employees, essentially under the provisions of the *Law on Collective Dismissals 28(I)/2001*.

Consultations develop chiefly between trade unions and employers. The Ministry of Labour and Social Benefits is involved in the consultations in two ways. First, legislation states that employers must notify public authorities as soon as possible on the following issues: a) the reasons for the redundancies planned; b) the number of employees to be made redundant (and wherever possible, their occupation, names and responsibilities); c) the number of persons normally employed; and d) the period over which the redundancies will take place. Second, the Department of Labour Relations is responsible for mediating in labour disputes in cases where no settlement between workers and their employer is arrived at. Based on experience up until now, no other official bodies, for example public employment services, regional or local authorities, or labour consultants, take part in the proceedings.

Parties Providing Support for Workers

Specific Public Services for Restructuring Issues

Due to the limited magnitude, incidence and spatial concentration of restructuring in Cyprus as well as the situation of almost full employment prevalent in the Cyprus Labour Market during the

past decade, there are no specific structures in place for the support of workers who lose their jobs as a result of restructuring, whether in the form of supportive measures to find alternative employment, or in means of managing their redundancy. In other words workers who lose their job because of restructuring fall under the same schemes as people who lose their jobs on an individual basis (Public Employment Service).

Trade Unions

Trade unions actively support employees losing their jobs. For example, the Cyprus Workers' Confederation (SEK) and the Pancyprian Federation of Labour (PEO) maintain several job-seeking offices. As in the case of the Public Employment Service, these job centres do not exclusively aim at assisting workers who have been victims of mass layoffs.

Employers / Businesses

Only in some cases do employers provide assistance to workers for finding new jobs. A rather recent and characteristic example is that of British American Tobacco. On its decision to terminate its production line in Cyprus, the company has provided free individual and training services to redundant workers, as well as job interviews with other employers.

Parties Involved in Measures for Attracting New Employment

Measures aimed at expanding employment opportunities or attracting new jobs at regional or local level are very rare, chiefly due to the limited magnitude, incidence and spatial concentration of restructuring in Cyprus. It is worth remembering that during the past decade the Cyprus Labour Market had been characterised by conditions of almost full employment (high employment and job creation, low unemployment, labour shortages).

Parties Involved in Anticipating Restructuring

Various parties occasionally take initiatives with the aim of preventing restructuring. The loans guaranteed by government and granted to two semi-private Cypriot businesses facing serious economic difficulties (Cyprus Airways, Kofinou Slaughterhouse) contributed in a decisive way to saving hundreds of jobs. The Human Resource Authority's new recruitment programmes aim at preventing layoffs in the depths of the international economic crisis. With the reliability of the Cypriot system of social dialogue to back them, trade unions as well as employer organisations and companies are working together to find ways of avoiding mass layoffs in Cyprus.

Parties' Degree of Involvement in the Various Activities of the Restructuring Process

	Businesses	Trade Unions	Public Authorities
Consultation	++++	+ +++	++
Worker Support	++	++	++
Attracting new employment	-	-	+
Anticipating restructuring	+	+	++

2.1 Measures and Tools for Anticipating Restructuring

2.1.1 RECENT INITIATIVES AND PROPOSALS FOR DEALING WITH THE CRISIS AND RESTRUCTURING

New Initiatives of the Ministry of Labour for Anticipating Restructuring

At first, policies aimed at countering the effects of the crisis on employment in Cyprus consisted of four basic initiatives⁹:

- Intensified efforts by the Public Employment Services to find job placements for the unemployed.
- Evaluation and reassessment of employment policies regarding non-EU citizens.
- Intensified campaigning to combat undeclared employment.
- Plans for the further education and training of the unemployed.

In the context of this final initiative, the Human Resource Development Authority, under the Ministry of Labour and Social Insurance, drafted a *Special Action Plan* with the aim of warding off unemployment.

The *Single-enterprise Initial and Continuous Vocational Training Programme* (one of the four programmes in the aforementioned plan), is targeted on businesses in Cyprus, regardless of their field of economic activity. This specific plan seeks, among other things, to preserve jobs in businesses that are facing economic difficulties due to the crisis, by covering a substantial part of the expense of training their staff.

It should also be pointed out that at the present stage the Labour Department of the Ministry of Labour and Social Insurance is increasingly alert to the need to prevent job losses. Specifically, according to senior staff at the Ministry, whenever cases that may lead to employee dismissals are detected, the department immediately provides the enterprise owners with information on available options to save employment positions, such as offering their employees the chance to join the aforementioned training programme (i.e. Single-enterprise Vocational Training).

Following this first package of measures, the Ministry of Labour and Social Insurance proposed two new plans aimed at addressing the rise of unemployment recorded over the last four months:

- The “Emergency Plan for the Hiring of Unemployed” aims to provide support to businesses hiring unemployed persons. The budget for this project is € 6 million and provides financial assistance amounting to 30% of wages.
- The second plan, which is still being developed, aims to provide support to enterprises facing financial difficulties with the aim of avoiding redundancies.

⁹ It should be noted that there have been no changes in the terms of entitlement to benefits or to their extent and duration.

Employer Organisation's Proposals for Avoiding Redundancies

The Cyprus Employers and Industrialists Federation (OEB) presented a set of proposals on 18 May 2009 aimed at supporting employment for the duration of the crisis, in the event of the rate of unemployment exceeding 5.5%. The proposals focus on bringing labour unions to committing themselves not to claim any pay rises for the next two years and on committing businesses not to increase prices of their goods and services.

Moreover, OEB suggested using the reserves of the Redundancy Fund to cover employer contributions, on condition that jobless individuals are hired within the first two or three months from the day they became unemployed.

It is worth noting that both this fund and the Redundancy Fund have accumulated large sums, given that compensatory payments due to redundancies or bankruptcy cases have been relatively limited in Cyprus. The Cyprus Chamber of Commerce and Industry (CCCI) and the OEB have proposed taking advantage of the reserves of both funds to face the crisis. According to estimates, the reserves of both funds combined total approximately €300 million (the reserves of the Redundancy Fund amounted to €202.3 million on 31.12.2007). Moreover, the reserves of the Insolvency Fund are estimated at approximately €100 million, a major sum by Cypriot standards.

