

Cyprus

Already in 2010, the IMF Staff Visit Country report indicated in the “Cyprus – selected issues “ section that it “thoughts” about the applicable system of wage determination in Cyprus provides for the automatic adjustment of wages on the basis of general changes in price levels (the Cost-of-living adjustment—COLA system). Via this system, which is operational since 1944, the gross earnings of workers are revised at the end of every six months—that is, on January 1 and July 1—on the basis of the consumer price index percentage of the preceding six-month period. The IMF considered that the uniform application of the COLA does not allow wages to reflect productivity differences across economic sectors while the second-round inflationary effects undermine flexibility and erode competitiveness. By linking wages to consumer price index rather than productivity, COLA undermines competitiveness and labor flexibility. Another issue raised against the COLA was that it is applied irrespective of the level of wages, which according to IMF, had as a consequence that it increased wage differentials between employees at the lower and higher scales, in particular in the public sector, and thus contributed to enhancing inequalities. The IMF therefore concluded that In the conclusions it was stated that “ in view of the higher growth in labor costs compared to Cyprus’ trade partners, the automatic wage indexation mechanism should be better targeted to reflect sectoral productivity gains or eliminated. The objective would be to adopt a framework allowing wages to reflect productivity gains and correct the structural rigidities induced by the current system. Allowing wages to reflect sectoral or firm level productivity gains would be conducive to a more efficient allocation of labor. On the other hand, well targeted social measures for those in need of protection could be implemented to counteract any adverse impact that such reform may have on the most vulnerable fraction of the labor force”. In addition, Action to preserve competitiveness was needed and this included structural reforms aimed at increasing efficiency and reducing structural rigidities. This entailed amongst others efforts to reduce the pay gap between men and women and to increase labor participation in view of the challenges of an ageing population by encouraging part-time work and flexible working practices. (IMF 2010)

In its Country Specific Recommendations for 2011, the European Commission recommended to Cyprus to “take steps to reform, in consultation with social partners and in accordance with national practices, the system of wage bargaining and wage indexation to ensure that wage growth better reflects developments in labour productivity and competitiveness.” In a first response, the Government adopted a two-year pay freeze in the broader public sector and there was end of 2012 a proposal to freeze payment of COLA in the public sector until 31 December 2016. (European Commission 2011)

On 3 February 2012, with the economic situation in Cyprus continuing to worsen, a special agreement was reached between OEV, on the employers' side, and Pancyprian Federation of Labour ([PEO](#)) and the Cyprus Workers' Confederation ([SEK](#)) on behalf of the workers, and which was endorsed by the Ministry of Labour and Social Insurance. Despite requests, the Democratic Labour Federation of Cyprus ([DEOK](#)) and the Cyprus Chamber of Commerce and Industry ([CCCI](#)), the Ministry of Labour decided not to have them participating in the dialogue that led to the agreement. The agreement provides amongst others that: 1) the social partners reaffirm their commitment to the implementation and operation of collective agreements and the Code of Industrial Relations; 2) the COLA system (see above) will continue to be allocated properly, 3) there will be no general wage increases for the years 2012-2013 in businesses affected by the economic crisis, and 4) in businesses for industries which face no financial problems, regular increases in salaries and benefits will continue to be granted as provided for in collective agreements. A Joint Monitoring Committee was to ensure proper application of the agreement the terms of reference being the proper application of this agreement to prevent abuse and to assist businesses in avoiding or minimising potential layoffs, and making recommendations to adopt further measures under the established procedures in exceptional cases when businesses face serious financial problems. A representative of the Ministry of Labour and Social Insurance will also be permitted to join the committee when this is deemed necessary.

2012 was also marked in Cyprus by several developments in the legislative framework on trade union and workers' representation rights.

