

## **ADMINISTRATIVE CONVERGENCE ACTUALLY –**

An assessment of European Commission's best practices for transposition of EU legislation in France, Germany, Italy, Sweden and Greece.

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### **ABSTRACT**

In light of the mid-term review of the European Union (EU)'s Lisbon strategy, the study's general concern is to explore how Member States have converged around the European Commission's administrative best practices for the transposition of EU legislation. Embedded in the broader institutional change literature and the Europeanisation literature in particular, this study examines the Europeanisation of the public administration in five Member States. It evaluates whether national administrative settings in France, Germany, Sweden, Greece and Italy have converged around the most efficient solution to the European transposition problem. The study finds new evidence for converging tendencies towards the recommended administrative model in the EU. Since 2004, developments in Member States show that national coordination models for transposition have been adjusted, coordination mechanisms created, and special processes and procedures in line with the Commission's recommended best practices established. Transposition data from 1995 to 2006, however, displays that the EU's transposition problem does not seem to be solved yet which puts the use of European Commission recommendations and the Lisbon strategy more generally at stake.

**Keywords:** Administrative convergence, Europeanisation, transposition, neo-institutionalism

*‘Even regulation of the highest quality is useless unless it is properly enforced’,*

C. McCreevy, the European Commissioner for Internal Market and Services

## **INTRODUCTION**

At consecutive EU summits, the European Council has repeatedly urged Member States to accord high priority to the transposition into national law of directives affecting the internal market. Recognizing the importance of a properly functioning internal market for the competitiveness of the European economy, the guardian of the treaties, the European Commission, however, has expressed concern about the poor Member States’ records. With the so-called Lisbon strategy, Member States agreed in 2000 on mainly five points to make the labor market more flexible, encourage entrepreneurship, stimulate innovation, spend more on research and complete the single market. The completion of the single market with explicit reference to the conclusion of transposition of internal market directives represents a major concern. In December 2003, the Inter-Institutional Agreement on better law-making further emphasized the need for Member States to comply with Article 10 of the Treaty and calls upon Member States to guarantee legal certainty by ensuring that Community law is properly and promptly transposed into national law within the prescribed deadlines to guarantee legal certainty. Non-transposition, otherwise, frustrates further European integration involving the free movement of goods, persons, services and capital (Art. 3(1)c). Based on the devastating Kok mid-term evaluation of the Lisbon strategy (2004), the European Commission laid down an improved strategy, entitled: *Better regulation for Growth and Jobs in the European Union*. Again one key objective in both reports was the timely and correct transposition. Hence, to ensure a simple and high quality of the regulatory environment in EU Member States, among others, serious attention to transposition is required.

Given the importance of full transposition and the repetitive nature of Member States’ failure to do so, in 2004, the European Commission, more specifically, urged ‘Member States to re-examine their administrative procedures and practices to ensure that they consistently meet this legal obligation’ (2004: 9). After more than 30 years of experience in the monitoring of the EU policies, the European Commission set out a

number of good practices which ‘should be followed by Member States to ensure better and faster transposition of internal market Directives’ (European Commission, 2004: 48). These recommendations are considered to be the most efficient solution to the overall European transposition problem, i.e. can ‘be expected to lead to an improvement in the speed and quality of transposition’ (European Commission, 2004: 49).<sup>7</sup>

Six years after Lisbon and two years after the 2004 publication of these best practices, it is time to see what Member States have done. To what extent do we observe domestic administrative change and new administrative behavior and practices under the impact of the EU? *Do we see Member States’ administrative convergence around one administrative coordination model to ensure timely and correct transposition of EU legislation?*

The study is structured as follows: First, it explores the state of art of the existing Europeanisation literature dealing with administrative convergence. Then, the analytical framework is embedded in the organizational perspective arguing that institutions in a ‘shared institutional environment’ (Di Maggio and Powell, 1991) are likely to grow increasingly similar converging around the most efficient organizational form. Thereupon, the European Commission’s administrative best practices on transposition are presented as the structures and procedures that have proven to be the most successful. This study finds that there is some evidence that Member States have converged around the Commission’s best practices. In recent years Member States have bothered considerably about how to adapt their institutional settings to obey their membership obligations, i.e. to improve their transposition records. In a last step, this paper reveals, however, that despite the evidence for some convergence, Member States’ efficiency diverge independently from their degree of convergence. Whether the European Commission’s best practices, and the Lisbon strategy more generally, are useful will be discussed in the conclusions.

## **LITERATURE - ONE PLUS 27 EU COORDINATION MODELS?**

Under the Europeanisation literature label falls a considerable set of studies dealing with the effect of European integration on national policies, politics and polities (Wallace, 1973; Siedentopf and Ziller, 1988; Toonen, 1992; Metcalfe, 1994; Pappas, 1995). This study applies a concept which is widely defined as ‘a process by which distinct structures of governance at the European level affect domestic structures and domestic politics’ (Cowles and Risse, 2001). More specifically, it is administrative convergence which is the study’s focus, rather than the evaluation of European policy outcomes and inputs (Knill, 2001: 17; Olson, 2002). Europeanisation refers to a process by which ‘administrative change occurs due to membership in the EU’ (Laegreid et al., 2004: 348).

This study identifies three main features of the existing literature: First, the field is mainly characterized by a number of edited volumes addressing Member States individually. These studies are often long standing. Dating back to the 1980s, second, their overall scope is to describe mainly the EU policy making process leading up to new EU legislation in the Member States (Pappas, 1995; Kassim et al., 2000; Wessels et al., 2003; Bulmer and Lequesne, 2005). Furthermore, third, they disregard the interim phase of the EU policy cycle, namely: the national coordination of EU implementation.

Only few scholars pay particular attention to the transposition phase in single Member States (Giulinai and Piattoni, 2001; Beyers, Kerremans and Bursens, 2001). In line with Siedentopf and Ziller, 1988: 87, these scholars conclude that ‘the implementation of Community legislation follows the same patterns and meets the same obstacles as the implementation of the respective national legislation.’ Hence, policy-making models in the Member States remain ‘national’, i.e. national *particularities* persist. Distinctive national patterns of institutional adjustment ‘emerge as corresponding to a basic logic of differentiation indissociable from the integration process itself’ (Harmsen, 1999: 81). *The argument is that common pressure from Brussels has not lead national systems to adopt similar methods of organizing the essential institutional dimension of their EU coordination systems.*

To summarize, the administrative convergence literature is long standing and mostly atheoretical with a lacuna surrounding national transposition processes and their

respective administrative coordination. Addressing the convergence debate, scholars agree that despite the fact that all national administrations have been undergoing a ‘very drastic process of adaptation through the sudden immersion of the primacy of European law’, there is not one single national coordination model for EU policy making. They conclude unapologetic that there is no such one thing rather *one plus twenty-seven EU coordination models*. In the following, this study attempts to address some of the shortcomings and assesses, in the shadow of the Lisbon strategy and the European Commission’s recommendations towards achieving full transposition of internal market directives, the administrative coordination models across the EU. The conceptual framework guiding the analysis follows next.

## **ANALYTICAL FRAMEWORK – ADMINISTRATIVE CONVERGENCE AROUND THE MOST EFFICIENT COORDINATION MODEL**

Administrative convergence can be understood in institutional terms. Among the most frequently discussed basic patterns of institutional change is the incremental, otherwise known as evolutionary, pattern. This entails continuous change in small, incremental steps along a single path in a certain direction (North, 1998). Scholars argue that institutional change occurs incrementally through ‘path-dependent mechanisms of feedback, increasing return, and choice within constraints’ (Campell, 2005: 16). Based on the notion of increasing returns and imperfect markets, North (1990) argues that evolutionary change occurs around the most efficient solution to common problems for institutions in a shared environment (DiMaggio and Powell, 1991). Three causing factors can be identified, namely: coercion, mimicry and socialization (for an overview see Kassim, 2003).

Applying this view to national administrative coordination systems of EU transposition, Harmsen (1999) argues that the result of ‘optimization [is] a gradual convergence of national practices around the most efficient solutions to ... common problems’ (ibid: 84) caused by ‘hard and soft’ rules. In line with Knill (2001), hence, administrative convergence is defined by the extent to which domestic administrative styles and structures ‘reveal similar characteristics because of the influence’ of EU membership.<sup>1</sup> Driven by a consequentialist logic the anticipated result is

administrative convergence of national practices around the most effective administrative solutions when transposing EU legislation. *EU Member States are expected to converge around a single coordination model through pressures deriving from their membership.*

With reference to the broader Lisbon talk and the more specific 2004 European Commission's best practices to administrative procedures and practices to ensure that they consistently meet Member States' legal obligation, the following testable hypothesis can be derived:

*European administrative convergence hypothesis: EU Member States have converged around the recommended most efficient administrative coordination model for the transposition of internal market directives.*

## **RESEARCH DESIGN**

### *Dependent variable:*

The European Commission's best practices for national administrations when transposing EU directives represent the most efficient administrative solution to the overall European transposition problem leading to a considerable improvement in the speed and quality of transposition. Twelve recommendations can be distilled and can be summarized in four groups: *the political priority assigned to transposition, the nature of the administrative coordination, parliament's involvement and the nature of national implementing measures.*

To assess whether Member States have converged around the most efficient administrative solution over the last ten years, the study calculates a so-called *administrative convergence ratio*. Admittedly, there is no shared concept of administrative convergence (Olsen, 2002). But, the administrative convergence ratio may be a small contribution to get a hand on its operationalisation. This ratio score represents the simple division between the numbers of implemented best practices with the maximum number of possible recommendations. A convergence ratio above .6 illustrates that European Commission's recommendations are being considered.

Scoring above .9 reads as almost perfectly converging around the recommended administration coordination model. Arguably not every recommendation has the same weight. National parliaments' involvement before the adoption of the EU directive (recommendation 10) might be more important in terms of timely and correct transposition than so-called correlation tables recommended to be used by civil servants (recommendation 8). Following the logic of more and less important best practices for the final success I assigned '2' and '1' points to the recommendations respectively. This rather crude but manageable measure leads to a maximum score of 18, with six recommendations scoring '2' and six recommendations scoring '1'. Table 1 illustrates the European Commission's recommendations and their respective salience factor.

[Table 1 about here]

#### *Selection of Member States:*

Against the abovementioned conceptual framework, this study chose five Member States to explore the patterns of administrative convergence across the EU. The countries included in this study were selected to cover most of the important dimensions of variation among the European Commission's areas of recommendation (policy-system and civil service characteristics). Germany, France, Italy, Greece and Sweden, offer similarities as well as contrasts. Germany and Italy are federalist countries, whereas France, Sweden and Greece clearly unitary states (Colomer, 2002). Some member states (France) are characterized as 'rationalized' (Knapp, 2004) parliamentary systems, whereas Sweden clearly has a strong unicameral parliamentary system (Strom, Müller, Bergman, 2006). Then, interest groups play a strong role in densely organized society like Germany and Sweden, whereas in Italy, Greece and France they do not (Mény and Knapp, 1998). Furthermore, Greece and Italy has a bureaucratic and particularistic bureaucracy coupled with a low level of professionalism (Papadoulis, 2005) and a crisis-driven approach' in contrast to the German or Swedish bureaucracy and their technical and impartial problem-solving approach.

#### *Data:*

To assess the European administrative convergence in five Member States more generally and to cross-check the assignment of salience factors to the recommendations, the study extracts data concerning the four groups of recommendations from the European Commission questionnaire sent to the Member States in 2004. In addition, I rely on the scarce existing country reports in the scholarly field, but, foremost, conducted interviews gathering new data of experts and key players. Interview partners are civil servants involved in the national EU coordination process in each of the Member States and the European Commission. In total, I conducted 38 interviews in the five national capitals and Brussels which were either conducted in person or by phone between January 2005 and July 2006.

## **ANALYSIS**

Addressing each of the twelve recommended best practices one by one, the following section analyses the national administrative coordination models in France, Germany, Italy, Greece and Sweden.

### I Political priority:

#### *Position of coordination body towards ministries:*

In France, Prime Minister *Raffarin* reinforced the transposition issue by introducing a new Interministerial Coordination body in 27 November 2004. Since October 2005, the then most important body with regard to the implementation of EU policy, Secretariat General for Cooperation and Integration (SGCI), was shifted away from the Ministry of Finance to the Prime Minister at Matignon. Nowadays, the SGAE (Secretariat General for European Affairs) is directly responsible towards the Prime Minister.

In Germany, whereas the coordination of EU policy-making has been split up and somewhat shifting between mainly four institutions to different extent (the Ministry of Foreign Affairs, the Ministry of Economic Affairs, the Ministry of Finance and the Chancellery), the German coordination of the transposition of EU legislation has been always assigned to the Ministry of Economic Affairs.



Whereas the Italian Foreign Affairs Ministry has, for many years, dominated the preparation and implementation phase of EU policy in Italy, the Coordination Department of EU policies has become the main coordinating body in recent years. In 2005, the legislative act no.11 of 4 February 2005 introduced an Interdepartmental Committee for European Community Affairs (CIACE) in the Office of the Prime Minister coordinating the Italian transposition of EU legislation.

Like in all other member states at some stage, Sweden, since its membership in the mid-1990s until recently, had an EU Secretariat within the Ministry for Foreign Affairs coordinating the transposition process. Since 2005, however, the EU Coordination Secretariat in charge of monitoring and coordinating the implementation has been transferred directly to the Prime Minister's Office.

Greece is often said to have not yet found a workable formula for coordination of the EU transposition. To improve its stands towards other ministries, however, the Special Legal Department for the EU has been transferred to the Prime Minister's Office in 2005 which has the responsibility for the coordination of the transposition process.

*Regularity of meetings:*

In France, since 2004, transposition issues are regularly discussed in the newly interministerial coordination body. Approximately every two to three months the Interministerial Committee on transposition jointly chaired by the SGAE and the SGG supervises and discussed detailed overviews on the progress of transposition.

In Germany, transposition issues have been regularly discussed in high-level meetings across the federal government since the 1980s. These meetings take place about twice every month, attended by the relevant directors of all ministries and monthly meetings of the Secretaries of State for Europe (*Europastaatssekretäre*).

In Italy, since 2005, the Interdepartmental Committee for European Community Affairs (CIACE) coordinates work with the legislative sector, monitors progress with the implementation of Community directives and submits the findings monthly to the

Council of Ministers for appraisal. Next to the monthly Council of Ministers meetings dealing explicitly with problematic transposition issues, the Interdepartmental Committee for European Community Affairs may convene an earlier meeting with a ‘laggard’ ministry.