Trade union proposals

Both the Pancyprian Federation of Labour (PEO) and the Cyprus Worker's Confederation (SEK) have submitted several proposals for tackling the impact of the recession on the economy and the labour market

PEO's proposals for the labour market

The Pancyprian Federation of Labour has presented a number of proposals for limiting the increase of unemployment:

- Provision of financial support to businesses which hire unemployed people.
- Subsidising wages in the tourist industry in order to expand their activities throughout the year and address the problem of seasonality.
- Funding of training programmes for workers who would otherwise be laid off by companies facing serious problems.
- Incentive programmes to promote self-employment.
- Subsidising jobs in enterprises to recruit young scientists.
- Study and adoption of legislative or other measures to prevent redundancies on the basis of proposals for modernising the Law on Termination of Employment.
- Promotion of social support for unemployed people and especially for those who remain unemployed for more than six months.
- Provision of incentives inclusion of long-term unemployed aged over 50 in the labour force, through special programmes in social services, the public sector or municipalities.
- Further upgrading of the Public Employment Service (PES) with an emphasis on a personalised approach.

- Measures to combat illegal and undeclared employment.

SEK's proposals for minimising the impact of the crisis

The Cyprus Workers Confederation has also submitted proposals to minimise the impact of the crisis on the economy and jobs:

- Speeding up policies to increase productivity.
- A comprehensive policy to combat fiscal fraud.
- Increased government revenue through the securitisation of real estate.
- Rational management of public resources.
- Acceleration of development projects to minimise unemployment and its social and economic costs.

2.1.2 MEASURES AND TOOLS USED IN THE PAST TO PREVENT RESTRUCTURING

State Guarantees for Loans Granted to Businesses in Trouble

In recent years there have been two restructuring cases in which the government guaranteed a loan so that the companies concerned could meet their short-term financial obligations and maintain jobs. The two companies, Cyprus Airways and the Central Slaughterhouse of Kofinou (both companies belonging to the semi-government sector of Cyprus) faced serious financial problems after Cyprus' entry into the European Union¹⁰.

Other Measures and Prevention Tools Used in Recent Cases of Restructuring

After examining the experiences of the last few years, two more cases stand out where measures were taken to prevent mass layoffs and restructuring:

- A reduction in working hours in the industrial sector (in response to reduced demand from export markets).
- The utilisation of the labour relations system to prevent mass layoffs (Arab Bank, Cyprus Airways).

In view of their exceptional nature, these measures will be examined in more detail in the third chapter of this report.

Managing Seasonal Work in the Tourist Sector

Owing to the seasonal nature of tourism, legal measures exist in the tourist sector that provide partial unemployment benefits to employees who have been given temporary leave. This

¹⁰ The cases concerning these two businesses are examined in more detail in Chapter 3.

measure, known as 'suspended employment', is based on an agreement between the Ministry of Labour and Social Insurance, the employers' organisations and the unions. It aims at preserving the bond between employers and employees over the winter (from 1 November until 31 March). The 'suspended employment' measure has been in use for at least 25 years in the tourist industry. According to the Union of Hotel and Recreational Establishment Employees of Cyprus (SYXKA-PEO), which is affiliated to the Pancyprian Federation of Labour (PEO), changes to the current system are being considered to provide incentives to employers in the tourist sector to keep seasonal employees on their books.

Recent measures to promote training

The recent “Emergency Plan for the Training of Unemployed in Business” - which is based on a partnership of the Department of Labour of the Ministry of Labour and Social Insurance, the Human Resources Development Authority, the Cyprus Productivity Centre and the Higher Hotel Institute of Cyprus (HHIC) - aims at including unemployed persons in “in-house” training programmes (including the unemployed in the tourist industry during the winter months). This project is one of the five plans of the *Special Action Plan* implemented by the Human Resource Development Authority with the aim of warding off unemployment.

2.1.3 MEASURES AND STRATEGIES AIMED AT COPING WITH SKILLS GAPS, EDUCATIONAL AND VOCATIONAL TRAINING AND DEVELOPMENT OF HUMAN RESOURCES

The table below presents some of the most important measures related to improving workforce performance in Cypriot businesses.

Measures for the Development of Human Resources

Measure	Implementing authority	Description
Transition from low productivity to high productivity work positions	Cyprus Productivity Centre	Provided for the enterprise training scheme with the aim of replacing low productivity work positions with high productivity work positions.
Incentives plan for implementing mechanisms of lifelong learning and improvement	Cyprus Productivity Centre	Provided to help businesses adopt mechanisms of lifelong learning and improvement as well as aid in diffusion of accumulated knowledge and experience.
Single-enterprise Continuous Vocational Training	Human Resources Development Authority	The programmes are directed to employers (businesses/organisations) active in all sectors of the economy and interested in training for their staff. They are also available to businesses facing difficulties in keeping their employees fully employed and occupied.

It should be underlined that the Cypriot economy is experiencing a serious deficit in production. As an indication, between 2002 and 2007 the annual growth rate in work productivity was just 0.3% compared to an average rate of 1.4% in the EU-27. In 2007 the level of work productivity

in Cyprus (GNP per employee) was 78% of the average rate in the EU-15¹¹. This sluggish increase not only inhibits actual convergence with average EU-15 rates of development but at the same time threatens the future levels of competitiveness of Cypriot enterprises. Seen from this perspective - and as long as the accumulated experience of restructuring in the clothing sector during the 1990s is taken into account - active promotion of productivity will most likely play a decisive role in the prevention of any mass layoffs in the future.

2.2 Measures and Tools for Managing Restructuring

2.2.1 MEASURES FOR MANAGING RESTRUCTURING IN CYPRUS

A relatively wide variety of ways of managing mass layoffs comes to light after an examination of restructuring operations in Cyprus over the past few years. Specifically, the following cases are noteworthy:

- Business measures for training employees and promoting them to new employment positions (BAT).
- Guaranteed loans to semi-private sector businesses experiencing difficulties (Cyprus Airways, Kofinou Slaughterhouse).
- Use of social dialogue to find satisfactory solutions for workers (Cyprus Airways / Swissport).
- Agreement on measures for early retirement (Ports of Limassol and Larnaka).
- Operation of employment offices by labour organisations (PEO).
- Social dialogue as a means of securing payment of higher levels of compensation than those provided for by the law, with collective agreements either providing this option (as in the construction sector) or not making such provision (industrial sector, tourist industry, BAT).

It should also be noted that both the **Redundancy Fund** and the **Fund for the Protection of Employees Rights in Case of Employer Insolvency** are two permanent mechanisms with a significant role in managing the impact of restructuring.

2.2.2 PROPOSALS BY EMPLOYER ORGANISATIONS FOR MANAGING REDUNDANCIES

In addition to the proposals aimed at anticipating restructuring, the Cyprus Employers and Industrialists Federation (OEB) has offered three suggestions for helping reduce unemployment:

¹¹ Cyprus Labour Institute, *Economy and Employment Report 2008*.

- Using the reserves of the Redundancy Fund to cover employer contributions, on condition that jobless individuals are hired within the first two or three months from the day they became unemployed.
- Distributing benefit payments to unemployed individuals joining the Human Resource Development Authority's vocational training programme, the benefit being equivalent to 75% of their previous earnings.
- Announcing the establishment of a State prize for corporate social responsibility based on the hiring of unemployed individuals.

