

Case study of the restructuring process

Cyprus Airways

ERM Analytical Report

2007

Abstract

As a result of the restructuring of Cyprus Airways, to date around 573 workers have become redundant. From this point of view, Cyprus Airways constitutes the most important case of restructuring in recent years in Cyprus. The restructuring process was carried out in two stages. First, a rescue plan for the company was implemented, the objective being approval of a EUR51 million loan for the purpose of meeting its short-term obligations. In the second stage, management at Cyprus Airways committed 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 in difficulties, and the absence of a specific plan at the company level, created to support redundant workers and help them find new jobs.

Questionnaire

1. Basic facts

- Nationality of company or group involved

The Cypriot state owns 69.62% of the share capital of Cyprus Airways. The company is listed on the Cyprus Stock Exchange.

- Location of the workplace where the restructuring occurred (NUTS 3 region)

Cyprus

- Sector of activity involved (NACE 3-digit)

H51.1 - Passenger air transport

- Number employed in the workplace before and after the restructuring

Based on the data cited in Cyprus Airways Annual Reports, the company employed:

- 1698 people in 2004
- 1538 people in 2005. The decrease was due in part to the redundancy of 123 workers on the basis of the rescue plan proposed for the company by the Ministry of Labour and Social Insurance.
- 1131 people in 2006. The implementation of the company's restructuring plan led to the redundancy of a total of 388 workers.

- Date of announcement of restructuring and time scale

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, a fact that led to 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 create the restructuring plan for the company, which it presented for the first time in September 2005; the plan submitted to the European Commission for approval in January 2006. The European Commission approved the restructuring plan in March 2007. This plan provided for the redundancy of another 388 employees of Cyprus Airways.

- Form of restructuring and main reasons for the decision to restructure

The departure of the workers was carried out on the basis of a voluntary retirement plan.

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 the Duty Free shops. Indicatively, Cyprus Airways suffered losses of around EUR45 and EUR25 million in 2004 and 2005 respectively.

2. Advance warning and consultation

The Collective Redundancies Law of 2001 requires employers to consult with workers' representatives in good time, with a view to reaching an agreement on the following matters:

- Preventing collective redundancies and minimizing the number of employees who would be affected.
- Ways and means of easing the adverse consequences arising from such collective redundancies (re-employment and re-training of dismissed employees).

It is, however, worth noting that this law is not enforced in the case of employees in public services, semi-governmental organisations, local authorities and state-law entities.

Who was involved in the consultation (including any outside bodies such as public authorities as well as worker representatives)?

The following 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.**
- **Management at 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 later on.

When did it take place in relation to the planned start date of the restructuring?

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 deadlock reached in the bargaining caused 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 (Community authorities had set approval of the rescue plan as a basic condition for the approval of a EUR51 million loan to Cyprus Airways to be guaranteed by the Cypriot state).

Following this, management at Cyprus Airways 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).

This 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.

By and large, 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.

How long did it last?

Consultations with the unions on the restructuring plan lasted around three months (from late September 2005 until early January 2006).

What were the issues covered?

As a whole, 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 regarding 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.**

What information was provided by the company and how extensive was this?

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.

To what extent did it affect company decisions on the restructuring?

First, the consultations helped the employees and the unions to realise that it was necessary to create a drastic restructuring plan, due to the serious financial problems plaguing the company as a result of market liberalisation. The consultation process with the employees contributed, that is, to the unions' acceptance of the restructuring plan, and therefore to the rescue of the company itself and a substantial number of jobs.

How typical is the case or cases described of what usually happens in these regards? Is there any evidence that the willingness on the part of companies to give advance warning of restructuring and to engage in consultation has changed over the past 1-2 years?