While the Swedish coordination of the EU policies has been transferred from the Ministry of Foreign Affairs to the Prime Minister’s Office in 2005, formal transposition meetings hardly occur. Whereas the cabinet meets approximately once a month to discuss, among other things, issues of implementation, it is the widely applied informal communication among the policy-making and implementation across and within ministries which are named by all interview partners and that are conducted via electronic communication, phone calls or email correspondence.

In Greece, the Special Legal Department for the EU under the Prime Minister only sometimes organizes consultations with ‘problematic’ ministries. Whereas general transposition issues may be also addressed in the Council of Ministers, the regularity of inter-ministerial meetings remains ad-hoc depending on the urgency of the issue concerned. Table 2 summarises the findings in terms of political priority.

[Table 2 about here]

## II Nature of administrative coordination:

### *Inter-ministerial coordination:*

In France, the SGAE allocates the task of transposing the directive to the ministries which normally have already participated in the shaping of the French position in Brussels. Often this includes two or sometimes three different ministries at the same time. Since 1993, the SGAE has maintained an overview of all directives requiring transposition by setting up the before-mentioned implementation table. This data-base provides information on how the workload associated with transposition is divided between areas in which parliamentary law is required and those in which governmental regulations will suffice. But only since 2004, the SGAE convenes regular meetings of the inter-ministerial coordination body.

In Germany, any policy matter is attributed to one department of a ministry, which, then, works out the draft of the German legislation. If several departments or ministries are concerned, for example, the principle of '*Federführung*' is applied, i.e. one department is assigned the leadership and the final responsibility for the preparation. Since the late 1990s, the Ministry of Economics has put a database in place in order to better deal with the administrative challenges (*EU Richtliniencontrolling*). The average implementation duration of the individual ministries, however, is not documented yet.

In Italy, for a long time, inter-ministerial rivalry has prevented any attempt at creating a body entrusted with inter-ministerial coordination on EC matters (Bindi and Cisci, 2005: 152). The in 2005 established Interdepartmental Committee for European Community Affairs (CIACE) monitoring the transposition of EC directives into national law has started to systemize the distribution of the directives between ministries. While maintaining a database which enables to establish at any time the record of the performances of Italian ministries, with the backing of the Prime Minister, it functions as a mediator between the ministries and takes decisions in case of inter-ministerial rivalries.

In Sweden, since 2002, the EU Coordination Secretariat keeps a list for internal use of all adopted directives. The responsible ministry is asked to present a time-table for the transposition of the directive. This time-table is included in the list of adopted directives. In terms of implementation figures, it is the Swedish National Board of Trade that keeps a central database where all the latest adopted directives are listed. Each month a copy of the adopted directives is sent to the EU Coordination Secretariat that in turn forwards the list to each responsible ministry. The ministries report back to the EU Coordination Secretariat when they expect to implement the directive, in which way and what problems may occur.

In Greece, since 2005, the ministries concerned cooperate with the Integrated Office of Legal Affairs attached to the Prime Minister's Office, having developed a network of contacts with the above-mentioned ministries, and providing legal support to solve the problems encountered. A national data base including all European directives to be transposed and their Greek national legal instruments is administered since 2003

by the Ministry of Foreign Affairs and was not transferred with the Secretariat to the Prime Minister's Office.

*Intra-ministerial organization:*

The way in which the various ministries in France handle transposition varies and is not based on similar rules of procedure and has not radically changed over the last ten years (Philip, 2006; Sauron, 2000). In practice, ministries have not reviewed their structures with the demands of EU work in mind, but rather they have been concerned not to disturb the internal administrative balances between the old central directorates. Still most ministries do not have legal affairs unit at the level of a directorate or as a staff unit of the minister. The only exceptions seem to be the ministries of Foreign Affairs, Defense, and Economy and Finances and Agriculture, National Education and the Interior. However, the use of correlation tables seems to be already the dominant method in the ministries.

Next to the circulars by the subsequent Prime Ministers since 1986, there are no guidelines of transposition for the individual civil servants. Furthermore, policy-making teams and transposition teams hardly interact with each other. Here, it is often a question about number of staff in the different units whether members of the transposition team joined the working group sessions in the Council.

In Germany, any policy matter is attributed to one department of a ministry (the *Referat*) from the beginning of the negotiation process in the Council to the transposition process. In the meantime, all German ministries consist of an EU coordination division or at least a specialized unit on EU legal issues. Here, the responsible department works out a planning schedule for the transposition during the negotiations in the Council so that the drafting starts right after the adoption of the text. Normally, members of the policy-making team will be part of the transposition team. The competent civil servants, however, work out the draft of the instrument without relying on formal transposition guidelines. The interview partners contend, nevertheless, that the normal procedure is to set up a correlation table illustrating as far as possible the correspondence between directives and transposition measures.

In Italy, the level of intra-ministerial coordination on European affairs varies among the ministries from no coordination at all (Ministry of Environment) to little

coordination (Ministries for Telecoms, Health, Treasury, Transport and Agriculture) to the only example of effective coordination: Ministry of Finance. Here, the *unita di indirizzo* has been set up in 1999 at the Director General's level to coordinate EU issues (Bindi and Cisci, 2005: 152). Italy does not have any guidelines for the transposition of EU legislation nor are the transposition teams composed of members of the policy-making team (due to high rates of fluctuations among civil servants). This is further aggravated by the fact that no planning schedule for transposition is worked out during the negotiation phase in the Council's working groups nor have correlation tables systematically set up by the civil servants in charge of transposition.

In Sweden, while the Ministry of Justice and the Ministry of Finance have a special EU department, all other ministries have a legal unit which coordinates the actual transposition process within the ministry. It is primarily the legal secretariats of the different ministries that implement the directives; hence, the persons negotiating the directive are not always the same persons who are responsible for the transposition. There are, however, regular, informal contacts between these two groups both during the negotiations as well as during the implementation phase. Moreover, an early warning system exists through the central database which enables the coordinating unit to keep track of how Sweden performs. It also includes, among other information, the planning schedule worked out during the negotiation phase of the directive which provides information about the latest date for transposition, the responsible Swedish ministry, what kind of legislation is considered necessary for the transposition and the estimated date for adoption of this legislation. This database is public information and accessible by every ministry. In Sweden, only recently, in 2005, the EU Coordination Secretariat has set up a general note pinpointing to some possible pitfalls for civil servants transposing directives. Written guidelines, however, are still not existent.

In Greece, since 2005, the transposition teams include more and more often civil servants following the EU directive from earlier stages in the Council's working groups. The responsibility for the transposition of directives lies with the ministries that participated in the drafting of the directives. However, there are only few ministries that have specialized units for the transposition of EU legislation. Whereas the Ministry's for Agriculture special unit for legal affairs is well organized for the transposition of EU legislation, it is, for example, the Ministry for Public Health

which lacks a similar unit leading to considerable delays. In addition, there is no general rule about the start of the transposition process, nor do general guidelines for transposition exist. Furthermore, a systematically set up planning schedule for transposition in the negotiation phase is still missing. Table 3 summarizes the findings for the second group of recommendations concerning the nature of administrative coordination.

[Table 3 about here]

### III. Nature of parliament's involvement *before* and *after* the adoption of the EU directive:

The French Parliament is immediately informed about directive proposals presented by the Commission, but it has hardly any influence in the EU bargaining phase. The National Assembly and the Senate have to adopt an opinion only if the Commission's proposal falls under Article 88-4 of the French Constitution; otherwise, they do not have a compulsory mandate. If Parliament is required to react (on those components that are legislative), however, fails to communicate while agreement of a proposal by the Council of Ministers is expected, the minister responsible for the negotiations or the Junior Minister for European Affairs can ask the Parliament to accelerate their examination. Since late 2003, the government aims to intensify the debate in the preparation phase with the help of monthly consultations with the parliament. In addition, a reduced version of the impact data sheet or *fiche*<sup>2</sup> is sent to Parliament. Parliament lists these proposals in the parliamentary information bulletin and since 2003 MP Christian Philip (in coordination with the Standing Committee on European Affairs) drafts a yearly report on the state of France's transposition performance; known as the Philip report.

In Germany, generally speaking, the federal government has to inform the two parliamentary chambers before any decision that would become binding EU law – a decision taken with the adoption of the Maastricht Treaty. Whereas the Bundestag executed an ex-post control in the past, since 2006, an agreement between the German government and parliament has considerably improved the situation. It foresees an

earlier distribution of information about relevant EC documents and a right of consultation which may even lead to a scrutiny reservation. In the transposition phase, Germany meets the Commission's recommendations by sending timetables right after the adoption and keeping the parliament informed about the transposition process by reports every three months.

In Italy, with the *legge Fabbri* (1987) the parliamentary committees receive regularly all the draft EC decision. In 2005, with legislative act no. 11 this task was even further enforced by requiring the government to put all draft EU Community Acts and the preparatory documents for them (including White Papers etc.) before both Houses of Parliament. Another particularly important novelty is provided by section 4 where the institution of 'reserved Parliamentary powers' which the government must raise whenever Parliament has not begun, or has not completed, its examination of Community acts submitted by the Ministry of Community Policies. When this is done, the government is required to lay the text before both Houses to receive their opinion within 20 days thereafter. Since recently, the Community act contains the government's report to Parliament on the state of conformity between Italian law and Community law, and any infringement proceedings against Italy, and the case-law of the ECJ (Giuliani and Piattoni, 2006). Furthermore, it provides a list of the directives implemented or awaiting implementation through administrative channels; and it explains the reasons for any failure to transpose directives when the transposition date has already expired or is about to expire.

Since its membership in 1995, the Swedish Parliament has always been very much involved in the EU negotiation phase. The Swedish parliament's advisory committee on European Affairs was modeled on the Danish committee in most respects. The Advisory Committee on EU Affairs allows Parliament to consult with the government which has to inform the *Riksdag* about all matters that are dealt with by the Council and has to confer about Sweden's positions on important issues more generally (Johansson, 2003: 377). The responsible ministry has to write a position paper concerning the Commission proposal which is then submitted to the Swedish Parliament, preferably no later than five weeks after the proposal has been submitted to the Council. Then, the government's position in upcoming Council sessions are presented and discussed, but the advisory committee is not entitled to instruct

ministers. The Committee convenes every week ahead of meetings in the EU's Council of Ministers and is attended by the relevant minister and advisers, or exceptionally by state secretaries and under-secretaries of state if ministers are unable to attend. In the end, it may request a scrutiny reservation and a memorandum from the government on any case it wishes. In the transposition phase the parliament is kept informed about developments in the transposition process also for non-legislative acts. It receives reports every three months including an updated timetable of the transposition process. Moreover, the report provides an overview of missed deadlines and reasons for the latter.

The Greek cabinet has an obligation to inform the parliament on all Commission draft proposals. However, the scope of information that the parliament receives on the EC issues has been limited and the information transfer is very dependent on the government. In the meantime, however, they are informed about every Commission proposal via the Parliamentary Committee for European Affairs, which was established in 1990. It was the last parliament to introduce, i.e. the 'only Member state that did not have such a committee' (Spanou 2000:174), which meets about seven or eight times per year. But its influence and visibility is low. Interview partner argue that it monitors the EU policy cycle in a rather 'rudimentary and unsystematic way'. The Greek Parliament is only involved in the transposition process at the stage where the legislative act is voted (Gange, 2004). Furthermore, it is still not regularly informed about the transposition of other EU legislation requiring a non-legislative act. Table 4 summarizes the findings for the role of national parliaments.

[Table 4 about here]

#### IV. Nature of national implementing measures:

##### *Fast track procedure:*

In France, two national instruments are of particular interest to adopt legislative measure at rather short notice. An authorization law (*loi d'habilitation*), which provides the government with the authority to adopt ordinances. This instrument helps since it bypasses a length political debate in both chambers of Parliament and the



shuttling of a proposal back and forth between the National Assembly and the Senate. An ordinance only needs to be approved by Parliament in a yes-no vote, without the possibility of amendment. This instrument has been applied more regular since the last years. In 2000, 50 directives were transposed using this instrument; in 2004 an authorization law was approved for the transposition of 23 directives. The other instrument is the omnibus bill (*DDAC*). Twice a month for half a day the parliament has reserved time to examine omnibus bills, which helps to speed up the parliamentary procedure to adopt a new law. In contrast to ordinances, the omnibus bill follows the normal parliamentary procedure, which also means that members of parliament may propose amendments. The omnibus bills are mostly reserved for politically non-controversial and often technical directives. In the last couple of years about three omnibus bills have been introduced per year (Philip, 2006) to transpose EU legislation promptly.

The German set of transposition measures does not provide a fast track instrument transposing EU legislation. Recently in some exceptional cases, clauses have been included in laws which provide for the automatic transposition, i.e. dynamic implementation of EC directives at the moment that they enter into force in the EC. In rare cases where EC law must be implemented word for word, 'automatic implementation' allows the smooth implementation of a directive. An automatic implementation clause has been included, for example, in the Road Traffic Ordinance (*Strassenverkehrs-Zulassungs-Ordnung*).

In Italy, when urgent action is needed, a decree (*decreto legge*) may be issued by the cabinet, and such decree is immediately in force though it has to be later approved by Parliament to become ordinary law. In addition, although omnibus bills follow the procedure as a bill they transpose a number of directives covering different policy areas. One example is the omnibus bills in the late 1980s through which ca. 100 directives of different kind transposed in once. Recently, 'La Pergola' is being reformed suggesting that, in urgent cases, directives can be transposed outside the comprehensive bill (Giuliani and Piattoni, 2006: 92-93).

The Swedish policy-making system does not provide any acceleration procedures in case of a legislative act. Greece, to the contrary, allows the adoption of omnibus-bills

and prioritizes voting on bills transposing EU directives. Table 5 summarizes the findings concerning a fast track procedure.

[Table 5 about here]

### *Summary of findings*

Assessing the administrative models for transposition of France, Germany, Italy, Sweden and Greece, this study finds some evidence of convergence towards the European Commission's recommended most efficient administrative model. Over the last ten years, all Member States have gone through a radical process of change. Especially over the last two years, since the formal adoption of the European Commission's best practices in early 2004, a handful newly adopted legislative and statutory initiatives across all Member States have entailed adjustments of existing and the creation of new actors. All five Member States have put in place or have adjusted specific arrangements for coordinating EU policy implementation and established special processes and procedures.

In absolute terms, table 6, which reports the administrative convergence scores, displays that without exception all Member States have attained relatively high administrative convergence ratio scores. Whereas France, Germany and Sweden score above .9, Italy reached a score of .72 and Greece of .61. Administrative change implying a reduction of variance and disparition in administration arrangement, more generally, is found. All Member States have assigned a senior member of government to coordinate the transposition process; one ministry is responsible for monitoring transposition as a whole; and civil servants normally use correlation tables when translating EU legislation into national law.