2.2.3 TERRITORIAL STRATEGIES AND PLANNING FOR ECONOMIC DEVELOPMENT AND REVITALIZATION

Given the limited magnitude, incidence and spatial concentration of restructuring in Cyprus as well as the situation of almost full employment prevalent in the Cypriot labour market during the past decade, measures aimed at expanding employment opportunities or attracting new jobs at regional or local levels are quite limited. Job creation schemes in regional development strategies are primarily aimed at rural areas. Public authorities strive to foster job creation, mainly through enhancing the competitiveness of local enterprises and improving the attractiveness of rural areas. In the 2007-2013 Strategic Development Plan of the Planning Bureau of the Republic of Cyprus, the following measures aimed at promoting rural areas as business locations are mentioned¹²:

- Creating new economic activities and employment opportunities for the entire population.
- Further promotion of tourism in rural areas.
- Creating a business infrastructure.

2.2.4 THE CYPRIOT SYSTEM OF BIPARTITE SOCIAL DIALOGUE: A FUNDAMENTAL RESOURCE FOR MANAGING RESTRUCTURING

The Efficiency of the Cypriot System of Social Dialogue

After examining cases of restructuring in recent years, it is clear that *bipartite social dialogue* is an extremely valuable approach to the management of restructuring in Cyprus. This conclusion is based on two points:

- first, most negotiations were carried out in an amicable environment without any labour disputes;
- second, workers received larger compensation sums than was provided by law in all restructuring cases.

¹² However, it should be noted that these initiatives are barely linked to restructuring issues.

The extreme importance of social dialogue in Cyprus, not only as a means of securing long-term industrial peace, but also as a regular way of approaching a broad range of issues relating to economic and social policy, is a well-documented fact¹³. As Soumeli (2006) points out, “according to both employers’ organisations and trade unions, the experience gained from participating in the various Tripartite Bodies, the Economic Advisory Committee and the Industrial Advisory Board in particular, has been extremely positive because there is a real possibility of dialogue with a view to achieving consensus, whereas as a rule, government’s commitment is achieved through unanimous decisions”. Overall, the smooth functioning of social dialogue in Cyprus owes much to the following factors (Constantinou, 2005):

1. the will for dialogue by the social partners or the parties involved;
2. strong, representative and independent worker and employer organisation, governed internally by discipline and democracy;
3. knowledge of the subject under discussion, adequate for effective participation in decision-making, as well as a positive attitude to consultation and cooperation;
4. a climate of mutual trust, respect and understanding between the social partners or the parties involved.

The Importance of Social Dialogue for Managing Cases of Restructuring

The unique characteristics of the collective bargaining system in the process of reaching collective agreements become very important when focusing on the contribution of social dialogue to the management of restructuring, for three main reasons:

- First, because of the decentralised structure of collective bargaining in Cyprus, many of the Collective Labour Agreements are concluded at enterprise level. According to Soumeli (2006), more than 450 collective enterprise agreements were in force in 2006 (mainly in the manufacturing, wholesale and tertiary sectors).
- Second, all issues arising from collective agreements at enterprise level are resolved at the direct negotiation stage since employers do not wish to enter into lengthy procedures.
- Third and most important, as again pointed out by Soumeli (2006), negotiations in private enterprises are more easily concluded when trade union and employers’ organisations maintain closer and more harmonious relations.

As with collective agreements, all the above factors seem - in the light of experience up until now - to have contributed substantially to the smooth conduct of restructuring negotiations.

¹³ For example, see: Soumeli, E. (2006), *Capacity building for social dialogue in Cyprus*, European Foundation for the Improvement of Living and Working Conditions.

3.1 Active Measures



3.1.1

Reduction in Working Hours Due to Reduction in Export Market Demand (*Muskita and Alco*)

Following a proposal by the management, some of the 250 workers at the manufacturing branch of the Muskita Aluminium Industries worked 2-3 weeks less in total over a period of six months (until August). The decision was taken in response to decreased demand in the United Kingdom, the company's primary export destination.

Similarly, workers at the Alco automobile filter industry worked four days a week from March until 31 June 2009. The decision was taken, as in the case of Muskita, because of decreased demand from the United Kingdom. Trade unions accepted the decision on two grounds: first, the workforce at the plant is made up of highly-skilled female employees, a fact that makes it particularly difficult to place them in corresponding work positions in other factories in Cyprus; and second, at the request of labour representatives, the management agreed to continue paying the workers' social contributions (social insurance and benefits fund) based on the usual five-day working week.

In both of these examples in the industrial sector, workers have experienced a reduction in salary but not in social benefits. The reduction has been proportional to the reduction in the hours of work. Based on the examples to hand up until now, these reductions, given their relatively small scale and duration, do not cause any significant changes in the total income of employees.

In both of the aforementioned industrial plants, the agreement on the reduction of working hours was not incorporated into each company's collective agreement owing to the temporary nature of the specific measure. There was however, a written and clearly defined agreement. It is worth mentioning that when this measure was completed, normal working time again applied to all workers.



3.1.2

Utilisation of Social Dialogue to Prevent Mass Layoffs (*Arab Bank*)

In a letter addressed to the Minister of Labour and Social Insurance in September 2005, Arab Bank announced the termination of its business activities in Cyprus. Specifically, Arab Bank announced that it would cease operations in Cyprus and dismiss its 176 employees. The letter from Arab Bank officially rejected the Ministry of Labour's mediation proposal submitted on 2 September 2005 in respect of efforts to resolve a labour dispute between the Bank and the Cyprus Union of Bank Employees (ETYK).

It should be noted that this labour dispute arose in the context of the restructuring process begun by the Bank in December 2004, which was aimed at reducing labour costs. According to

its former country manager, wages made up 75% of the total operating costs of Arab Bank, which had been operating in Cyprus since 1984. In order to remain competitive and retain part of its business in Cyprus, the bank decided to cut back on labour-intensive services by dismissing a total of 68 employees.

A dispute between the bank and ETYK followed, mainly on the issue of the amount of severance pay due to the employees. The direct intervention of the Cyprus Central Bank contributed decisively to continuation of the negotiations, which had reached an impasse. After almost two months of difficult negotiations, Arab Bank and the Cyprus Union of Bank Employees (ETYK) managed to reach an agreement, Arab Bank rescinding its decision to cease operations in Cyprus and dismiss its 176 employees. According to the content of the new agreement, the bank decided to reduce the number of dismissals from 68 employees to 60.