End February, the main opposition party DESY presented a bill aiming to restrict the right to strikes in a number of service industries that provide "essential" services (namely control, processing and provision of fuel, continuous provision of electricity, water provision, telecommunications and radio and television services, repair and maintenance of equipment of hospitals, airports, the army, the police and fire brigade and the operation of the following services: air transport, safe use of airports and air traffic control, ports, prisons, customs, state hospitals and medical foundations and sewage system, processing of sewerage and garbage collection. The Council of Ministers also has the right to declare any service "essential" which is not included in the list, the provision of which has been interrupted, when such interruption puts at risk the security of the Republic, the constitutional order, public order or public security or the maintenance of stocks and services necessary for the livelihood of the people and the protection of constitutional rights and freedoms. Specifically, the bill provides that any labour disputes arising in relation to such "essential" services, which cannot be resolved through negotiations or mediation, must necessarily be referred to arbitration. The arbitrators shall be appointed by the Council of Ministers, will be paid by the State, and their findings on the "essential" services will be binding. According to the bill, strikes or counter-strikes in industries providing "essential" services are prohibited at all stages of the procedure (during negotiations, before or after the arbitration), unless the arbitration finding concerns a dispute of interests in a non-public essential service industry, in which case strikes and counter-strikes are permissible after 30 days from the notification of the finding, provided that arrangements have been made for maintaining a minimum level of services to meet basic public needs. Whoever participates, encourages or assists in strikes involving the provision of essential services or otherwise prevents a person from providing essential services or obstructs the operation of essential services, is committing a criminal offense punishable by two years' imprisonment and/or a fine of EUR 2,000. The bill is a significant

deviation from the agreement reached between the social partners in 2004, following ten years of negotiations, which established only eight types of “essential services” industries, determined that labour disputes had to be referred to arbitrators who had to be individuals who were mutually accepted and whose decision was not binding. Strikes were allowed with a 25 days’ notice in cases in which the partners did not accept the arbitrators’ decision or where the arbitrators failed to reach a finding within the prescribed timeline.

In April 2012, another draft law was submitted by Government to the House of Parliament amending the Trade Union Laws and Regulations, proposing to increase the minimum number of members required to register a trade union (from 20 to 100) as well as to increase the registration fee. Main arguments put forward by the Government is that it wants to counteract the so-called "yellow unions" as well so-called “opportunistic small unions which basically want to represent only their own industry or their own professional interests." Initially, the bill also provided that within two years from the date of adoption, those trade unions which did not meet the minimum number of 100 members would be deleted from the Registry but this provision was subsequently removed. The draft law also provides definitions of the terms ‘strike’ and ‘lockout’ and regulates the transfer of power to withdraw/ dissolve a trade union from the District Court to the Registrar of Trade Unions. The draft law decreases the minimum age for participation in the Steering Committee from 21 to 18, while the decision to merge trade unions will, under the draft law, be made in the presence of 2/3 of those present who have the right to vote, and not of 2/3 of the voting members.

In May 2012, firstly the law ratifying the ILO Convention of 1971 on workers’ representatives (Law N.30(III)/1995) was amended to provide for the employer’s obligation to provide access to the workplace for workers’ representatives, following prior arrangements, for purposes related to the terms and conditions of employment of the workers, for reasons relating to the activities of the trade union authorised to represent them, for the purpose of negotiating the conclusion or renewal of collective agreements with the employer, for consultation with employee representatives on labour issues, the examination of issues relating to the appropriate implementation of labour legislation, and issues relating to the resolution of industrial disputes. And, secondly, a new law on the recognition of trade union organisation and of the right to provide trade union facilities for recognition purposes for collective bargaining was published in the Official Gazette. The latter law regulates the procedure to be followed where an employer refuses to recognise a registered trade union for the purpose of negotiating a collective agreement. The procedure involves an application by the trade union to the Registrar of Trade Unions for the issue of an Order obliging the employer concerned to recognise the trade union. When more than one trade union submits an application to the Registrar for recognition in respect of the same undertaking, the Registrar will join these applications and examine them as one, following consultation with the applicants; if there is no consensus amongst the applicants in respect of such joining of the applications, then the Registrar will examine all applications in chronological order in which they were submitted. The procedure applies only to those undertakings which employed at least 30 employees during the six months that preceded the submission of the application for recognition, provided that 25% of employees in the business were already members of the applicant trade union at the time of submission of the application. The Law authorises the Registrar of Trade Unions to conduct a secret ballot for workers to decide whether they wish to be represented by the applicant trade union. If the vote shows that more than 50% of those taking part in the vote (and they represent at least 40% of all workers who were entitled to vote) voted in favour of recognition,

then the Registrar issues a Recognition Order. Such an Order may be issued without a vote in the event that more than 50% of employees are already members of the applicant trade union. Any employer is guilty of an offence and liable to a fine of up to € 5,000 and / or to imprisonment up to 3 months when he/she refuses 1) to comply with the Recognition Order issued by the Registrar, 2) to negotiate with a trade union for the purpose of concluding a collective agreement following the issue of a Recognition Order from the Registrar, 3) prevents or obstructs workers' representatives in the execution of their duties, 4) unilaterally changes in the process of recognition the terms of the employment of their employees. Both the above laws are the result of lobbying from the trade unions since 2006, which demanded modernisation of the system of industrial relations, responding to efforts to deregulate the labour market through the use of migrant cheap labour and various forms of "flexible work