Nevertheless, these numbers highlight that despite the recent efforts across Member States and a relatively high degree of convergence around the recommended administrative model, national differences persist- not only in Italy and Greece. Recommendation 9 is still not fully implemented by none of the five Member States; no transposition guidelines exist.

[Table 6 about here]

## **DISCUSSION AND CONCLUSION – EVIDENCE FOR ADMINISTRATIVE CONVERGENCE BUT DIVERGING EFFICACY**

*To what extent is there support for the European administrative convergence hypothesis?* This assessment shows that there is no prove for divergence. The interview partners contend that the national administrative coordination models for national transposition processes have converged mainly over the last two years following new legislative and statutory initiatives by Member States' governments. Although clear differences remain, one cannot speak of 'various models in the national administration's EU model' like scholars have done in case of national EU policy-making models (Spanou, 1998). Convergence and change are more typical than persistence (Laegreid, Smari Steinhorsson and Thorhallsson, 2004); administrative convergence implying 'a reduction of variance and disparities in administrative arrangements' (Olsen, 2002: 1) proven; a trend towards Europeanisation of the public service evident (Bossaert et al., 2001: 248).

Wright (1996), however, reminds us that 'observing the machinery alone is insufficient'. To account for efficiency transposition figures might give a first impression. Table 7 presents the transposition deficit figures for the five Member States over the last decade.

[Table 7 about here]

Table 7 illustrates that transposition records have systematically and steadily improved across Member States since 2000. Italy and Greece reduced their deficits from remarkable 11.3% and respective 10.2% to less than 4%. But also Germany, France and Sweden improved their records from an average of 7% deficit to below 2%. While one finds a uniform tendency of improvement since the launch of the Lisbon Agenda, the 2004 stimulus has entailed less systematic effects. Member States transposition performances have varied considerably. The figures display that only Germany and France have experienced a considerable improvement in transposition records since 2004 while Sweden only slightly decreased its transposition deficit. The

performance scores of Greece and Italy, to the contrary, have even worsened. Greece and Italy have gone into reverse gear, recording their worst transposition deficits for many years despite the newly introduced reform programs in both countries.

Why? Do European Commission recommendations understood as measures for efficiency entail unintended consequences which influence Member States' performances in a negative way? Whether European Commission recommendations are helpful or not goes beyond the scope of this study. But, applying these recommendations as measure for efficiency may entail reverse effects. Two sub-optimizations may be identified in the Member States, namely: a so-called paper implementation culture and measurement fixation.

*Paper-implementation culture:*

This analysis has probably only shown that in the departments of the Member States' ministries a paper-implementation culture reigns. Member States have reorganized their coordination system *on paper*, i.e. all coordinating bodies, for example, fall meanwhile under the direct authority of the prime minister – formally. But, the translation of the European Commission's best practices may only lead to informal mimicking without improvement of performance. European Commission's recommendations are followed, the institutional settings formally adapted, but may be little more than symbolic behavior. And despite the ensuing increased political priority, interview partner confirm that it is still the approaching deadline for the next official scoreboards which makes capitals hurry to get transposing measures adopted. A so-called 'external evaluation committee-on-visit-effect'. Moreover, the regular convening coordination meetings among the transposition actors normally only discuss problematic cases and not the transposition process of every EU legislation. Hence, not the overall performance is improved, but it is an 'emergency first-aid supply' and does not go beyond.

*Measurement fixation:*

Measurement fixation is a likely second sub-optimization of best practices. It is often referred to as the 'emphasis on single measures of success rather than on the underlying objective' (van Thiel and Leeuw, 2002: 290). Member states instead have learned which aspects of performance are measured (perverse learning next to positive

learning by Meyer and Gupta, 1994: 330-342). This measurement fixation ends in a tunnel vision which ‘can be defined as an emphasis on phenomena that are quantified in the performance measurement scheme at the expense of unquantified aspects of performance’ (Smith, 1995: 284). Aspects of quality, fairness, justice and accountability matter less and less. Whereas a fast track transposition measure is advised and found preferred compared to the slower national implementing instruments (recommendation 12), it may undermine the role of national parliaments. It is these acceleration procedures that may give rise to legitimacy concerns when reducing national parliaments’ role to rubber-stamp. Is there no lesson to learn from Denmark (Dimitrova and Mastebroek, 2005:1) to synchronize the system of parliamentary scrutiny with that of EU decision-making, so as to give parliaments more leverage over the latter process and bolster democracy?

To conclude, the effects of European Commission’s recommendations for the administrative coordination of national transposition processes may be more or less effective. But, Member States have not only acknowledged and acted accordingly. Since 1997, consequently, the EU has placed administrative issues high on the enlargement agenda. The 2004 round of enlargement, for the first time, included an assessment of the existing administrative systems (Dimitrova, 2002). Nevertheless, scholars (Mastebroek, 2003; Sverdrup, 2004) show that transposition is hampered by multi-layered governance, a diversity of administrative settings, but also a variety of legal, cultural and socio-economic contexts and language. Transposition is by no means an *apolitical process*. In fact, it seems ‘a prime example of multi-level politics in practice’ (Falkner et al., 2005: 342). If so, and in light of the reported unintended consequences of measures for efficiency, this and the findings of the study will challenge the European Commission and scholars to rethink the degree to how administrative arrangements matter when transposing EU legislation in Member States.

**Notes:**

- 1 Note that you can think about convergence in a ‘broad’ and in a ‘strict’ sense. In the strict sense one can speak of convergence if a decrease in the dissimilarities between cases over time is observable. In a broader sense, one can speak of convergence if considerable similarities between cases are

observable. In the following, this study will the questions ‘whether there is convergence’ in both senses of the term.

- 2 Next to information about the background and legal base of the Commission proposal, the fiche includes an assessment of the impact of the proposal on the French legal order, the relevance of the proposal to France and the initial position of the government, based on the discussions between the line ministries and the SGCI, on the proposal.

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**Tables:**

**Table 1. Presentation of European Commission’s recommendations**

	<b>European Commission’s recommendation</b>
<b>I Political priority</b>	
Position of coordination body	1) Senior member of government at Minister or Secretary of State level visibly supported by the Head of Government (factor 2)
Regularity of meetings	2) Monthly discussion of transposition records to keep up visibility (factor 2)
<b>II Nature of administrative coordination</b>	
Inter-ministerial coordination	3) One ministry is responsible for monitoring the transposition as a whole (factor 1)
	4) Maintaining a central national data base to establish at any time the record of the Member state as a whole and by Ministry (factor 2)
Intra-ministerial coordination	5) Working out of a planning schedule for transposition during negotiations of the Directive so that the drafting starts right after its publication (factor 2)
	6) Ministry should have a transposition contact point (factor 1)
	7) The negotiation team in the ministry should have strong links to the transposition team in the same ministry (factor 1)
	8) Civil servants should use correlation tables (factor 1)

	9) Transposition guidelines (factor 1)
<b>III Involvement of parliament</b>	
Parliament's involvement <i>before</i> the adoption of the EU directive	10) Parliaments are sent directive proposals as soon as presented by the Commission (factor 2)
Parliament's involvement <i>after</i> the adoption of the EU directive	11) They are sent timetables right after the adoption and kept informed about the transposition process by reports every three months (factor 1)
<b>IV Nature of national legal instrument</b>	
Fast track procedure	12) The adoption under an acceleration procedure in case of a legislative act should be envisaged (factor 2)

Table 2. **Political priority**

Commission's recommendation	France	Germany	Greece	Italy	Sweden
1) Senior member of government at Minister or Secretary of State level visibly supported by the Head of Government	x	x	x	x	x
2) Monthly discussion of transposition records to keep up visibility	(x)	x		(x)	x

Legend: x stands for full implementation whereas (x) stands for partly implemented policy

Table 3. **Nature of administrative coordination**

Commission's recommendation	France	Germany	Greece	Italy	Sweden
3) One ministry is responsible for monitoring the transposition as a whole.	x	x	x	x	x
4) Maintaining a central national data base to establish at any time the record of the Member state as a whole and by Ministry.	x	(x)	x	x	x
5) Working out of a planning schedule for transposition during negotiations of the Directive so that the drafting starts right after its publication.	x	x			x
6) Ministry should have a transposition contact point	(x)	x	(x)	(x)	x
7) The negotiation team in the ministry should have strong links to the transposition team in the same ministry.	x	x	(x)		x
8) Civil servants should use correlation tables	x	x	x	x	x
9) Transposition guidelines		(x)			(x)

**Table 4. Involvement of national parliament**

<b>Commission's recommendation</b>	<b>France</b>	<b>Germany</b>	<b>Greece</b>	<b>Italy</b>	<b>Sweden</b>
10) Parliaments are sent directive proposals as soon as presented by the Commission.	<b>x</b>	<b>x</b>	<b>(x)</b>	<b>x</b>	<b>x</b>
11) They are sent timetables right after the adoption and kept informed about the transposition process by reports every three months.	<b>x</b>	<b>x</b>		<b>(x)</b>	<b>x</b>

Legend: x stands for full implementation whereas (x) stands for partly implemented policy

**Table 5. Nature of national legal instrument**

<b>Commission's recommendation</b>	<b>France</b>	<b>Germany</b>	<b>Greece</b>	<b>Italy</b>	<b>Sweden</b>
The adoption under an acceleration procedure in case of a legislative act should be envisaged.	<b>x</b>	<b>(x)</b>	<b>x</b>	<b>x</b>	

Legend: x stands for full implementation whereas (x) stands for partly implemented policy

Table 6. Evaluation of Member States' implementation of Commission's recommendations

Commission's recommendation	France	Germany	Greece	Italy	Sweden
Recommendation no.1 x factor 2	x	x	x	x	x
Recommendation no.2 x factor 2	(x)	x		(x)	x
Recommendation no. 3 x factor 1	x	x	x	x	x
Recommendation no. 4 x factor 2	x	(x)	x	x	x
Recommendation no. 5 x factor 2	x	x			x
Recommendation no. 6 x factor 1	(x)	x	(x)	(x)	x
Recommendation no. 7 x factor 1	x	x	(x)		x
Recommendation no. 8 x factor 1	x	x	x	x	x
Recommendation no. 9 x factor 1		(x)			(x)
Recommendation no. 10 x factor 2	x	x	(x)	x	x
Recommendation no. 11 x factor 1	x	x		(x)	x
Recommendation no 12. x factor 2	x	(x)	x	x	
<b>Total number of implemented recommendation</b>	<b>17.5/18</b>	<b>16.5/18</b>	<b>11/18</b>	<b>13/18</b>	<b>16.5/18</b>
<b>Convergence ratio</b>	<b>0.97</b>	<b>0.92</b>	<b>0.61</b>	<b>0.72</b>	<b>0.92</b>

Legend: x stands for full implementation whereas (x) stands for partly implemented policy.

Table 7. Transposition deficit across Member States 1995-2006

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
<b>Germany</b>	7.1	6.6	6.4	3.3	4.5	3.4	2.8	2.4	3.0	3.5	1.4	1.8
<b>France</b>	7.3	8.2	6.4	5.6	6.2	5.2	3.5	3.1	3.3	3.5	2.4	1.9
<b>Sweden</b>	7.0	6.2	2.7	3.0	4.2	1.5	0.5	0.7	1.0	1.6	1.4	1.4
<b>Italy</b>	11.3	9.9	7.5	6.4	5.9	3.4	2.6	1.7	3.9	3.0	4.1	3.8
<b>Greece</b>	10.2	8.8	7.2	6.2	7.9	7.3	4.8	2.7	3.3	3.1	3.7	3.8

Source: European Commission 2000-2006 (Asmodee II).



# **Restructuring Cyprus Airways: Between Europeanisation and Domestic Blockages**

**Paper presented at the 3<sup>rd</sup> LSE Hellenic Observatory PhD  
Symposium,  
14<sup>th</sup> of July 2007**

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## **I. Introduction**

Since May 2004 Cyprus has enjoyed EU membership, following what has been considered the most challenging expansion in the EU's history. Along with nine other Member States, Cyprus was admitted as an equal partner in the Union but in order to secure accession it had to successfully complete the accession negotiations and apply fully the *acquis communautaire* of the EU. This required various domestic changes to be undertaken. Such changes have subsequently affected domestic equilibriums in many policy areas and in various ways. This paper will examine the effects of EU entry in the airline market and more specifically on Cyprus's national flag carrier. Any effects brought about domestically by EU entry will be assessed by applying concepts stemming from the literature on Europeanisation.

Europeanisation, while it is yet a contested term, has become fashionable in academic literature and can be a useful entry-point for a greater understanding of important changes occurring in politics and society (Featherstone, 2003). Various definitions have been offered but no shared one has emerged thus delimiting any definition to a specific article or book chapter (Olson, 2002). This paper considers Europeanisation as a term largely used to describe the EU's own processes and impacts (Featherstone and Kazamias). A two-way process is involved whereby both top-down and bottom-up pressures are evident. On the one hand, the member states try to influence decision making at the EU level by exerting bottom-up pressures, while on the other, the EU exerts top-down pressures on the member states so as to secure domestic compliance.

Nevertheless, concerning the recent enlargements and the entry of a total of twelve new member states (ten plus two) there has been a rather strict one way Europeanisation process. As Grabbe (2003) notes, the candidate countries were engaged in an asymmetrical relationship, which gave the EU coercive routes of influence in domestic policy-making processes. The applicant countries could not influence EU policy making from the inside while they had a strong incentive to implement the already existing EU policies, in order to gain admission (Grabbe, 2003: 303). As a result, the Europeanisation pressures had only a top-down effect, experienced domestically by the acceding countries.



Cyprus was no exception to the rule and had no option but to comply with all existing EU rules and regulations without being able to alter or surpass any aspect of the thousands of provisions included in the ninety thousand pages of the *acquis communautaire*<sup>1</sup>. Consequently, the air transport sector in Cyprus had to adopt a new market framework prescribed by the EU, which, as will be examined later on, altered the prevailing *status quo* in the market, affecting greatly the country's largely state-owned flag carrier and the relevant actors.

In trying to fully assess the degree to which the national flag carrier has been affected post EU-entry, this paper is divided in four sections. The theoretical framework is analysed in the following section, examining how Europeanisation theory will be applied in order to evaluate any effects of Cyprus's entry in the EU. Developments at the EU level concerning the airline industry are then examined, emphasising the power gained over the years by supra-national actors at the European level (namely the Commission and the ECJ) in securing 'open skies' for Europe under a competitive market framework. Then, follows a section that provides a brief overall review of the organisational structure of CY and attempts to trace any misfits between EU requirements and domestic procedures. The effects of EU entry on the flag carrier are then reviewed, analysing the attempts of the Cyprus government to restructure the airline under the guidance and restrictions of the EU. Finally, a concluding section is offered which traces in particular the Europeanisation effects and processes in relation to the developments in CY.