As far as severance pay was concerned (the main cause of dispute between the bank and ETYK), the bank agreed to pay compensation totalling about CYP 2.5 million, representing eight weeks of pay for each year of service of the 60 dismissed employees, over and above the compensation from the Redundancy Fund and based on the procedures provided for collective dismissals.

The bank also accepted the terms of a minimum compensation sum of CYP 15.000. Although the content of the new agreement differed from ETYK's initial demands, failure to achieve agreement would have had extremely negative results on employment.

As part of its expansion in the Cypriot market, Piraeus Bank has recently acquired Arab Bank (winter of 2007). The acquisition marks Piraeus Bank's integration into a growing business in Cyprus, and at the same time puts an end to the climate of uncertainty caused by fears that Arab Bank would, some day or other, cease doing business in Cyprus altogether.



3.1.3

Utilisation of Mediating Bodies for Reaching Mutually Acceptable Solutions for Both Company and Employee (*Cyprus Airways' Ground Handling Services*)

In September 2007 the management of the national airline, Cyprus Airways, decided to assign its Ground Handling Services to a joint venture with the Swiss company Swissport (with Cyprus Airways holding a 25% share in the joint venture). The decision (part of a wider range of measures for restructuring the company) was taken without any prior consultation with employee representatives. It was met with the outright opposition of labour unions, which deemed that the decision was a unilateral breach of earlier agreements in the context of the company's restructuring scheme. These agreements had specifically ruled out transferring any services to the private sector or any further reductions in the number of employees. Two trade unions, SYNIKA - SEK and SIDIKEK - PEO, declared the status of Cyprus Airways staff (specifically the 140 in the departments affected) as non-negotiable, at the same time announcing a series of strikes. In April 2008 Cyprus Airways and labour union executives signed an agreement after a mediation proposal was put forward by the Labour Relations Department of the Ministry of Labour and Social Benefits. Under that agreement the 140 employees were given the opportunity of choosing one of three options:

- To leave employment voluntarily and receive increased severance pay. A total of 41 employees took this option (the estimated amount of severance pay for all the employees was € 4 million).
- To work for Swissport under the same terms and conditions of employment while maintaining the right to leave up until 1 November 2008.
- To work temporarily for Swissport and reserve the right to return to Cyprus Airways after a period of three years.

Overall, compensation was to be given to all employees affected by the joint venture, regardless of their choice. According to trade union officials, the deal was the best possible, as it satisfied the basic demand of the workers, namely to have the widest range of choice. It should be noted that this particular agreement, which was based on the proposals of the Ministry of Labour's mediating service, could not have been achieved without the Ministry of Finance's significant contribution in taking on the financing of payments due to workers who decided to leave the company. The Ministry's decision to assist rested on the fact that, given Cyprus' great dependence on tourism, everything should be done to avoid strike action in any of the country's airports.



3.1.4

Government Guarantees on Loans Granted to Businesses Facing Problems (*Central Slaughterhouse in Kofinou*)

The Central Slaughterhouse in Kofinou, the biggest in Cyprus, is facing a range of severe financial problems following its inability to pay off a debt estimated at around € 16 million. A substantial part of this debt initially arose from borrowing with a view to modernising the slaughterhouse's premises. This investment was deemed necessary for the organisation to comply with the operating specifications set by the European Union. It was calculated that, thanks to internationalisation and expansion of the slaughterhouse's business, the debt would eventually be paid off.

However, liberalisation of the market, which permitted the operation of private slaughterhouses, has brought serious competitive pressures to bear on this semi-private organisation. Management and workers of the municipal slaughterhouse have accused private enterprises of having serious competitive advantage over them, since they employ foreign workers who do not come under the provisions of the collective agreement. It is believed that this fact, which translates into a loss of competitiveness, has played a decisive role in the overall worsening of the slaughterhouse's financial situation and its inability to pay back its initial debt. These developments have raised serious concerns over the future of all 120 slaughterhouse workers. The fact that management was unable to pay workers their wages during the month of December 2008 is indicative of the situation. Government, management and workers are examining various solutions with a view to boosting the competitiveness of the enterprise, adapting it to the conditions of strong competition now prevalent in the market, and safeguarding the 120 jobs. It is worth noting that, according to the participants in these talks, no question of privatising the slaughterhouse has arisen. The Ministry of Interior has drawn up a rescue plan for the Slaughterhouse of Kofinou. The plan seeks to provide government guarantees on a loan of € 1.6 million so that the slaughterhouse can meet its current financial obligations. In addition the Ministry of Interior has assigned to consultants the development of a restructuring plan aimed at transforming the slaughterhouse into a financially viable business. This plan has been submitted for approval to the European Commission.



3.1.5

Employment Offices Operated by Labour Unions (*Pancyprian Federation of Labour & Cyprus Workers' Confederation*)

Over the years, labour unions have taken significant initiatives to combat unemployment and collective redundancies. For example the Pancyprian Federation of Labour (PEO) and the Cyprus Workers' Confederation (SEK) maintain job-seeking offices; and PEO's office managed in 2008 to find jobs for about 30 unemployed individuals per month (on average). Trade unionists report to the office on workplace vacancies that come to their notice. The office then undertakes to send 5-6 candidates for interviews with the employer. SEK's district job-seeking offices function in a roughly similar way. Also noteworthy is the initiative taken by the Cyprus Building, Wood, Mine and General Workers Trade Union (affiliated to PEO) for the reduction of unemployment. The union maintains an employment office which finds jobs for the unemployed, and the office's activities are based on daily contacts between unionists and employers. In response to the crisis, the office's services have recently been upgraded. It is worth remembering that workers' unions played a defining role in finding employment positions for those who lost their jobs during the 1990s in the mass layoffs that took place at that time in the clothing and footwear industries. A third job-seeking office run by a labour union is also in operation at the PEO: that of the Civil Servants, which is geared to hiring construction workers for public works.

3.2 Passive Measures



3.2.1

Negotiation and Implementation of Early Retirement Measures (*Ports of Limassol and Larnaka*)

On June 2008 the Port Councils of Limassol and Larnaka announced the implementation of a voluntary early retirement plan that could result in the loss of 133 jobs for dockworkers. The decision is aimed at reducing operating costs and increasing the ports' competitiveness by hiring 155 younger dockworkers. The new dockworkers will earn approximately 60% less than their older fellow workers. The annual earnings of the newly-hired workers are estimated to range between € 34,000 and € 40,000 (compared to approximately € 100,000 for current dockworkers). The cost of the older dockworkers' compensation will be borne by the Cyprus Shipping Association and has been estimated at around € 43,000 per year for each worker; it will be paid out annually up to the year of retirement. The average age of workers taking up voluntary retirement is 61. The bill, which is the result of long-lasting negotiations between trade unions, maritime agencies and the Ministry of Communications and Works, has been approved by the House of Representatives (the Cyprus Parliament). The bill defines how funds will be raised and used in order to finance the voluntary retirement scheme.



