

Discussion on the Labour Market in Cyprus: Is it as Flexible as we Claim?

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1. Introduction

The global financial crisis has significantly affected the small, yet open, Cypriot economy. Its consequences, which continued to be felt throughout 2011, were intensified by the explosion at Mari which severely damaged the nearby power station and knocked out a significant part of its electricity production capacity. Therefore, even though the mid-year forecast for growth was 1.5% (the IMF predicted 1.7%), this was revised after the July events, to 0.5%.

The budget deficit for 2011, which was estimated at 4.8%, is now foreseen to reach 6.2%, while unemployment is expected to average some 7.3% of the workforce.

As far as the various sectors of the economy are concerned, we especially note the very positive performance in the tourist sector. By the end of the year, 2,423,000 tourists are expected to arrive in Cyprus, which marks a 10% increase compared to 2010. Revenues are expected to increase by 16% compared to 2010, totalling 1.8 billion euros. This increase is due to the big rise in the numbers of tourists from Russia as well as to a small increase in arrivals from the United Kingdom and a stabilisation of arrivals from Scandinavian countries.

The branches of material production-construction and processing are expected to slow down, since they are affected by reduced demand as well as from the temporal structural problems of the economy.

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2. Cost of Living Allowance (COLA)

While I agree that COLA should not be used as a social policy tool, I consider that its main aim is to restore a six-month loss of purchasing power due to an increase in prices.

It is often suggested that COLA, which “induces high labour costs”, is the main source for Cyprus’s weakening external competitiveness. I will argue that this claim is false and misleading. The problems of competitiveness are not new and the reasons behind the poor performance of Cyprus are certainly not related to COLA. Rather, I believe it is the structural weaknesses of the economy, and especially of industry that are the main culprits. These weaknesses pertain to the low level of technology used, problems in organisation and management, the training of human resources, working environment problems, etc. Put simply, businessmen use their company’s profitability for personal luxuries and indulgences, rather than re-investing in the growth of their businesses. In fact, it is estimated that the average labour cost in the economy is around 25%, while in industry it is even lower, therefore if, for instance, wages increase by 2% through COLA this increases the total cost by only 0.5%. So COLA affects the total cost marginally, which in any case can be offset by an increase in productivity and production.

There is one positive aspect of COLA that is not often discussed. This is the idea that COLA provides a focal point so that wage rise negotiations between employees and employers do not spiral out of control and into industrial disputes (that is, strikes). If all sectors in the economy are left on their own to negotiate wage rises separately and independently, we could arrive at a situation in the future where industrial action becomes the norm rather than the exception in Cyprus. This is one advantage that should be taken into account when discussing COLA reform, and it should not be underestimated.

Finally, there is one puzzling aspect about the wage share in Cypriot GDP. In most advanced countries the labour share of GDP varies between 60 and 70 percent. In Cyprus this share is stable at around 45%, which implies that the effect of COLA on competitiveness is not as profound as it is made out to be. If wage rises have been higher than productivity for the last 30 years, how is it the case that the Cypriot labour share is so much lower than in other countries? Should not this share be higher than in other countries if wages have outpaced productivity over so many years?

3. The Role of Labour Unions

In my view, trade unions have always behaved in a responsible way with respect to their demands vis-à-vis the private and public sectors. When the economy of Cyprus was collapsing following the coup d'état and the Turkish invasion, the trade union movement accepted a reduction in wages and the suspension of COLA, thus making an important contribution to the recovery of the economy. When the economy bounced back, the trade union movement succeeded in achieving for its members real wage increases on top of productivity growth and wages gradually recovered to their pre-war levels. Subsequently, during more difficult times, wages increased only in line with productivity. This responsible stance characterises trade unions even today.

Recently, the Pancyprian Federation of Labour's General Council decided that during the renewal of collective bargaining agreements, a responsible and restrained policy, similar to the 2011 one, should be followed. Such a policy would take into consideration the basic indexes of the economy, as well as the particular characteristics of each business or sector.

4. Productivity

An increase in productivity and an improvement in competitiveness are imperative. Unfortunately, during recent years, no measures were taken towards making our industries more competitive. On the contrary, many businesses went out of business, while the manufacturing sector shrank to 10% of GDP, as opposed to 15% just a few years ago. The responsibility falls on the shoulders of the employers who did not invest in productivity during the good times, and on the government which did not succeed in introducing efficient measures to deal with the European challenge. We consider, therefore, an increase in productivity as the only way to improve our competitiveness, especially during a time where the global financial crisis has significantly affected the economy of Cyprus. The measures to be taken must be focused on:

- (a) investing in new technology at the enterprise level to boost productivity;
- (b) improving the organisation and management structures in businesses since these lag significantly compared to competitors abroad;
- (c) training and human resources;

(d) addressing working environment problems that negatively affect the participation of workers in the effort to increase productivity.

The issue of productivity has been repeatedly discussed by the government and its social partners. It must be noted that within the context of the "Dialogue for COLA and Productivity" which took place in 1996-1997, a Trilateral Commission was formed, focused on examining which issues affect productivity and preparing a comprehensive Action Plan to be implemented with the aim of increasing productivity. However, even though a relevant document was prepared with concrete suggestions, there was no progress in the matter, mainly because of the employers' insistence on linking this issue with the discussion of the COLA.

5. Foreign Workers

With the accession of Cyprus to the European Union on the 1st of May 2004, the principle of the free movement of workers came into force. Based on this principle, EU nationals are free to work in the Cypriot labour market. The percentage of European workers who have chosen Cyprus as a place to work is one of the highest in Europe. According to Eurostat, Cyprus is ranked 3rd in the immigration of European workers, proportionately to its population, with a percentage twice the average in the 27 member states.

The trade unions believe that the introduction of workers from outside the EU must be limited, given the free worker movement principle within the EU. Work permissions should be granted only if there are pressing demands (and only in the sectors of construction, agriculture and animal husbandry). For such an introduction of workers, the agreed-upon criteria between the trade unions/employers and the government are in effect.

In addition another issue is whether EU workers are facing the same work conditions as locals. We believe there have been cases where EU workers have faced worse terms compared to their Cypriot counterparts and collective agreements are not respected. This not only affects EU workers alone, but the wages of Cypriot workers as well. We believe that the following measures can help deal with such problems:

- First, to come up with such mechanisms as ensure that the collective agreements are the point of reference for EU workers' employment terms as well as for the application of the principle of non-discrimination. This can be achieved with the institutionalisation of a procedure, upon which the current

collective agreement in a sector can be automatically applied to all similar businesses. This suggestion presupposes an endorsement of the Pancyprian Federation of Labour's proposal for the institutionalisation of the procedure through which workers join trade unions. This issue is on the agenda of the relevant Ministry and will be discussed within the context of the issue of modernising work relations.

- Second, to complete the legislation pertaining to the authorities and the role of inspectors, so that the principle of equal treatment can be applied in practice.
- Third, to come up with proper tools - perhaps through our EU embassies- so that workers from EU countries are informed of their rights as well as the established norms in Cyprus.
- Fourth, to inspect on-site workplaces where foreigners are employed.