## **II. Europeanisation – the Theoretical Framework**

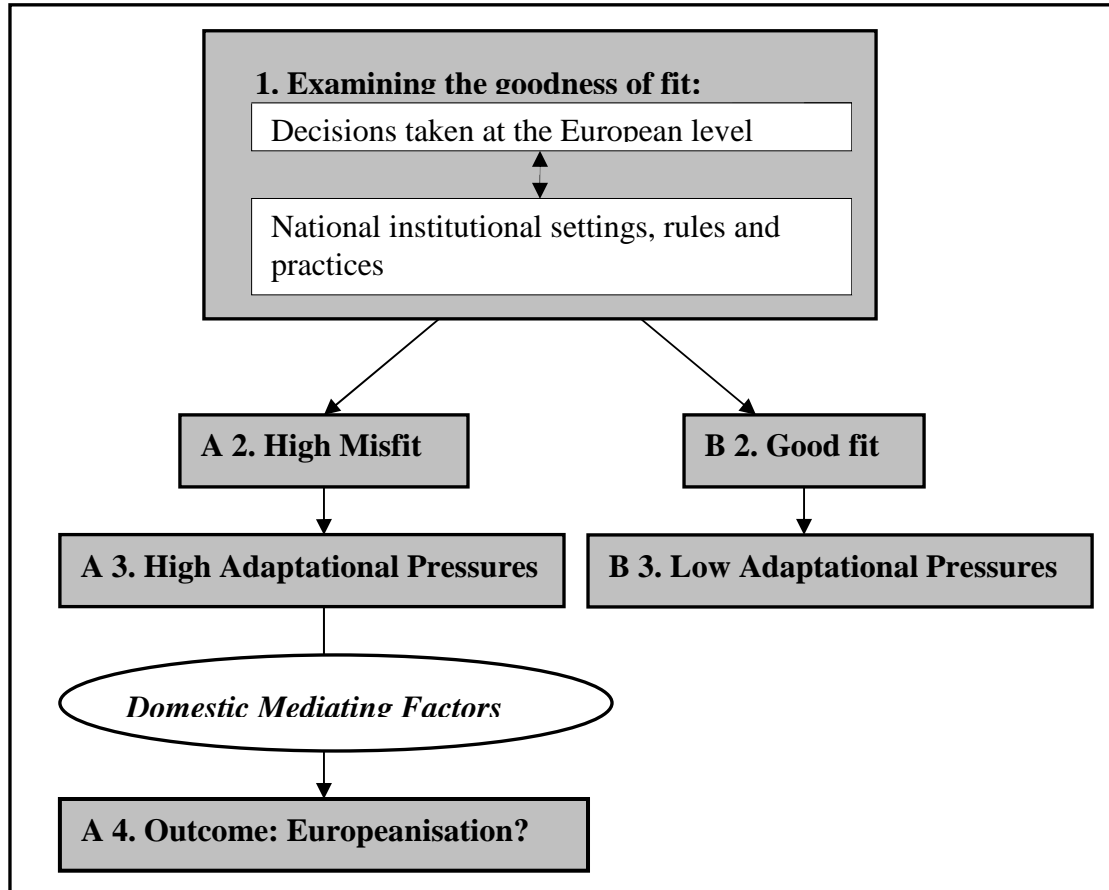
This section aims at outlining how Europeanisation theory can be applied in practice by making reference to the work of Caporaso *et al* (2001) and Knill and Lehmkuhl (1999, 2002). The first study examined is the work of Caporaso *et al* (2001) which apply a very influential three-step approach when trying to explain what triggers Europeanisation pressures and as a result domestic structural change, focusing on the

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<sup>1</sup> Interviews with Costas Paschalis (Member of the Cyprus Negotiating Team for Cyprus under George Vassiliou 1998-2003) and Takis Hadjidemetriou (Chief Negotiator for Cyprus 2003-4); Summer, 2004.

‘goodness of fit’ between domestic institutions and European policies. Their approach is summarised in figure 1 below:

**Figure 1:** *Explaining Europeanisation, Caporaso et al (2001)*



The starting point of the Caporaso *et al* approach identifies Europeanisation processes and those decisions reached at a supra-national level that may affect the domestic setting of any member state. Secondly, a comparison is carried out between the EU requirements, stemming from the first step, and the existing domestic setting of a member state, trying to identify a ‘goodness of fit’ between the two. Where a low goodness of fit is identified (i.e. a misfit between EU policies and domestic structures exists) then high ‘adaptational pressures’ arise. By ‘adaptational pressures’ Caporaso *et al* refer to ‘the extent to which domestic institutions would have to change, in order to comply with European rules and policies’. However even when a misfit is traced in the second step (Step A 3 in figure 1) leading to adaptational pressures for the member state to comply, it must not be taken for granted that such changes will occur. In fact it is the domestic mediating factors that will determine whether the changes

will actually be brought about in response to the Europeanisation pressures. Such mediating factors include multiple veto points, mediating formal institutions, political and organisational structures, the differential empowerment of actors and learning.

The second study examined is the work of Knill and Lehmkuhl (1999, 2002). Their research goes a step further and seeks to analyse further why there are varying patterns of institutional adjustment, since evidence suggests that there is a great variety in domestic patterns of Europeanisation. In their analyses they provide a more comprehensive framework for explaining the domestic impact of European policy making. They make an analytical distinction between three mechanisms - positive integration (institutional compliance), negative integration (changing domestic structures) and framing integration (framing domestic beliefs and expectations) – where each mechanism requires a distinctive approach to explain its domestic impact. The mechanism involved in each example is considered the most important factor when investigating the domestic impact of Europeanisation. The following section will identify under which mechanism the airline industry should be included by reviewing the European airline market and recent relevant developments.

### **III. The European Airline Industry**

The airline industry has been succinctly described by Rigas Doganis as a ‘paradox’ (2006: 27) since on the one hand it is one of the most international industries in terms of its operations, while on the other, in terms of ownership and control it is almost exclusively national. National flag carriers, largely or completely owned by governments, have traditionally enjoyed a monopoly status in the domestic markets and determined ticket prices through bilateral agreements which eliminated any competition. Politicians were content with a distorted market over which they had full control even if it downgraded consumer and commercial interests. The overall result was the prevalence of inefficient organisations where politics overshadowed efficiency and a corporate mentality.

Doganis (2006) outlines certain characteristics that are more or less common to state owned airlines, which suffer from what he names a 'distressed airline syndrome'. These characteristics common to national flag carriers include:

- serious financial difficulties;
- over-politicised, over-unionised and overstaffed flag carriers, with the government of the day intervening directly in the management of the airline;
- a multiplicity of unions which tend to very powerful and militant;
- a lack of clear strategy due to lack of management continuity which can also be attributed to political developments;
- a bureaucratic and over-centralised management; and
- a relative poor service quality, both in the air and on the ground.

Nevertheless, despite the above characteristics, the regulatory system based on protectionism and non-existent competition allowed such national companies to survive. Bizarrely consumers did not react either to the aid granted to these companies, at the expense of the government's budget, or to the unjustifiably high ticket prices. In trying to explain this attitude towards the national flag carriers Sochor offers a plausible explanation. Sochor (1990: 182) comments that a national flag carrier is considered a symbol of power, easily identified by name or national colours, that displays the flag of the country around the world. The very existence of the flag carrier, Sochor continues, indicates that the nation is distinctive, efficient and progressive. As a result public support could be secured, thus providing good ground for the state to intervene and assist the national airline in various ways and forms.

The breakthrough that allowed substantial steps to open up the European skies only came after the Single European Act of 1986, which aimed at creating a single market for EU members, allowing the free movement of goods, services, people and capital. Doubtful politicians at the time were still hesitant to picture the single market including the air transport sector but gradually the Commission, which has overall taken charge of securing the success of the single market project, extended its sphere of influence to include the airline market. In fact since 1986 the balance of power in the airline market has changed dramatically, with the Commission advocating in

favour of a limited role for the state and promoting fair competition between all airlines, whether national or private. Nevertheless, any competencies currently enjoyed at a supra-national level by the Commission came only gradually with the implementation of the three liberalisation packages in 1987, 1990 and 1992, and by applying fully the EU competition rules in the airline market (Armstrong and Bulmer, 1998).

The three liberalisation packages specifically aimed to gradually liberalise the market avoiding thus any shocks in the market from an abrupt change in the status quo. By the end of the third package, barriers to entry regarding any destination, either between or within member states, were lifted and national restrictions on ticket pricing were removed, preventing thus price collusion. Furthermore and most importantly, the EU competition rules were to apply in the market, aiming to eliminate all kinds of anti-competitive behaviour and targeting practises which distorted competition to the disadvantage of the consumer. More specifically, the three broad areas covered by the competition rules include monopolies and mergers, cartels and restrictive agreements, and finally, state aid.

Coinciding with the introduction of the third package in 1993 was the worst crisis experienced by the air transport in the history of commercial aviation that caused severe financial difficulties to all airlines<sup>2</sup>. The Commission, in order to mediate and moderate liberalisation processes and ensure that any ‘chaotic effects’ of liberalisation were avoided, decided to allow a last chance for modernisation and restructuring to state-owned airlines (Lavdas and Mendrinou, 1999: 91). As a result it adopted a more pragmatic approach allowing for ‘a one time, last time’ state aid that would secure the restructuring of the company and its future continued existence without government interference. Member states were obliged to apply their rescue and restructuring plans to the Commission and if approved the state could then provide a specified financial aid to the national airline. This strict process in dealing with problematic national airlines has also **been** applied to the countries that have joined the EU with the latest enlargements.

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<sup>2</sup> In the period 1991-4 the airline industry experienced the worst financial crisis in its history, with the world’s airlines collectively losing \$15 billion in four years. The European airlines were no exception and experienced their share of heavy losses (Doganis, 2006: 245).

In relation to the work of Knill and Lehmkuhl, following the implementation of the third liberalisation package the EU air transport policy shifted clearly into the second mechanism of Europeanisation. The second mechanism of Europeanisation entails that no specific institutional model is enforced by the Commission; rather it seeks to establish the proper regulation of the market by prohibiting certain actions. The EU requirements in relation to the airlines competing in the European market emphasised, among other, the opening up of the market and the termination of the monopoly status enjoyed by state owned airlines, the setting of ticket prices bilaterally between governments and any sort of state aid received regularly by the national flag carriers. Nevertheless, the Commission does not prescribe specific measures to be taken at the national level and instead allows room for each state to come up with measures that will allow the national flag carrier to compete efficiently under open skies. Before examining the effects of EU entry on CY, an overview of the structure and mode of governance of the company will be offered.

#### **IV. An overview of Cyprus Airways (CY)**

Cyprus Airways (CY) was established in 1947 when Cyprus was still under British colonial rule. Following the creation of the Cyprus Republic in 1960, CY became the national flag carrier of the island, with the government acquiring just over 50 per cent of its shares. The company steadily expanded its operations until the Turkish military invasion of Cyprus in the summer of 1974 and the subsequent illegal occupation of the northern part of the island, which left CY with no aircraft of its own and the country without its main airport in Nicosia. The airline restarted operations in 1975 and since then there has been no other major external shock to the operations of the company until the entry of Cyprus in the EU in 2004. It is important to note that since the early 1980s the government has acquired around 70 per cent of the shares and has since then remained the majority shareholder of the company, while, importantly, a subsidiary chartered airline (Eurocypria) was also established in 1991.

The ownership status of CY is unique when compared to other public utility organisations in Cyprus, such as the Cyprus Telecommunications Authority (CYTA)

or the Electricity Authority of Cyprus (EAC). While all companies enjoyed monopoly status and preferential treatment by the government, at least until EU entry, there are certain key differences between CY, which is a public company listed in the Cyprus Stock Exchange, and the semi-governmental organisations, which are entirely owned by the state. The Boards of semi-governmental organisations are appointed entirely by the government for a fixed four year period in contrast to the indefinite period the eight (out of a total of eleven) government-appointed Board Members of CY enjoy. Nevertheless, government-appointed Board members of CY run the risk of being replaced at any point in time by the government of the day.

Another difference is that CY, being a public company, should, at least theoretically, experience less government control on certain issues. For example, the annual budgets do not need to be presented to the Parliament for approval, while the yearly results are available to the public through the annual reports. Furthermore, when it comes to hiring procedures, potential employees in CY do not have to go through the same fixed processes that semi-governmental organisations or the public service employ (including written exams and personal interviews). This allows greater freedom to the company to set its own standards for the hiring of personnel. Of course, how this elasticity enjoyed by CY has been used by the company is a matter of debate, since many argue that it is due to this very lack of rigid rules that CY ended up being overstaffed and inefficient.

The main actors involved in CY are the government **and** the Board of Directors along with the management and the trade unions. Over the past decades all relevant actors, one way or another, have contributed in creating an inefficient organisation, grossly overstaffed and unable to compete in an open market without government aid. The Government, as mentioned above, has full authority in appointing eight of the eleven board members, including the Chairman and Vice-Chairman, for an indefinite period and can replace them at any point in time. As a result it has become a common phenomenon in Cyprus, following general elections and a change in government, to witness a change of the Board of CY as well. The newly elected government without delay sets out to replace those members politically affiliated to the previous government and immediately pursues to appoint its own party officials in the Board thus securing a direct influence on the company. Consequently, changes experienced

in the CY Board have occurred not according to the performance of the Board Members but more because of political developments.

The government's long-term goals for the company have been to connect the island with the rest of the world, thus ensuring the inflow of tourists on which the Cyprus economy is dependent, and also importantly it expects the company at worst not to incur any losses. CY has more or less fulfilled its first goal, providing a safe link for the island with the rest of the world, yet this has been achieved with a great cost to the government. Ironically, it has been the case that the government has guaranteed the company's survival and profitability throughout most of the years by granting government aid to the company in many forms. For instance the government safeguarded a monopolistic environment prohibiting any competition, it assigned to CY the handling of the Duty Free Shops in 1996 without tender<sup>3</sup> (both in the Larnaka and Paphos airports), the fuels acquired by CY were subsidised while also the government provided guarantees for the company's loans securing thus reduced interest rates.