3.2.2

Combining Anticipating and Managing Measures in Major Restructuring Plans (*Cyprus Airways*)

The restructuring of Cyprus Airways was accompanied by the largest case of collective redundancies ever to have occurred in the Republic of Cyprus during the last decade. This specific case was special because it combined measures which both anticipated as well as managed the restructuring. Because of this, the Cyprus Airways case calls for greater examination in comparison with other instances of restructuring.

The Most Important Restructuring Cases of the Last Decade

The Cypriot State owns 69.62% of the share capital of Cyprus Airways. The company is listed on the Cyprus Stock Exchange. The company was restructured after it developed severe financial problems that became evident following the liberalisation of air transport, the abolition of State aid and the loss of revenues from Duty Free shops.

For example, Cyprus Airways suffered losses of around € 45 million and € 25 million in 2004 and 2005 respectively. A result of the restructuring of Cyprus Airways to date is that around 573 workers have become redundant. From this point of view Cyprus Airways constitutes the country's most important case of restructuring in recent years.

The restructuring process was carried out in two stages. First, a rescue plan for the company was implemented, the objective being approval of a € 51 million loan for the purpose of meeting its short-term obligations. In the second stage, management at Cyprus Airways committed itself to drawing up a restructuring plan within a specific deadline, aimed at ensuring the company's long-term viability.

The case of Cyprus Airways has a number of features in common with other recent cases of restructuring in Cyprus, such as payment of additional compensation (beyond that provided for by law) to redundant workers; efforts by public authorities to rescue enterprises experiencing difficulties (e.g Central Slaughterhouse of Kofinou); and the absence of a specific plan at company level to support redundant workers and help them find new jobs.

Parties Involved in the Restructuring

The following parties were involved in the broader procedures leading to the creation of the restructuring plan for Cyprus Airways:

- A joint ministerial committee made up of the Ministry of Commerce, Industry and Tourism, the Ministry of Communications and Works, the Ministry of Employment and the Ministry of Finance.
- The management of Cyprus Airways.
- The trade union organisations representing Cyprus airways employees (SYNIKA, SIDIKEK, SYPKA, ASYSEKA, PASYPI).

It is important to note that the European Commission was indirectly involved in the progress of the consultations, setting conditions for the approval of the rescue plan as well as the restructuring plan for the company at a later stage.

Consultation with Trade Unions

The restructuring of Cyprus Airways was divided into two main stages:

- Initially the company created a short-term plan known as the “rescue plan,” which was approved by the European Commission in May 2005. The contents of the rescue plan were announced for the first time in August 2004. This plan provided *inter alia* for the dismissal of 172 workers. However, the management never reached agreement with the union organisations, necessitating mediation by the Ministry of Labour. The proposal by the Ministry of Labour was announced on 28 November 2004. The new plan provided for more modest changes and the redundancy of 120 workers.
- Next, Cyprus Airways went ahead to draw up the restructuring plan for the company, which it presented for the first time in September 2005; this plan was submitted to the European Commission for approval in January 2006, and the Commission approved the plan in March 2007. This plan provided for the redundancy of another 388 employees of Cyprus Airways.

The employees’ trade union organisations were not involved in designing either the rescue plan or the restructuring plan. The union organisations were invited to hold discussions with management on the basis of plans that had already been worked out.

In the case of the rescue plan, the bargaining deadlock led the Ministry of Employment to mediate. The Ministry’s mediation committee submitted a conciliation proposal that was accepted by only three of the five unions. Despite the rejection of the plan by two union organisations, it was implemented and sent for approval to the European Commission (the Commission authorities had set approval of the rescue plan as a basic condition for the approval of a € 51 million loan to Cyprus Airways to be guaranteed by the Cypriot State). Management at Cyprus Airways then had six months to draw up a restructuring plan that would ensure the long-term viability of the company (and be acceptable to the unions).

The resulting plan was announced in late September. The unions complained about the delay in announcing the plan as well as their exclusion from the procedures for drawing it up. Overall it appears that the short deadlines set by the European Commission, on the one hand, and the worsening financial situation of Cyprus Airways on the other, appear to have prevented long-term consultations in which the unions would have been more involved.

Consultations with the unions on the restructuring plan lasted around three months (from late September 2005 until early January 2006). The consultations helped the employees and unions understand that it was necessary to create a drastic restructuring plan in response to the serious financial problems plaguing the company as a result of market liberalisation. In this way the consultation process with the employees contributed to the unions’ acceptance of the restructuring plan, and therefore to the rescue of the company and of a substantial number of jobs.

The following issues were discussed in the context of the rescue and restructuring plan for Cyprus Airways:

- Which international destinations would be retained and which would not (abolition of loss-making routes, less frequent flights to other destinations).
- Issues relating to a decrease in the company’s total employment costs (staff wages, benefits, and terms and conditions of employment).
- Number of redundant staff, terms and conditions of departure, and amount of severance pay.

Major Voluntary Exit Plan (Measures to Manage Changes)

The departure of the workers was carried out on the basis of a voluntary exit plan. The number of workers who became redundant on the basis of the restructuring plan is estimated at 388. This number was the result of a compromise between the requirements of the European Commission for a “drastic” reduction in the number of employees on the one hand, and the desire of the unions to save employees’ jobs, wherever possible, on the other. The workers who opted for redundancy received additional compensation over and above that provided for by law. The maximum amount of compensation paid to Cyprus Airways employees was equivalent to two years’ wages, the amount actually paid varying according to factors such as total time employed and wage scale. The company and the Ministry of Finance financed the payments.

State Guarantees Loan (Measures Anticipating Change)

The State guaranteed a loan of € 51 million which was offered to Cyprus Airways to enable the company to meet its short-term financial obligations (and remain viable). The European Commission’s condition for approving this loan was the design, within six months, of a restructuring plan that would ensure the company’s long-term viability. It is important to note that the Commission’s approval of the loan had much to do with social criteria (Cyprus Airways is one of the most important employers in Cyprus). The loan allowed Cyprus Airways to avoid the danger of bankruptcy. In conjunction with the restructuring plan, the loan helped the company survive in the new competitive environment and also helped save over a thousand jobs. It should be noted that the public authorities seem to have followed roughly the same procedure as that relating to the Kofinou Slaughterhouse.