In the case studies that have been examined to date in the context of the ERM, it is obvious that the high quality of social dialogue in Cyprus has contributed to the carrying out of timely and transparent consultations in instances of collective dismissals (e.g. BAT, Lemessos and Larnaka Ports, Vassiliko Cement Works, etc.). The Cyprus Airways consultations appear to differ from the above cases for two main reasons:

- **First, these negotiations were carried out at a time of intense changes to the rules applying to the Cypriot air transport market (entry of competitors, abolition of state aid, etc.). This fact destabilised the "traditional" framework for talks among the various "players".**
- **Second, the constantly worsening financial situation of the company as well as the short deadlines imposed by the European Commission for drawing up the rescue and restructuring plans for Cyprus Airways prevented the talks from lasting any longer.**

3. Support to workers

Were efforts made to find them jobs in other parts of the organisation or group? If so, was training and/or help in relocation provided?

The answer is no in the case of the company's rescue plan and the company's main restructuring plan. The reason no efforts were made to find employees new jobs lies in the fact that the company employed 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).

However, in the second stage, when the company surmounted the serious financial difficulties it had been facing, the possibilities for transferring employees to other departments of the company increased, as demonstrated by the recent case of the employees in Cyprus Airways ground handling services. Specifically, the 112 employees who would have lost their jobs (due to the transfer of ground handling services to Swissport) were given the opportunity to choose one of three options:

- 1. To leave employment and receive severance pay. A total of 62 employees took this option (the estimated amount of severance pay for all the employees was EUR4 million).**
- 2. To work for Swissport (joint-venture with Cyprus Airways) under the same terms and conditions of employment (38 employees took this option).**
- 3. To work temporarily at Swissport and state whether they intend to remain in employment at a future time.**

Was advice and guidance provided on the options open to them?

Yes. This role was performed by the various trade union organisations representing the employees at Cyprus Airways.

Was support given to help them find another job outside the organisation, to retrain or to set up business for themselves?

No.

Were potential employers contacted to investigate possible job openings?

No.

How far were trade unions or other worker representative bodies involved in the support and assistance provided? Was this in cooperation with the company concerned and/or with other bodies?

Not available or not applicable.

How far were public authorities involved and what was the extent of cooperation in this regard?

Not available or not applicable.

How typical is the case or cases described of what usually happens in this regard? Is there any evidence that the willingness on the part of companies to provide support to workers has changed over the past 1-2 years?

Due to 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. We can cite, however, two discrete examples of support for workers in the context of restructurings:

- **The first case is that of BAT which has been analysed in previous CARs. In the context of the international restructuring of its activities, BAT dismissed 89 employees in 2006 in Cyprus. The company created a support mechanism for the employees. The decision to do so was probably due more to the global strategy pursued by this international group than to factors of a local nature.**
- **The trade union organisations played an important part in finding new jobs for the employees who were victims of relocations in the clothing sector in Cyprus in the 1990s. Despite its informal nature, this support was on the whole direct and particularly substantial.**

4. Financial compensation paid to workers

For the case or cases selected, please describe the financial compensation paid to workers made redundant and say how it relates to the amounts which they are legally entitled to receive

The workers who opted for redundancy received additional compensation over and above that provided for by law.

What was the extent of the additional payments made to workers on top of their legal entitlements and what form did it take (e.g. lump sum amounts, financial help to cover training, early retirement pensions)?

The maximum amount of compensation paid to Cyprus Airways employees was equivalent to two years' wages. The amount of compensation paid varied according to factors such as total time employed and wage scale.

Did public authorities and/or trade unions contribute to the financing of these payments?

The company and the Ministry of Finance financed the payments.

How typical is the case or cases described of what usually happens in this regard? Is there any evidence that the willingness on the part of companies to provide compensation above the statutory amount has changed over the past 1-2 years?

Based on the case studies examined to date in the ERM for Cyprus, payment of additional compensation to workers is a common phenomenon. There are no data to indicate recent changes with regard to this practice.

5. Financial support to companies

Was financial support provided to companies and if so for what purpose and from what source?