The next set of actors involved in CY includes the Board of Directors and the Management team of the company which supposedly have clearly defined authorities and distinct duties. The former are 'outsiders' to the company, responsible for the governance of CY through the strategic decisions they take, while the latter has exclusive executive authority and deals with the day-to-day running and administration of CY. In practice, however, the company has been run with a completely different mentality. Successive Boards, having the backing of the government of the day, have traditionally extended their role to more than a supervisory one. The appointed Chairmen of CY Boards have tended throughout the years to behave as if they were Chief Executive Officers and have regularly intervened in the daily management of the company. This has undermined the role of the General Manager who has preferred not to react to any sort of intervention in his duties by his superiors (i.e. the Board), since this would endanger his own post in the company. This prevailing situation in the company has led to the mismanagement of CY, since it has given ground for more political intervention by the political party

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<sup>3</sup> The importance of the contribution of the Duty Free Shops to CY is clearly outlined in Annex 1 which illustrates the company's results from 1997 to 2006



appointed Board members. The Board's mounting influence in issues such as the hiring of employees, promotions inside the company, opening of new positions and other, which should have been strictly under the competence of the management, meant that any principles and the corporate mentality associated with the running of the company were sacrificed for the sake of satisfying political tasks.

In the interviews conducted for this research it was highlighted that because of the lax hiring procedures existing in CY, Board members could actually proceed with the hiring of personnel simply to fulfil party obligations. The management team preferred not to raise any objections to the Board's practices thus giving its consent to a continuous increase in staff numbers that was in excess of the company's needs. Mr Frixos Savvides, currently vice-Chairman of CY, was very critical of the practices employed in previous years by the Boards of the day and the lack of initiative shown by the management in bringing these practices to a halt. He used strong language to describe CY as the 'dumping place of the riff-raff that could not be employed elsewhere'<sup>4</sup>. Figures from each department's personnel were denied by the Human Resources and Administration manager, but from the interview material gathered, it was evident that there was an excess amount of people employed in all company departments. Mr Evagorou (former member of the Board and currently MP for AKEL) highlighted that staff numbers in the accounting department of CY were comparable to those of Lufthansa, while Frixos Savvides stressed that of the 128 then employed in the department only 3 are qualified accountants (interview September, 2006). Undoubtedly, previous Boards and the Management have their share of responsibility for such a state of affairs.

The last group of actors in CY includes the trade unions that exclusively represent the employees of the company. A total of five unions exist each representing different groups of workers (see table 1). The existence of five trade unions with occasionally conflicting interests makes the task of satisfying all employees' demands almost unattainable. Each union's demands are dealt with separately by the management or the board of the company, in contrast to the notion of a corporatist model that overall

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<sup>4</sup> Mr Frixos Savvides is not affiliated to any party although his was a member of the ministerial cabinet of the previous government. He is considered a successful businessman that has experience in management and for this reason he has been appointed by President Papadopoulos in CY's current Board. In the interview taken he expressed his sincere opinion with no second thoughts.

prevails in Cyprus. Usually, once the company gives in to the demands of one union then it enters a vicious circle where all unions expect their demands to be met. This of course has proven damaging to the company since, no matter what the cost, successive governments and boards would rather meet the demands of the unions than enter a public debate and possibly see the airline communications of the island come to a deadlock because of a strike.

**Table 1: CY trade unions' share of employees**

	<b>Union</b>	<b>Group of workers it represents</b>	<b>Percentage</b>
<b>1.</b>	<b>Synika</b>	Includes various professions (represents workers from various political groups apart from AKEL)	58%
<b>2.</b>	<b>Sidikek</b>	Includes various professions (politically affiliated with AKEL)	7%
<b>3.</b>	<b>Sypka</b>	Air Stewards	12.77%
<b>4.</b>	<b>Asyseka</b>	Mechanics	12.42%
<b>5.</b>	<b>Pasypi</b>	Pilots	7%

Source: *Figures provided by CY Human Resources and Administration Assistant Manager (October, 2006)*

On the whole, all CY unions have acquired disproportionate power and have gained veto-player status regarding possible developments in the company<sup>5</sup>. Tsebelis (2000, 2002) defines a veto player as an actor whose agreement is necessary for a change in the status quo (i.e. a previous policy outcome). Indeed, looking at the CY case it seems that the trade unions are small organised groups which manage to promote their interests at the expense of the tax-payers and the consumers, who are large, unorganised groups. They are characterised by a rent-seeking behaviour (Krueger, 1974) since by lobbying the government either directly or indirectly, through the government appointed Board, the unions actually managed to acquire a larger slice of the cake without increasing their productivity. According to Evans (2003), there are two prerequisites for union success in rent-seeking. First of all, above market wages and other benefits can only be extracted from enterprises which can actually generate

<sup>5</sup> This was something admitted by the management of the company, members of the board and party officials in the interviews carried out, which nevertheless argued for the right of employees to organise and fight for better conditions.

such rents. In the case study examined, CY had such a capacity because it had the political and economic backing of the government of the day. The second prerequisite is the ability to eliminate competition from non-union sources of labour. CY unions had no such competition since all employees became union members once employed and any individuals seeking employment in CY could not pose a threat to the well-organised unions.

Overall, regarding the structure of CY, it is important to highlight that CY enjoyed the government's preferential treatment, within a monopolistic environment, that allowed for inefficient practices to prevail. Politicians, irrespective of party affiliation, once in office permeated in the company's corporate structure and prioritised clientelism and the satisfaction of party supporters, irrespective of the cost to the company. In addition the government of the day ensured that the company did not face the possibility of liquidation by granting, directly or indirectly, government aid. Furthermore, political appointees in the company's board were careful in avoiding industrial unrest that could prove politically costly, by giving in to the demands of the various 'rent-seeking' CY unions which in the long-term managed to gain disproportionate power and become agenda-setting veto players in the company.

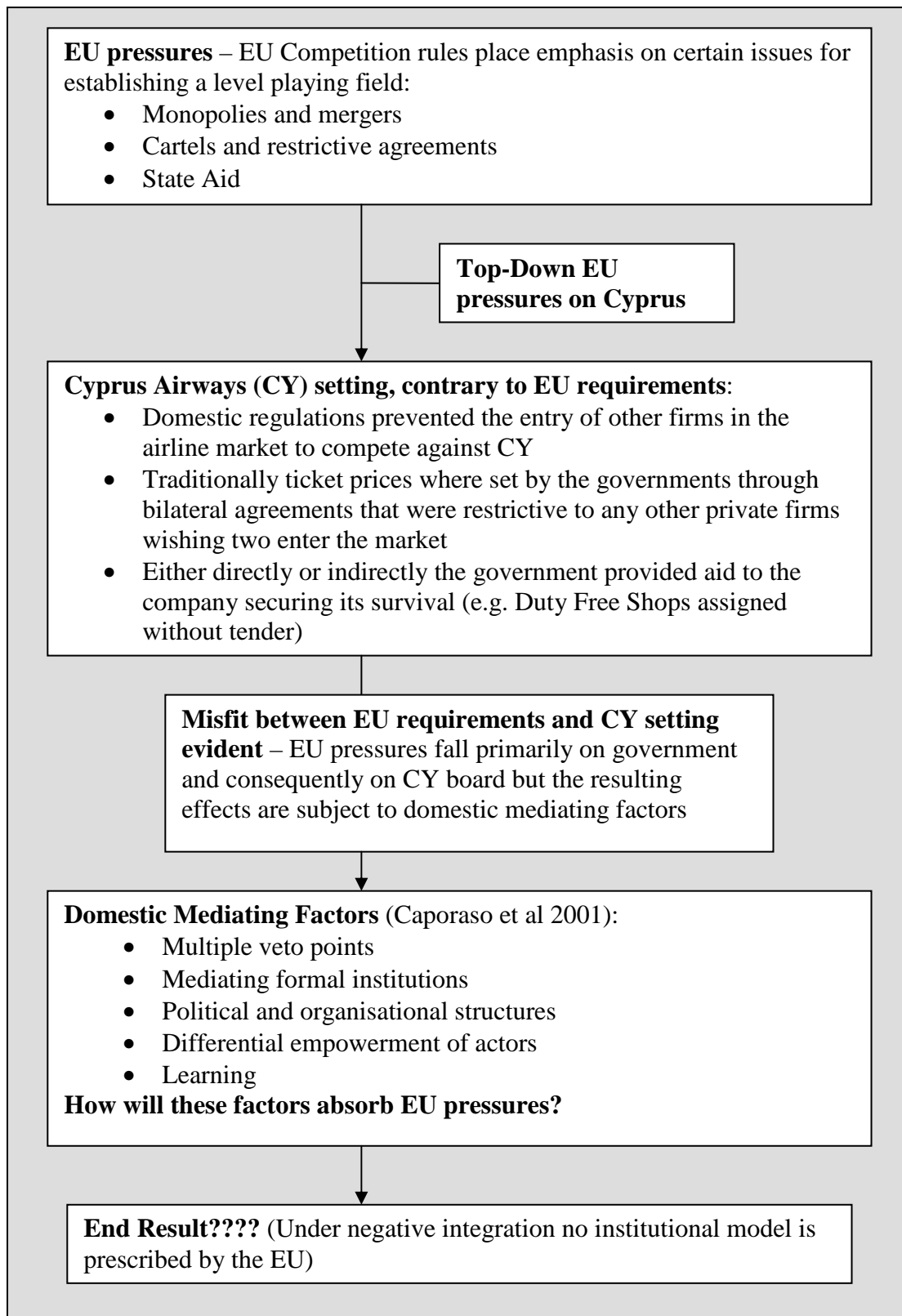
The next section examines whether EU entry has altered the institutional setting of the company and if there has been a shift in the balance of power among the actors involved in CY. Did the government manage to fulfil its commitment to open up the airline market and cease anti-competitive practices that favoured CY? How did the unions react to the new market framework which jeopardised their previously acquired rights? Did the unions continue to make use of their veto power? Such questions will be answered by reviewing the latest developments in CY prior and after EU accession.

## V. The Effects of EU entry on CY

CY operated in a way that clearly violated the EU's regulations and created a misfit between the European and domestic level that would certainly lead to adaptational pressures for the Cyprus government and CY in particular. Figure 1 illustrates the key differences between the EU rationale on the one hand and the traditional mode of governance of CY on the other. By reviewing the events prior and [post](#) EU entry, the reaction of the domestic mediating factors to EU pressures within a new competitive environment will be examined. The paper will also assess whether the balance of power in the prevailing equilibrium in CY was challenged after a redistribution of powers, resulting from EU pressures. While reviewing the events and assessing the end result of Europeanisation pressures the domestic mediating factors will not be treated as independent static variables but instead as variables whose stance towards certain issues may have changed because of top-down European pressures, thus enabling certain changes to occur.

Cyprus accession negotiations were successfully completed by the Clerides government in December 2002. However, the effects of the *acquis communautaire* would only be fully felt with Cyprus's accession in May 2004, allowing for the government time to prepare the company for the challenges lying ahead in the competitive environment it would soon enter. Nevertheless, in both terms of the Clerides presidency (lasting from 1993 to 2003) the centre-right governments made no substantial attempts to alter the functional setting of CY, despite advocating in theory in favour of less state intervention to render the national flag carrier more efficient. Any reconstructive measures adopted would have been painful for the employees of the company, causing the reaction of the trade unions and allowing for political gains for the parties in opposition. Furthermore, the opposition parties then and in particular the communist party AKEL, considered even partial privatisation as anathema, while the trade unions clearly preferred the state to remain the majority shareholder who dealt with their requests and demands. Consequently, as all previous governments, the Clerides government lacked the political will to adopt any bold measures for the restructuring of the national flag carrier. Any painful, yet effective, measures that would have boosted the survival prospects of the company under open skies were postponed indefinitely.

**Figure 2: Misfit between EU rules and CY**



As expected, the change of government, one year prior to EU entry, had direct repercussions on CY. Charis Loizides, CY Chairman, soon expressed his intentions to

resign, as he no longer had the backing of the new government. His replacement was delayed for a couple of months until the President made a personal choice to appoint Constantinos Loizides as the new Chairman of CY in June 2003<sup>6</sup>. Constantinos Loizides had a very difficult task lying ahead as he would be the chairman to lead CY in the new competitive environment of the EU.

Upon his appointment, the immediate test for Constantinos Loizides was the pending collective agreement with the trade unions. Only a few months prior to EU accession and the entry of CY in a far more demanding and competitive environment, Mr Loizides had to face the once again disproportionate demands of the union representatives who did not seem to sense the need for cost cutting. The CY Chairman was given the opportunity to make the unions understand that times were changing by responding accordingly to their demands. Specifically the Unions at the time asked for 10.5 per cent wage increases over four years and a 1 per cent increase in fringe benefits. The CY Chairman counter-proposed either a four year period with an 8 per cent increase or a five year period with 10.5 per cent increase. Even this minor amendment proposed by the CY Chairman was rejected by the Unions who refused to back down from their demands. In response Constantinos Loizides did not hold on firmly to his suggested amendments. The local newspaper 'Cyprus Mail' was very critical of the CY Chairman and used strong language to criticise his unsuccessful half-hearted attempt to bid the Unions down, while even the pro-government newspaper 'Haravgi' expressed its dissatisfaction over the generous pay rises granted by Mr Loizides. More specifically he was accused of 'arbitrarily agreeing to satisfy the staff unions' pay demands' (Cyprus Mail, 9/8/2003).

The demands of the unions reflected a lack of awareness by CY employees of the new competitive environment the company was about to enter. Pressures from Brussels were not passed on to CY workers, possibly because Cyprus was not yet a member of the EU and the company was still not operating under the close monitoring of the Commission. However, there is no excuse for the conduct of the Board and the government officials, to a lesser extent, which should have engaged in a process

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<sup>6</sup> It is important to note that it was only by coincidence that the previous and new chairmen had the same surname. The new appointed Chairman had no direct links to any political party and was considered a successful banker prior to his appointment.

whereby the unions would be presented with the new set of rules that would soon apply for the company. Instead, not much was done to inform the employees of the importance of EU entry and they thus continued to demand more than what the company could afford to give.

In the meantime as EU accession was approaching, pressures from the Cabinet of Ministers were mounting on the CY Chairman, since no practical steps were yet taken to improve the airline's finances. The company managed to record losses close to £30 million in 2003 and it was anticipated that the 2004 results would be even worse because of Cyprus accession in the EU and the continuous losses incurred by the newly established subsidiary 'Hellas-Jet' (see Annex 1). What the government officials criticised most, however, was the delay of the Board in coming up with practical solutions to the company's mounting problems. Government officials, being more informed about and conscious of EU effects, tried to pass on the pressure to the Board which did not react as swiftly as the government hoped. The two ministers directly related with CY (Finance Minister Mr Kyprianou and Communications Minister Mr Kazamias), at the time issued public warnings highlighting the need for immediate measures to be implemented, criticising the lack of action by the Board. Nevertheless pressures from Brussels still remained at a theoretical level for the relevant actors, until Cyprus would enter the EU.