Problems and Complaints about the Consultation Process

The trade union organisations complained of a lack of information from management (in particular with regard to the company’s restructuring plan). The information provided to the unions was judged to be insufficient. The unions asked to be given the studies drawn up by outside consultants. Consultations with the workers appear to have met with two difficulties. First, the negotiations were carried out at a time when the “rules of the game” in the Cypriot air transport market (market liberalisation, abolition of State aid, etc.) were changing. It is believed that this to some degree destabilised the foundations on which management and the trade union organisations had based their discussions in the past. Second, the company’s worsening financial situation, the real danger of bankruptcy, and the strict schedules and requirements of the European Commission, all combined to accelerate the bargaining process while at the same time decreasing redundant workers’ chances of finding jobs in other departments of subsidiaries of the group. Overall the company’s restructuring process has helped Cyprus’s national air carrier to adapt to and survive in the new competitive environment that emerged following Cyprus’s entry into the European Union. This specific event in its turn helped ensure, on the basis of certain measures included in the restructuring plan, more favourable conditions for the departure of employees now being made redundant, as in the recent case of 140 Cyprus Airways Ground Handling Services employees.

Specific Support for Redundant Workers (Measures to Create Jobs)

No explicit efforts have been made in the case of the company’s rescue plan and the company’s main restructuring plan to find redundant staff new jobs in other parts of the organisation or group. The reason lies in the fact that the company had been employing too many people. The only objective of the plan, as regards employment, was to reduce labour costs, either via re-negotiation

of the terms and conditions of employment and employees' wages, or via the redundancy of a substantial part of the total workforce (voluntary exit plan). On the other hand, because of the low frequency and extent of restructurings in Cyprus, there are no specialised structures or services to support workers who become victims of collective dismissals. It seems moreover that there have been no specific attempts to monitor the effects of the restructuring at Cyprus Airways, despite the fact that the extent of the plan was unprecedented by Cypriot labour market standards.



3.2.3

Utilisation of Social Dialogue to Ensure Higher Compensations than Those Provided For by Law (*British American Tobacco, Vassiliko Cement Works*)

Payment of additional compensation to redundant workers beyond that provided for by law is a common feature of restructuring cases in Cyprus. Collective agreements often provide for this option (construction, forestry), although in some cases they do not (industrial sector). On the whole, quite a few companies paid out higher sums in compensation than that provided for by law, examples being Cyprus Airways, British American Tobacco and the Vassiliko Cement Works.

These restructuring cases seem to confirm, generally speaking, the safeguarding of favourable terms for redundant staff working in branches and business where the density of trade union representation is high. In the construction sector the collective agreements of certain companies provide for the payment of higher compensation. A characteristic example is that of Cyprus Forest Industries Ltd. Similar provisions also exist in the collective agreements of large companies in the mining or cement industries. A common characteristic found in all the foregoing companies is their high labour union membership. In the industrial sector collective agreements do not provide for higher compensation than that provided for by law. Nevertheless, after negotiations between labour unions and employers, the sums paid out in cases of dismissal are usually higher. The same applies to the tourist sector. Nevertheless, union representatives of the sector have noted an unwillingness on the part of employers to pay out extra compensation in recent cases of dismissal, foreshadowing a possible change in the attitude of some employers during the current crisis.

Cement Factories Agreement Memorandum

After lengthy procedures, the Cyprus Competition Committee approved the proposal for a merger of the Cement Works of Vassiliko and Moni. The Vassiliko Cement Works would proceed with the construction of a modern production unit in Vassiliko, take over the management of cement production of Moni, and acquire a number of its subsidiary companies in the building sector. For the future the agreement states that cement production at Moni would be terminated or significantly reduced.

The option to merge led trade unions PEO and SEK to sign a Memorandum of Agreement with the management of the Cement Plant of Vassiliko regarding compensation for workers who would be laid off. This agreement underlined:

- The commitment to try and minimise the number of workers being laid off.

- Consultation procedures regarding the number of people who will be affected by the merger, based on collective agreements.
- Observance of legislation regarding collective redundancies and termination of employment.

The favourable terms and conditions included in the Memorandum will possibly lead, based on initial estimates, to dozens of workers leaving the factory.

The Case of British American Tobacco

Combining Active and Passive Measures during Restructuring

The case of BAT is particularly interesting in that this multinational company has put into effect a multi-faceted restructuring scheme that combines both active and passive measures. As far as the active measures are concerned, the company – on its own initiative – decided to create a mechanism to enable it to monitor and assist employees until they are reintegrated into the labour market. At the same time the company has paid out a significant amount of compensation to any worker made redundant.

Stylised Facts

British American Tobacco decided to terminate operations in Cyprus, leaving 89 employees redundant by the end of March 2006. On March 2006 production of cigarettes ceased at the British American Tobacco (BAT) factory in Cyprus, following a decision to transfer all production to other BAT factories in the EU during the early months of 2006.

Although the loss of jobs was substantial, especially for a country as small as Cyprus, there was no strong opposition from the employees. On the contrary the negotiations between company management and the employees' representatives were carried out in a climate of cooperation, and the content of the agreement concluded on 8 December 2005 was considered particularly satisfactory. The agreement on the employees' terms of exit signed by company management and representatives of the Pancyprian Federation of Labour (PEO) and the Cyprus Workers' Confederation (SEK) provided for the following:

- Apart from the provisions of legislation on termination of employment, BAT granted to everyone affected by the redundancies an *ex gratia* payment equal to two months' pay for each year of service. In addition the company granted to all employees made redundant an *ex gratia* payment equal to two months' pay. As regards the above-mentioned compensation, both sides agreed that the amounts granted to each redundant employee would in no circumstances exceed the amount they would have received if they had stayed on in the job until retirement (at age 65).
- The above-mentioned compensation was calculated on the basis of the pay of the redundant workers on the date of termination of their employment. In this context it is worth noting that the company-level collective labour agreement between BAT and SEK/ PEO, which expired on 31 December 2005, had been renewed before the company finally closed down, so that the compensation granted was calculated on the basis of the new pay increases.
- The employees affected had to take all leave due to them before the date of termination of employment, with the company paying for any leave not taken.

After examining cases of restructuring that have occurred in Cyprus over the past few years, a series of interesting observations arise concerning the characteristics and the outcomes of the negotiations and processes that take place for preventing or dealing with collective redundancies. The table below gives an overview of the restructuring cases included in this background paper. Specifically:

- the kind of initiatives followed (in preventing and/or managing restructuring);
- the parties taking part in the various processes;
- the reasons that led to the restructuring of a business;
- the measures taken by a business in answer to its problems;
- whether the negotiations were characterised by agreement or conflict;
- the key actors that intervened in the event of a deadlock in negotiations or the factors that contributed to a smooth exchange in the talks (i.e. social dialogue and social capital);
- the negotiations' most significant results for employees;
- whether or not there were any job creation measures.

Reasons behind restructuring: Anticipating or managing restructuring?