The state guaranteed a loan of EUR51 million which was extended to Cyprus Airways so that the company could meet its short-term financial obligations (and remain viable). The European Commission set as a condition for approval of this loan the design, within six months, of a restructuring plan that would ensure the company's long-term viability. It is important to note that one of the basic reasons that the European Commission approved this loan had to do with social criteria (Cyprus Airways is one of the most important employers in Cyprus).

What form did such support take (e.g. wage subsidies) and was it effective in maintaining jobs or delaying the job cuts?

The loan allowed Cyprus Airways to avoid the danger of bankruptcy. In conjunction with the restructuring plan, the loan helped the company survive within the new competitive environment and helped save a total of over a thousand jobs.

How typical is the case or cases described of what usually happens in this regard? Is there any evidence that the availability of financial support to companies has increased or declined over the past 1-2 years?

The government of Cyprus is at present attempting to rescue the Central Slaughterhouse in Kofinou by following exactly the same procedure (guarantee of a loan to meet liquidity needs and design of a plan for long-term viability). The Kofinou Slaughterhouse employs 120 workers (more information on this issue is given in the winter issue of the 2007 ERM Quarterly).

6. Job creation measures

Was there a coherent regional, or local, development strategy already in place before the restructuring was announced and if so what were the main features?

No.

Were new initiatives taken as a result of the restructuring and if so what were these (e.g. contacting local employers about the possibility of expanding their work force, identifying companies which might be attracted to the area, providing financial incentives for investment)?

No.

What organisations were involved in efforts to create jobs in the area (e.g. development agencies, government departments)?

Not available or not applicable.

To what extent did businesses and trade unions cooperate with public authorities in the measures taken?

In the absence of a support plan for workers, there was no cooperation of this type.

How typical is the case or cases described of what usually happens in this regard? Is there any evidence that public authorities have put more effort into pursuing local or regional development strategies over the past 1-2 years and/or tend to react more to job losses from restructuring?

Various factors explain the absence of spatially oriented plans involving job creation in response to restructuring:

- **There is no spatial concentration of restructuring in Cyprus. Furthermore, both size and number of restructuring cases are limited in Cyprus. As a consequence, job creation measures included in regional economic development strategies are addressed to rural areas that suffer from the decline of employment due to the competitiveness problems faced by micro-firms in the traditional activities of the Cyprus economy. Hence, the answers provided below refer to spatial economic strategies aiming at resolving this specific category of problems.**
- **The economy of Cyprus has displayed particularly high growth rates over the last ten years (around 4% on average), and also one of the lowest unemployment rates in Europe. Cyprus is now facing inadequate levels of supply of labour (mainly unskilled), which are being addressed via the inflow of economic migrants.**

7. Outcome

For the case or cases selected, what were the consequences of the efforts made to minimise the effects on workers and local areas of the restructuring? Were the actions taken successful in either regard?

The number of workers who became redundant on the basis of the restructuring plan is estimated at 388. Two observations may be made regarding this effect:

- **First, 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.**
- **Second, no employees were obliged to leave, which was a basic condition set by the unions for acceptance of the restructuring plan.**

Did the efforts have any adverse effects on the company involved?

On the contrary, the company has now been shown to be profitable again. This means that the initiatives taken by the unions to minimise the number of employees made redundant did not cause any problems regarding the company’s operation.

Has the restructuring had lasting effects on the workers concerned and the local economies affected? Were any attempts made to monitor these effects?

It seems 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 Cyprus labour market standards.

Commentary

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 estimated that this has destabilised, to some degree, 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, as well as the strict schedules and requirements of the European Commission, have caused the bargaining to speed up, 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 has emerged from Cyprus’s entry into the European Union. In its turn, this specific event has helped ensure more favourable conditions for the departure of employees now being made redundant, on the basis of certain measures included in the restructuring plan, as in the recent case of the 112 Cyprus Airways ground handling services employees.

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