### **Accession of Cyprus to the EU**

Cyprus' accession to the EU on May the 1<sup>st</sup> 2004 drastically altered the playing field in which CY competed. Most significantly there was an end to decades of monopoly by the national carrier in Cyprus along with the bilateral agreements on ticket pricing and a ban on state aid to any national company. As expected, other airlines entered the market and started to compete with CY. 'Helios Airways' (a private company based in Cyprus) and 'Aegean Airlines' (based in Greece) announced their plans to compete with CY and Olympic Airways on their most popular and lucrative routes, Larnaka-Athens and Larnaka-Thessaloniki. The entry of these two private firms in the airline market brought the price of airline tickets down to unprecedented CY low levels, to

the benefit of the consumers, on the one hand, but to the detriment of CY, on the other<sup>7</sup>.

**Table 2: Timetable for developments in CY**

Apr 2003 – Following presidential elections Charis Loizides resigns as Chairman of the Board
June 2003 – New Board appointed by government, headed by Constantinos Loizides
Aug 2003 – New Collective agreement reached between Board and CY unions which have their demands being met. Meanwhile mid-year results reveal huge losses
May 2004 – Cyprus joins the EU. Acquis Communataire fully applies in airline market
Aug 2004 – Strategic Rescue Plan finally presented by the CY Board, something the unions initially reject
Nov 2004 – After the Board and the unions reach a deadlock in negotiations the Ministry of Labour offers a mediating proposal, setting a deadline for the company and the unions to reply. The company replies first positively
Jan 2005 – Three out of five unions accept the plan, while one rejects it and one never replied. The government gives the green light to the Board to start implementing the plan while also it is submitted to Brussels for approval
Mar 2005 – Surprise job cuts cause industrial unrest and the Board is subject to severe criticism. Ministry of Labour considers the latest action of the Board as arbitrary and asks for the redundancy letters to be returned.
Mar 2005 – Among severe criticism Cy Chairman resigns. Lazaros Savvides (Permanent secretary of Ministry of Interior) is appointed new Chairman and Frixos Savvides as new vice-Chairman
May 2005 – The Commission approves of CY's rescue plan and agrees to state aid in the form of a loan guarantee to € 51 million
Sep 2005 – Restructuring Plan presented by the Boards
Oct 2005 – Unions express their dissatisfaction over the Restructuring Plan and fail to engage in productive negotiations
Nov 2005 – Cyprus government adds further cost-cutting measures to the Plan before submitting it to the EU
Jan 2006 – The Cypriot authorities answer to the Commission's questions having in the meantime gained the approval of the unions
Mar 2006 – The Commission, having doubts as to whether certain elements of the plan complies with community rules, opens an investigation procedure
Mar 2007 – The Commission decided that the Restructuring Plan of CY was in line with the Community rules and compatible with the common market.

<sup>7</sup> Taking for example the Larnaka-Athens route: the ticket excluding taxes was set at around £30 by Helios while Cyprus reduced it price from around £65 in order to face the competition



CY, already in dire financial straits, was now forced to bring down its ticket prices so as to maintain its share of the market. Furthermore, another instant effect resulting from accession was that those passengers travelling to EU destinations were no longer able to purchase duty-free goods from the airports. Subsequently the profits from the Duty-Free Shops were significantly reduced in 2004 (see Annex 1), at a time when these shops were still being run by CY and the profits earned were essential for the company. These changes undoubtedly had an adverse effect on the profitability of the company and with state aid being prohibited by the EU the future prospects of the company were rather gloomy. Table 2 offers a summary of the challenges and difficulties faced by CY post EU entry.

**Table 3: Challenges faced by CY**

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| <ul style="list-style-type: none"><li>• Government financial aid either directly (e.g. cash injections) or indirectly (e.g. the government guaranteeing a loan for the company), were prohibited by the Commission under state aid rules</li><li>• Any EU airline was free to carry out flights between any two destinations within the EU without the approval of the governments of the countries involved. As a result, CY's monopoly and ticket price fixing over its most lucrative routes ceased to exist.</li><li>• The Duty Free Shops could no longer be assigned by the government without tender while furthermore in the year when Cyprus entered the EU and the shops were still part of the CY Group, duty free shopping no longer applied for those flying within the EU, limiting substantially the profits for that year.</li></ul> |
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Nevertheless, while the effects of EU entry became tangible, still no practical measures had been adopted by the Board for the survival of the company. Only gradually was there a change in discourse over CY and when the Board Chairman for the first time publicly outlined the need to target and reduce labour costs (which contributed more than 30 per cent of total costs – see Table 3) through possible redundancies and wage cuts, the reaction of the unions was disheartening. In fact the unions seemed to be true to their pre-EU entry attitude and once again threats of possible strikes were easily made.

**Table 4: Costs of labour as a percentage of total operating costs<sup>8</sup>**

	1998	1999	2000	2001	2002	2003	2004	2005	2006
% of total costs	35.8	34.1	32.6	31.5	32.6	34.2	33.8	32.2	

Source: *CY Annual reports*

With mounting financial problems steadily pushing CY toward bankruptcy, the company was in desperate need of government aid so as to secure initially its survival and in the long run its economic viability. Nonetheless, the company's unrestricted access to government funds was now prohibited and the government was forced to follow the procedure prescribed by the European Commission so as to secure a 'one time, last time' state aid. Initially the government would submit a rescue plan, targeting the survival of the company in the short-run, and once this was approved, the government authorities would then submit a restructuring plan, guaranteeing the long-term viability of the term. The financial assistance is divided in two parts and each part is granted following the approval of the plans. Constructing both plans proved a complex procedure for the Board of the Company which had to accommodate, on the one hand, the pressures coming from the European level that were reinforced by the government of Tassos Papadopoulos, and on the other, pressures from the trade unions, which could not easily comprehend the necessity of an overhaul in the practices of the company and refused to surrender privileges acquired in previous years.

Government officials at the top level (including the relevant ministers) intensified pressures on the Board Chairman to finalise his proposed rescue plan which had to comply with the requirements and guidelines of the Commission (see table 4). Clearly the Commission has no intention in prescribing the actual measures to be taken by the applicant country but instead it sets the framework within which the company can work to find a solution.

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<sup>8</sup> It is worth noting that Doganis (2005) has carried out a research, the results of which show for European Airlines the percentage of labour to the total operating costs lies between the range of 23 per cent to 35 per cent. CY is on the on the upper limit of this range, showing that also in relative terms it has very high labour costs when compared to other European airlines.

**Table 5: Commission guidelines for approving rescue loan**

The loan guaranteed by the government must:

- be at market rates,
- be warranted on the ground of social difficulties and have no adverse spill-over effects on other Member States,
- be followed within six months by a restructuring plan that would secure the company's long-term viability,
- be restricted to the amount needed to keep the firm in business for the period during which the aid is authorised and
- respect the 'one time, last time' principle

Overall, the construction of the rescue plan was a lengthy process. In fact the presentation of the rescue plan by the Board to the unions came in August 2004, more than a year after the Board had been appointed to office by President Papadopoulos. When asked to comment on this delay, the then Minister of Finance Makis Keravnos shifted most of the blame on the CY Board. According to Mr Keravnos, the CY Board was fragmented into groups and each group adopted a different approach. As a result, this did not facilitate consensus. Moreover, the Board had unsuccessfully replaced the entire executive branch of the company and consequently the managing team were confined to being mere spectators of developments, contributing the least in constructing the plan.

Unavoidably the Plan presented included several harsh measures that aimed at substantially reducing the costs of the company. The Plan's main focus was to overhaul the flight schedule by terminating the non-profitable routes (such as those to Birmingham, Budapest and Warsaw) and to cut down other. Consequently the company could proceed with redundancies and a fleet reduction. Apart from the seasonal workers laid off, another 172 of CY's permanent staff were to be sacked according to the plan. The 172 did not include only workers directly involved in the flights that were to be abandoned, since the financial, sales and cargo departments were also affected. Furthermore, certain benefits enjoyed by the workers through the collective agreements of previous years were considered counterproductive by the Board and were to be terminated.

The Plan aimed at opening a dialogue with the unions so that a joint agreement would be reached by late August. A unanimously agreed plan would provide greater credibility to the Cyprus government when presenting it to the Commission in order to gain its approval. The reaction of the Unions to the proposed plan, however, was not at all encouraging and reaching a consensus within a short period of time proved to be a misapprehension. Overall, the unions saw the plan as an attempt to victimise the employees of the company instead of touching the managerial pyramid, which for them had the greatest responsibility for CY's precarious financial position.

By early September 2004 a first round of negotiations was completed and nothing of substance was agreed between any of the unions and the company. At the time, the mid year results of CY were announced which revealed that in the first six months of 2004 the company had incurred losses of over £30 million. It became obvious that the national airline's liquidity would soon be exhausted and CY employees started to fear that the company would not be able to meet its financial obligations.

With a second round of negotiations being initiated and with no agreement being reached yet, the Board made an attempt to start implementing certain measures of the Plan unilaterally. This was done by sacking initially 12 employees from managerial positions and announcing that a further 135 employees would be sacked in what proved to be an imprudent action. The unilateral act of the Board caused a strong reaction from the unions and strike threats were once again being aired. The immediate intervention of the Ministry of Labour was requested and a committee by the Ministry was composed to resolve the dispute and come up with a mediating proposal. Efforts to reach such a compromise were nonetheless hampered by the existence of five different unions with conflicting interests that were still in the process of absorbing the effects of EU entry. This further delayed the final proposal presented by the mediating committee.

Finally, on the 28<sup>th</sup> of November 2004, a compromise solution was presented by the Mediating Committee of the Ministry of Labour, with the Minister of Labour himself being involved in finalising an overall more moderate proposal (Table 5 includes the main provisions of the plan). The final deal was presented to all relevant actors as a

‘take it or leave it’ option and if not stated otherwise the 1<sup>st</sup> of January 2005 was considered the date for starting to implement the measures.

**Table 6: Main provisions of the mediating proposal**

- Suspension of pay increases of a total of 6% for the two year period 2005-6, as well as a 1% increase in related benefits. The pay increase will be granted in two equal instalments on 1 January 2006 and 1 January 2008, while the increase in related benefits will be granted on 1 January 2006.
- Cutting down sick-leave benefits
- Reduction of Sunday work pay by 50% for staff working shifts and scheduled hours while also abolishing a range of pay supplements while staff are absent on annual or sick leave
- A reduction in wages for management personnel and pilots by 5% for those earning under £30,000 and 8% for those earning above
- Contributions to the social fund by employees should increase from 3.2% to 6.3% thus limiting the contributions of the company from 9.4% to 6.3%
- The catering menu should be simplified thus allowing for a reduction in the staff of the department (20 employees)

The Company was the first to accept the plan while a deadline (7<sup>th</sup> of December) was set for the unions to answer to the proposal. A one week extension was initially granted to the unions in order to allow them enough time to fully study and comprehend the mediating proposal. Notably only two unions replied positively in December while the other three postponed their decisions until January. By mid January the pilots’ unions had not yet replied, while the cabin-crew union was the only one to reject the plan. The government, disheartened by the attitude of the pilots, gave the green light for the Board to proceed with the implementation of the plan, despite the one rejection received<sup>9</sup>. Consequently, in late January the company went ahead and announced that 120 redundancy notices would be sent out, thus finally implementing specific practical measures for the survival of the company. The plan was also sent to Brussels for approval and the EU’s decision was expected sometime in late April 2005.

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<sup>9</sup> In fact the pilots never officially replied to the proposed mediating solution.

In anticipation of the Commission's decision, the plan was being implemented without any confrontation by the two non-consenting unions. However, the decision of the Board to fire 22 chief air stewards, on the ground that the Action Plan allowed the company to adopt any additional measures that would strengthen the survival prospects of the company, caused major unrest in industrial relations. Such a measure was not included in the action plan and this unforeseen unilateral action by the company united all unions against the Board. Industrial action caused the cancellation of fourteen flights, affecting around 2,500 passengers. Even the Communications and Works Minister Mr Thrasou was critical of the Board's actions and commented that they could not take decisions over night and execute them in cold blood violating the Industrial Relations Code. Furthermore, the Labour Ministry considered the company's action as arbitrary and asked for the redundancy letters to be returned. All these brought the credibility of the Board to unprecedented low levels and among severe criticism by all relevant actors, the CY Board Chairman finally resigned in early March 2005. He was replaced by Mr Lazaros Savvides, a highly ranked civil servant (permanent secretary of the Interior Ministry) while Mr Frixos Savvides, a successful businessman and former Minister of Health (under the Clerides government), was appointed Vice-Chairman.

Fortunately for the company, the ongoing events and uncertainty in the company did not seem to affect the verdict of the European Commission which replied positively in early May 2005, to the rescue plan submitted. The Commission decided to authorise rescue aid for the company consisting of a CY£ 30 million (€ 51 million) loan guarantee for the next six months so as to allow the authorities to organise the restructuring of the airline. Having examined the proposed plan the Commission decided that all five conditions set by the EU were met and it complied with Community rules, notably (European Commission, IP/05/521, Brussels, 3 May 2005):

- The aid is in the form of a loan guarantee of € 51 million (CY£ 30 million) granted at market rates;
- The amount of aid is limited to what is needed to manage the short term cash flow deficit of the company;

- The Cyprus authorities have undertaken to furnish the Commission with a restructuring plan for Cyprus Airways within six months of authorisation of payment of the aid;
- The aid is also warranted on the grounds of serious social difficulties. 2400 staff members work directly for companies within the Cyprus Airways group, which is not an inconsiderable number given the size of the total Cyprus workforce; and
- The possibility of the aid having any adverse spill-over effects on other Member States is limited by its size, its short duration and the relatively small size of the company.

The Commission's decision added optimism to the survival prospects of the company, but still the newly appointed Board had a specific time limit of six months to construct a restructuring plan that would gain the approval of both the EU and the Unions and at the same time secure the long-term viability of the company.