Five cases out of a total of eight examined in the context of the present report were not only aimed at helping to prevent restructurings but also at managing their consequences. More specifically, the double aim of the planned measures arose from the fact that a business proceeds to dismiss some of its workers so as to improve its competitiveness as well as save the remaining work positions. At the same time the business promoted targeted initiatives (mainly of a passive character) for employees being made redundant (Arab Bank, BAT, Cyprus Airways, Limassol and Larnaka Ports). Only two cases were recorded in which initiatives had a purely preventative character and did not involve redundancies (Muskita and Alco, Kofinou Slaughterhouse).

Parties involved in restructuring procedures

There is no doubt that management and trade union organisations maintain a central role in the processes which precede and follow a restructuring. Nevertheless in five of the cases examined there was either indirect or direct involvement of public authorities, which was attributable to various factors relating to:

- the nature of the business; the State intervening whenever it has a share in the property capital of a company or its infrastructure (Cyprus Airways, Kofinou Slaughterhouse, Limassol and Larnaka Ports);
- whether the negotiations were carried out confrontationally or amicably (Arab Bank);
- the seriousness of the restructuring in terms of employment, or the urgency of the changes underway regarding the safeguarding of the business and jobs (Cyprus Airways, Kofinou Slaughterhouse).

Main reasons behind the decision to restructure

The reasons leading up to restructuring vary significantly from business to business. Seven out of eight cases seem to be related to a deficit in structural competitiveness. One case alone had to do with coincidental factors arising from reduced demand due to the international crisis (Muskita, Alco). In addition, the restructuring of the Vassilikos Cement Works was related to the company's decision to merge with Moni Cement Works. It is also worth mentioning that three of the cases examined are directly related to Cyprus's entry into the EU (Cyprus Airways, Kofinou); these companies, which belong to the semi-private sector of Cyprus, met with serious financial difficulties following the liberalisation of the services they provide and also after private competitors entered the market.

Main restructuring measures

As with the reasons underlying restructuring, the measures adopted also vary from business to business. Undoubtedly the most important category of measures was employee dismissals (5 out of 8 cases). The way in which dismissals are implemented is also a distinguishing feature between the public and private sectors. The public sector has offered employees measures of a voluntary nature (i.e. Cyprus Airways) or early-retirement schemes (Limassol and Larnaka Airports). On the contrary, the restructuring plans recorded in the private sector have not provided these kinds of options to employees (BAT, Arab Bank). One exception is the case of the Vassiliko Cement Works. It should be noted that in three cases (Cyprus Airways, Kofinou, Cyprus Airways Ground Handling Services), the government played an active role in managing the restructuring by either providing guarantees on loans granted to businesses (Cyprus Airways, Kofinou), or by funding compensation to employees (Cyprus Airways Ground Handling Services). Finally, in two cases only, businesses did not proceed with dismissals but instead, in consultation with the workers, reduced working hours instead, in this way aiming to overcome the difficulties brought on by the global recession (Muskita, Alco).

Labour disputes

There were labour disputes in only three (Arab Bank, Cyprus Airways, Cyprus Airways' Ground Handling Services) of the eight cases of restructuring examined in total. In general, negotiations in the five remaining cases were regarded to have been carried out under particularly amicable conditions. In one case, however, trade union organisations moved ahead with strike action (Cyprus Airways' Ground Handling Services).

Key-actors and Social Capital resources

The quality of social dialogue in Cyprus has undoubtedly played a determining role in the favourable outcome of negotiations between employee and employer, and that includes cases of restructuring. As noted by Soumeli (2006), 'social dialogue in Cyprus creates a climate of trust, enabling social partners to intervene and take joint decisions on issues of decisive importance'. The quality of social dialogue in Cyprus can be seen as a fundamental asset, a part of the local

*social capital*¹⁴, with a particularly beneficial effect on the outcome of the various relations between workers, businesses and the State.

The Cypriot State has proved that in situations in which bipartite negotiations have led to an impasse, it possesses the ability to guide the opposing sides to a mutually acceptable solution. Particular praise should be given to the Mediating Service¹⁵ of the Labour Relations Department (Ministry of Labour and Social Relations), which has played a decisive role in resolving labour disputes. As the service itself notes about its activities, the mediator has no authority to decide on how the dispute should be settled, and does not try to convince the two sides to accept the settlement it considers most appropriate. Essentially the mediator works towards achieving a settlement which will be accepted by both sides. Procedures followed during the mediation in a labour dispute, and the types of labour disputes in which the Department may be called upon to mediate, are laid out in the Industrial Relations Code¹⁶. It is also worth mentioning the Cyprus Central Bank's intervention in a confrontation between Arab Bank and the Cyprus Union of Bank Employees (ETYK) in 2006. The mediation facilitated continuation of negotiations and Arab Bank management's decision to withdraw its plan to abandon the Cypriot market.

Finally, two cases should be mentioned in which the intervention of the government proved decisive, particularly when achieving a solution was a matter of urgency due to economic factors (Cyprus Airways) or to the general complexity of the situation (Cyprus Airways' Ground Handling Services). In both cases the State contributed by funding the compensation that redundant employees received.

Results

In all the cases examined concerning management of the impact of restructuring, workers received higher compensations than provided for by law. This specific outcome is undoubtedly the most important aspiration from the individual employee's perspective, as well as the main result and characteristic of restructuring in Cyprus in a more collective context. It is worth mentioning that this result applies to both private sector and public sector businesses. Of six such cases, only one company embarked on the process of anticipating active initiatives aimed at reintegrating redundant staff into the job market (BAT). This particular event seems to owe more to the policies this multinational company implements at an international level, than to the claims made by workers in Cyprus for employment reintegration initiatives. On the whole there is no doubt that the absence of specially designed active measures for redundant personnel is related, on the one hand, to the conditions of almost full employment prevalent in the Cyprus labour market during the past decade, and on the other hand to the small number - as well as the limited impact - of restructurings, which up until now have dissuaded public authorities or social partners from seeking more systematic or composite ways of dealing with their consequences. However, the current rise in unemployment caused by the international crisis might heighten among social partners and policy makers a sense of urgency for developing such measures.

¹⁴ According to French sociologist Pierre Bourdieu, social capital is the 'the aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition'. Robert Putnam mentions that 'whereas physical capital refers to physical objects and human capital refers to the properties of individuals, social capital refers to connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them'.

