7

State Economic Enterprises and Revolving-Capital Enterprises

After the division of the island, the demand for labour in the north was met primarily through the creation of state administrative positions albeit at the same time there was a shortage of qualified labour. As we have seen in the previous chapters, whilst the number of civil servants had indeed increased, as much as 42% of that Turkish Cypriot cohort had previously been workers in agricultural sector. Furthermore, alternative means of employment that did not need government funding had to be designed. To this end the state formed nine enterprises mainly in agriculture, energy and financial sectors where there was shared ownership (with state-owned enterprises in Turkey) but 'independent' governance and five other enterprises that would sustain themselves through a revolving-capital fund and partly managed by state elected officials. These enterprises were intended as alternatives to civil service posts and in which significant employment was provided by using minimal resources from the central budget while allowing these enterprises to contribute to domestic production. However, over the years these enterprises proved to be a huge burden on central government, and some of them went bankrupt or were sold to the private sector. In this section, we analyse the evolution of these enterprises and discuss the involvement of the governments in decision-making. In some

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cases, we will also show the impact of these enterprises on the overall economy in terms of the value of product sold and employment opportunities.

The law that to this day continues to regulate the working of the first type of enterprises was called the State Economic Enterprise (SEE) Law (*Kamu Iktisadi Tesebbusleri Yonetim*, *Denetim ve Gozetim Yasası*, 37/1975), passed in 1975 (Box 7.1). The law has gone through only very minor modifications since then. Article 2 of that law defined a state economic enterprise as:

> "the entities which are autonomous in their activities and their responsibilities are limited by their capital stock and at least 51% of their capital stock are owned either (i) solely by the state,[1] or (ii) one or more than one SEE, or (iii) an SEE and the state." The economic activities of the enterprises are subject to the Companies Law. (Fasil 113, 1951[2])

Box 7.1 Parliament Discussions on SEE Law (21 November 1975)

The parliamentary debate on the SEE law took place on 21 November 1975. Özker Özgür (CTP) had recommended a new article to be inserted after Article 25 which stated that 'anybody who is a member of the parliament of a political party or central governing board cannot be nominated or elected to the Common Board of Governors of the SEEs'.[3] He proposed this article so as to ensure that political parties would not be involved in the governance of the SEEs. The parliament took a break at that time so that the subcommittee could consider this proposal. After one hour, the parliament reconvened where the subcommittee rejected this proposal. After this, Özker Özgür retracted his proposal on the basis that 'the members of the subcommittee have convinced me that such an article would limit the political freedom of a citizen'.[4] No change was therefore made on this article, but clientelism and rent-seeking thereby became permanently institutionalized.

Nejat Konuk (UBP) had also suggested a modification on this law which led to serious discussions. Article 26 requires that '51% of the shares of the SEEs should be owned by the state, the state and another SEEs, or multiple SEEs' which was inconsistent with the definition of a SEE outlined in Article 2. Konuk suggested to add a follow-up temporary article which proposed that 'this rule is not required for the SEEs that were established prior to the acceptance of this law'.[5] He also explained that the members from his party involved in the subcommittee acted on their own and thus the draft bill did not reflect UBPs' views. Fuat Veziroğlu, Naci Talat, Alpay Durduran and others opposed this suggestion fiercely. After long discussions, finally the article was put to a vote (Fuat Veziroğlu suggested that this voting be held by calling out each name, but this proposition was rejected by 18 against 13 votes). The final tally was 20 for and 11 against which led to the acceptance of Article 26 as it was, but the requested follow-up was added at the end under 'temporary articles'. In the end, the law was accepted in its entirety by 20 votes against 11 votes.

That this article and law does not make sense has had enduring significance for the northern Cyprus economy and society. There were some SEEs such as Cyprus Turkish Airlines and Industrial Holding (both discussed below in great detail) that were established before this law, but 51% of the shares were not owned by the KTFD. When the SEEs were originally formed right after the separation in 1974, enterprises from Turkey were made partners because Turkish Cypriots lacked the management skills of the newly formed enterprises and needed experiences of Turkey. If the article was changed, then the Turkish partners would have had to give up some of their shares in order to comply with the law, but Rauf Denktaş and UBP militants could not contemplate such a disgrace against the 'motherland', hence the modification.