In its Country Specific Recommendations for 2012-2013, the European Commission, and despite some efforts made by the Government, recommended again "to improve competitiveness including through the reform of the system of wage indexation, in consultation with social partners and in line with national practices, to better reflect productivity developments. (...)" as "this would not only support Cyprus's competitiveness, but would also lead to a more efficient allocation of labour". (European Commission 2012)

Following the application of Cyprus in June 2012 for a loan from the support mechanism of the European Union, representatives of the Troika visited Nicosia in July 2012, following which it insisted amongst others the non-payment of the 13th salary in the public sector for 2012, reducing the salaries of public and semi-government employees by 15% from 2013 to 2014, which amounts to two salaries per year and increasing the employees' contribution to the pension scheme. The President of the Republic openly disagreed with the views and assessment of the troika and in her address to the ETUC Steering Committee, meeting in Cyprus on 6 November 2012, the Minister of Labour and Social Security, Ms Sotiroula Charalambous argued that in the ongoing negotiations the Government's efforts were based on three main axes one being that measures should preserve existing labour relation systems, among others collective bargaining and wage indexation. (ETUC 2012)

In its country report of September 2012 following a Staff Visit, the IMF noted under chapter "C. Implement Structural Reforms to Boost Competitiveness" that "the authorities agreed with staff that growth of wages and labor costs in excess of productivity increases has reduced competitiveness, particularly in the manufacturing and tourism sectors. (...). [IMF] Staff also noted that wage settings mechanisms ensuring a closer link between wages and productivity development than currently provided by the COLA system should be promoted. Furthermore, "staff noted that measures to increase labor market flexibility, streamline the regulatory framework, reduce red tape and enhance the business climate would bolster potential growth over the medium term. In particular, improving the functioning of the labor market through active labor market policies targeted to young workers and low skilled immigrants would help address the current increase in unemployment and support long-term growth potential, while measures to reduce the high gender pay gap would contribute to improve the overall business climate." (IMF 2012)

In the meantime, the Government has put together a new proposal on the content and operation of the system of wage indexation. The basic provisions of the ministry's proposal include a pay indexation once instead of twice a

year, every January, based on the cost of living index for the second and third quarter of every year and no increases for a year if negative growth rates are recorded in the second and third quarters of the previous year. Although they are quite cumbersome for the workers' side the three largest trade unions, the Pancyprian Federation of Labour ([PEO](#)) the Cyprus Workers' Confederation ([SEK](#)) and the Democratic Labour Federation of Cyprus ([DEOK](#)), have in general agreed on the reforms proposed by the Ministry of Labour and Social Insurance because they believe some of the characteristics of the system are retained, and indexation can still be arranged through collective bargaining. However, the employers, backed by the Troika, insist on imposing even stricter conditions and have proposed a freeze in COLA-calculated pay rises for as long as any memorandum remains in force. They are also asking for other factors to be considered when calculating automatic indexation, particularly labour productivity at sectoral and enterprise levels, and what the OEB describes as the competitiveness of enterprises – effectively, their profitability.

In a statement on 22 November 2012, the Minister of Labour Sotiroula Charalambous said progress was being made in the negotiations towards achieving a comprehensive agreement that would also include a revision of automatic wage indexation. Given that initially the Troika wanted to abolish the system, the government working group considers it an achievement that the retention of COLA has been agreed in principle. Although not yet finalised, the agreement at the moment (November 2012) stipulates that when the economy is in recession there will be no wage indexation. However, during a period of economic recovery indexation will be applied once a year, but reduced by 50%. At the same time, a series of products will be removed from the consumer price index shopping basket, representing a reduction of around 30%.

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<http://www.etui.org/E-Newsletters/Collective-bargaining-newsletter>

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Contributions by ETUC affiliated organisations:

ETUC Litigation network (meetings 29 June 2012 and 10 December 2012)

ETUC Social Policy and Legislation Ad hoc working group (Meetings 13 November 2011, 5 April 2012, 24 October 2012).

ETUC Legal Experts Network NETLEX (Annual Conference 1-2 December 2011, 11–12 December 2012)