¹⁵ http://www.mlsi.gov.cy/mlsi/dlr/dlr.nsf/dmlmediation_en/dmlmediation_en?OpenDocument

¹⁶ [http://www.mlsi.gov.cy/mlsi/dlr/dlr.nsf/All/ACAB6C856ECE6D86C2256EA0004A2E82/\\$file/Flowchart%20for%20Disputes%20over%20Interests.pdf?OpenElement](http://www.mlsi.gov.cy/mlsi/dlr/dlr.nsf/All/ACAB6C856ECE6D86C2256EA0004A2E82/$file/Flowchart%20for%20Disputes%20over%20Interests.pdf?OpenElement)

	Anticipating Restructuring	Managing Restructuring	Parties involved	Causes of Restructuring	Measures	Labour dispute	Key-actors / Social Capital	Results	Job support measures
Muskita/ Alco (2009)	Yes	No	Management. Trade Unions.	Reduced demand from export markets due to world recession.	Provisional reduction of working time.	No.	Social Dialogue.	Prevention of redundancies.	No.
Arab Bank (2005)	Yes	Yes	Management. Trade Unions. Cyprus Central Bank.	High labour costs and small market shares. Limited interest in the Cyprus Market (intention to leave).	Dismissal of workers in labour-intensive services.	Yes.	Intervention of Cyprus Central Bank in order to save negotiations.	Higher compensations than provided by law. Arab Bank recalled its decision to cease operations in Cyprus (more than 100 jobs were thus maintained).	No.
Cyprus Airways' Ground Handling Services (2008)	Yes	Yes	Management. Trade Unions. Ministry of Labour. Ministry of Finance.	Serious competitiveness and financial problems after market liberalisation in 2004.	Outsourcing of Ground Handling Services to Switzerland.	Yes.	Mediation of the Department of Labour Relations (Ministry of Labour and Social Insurance). Financial contribution from the Ministry of Finance.	Several options offered to employees being outsourced (including generous compensations).	No.
Slaughterhouse of Kofinou (2008)	Yes.	No.	Management. Trade Unions. Government.	Competitiveness and financial problems after market liberalisation.	The government guaranteed a loan so that the companies concerned could meet their short-term financial obligations.	No.	In progress.	In progress.	No.

	Anticipating Restructuring	Managing Restructuring	Parties involved	Causes of Restructuring	Measures	Labour dispute	Key-actors / Social Capital	Results	Job support measures
Limassol and Larnaca Ports (2008)	Yes.	Yes.	Trade Unions. Cyprus Shipping Association. Ministry of Communications and Works.	High labour costs / Competitiveness issues.	Early retirement scheme.	No	Social Dialogue.	Generous compensations for dockworkers.	No
Vassiliko Cement Works (2008)	No.	Yes.	Management. Trade unions.	Merger.	Redundancies	No.	Social Dialogue.	Higher compensations than provided for by law.	No.
Cyprus Airways (2004-2006)	Yes.	Yes.	Joint ministerial committee. Management. Trade Unions.	Serious competitiveness and financial problems after market liberalisation.	1. Rescue plan (government guaranteed a loan). 2. Large restructuring plan (via voluntary exit).	Yes	Social dialogue and mediation of the Labour Relations Department (Ministry of Labour and Social Insurance).	1. Government's intervention helped the companies to stay economically viable and competitive, while avoiding bankruptcy and saving hundreds of job positions. 2. Additional compensation above that provided for by law.	No.
British American Tobacco (2006)	Yes.	Yes.	Management. Trade unions.	Competitiveness issues. Global Restructuring Plan.	Redundancies	No.	Social Dialogue.	Generous compensations and job support measures provided by the company.	Yes, on the initiative of the company.

Reports, Working Papers & Conference Proceedings

- Constantinou, G. (2005) "Social Dialogue: The Cyprus Case", Atti della Conferenza Internazionale del progetto 3MOIRE VS/2005/0194, Scenari di Dialogo Sociale, Cagliari, 7- 8 Ottobre 2005 – Tiscali Auditorium.
- Cyprus Central Bank, *Economic Bulletin*, June 2009.
- Cyprus Labour Institute, *Annual Economy and Employment Report 2008*.
- DG ECFIN, *Economic Forecast*, Autumn 2009.
- Eliofotou, P. (2008) "Cyprus: immigration, wage indexation and the adjustment in EMU", Economic Analysis from the European Commission's DG ECFIN, Volume 5, Issue 10, 10.10.2008.
- Ministry of Finance, "Cyprus a well managed and resilient Euro member", Investor's Presentation, May 2008.
- Panayiotopoulos, P. (2000) "The labour regime under conditions of globalization in the Cypriot garment industry", *Journal of Southern Europe and the Balkans*, Volume 2, Number 1, pp. 75-87.
- Pegasiou, A. (2007) "Restructuring Cyprus Airways: Between Europeanisation and Domestic Blockages", Paper presented at the 3rd LSE Hellenic Observatory Phd Symposium, 14th of July 2007.
- Soumeli, E. (2005) "Arab Bank announces end of operations in Cyprus", European Industrial Relations Observatory.
- Soumeli, E. (2005) "BAT shuts down production in Cyprus", European Industrial Relations Observatory.
- Soumeli, E. (2006) "Capacity building for social dialogue in Cyprus", European Foundation for the Improvement of Living and Working Conditions.
- Smid, S. (2002) "Textile, apparel and leather sector in Cyprus", PWC Consulting.
- Stavrakis, C., Vronti, P.D. (2003) "An overview of the Cypriot clothing industry", *International Journal of Management Case Studies*, Volume 6, Issue 1, pp. 39-53.

Economic and Labour Market Statistics / Legislation

- Eurostat, *Cyprus in Figures 2008*.
- Eurostat "Euro area unemployment up to 9,4%", Eurostat News Release & Euro Indicators, 112/2009 – 31 July 2009.
- Ministry of Labour and Social Insurance, *Basic Terms of Employment – Comprehensive Guide*, Department of Labour Relations.
- Statistical Service of the Republic of Cyprus, *Construction and Housing Statistics 2007*.

Statistical Service of the Republic of Cyprus, *Labour Force Survey 2008*.

Statistical Service of the Republic of Cyprus, *Hotels and Restaurants Statistics 2007*.

Statistical Service of the Republic of Cyprus, *Industrial Statistics 2007*.

The following Comparative Analytical Reports of the European Restructuring Monitor (ERM) have been essential sources of information in the preparation of this report:

Comparative analytical report on actors.

Comparative analytical report on national evidence of the employment impact of the relocation of enterprises.

Perceptions of the employment impact of globalisation.

Comparative analytical report on individual measures.

Comparative analytical report on job creation measures.

Comparative analytical report on relocation cases in manufacturing and services.

The consequences of mergers and acquisitions for companies and employees.

The location of job creation and job destruction in multinational companies across the EU.

Case study of the restructuring process – Cyprus Airways.

Addressing Recession.

Cyprus – Restructuring in the construction industry.

Bankruptcy cases.