Like the rescue aid, the EU had certain criteria that applied for any government wishing to gain permission for state aid as part of the restructuring of the company. The general principle was that restructuring aid must be allowed only in circumstances in which it can be demonstrated that it does not run counter to the Community interest. More specifically a summary of the requirements of the Commission is offered in table 6:

**Table 7: Commission Requirements for Restructuring Aid**

- *Eligibility of the firm* – the firm must qualify as a ‘firm in difficulty’
- *Restoration of long-term viability* – This must be done within a reasonable timescale and on the basis of realistic assumptions as to future operating conditions. The restructuring plan must describe the circumstances that led to the company’s difficulties, thereby providing a basis for assessing whether the proposed measures are appropriate. The plan must also provide a turnaround that will enable the company, after completing its restructuring, to cover all its costs, including depreciation and financial charges.
- *Avoidance of undue distortions of competition* – Compensatory measures are taken so as to ensure that adverse effects on trading conditions are minimised. Such measures may comprise divestment of assets, reductions in capacity and or market presence and reduction of entry barriers on the markets concerned. Any measures must be in proportion to the distortive effects of the aid and, in particular, to the size and the relative importance of the firm on its market.
- *Aid limited to the minimum: real contribution, free of aid* – the amount and intensity of the aid must be limited to the strict minimum while aid beneficiaries will be expected to make a significant contribution to the restructuring plan from their own resources, including the sale of assets that are not essential to the firm’s survival (principle of ‘own contribution’), or from external financing at market conditions (the Commission considers a 50% contribution to be appropriate for large firms)
- *Specific conditions attached to the authorisation of aid* – the commission may also impose any conditions and obligations it considers necessary. For example it may require the Member State to take certain measures (such as the opening up of certain markets, directly or indirectly linked to the company’s activities), impose certain obligations on the recipient firm or even refrain from granting any other types of aid to the recipient firm during the restructuring period
- *Full implementation of restructuring plan and observance of conditions* – The Commission will regard any failure to implement the plan as a misuse of state aid with the possibility of an action before the Court of Justice.
- *Monitoring and annual report* – The Commission must be put in a position to make sure that the restructuring plan is being implemented properly, through regular detailed reports communicated by the Member State concerned

The Cypriot authorities had to come with a plan which would actually convince the Commission that it could provide a turning point for the company and at the same time, it had to gain the acceptance of the unions, so that it would become more credible. Such a plan would certainly include a further decrease in the operational costs of the company and consequently, CY employees would unavoidably suffer



another round of redundancies and pay cuts. The unions, being aware of the possible future actions of the Board, went on to express their concerns and worries over the upcoming restructuring plan, immediately after the EU approved the rescue aid and the countdown for the submission of the restructuring plan started.

On behalf of the Board, a sub-committee was formed, responsible for constructing the restructuring plan, under the leadership of the vice Chairman of the Board, Mr Frixos Savvides. The rationale behind the plan was straight forward and it evolved around three principles: job cutting, cost reduction and revenue enhancement. Overstaffing and inefficient practices were still a cruel reality for CY even after the implementation of the rescue plan, and comments from Mr Savvides were indicative of the situation: 'CY can no longer afford such luxuries as paying five people to wrap sandwiches when a machine costing £2,000 could do twice the work in half the time'. Therefore, it was not an issue if there would be any redundancies but what troubled the committee was the number of affected employees and to come up with the best possible redundancy packages for these people. In addition, the operational costs of each department were to be further reduced while foreign consultants were to provide the guidelines for revenue enhancement.

The responsible committee was under pressure to come up with proposals swiftly, because of the strict six month time frame imposed by the Commission. All these were reflected in the public statements made by Mr Savvides at the time: 'Time is pressing and we need to act immediately without delay or obstruction. The serious problems in CY need radical approaches and drastic solutions to the degree that the structure and operation of the company will be perceptibly altered and if we do not achieve this in the coming months the chance will be lost permanently' (Cyprus Mail, 30<sup>th</sup> of June, 2005).

While the committee in charge was in the process of assembling the plan, the unions continued to question the Board's approach and demanded an insight in the construction of the plan. By mid September, the plan had still not been presented to any of the unions, giving good reason for Synika to express its worries about the board's negligence in inviting them earlier for discussions. Furthermore, Mr Demetriou (Synika leader) openly opposed the necessity of redundancies at a time when, according to him, all members of staff were working hard and already being

paid overtime to cover the extra work highlighting a difference in opinion between Board and the Unions. The latter still refused to fully comprehend that EU entry had opened up the market and the restrictive practices which so suited the unions were removed once and for all.

The plan was finally presented in late September and the Board provided the Unions with the philosophy and the mechanics behind the plan, without going into great detail. In an interview carried out as part of this research, Mr Savvides analysed the motives of the Board and commented that the target was to save a specific amount from each department. This specific amount was determined in the restructuring plan and it was not open to bargaining with the unions. The unions were requested to approve the plan in principle, yet they were still invited to propose alternative approaches to cut down operational costs as long as the end result would be the same and each department would save the specified amount outlined in the plan.

Initially, the Board's approach led to the reaction of the unions which lambasted the airline's board for only presenting the minimum information. Synika insisted on receiving the studies performed by the external consultants in full before entering negotiations, while Asyseka highlighted that all mechanical staff was essential for the running of the department which was already reaching its safety limits. Lastly, the pilots were the most critical rejecting the restructuring plan and warned the board that if it was ever presented before them again, strong reaction would follow.

Irrespective of all the ongoing reactions and opposition, the Board went on and presented the plan to the government which was responsible for its submission to the EU. The government had only a few days until the November deadline to review the plan and proceed with any changes, while no union had consented to the Plan. In the words of Mr Sarris (Finance Minister), the government was caught in the horns of dilemma, where two different constituencies had to be pleased. On the one hand were the people that had to implement the plan and suffer its effects and on the other was the Commission that had to approve it. The contentment of the two constituencies was inversely related, since the more the government did to please one group the less it pleased the other. According to Mr Sarris, President Papadopoulos had an influential role in deciding where the balance would tilt since he was determined to save the airline, no matter how the unions reacted. Therefore, he considered that more daring

measures were needed to secure the approval of the Commission and thus allow the government to guarantee the loan to CY. The President, along with his Cabinet of Ministers, used European requirements as a '*vincolo esterno*' (Dyson and Featherstone, 1996) to remedy longstanding inefficiencies in the firm and decided to introduce even tougher measures before submitting the plan to EU. Such an action increased the chances of gaining EU approval but sacrificed any chances of gaining union support. These tougher measures introduced by the Cabinet of Ministers mainly affected the better paid staff and more specifically the pilots<sup>10</sup>. The final version of the Plan provided a clear message by the government directed to the domestic actors that there was no turning back and that the restructuring of the company was non-negotiable.

The restructuring plan was officially submitted on the 9<sup>th</sup> of November 2005 and the Commission in less than ten days came back to request certain clarifications in relation to the plan. The Commission was not satisfied with the contribution to be made by the company to the plan since, as outlined in the conditions set for approving a restructuring plan, the company had to contribute financially to its restructuring by selling assets that were not essential for its survival. This clause opened the way for discussions between the Board and the government regarding the selling of Eurocypria, the subsidiary chartered airline of CY, to the government. Separating Eurocypria from Cyprus Airways guaranteed that in the case CY closed Eurocypria would not be dragged along. This also increased pressures on the unions since the government would have an alternative national carrier if the unions did not cooperate for the survival of the company.

Negotiations went on with the discontented unions, which continued to threaten with strike action if their demands were not met. No matter how hard the government tried to explain that the choice was only between restructuring and closure, union bosses remained defiant, issuing strike threats, demanding negotiations and trying to win public sympathy. The government's deadline for the unions' final answer was set on the last day of the year. Still on the 31<sup>st</sup> of December only the Mechanics' Union, Asyseka, had replied positively to the plan, while the other four unions had asked for

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<sup>10</sup> Following the report by foreign consultants Booz and Allen, where it was highlighted that pilots in CY were among the highest paid in Europe, President Papadopoulos had blacklisted the pilots and aimed in cutting further their wages

extensions, causing the fury of President Papadopoulos. The President commented that: ‘the government will decide on the future of CY on the basis that nothing will be changed on the restructuring plan irrespective of what the unions will decide later on’ (Cyprus Mail and Simerini, 31 December, 2005). In an extraordinary new year’s eve the ministers’ cabinet finalised the decision for the state to acquire Eurocypria and made no other changes to the plan which was again passed to the unions for approval as a last chance to avoid the closure of the company.

At the time the two cross-sectoral national trade union federations of PEO and SEK urged the CY unions to accept the proposed plan. SEK leader Mr Kitenis appealed to Synika members by highlighting that the plan was in the best interest of the workers. He justified this since by accepting the plan and sustaining CY several other thousand employment positions would directly or indirectly be sustained and although some were to lose their jobs, they would be compensated by measures that, under the circumstances, could be considered satisfactory. In addition, Mr Kyritsis, leader of PEO, explained that Sidikek would support the proposed plan since it had made considerable progress on a number of vital issues. Therefore, any reservations the union had about problems that might arise in the future were put in writing along with the acceptance of the proposal (Cyprus Mail, 5<sup>th</sup> of January, 2006).

Despite their overall reluctance, the unions, one by one, finally approved the plan, thus allowing government officials to focus on their efforts to get the green light from the Commission for the loan guarantee. First, the government had to brief the Commission of all related developments to the restructuring plan. A delegation from Cyprus travelled to Brussels to present the plan and convince the Commission of its viability and most importantly that the plan satisfied all the requirements set at the EU level. For this reason the main provisions of the plan, as outlined in Table 7, were related to cost cutting and the principle of ‘own contribution’ in attempt by the government to ease the worries of the Commission, which gives great emphasis to these issues.

**Table 8: Main Provisions of the Restructuring Plan**

**Cost Cutting** – In the first 24 months the main emphasis is on cost cutting and selected revenue enhancement. The main target is to reduce costs by 13 per cent. This target will be reached by:

- (1) Cutting staff numbers by some 20 per cent. This means that of a staff of 1,840 as of 1<sup>st</sup> December 2005, 385 will be made redundant. Redundancies will lead to annual savings of approximately CYP 7 million
- (2) Reducing salary levels for the remaining staff by an average of 15 per cent. Ongoing staff costs will contribute another CYP 4.6 million to the company savings

**Capital increase** – A capital increase of CYP 14 million is intended to take place 18 months after the plan has been initiated. It is expected in this all shareholders (the State along with the smaller principally individual shareholders) will participate in proportion to their shareholding. The State will put up CYP 9.8 million (€ 17 million) while the private shareholders' contribution in this capital increase will be around CYP 4.2 million (€ 7.3 million)

**Principle of own contribution and downsizing of firm** – By selling Eurocypria to the State, CY could use the proceeds from the sale to contribute to its restructuring while the size of the company was significantly downsized. The price of the acquisition would be determined by two independent consultants.

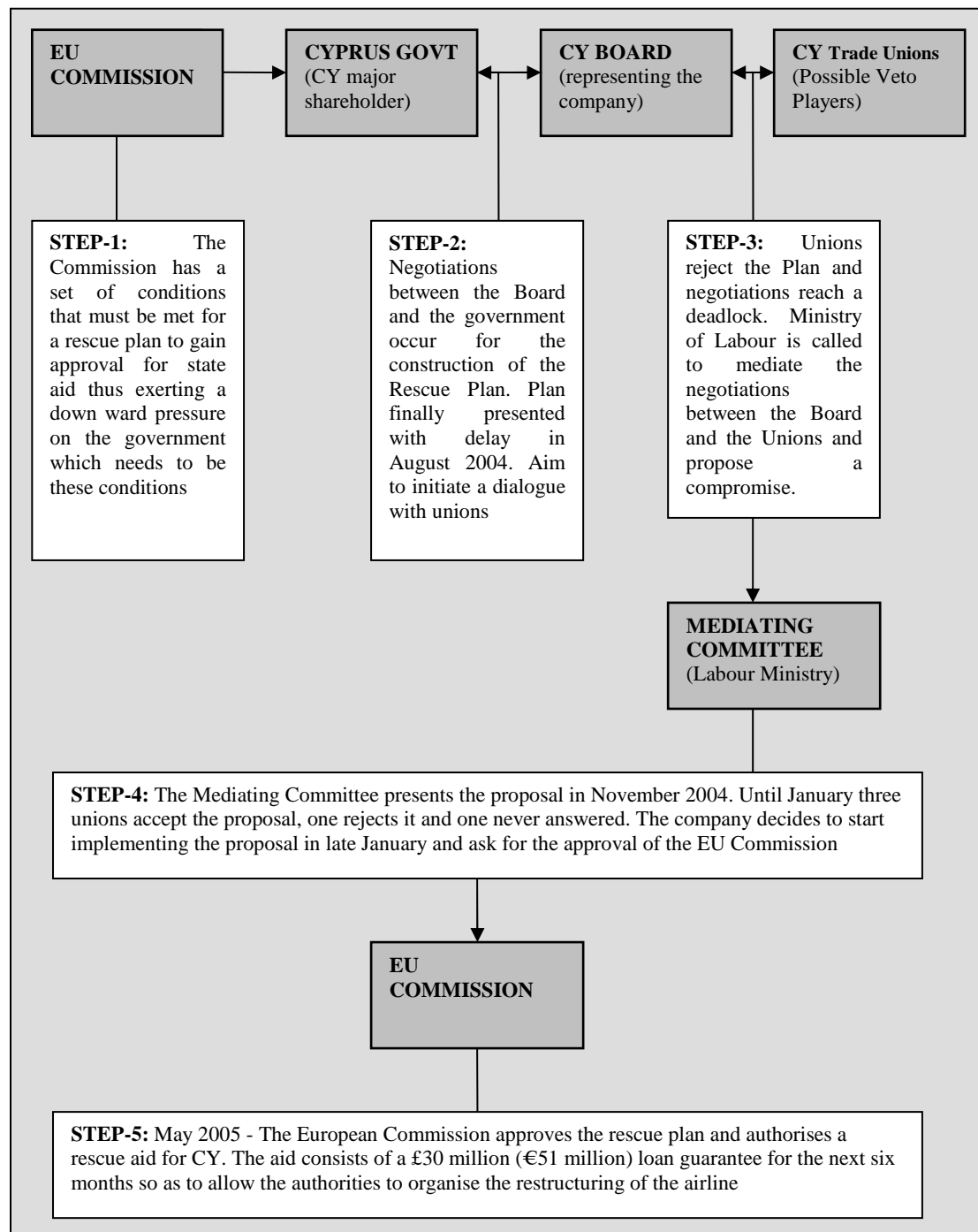
## **VI. Conclusion -Tracing the Europeanisation Effects:**

This final section aims at providing a summary of the events and tries to analyse them by applying Europeanisation theory, focusing specifically on the Rescue and Restructuring Plans that were submitted by the Cypriot authorities to the Commission. For each of the plans a table is offered which outlines the steps taken before reaching the final outcome, thus making it easier to identify and trace where exactly EU pressures made a difference on the CY setting.

When Cyprus became part of the EU, the government had a huge task lying ahead. It had to make sure that the CY would change its operation methods so as to comply with the framework set at the EU level. This meant no more state aid and as a result a complete overhaul of the working practices in the company, with emphasis being laid on the problems of overpopulation in the company and the excessive benefits enjoyed

by all CY employees. Government officials were the only direct recipients of pressures coming from the EU level and they had to pass on these pressures to the Board. Most importantly, however, the board in coordination with the government had to alter the attitude of the Unions, which were accustomed to their demands being met by successive governments, irrespective of the cost to the national carrier and the government.

**Figure 3: Constructing the Rescue Plan**



The first thing to note when examining the rescue plan is that at the time, EU pressures had already become tangible and more specific as opposed to the pre-accession period. The airline market was already open to competition and experienced the effects of the third liberalisation package relating to airline market, while proceeds from the duty free shops were significantly reduced, allowing no other option for the company but to seek state aid. While in previous years such a process would have been straight forward and the government would have assisted the company, directly or indirectly, post EU entry the government had to follow certain procedures in order to be able to guarantee a 'last-time' loan for the ailing national company .

In Step-1 of the graph the top-down pressures from the EU to the government are clearly evident. The government acknowledging the importance EU attributed to fair competition made sure that even prior to EU entry the newly appointed board would start preparing a restructuring plan for the company. Government authorities were the first domestic mediating factor to receive EU pressures and they actually displayed a willingness to transform accordingly without evading their obligations towards the EU. Even more, Europeanisation pressures possibly presented the government with an opportunity to modernise the ailing state-owned flag carrier.

In the negotiations between **the** government and **the** Board (Step-2) regarding the rescue plan the Ministers of Finance and Communications and Works, repeatedly expressed their dissatisfaction over the delay of the Board in presenting the plan. Time was working against the survival prospects of the company which already started to incur huge annual losses and the government expected the Board to act more speedily. It seems to be the case that the Board although in principle was willing to cooperate with the government it did not sense the immediate need for urgent measures that would help the company survive in the new competitive environment. This ignorance was also evident when the Board, under Constantinos Loizides, approved of the generous pay rises demanded by the Unions only some months prior to EU entry.

Following negotiations between the government and the Board the plan was finally presented to the unions which did not easily absorb EU pressures and as a result

blocked the process by initially rejecting the plan (Step-3). The Cypriot authorities had failed to inform and convince the unions that times were changing and that the need to ease their stance against the company was vital for the company's survival. The action of the Unions proved that domestic mediating actors, which traditionally enjoy veto-player status, can alter the pace with which EU pressures can filter into the domestic setting and affect even more the end result. The Unions advocated that the Board violated the existing collective agreements by its unilateral decision to implement certain measures of the plan and therefore a mediating committee from the Ministry of Labour was called to reach a compromise between the company and the unions (Step-4). The Ministry of Labour could only water down the initial rescue plan if it would gain the approval of the unions. The final version of the plan contained less austere measures but still not all Unions accepted the plan. Nevertheless, the company went ahead and implemented the mediating committee's proposal while also it submitted the plan for approval by the EU.

From the action of the government there are two points that clearly illustrate the effects of Europeanisation. First of all three out of the five unions consented to the plan, agreeing to cuts in benefits and salaries they had acquired from previous collective agreements, something that had never occurred previously in the history of Cyprus's industrial relations. It was the first time that the unions had agreed to take a step back and sacrifice privileges gained in previous agreements. Secondly, despite not all five unions officially accepting the plan the government gave the green light to the Board to go ahead with implementing the plan and initially there were no major reactions by the unions which did not approve the plan (not until the board made a step further and started to adopt measures not included in the final plan presented). Such an outcome points out that the unions had lost their veto power and had to settle at least to some extent with painful measures that in the period prior to EU entry would have never been adopted. Considering the unions as the most critical domestic mediating factors, they were no longer independent static variables but instead they had shifted, at least to some extent, their stance on the proposals of the government.

The effects of Europeanisation were even more evident in the restructuring plan where specific time limits were set by the EU. The construction of the plan was under the responsibility of the vice chairman of the Board who had six months to prepare a

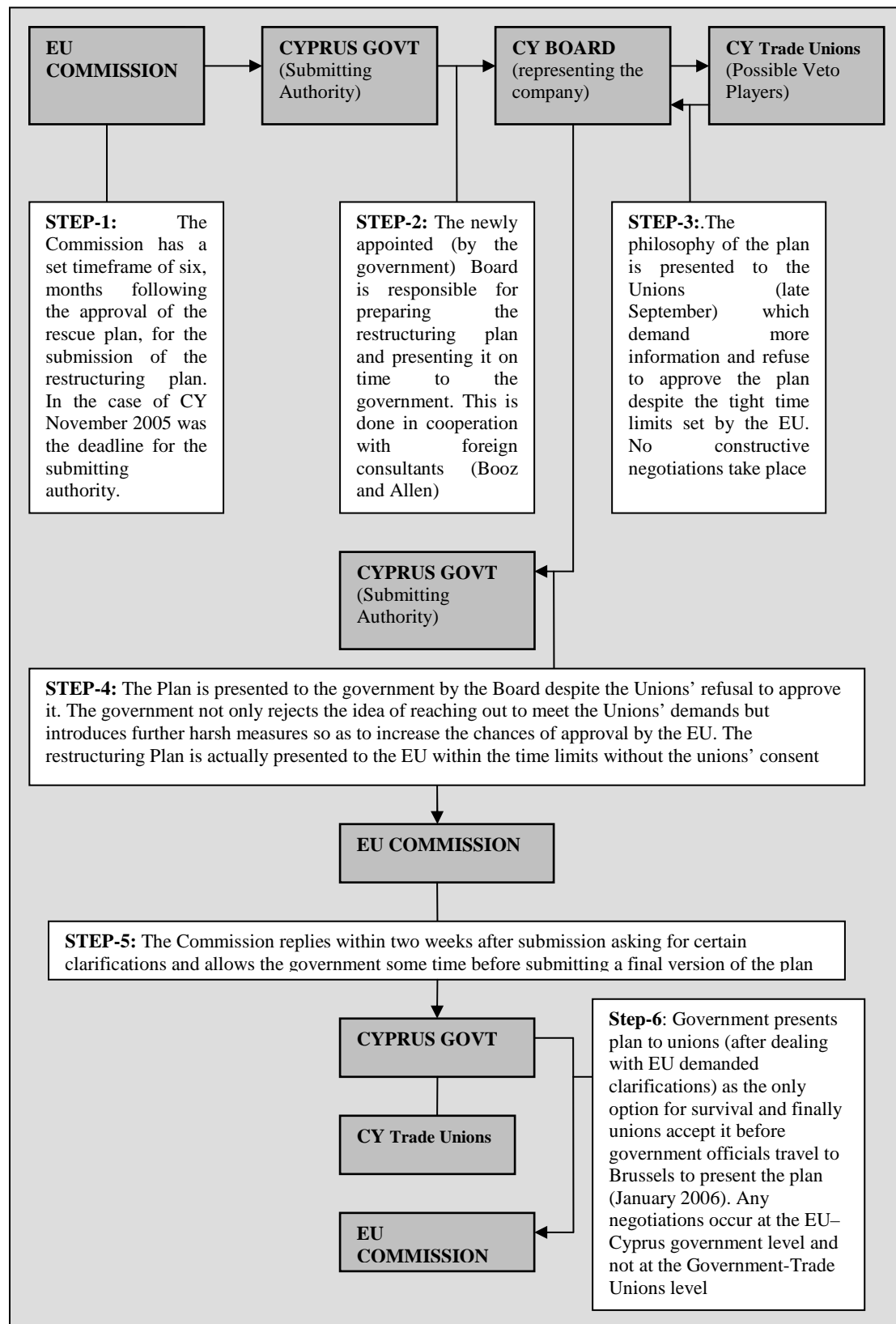


plan that would not only guarantee the survival of the company but also gain the approval of the unions, something close to impossible. The Board managed to present the plan to the unions on time (Step-3), who complained of the lack of information and demanded a more active role and an in-depth analysis if they were to approve the plan.

As opposed to the rescue plan, this time the refusal of the unions to accept the restructuring plan did not trigger the involvement of a mediating committee by the Ministry of Labour, since the plan was presented by the Board to the government unchanged and any adjustment would only be made by the cabinet of ministers (Step-4). At this point the eagerness of President Papadopoulos to secure the country's flag carrier was influential since the government, who held the responsibility of submitting the plan, adjusted the proposed plan but not in a way to meet the demands of the unions, but on the contrary, it introduced further austere measures that increased the possibilities of the plan being approved by the Commission. This showed that the rationale of the government had been entirely transformed, compared to the pre-accession period, and its primary motive was to secure an approval of the Commission in order to be able to guarantee a loan to CY, neglecting the otherwise militant unions which in the past managed to shape developments with their strike threats.

Furthermore, the influence of the Commission on the amendments made by the government was evident. Indicative of this are the clarifications required by the Commission after the initial plan was submitted in November 2005 (Step-5). The Commission, although it does not prescribe a specific restructuring model to be adopted by the member states, outlines a framework and based on that it was critical of the lack of contribution made by the firm to its own restructuring. Therefore, the Government in collaboration with the Board decided that the state would acquire Eurocypria from the Cyprus Airways group and the money received would be used for the company's restructuring. Eurocypria would be run as a separate airline focusing on chartered flights while the existence of a separate state-owned airline exerted more pressure on the unions. The government tried to pass the message that in case CY closed down, due to the intransigence of the unions in compromising, Eurocypria could come in and take over as the country's national carrier.

**Figure 4: Constructing the Restructuring Plan**



It is also important to note that the unions did not actually engage in negotiations concerning possible changes to the plan, but instead, according to Finance Minister Mr Sarris, any 'give and take' occurred at the EU Commission – Government/Board level. Finally, when the revised plan was submitted to the Commission in January the Unions were simply invited to approve the plan as it was and with no adjustments being made to satisfy any of the unions, since the government would then enter a vicious circle where each of the unions would want their requests to be met as well. The unions reluctantly agreed to the plan but, as opposed to the official government stance, still their attitude towards the company has not been entirely transformed by the new post-EU entry setting. More precisely one could argue that the unions have accommodated the pressures in order to avoid the closure of the company instead of transforming their overall approach. This was evident, by the reaction of the pilots' union which once again issued strike threats, during a critical period for the company, when the Cyprus delegation was actually presenting the plan in Brussels.

The changes brought about in CY were directly related to Cyprus's entry in the EU and the application of the EU's competition policy in the domestic airline market. Mr Frixos Savvides, the Vice Chairman of the Board, responsible for constructing the restructuring plan, was explicit in highlighting that if Cyprus did not enter the EU then the government of the day, irrespective of the political parties in power, would continue to find ways to fund an inefficient organisation so as to avoid implementing painful measures that would certainly entail a political cost. The government in office upon Cyprus's accession used the European pressures to carry out a modernisation of the national airline that was considered by the unions an anathema. The status-quo suited them perfectly and due to the power they acquired in previous years they could veto any attempt to modernise the airline in the period prior to EU entry. The appointed ministers did not oppose or react to the new reality but have cooperated well with the Commission, attempting to build a sincere relationship something the EU officials have appreciated. The same of course did not occur at the employees level where the reactions and opposition to the proposed measures were intense. The Finance Minister Mr Sarris, when asked to comment, admitted that the unions in the airline may have experienced a change in mentality and attitude as regards the role of the state in the economy but this has been achieved at a disappointingly slow pace. Evidently, the attitude of the pilots' union once the government officials were already

in Brussels to present the plan proves an ongoing aggressive attitude from a group of employees in the company. The pilots initiated strike threats and accused the government of backstabbing, while they have proceeded in taking legal measures against the company at a time when the Commission was still examining the compliance of the proposed restructuring plan to EU regulations and its viability. Such actions indicate that the Europeanisation of the Cyprus flag carrier has not been a straightforward process, despite the government's will and determination to eliminate an inefficient mode of governance that had prevailed in the company over the past decades.

## **Annex 1 - List of Important Officials relevant to Cyprus Airways (CY):**

### **Presidents of the Republic of Cyprus:**

*Glafkos Clerides* Feb1993 – Feb 2003

*Tassos Papadopoulos* Feb 2003 – Still in office

### **Ministers of Finance:**

*Markos Kyprianou* Mar 2003 – May 2004

*Makis Keravnos* May 2004 – Aug 2005

*Michalis Sarris* Aug 2005 – Still in office

### **Ministers of Communications and Works:**

*Kikis Kazamias* Mar 2003 – Apr 2004

*George Lillikas* Apr 2004 – May 2004

*Charis Thrasou* May 2004 – Still in office

### **Cyprus Airways Board Chairmen:**

*Constantinos Loizides* Jun 2003 – Mar 2005 (Replaced *Charis Loizides* who resigned in Apr 2003)

*Lazaros Savvides* Mar 2005 – Apr 2007

## Annex 2 – Results of the CY group (including CY and subsidiary groups)

	1997	1998	1999 <sup>11</sup>	2000 <sup>12</sup>	2001 <sup>13</sup>
<b>Group profit/(loss) (consolidated pre-tax)</b>	(3.2) million	10 million	8.8 million	5.6 million	4.1 million
<b>CY profit/(loss) (pre-tax and dividend)</b>	(3.1) million	5.3 million	3.6 million	1.0 million	(2.0) million
<b>Duty free profit attributed to CY</b>	0.8 million	2.5 million	3.9 million	5.5 million	6.6 million
<b>Eurocypria profit/(loss) (pre-tax)</b>	(0.9) million	2.2 million	1.3 million	(0.8) million	(0.6) million

	2002	2003	2004	2005	2006
<b>Group profit/(loss) (consolidated pre-tax)</b>	4.7 millions	(29.0) million	(41.3) million		
<b>CY profit/(loss) (before tax and dividend)</b>	(1.2) million	(25.6) million	(45.1) million	(25.2) million	
<b>Duty free profits</b>	7.1 million	7.0 million	1.9 million	(62) thousands	
<b>Eurocypria profit/(loss) (pre-tax)</b>	(1.2) million	0.5 million	1.9 million	(0.1) million	
<b>Hellas Jet profit/(loss)</b>	18 month period – (10.9) million		(12.5) million	(5.5) million	

Source: *CY Annual Reports*

<sup>11</sup> The 1999 profits include an exceptional income of £4.6 million that arose from the sale of Equant N.V. shares

<sup>12</sup> The 2000 profits incorporate an exceptional income of £2.5 million, which is the compensation received for losses incurred during the Gulf crisis, following a relevant decision by the UN Compensation Commission

<sup>13</sup> The 2001 figures include an exceptional income of £0.9 million, which represents the profit from the sale of France Telecom S.A. shares

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