Over the years this law was only modified three times. Article 24 of the original law required 'at least 10% of net profits to be distributed to the workers'. Turgut Mustafa (TKP) suggested in 1975 that this amount was too low,[6] but then this article was accepted unanimously. This article which has rent-generating possibilities for the politicians was amended in 2005 down to '… at most 10% …'. Hasan Bozer (UBP) objected not to the maximum limit but to the fact that the new change excluded 'board of directors, director, secretary, vice-director, accountants, external consultants, advisors (*musavirs*)' on the grounds that these people were the brains of any enterprise and if there was any profit it was attributable to these individuals and thus they should also receive their share.[7] Given that the salaries of these positions were substantial, their proportional transfers from profits would also have been substantial. Ferdi Sabit Soyer (president at the time, CTP) responded to this by saying that over the years there had been applied a bylaw that allowed the individuals in this list to receive an 'incentive premium' which basically substituted the dividends.[8] At the end the changes were accepted by the majority of votes on 6 June 2000. Once again revenue resources were redistributed to the controlling rent-seeking class and away from the labouring producers of wealth.

The SEE definition has a built-in loophole where a SEE can be owned by another SEE which could be owned by another SEE and so on. This has caused some inconsistent practices over the years. For example, in the same law (37/1975) the Religious Affairs Office (Din Isleri Dairesi) was also defined to be a SEE, but this office does not conduct any economic activity. On the other hand, the now defunct Cyprus Turkish Airlines had been managed as a SEE for many years until 1998 when the Constitutional Court declared that it was against the constitution.[9] We will see in this chapter that several of these enterprises were not governed according to the relevant law.

The law also provided that the enterprises were to be governed by the 'common' board of directors where capital and labour were to be equally represented. However, the representatives of the state or other SEEs (since they should have had at least 51% of the shares) were actually appointed on the nomination of the relevant Minister and by a decision of the Council of Ministers. Once again the 'captured' rentier state exercised continuous political influence on these enterprises. The labour representatives were selected from among the Labour Council itself formed from among the workers of the enterprise, and financial auditing of the enterprises was to be carried out by the finance inspectors from the relevant ministry. Finally, Article 16 was interesting because it held that the enterprise (hence the board of the directors) was to be responsible for dictating the price of the own products and services according to the market conditions. However, it also allowed for the Council of Ministers to intervene and set their own prices as long as the financial losses that might result from the price difference could be covered by the state's budget. However, we will see in this chapter that output prices have usually been determined by the related ministries without any provisions to cover the losses, and rentier interests came to trump market prices. Having introduced the foundational law and surveyed the broad interests in the state economic enterprises, we now turn to an analysis of their historical development including the histories of individual enterprises.

After the introduction of the SEE law, the management and auditing of these enterprises were subject to a new law. But instead of using the opportunity to contribute to the economic development of northern Cyprus, the SEEs have become the major base for clientelism not only for the domestic government but also for Turkish governments as well, since state enterprises from Turkey were shareholders of the enterprises in northern Cyprus. Each time a government changed in Turkey during 1974–1980 period, the executive boards of SEEs were filled with the people from political parties in the coalition government in Turkey.[10] The secondary executive positions and other permanent posts would then be filled by the KTFD government. Under these conditions the management of these enterprises placed a burden on, rather than alleviating, the central budget.

The enterprises were established under Fasil 113 law. This law was from the British period (1951) and it was adopted in 1974. This law basically outlines the procedures regarding establishment of limited liability companies in northern Cyprus. Since then it has been modified eight times. The first modification in 1977 extended the minimum criteria for appointment of an auditor (*denetci*) for a company established under this law by allowing 'people with business, finance, accounting, or economics degree from a university with five years of work experience' or 'graduates from a high school or middle school with at least 20 years of experience in income tax applications'. Another modification in 2003 increased the responsibilities of the liquidating agent (*tasfiye memuru*). Such an agent would be able to notify the debtor in case of liquidation 30 days in advance to pay off the debt on immovable property, and if the debt was not paid by this time, the agent could sell the property by auction or private agreement.

Back in 1961, following the founding of the Republic of Cyprus and the first state economic enterprises, the Cash Development of the Consolidated Fund of the Assembly of the Turkish Cypriot Community (*Türk Cemaat Meclisi Konsolide Fonu İnkişaf Sandığı*, henceforth Consolidated Fund) had been established. This Fund was to be the shareholder in these subsequent SEEs. The Fund's initial financial capital came from the British government (half a million lira in August 1960 from the agreement to support the Turkish community) and other sources (e.g., the Turkish government and from central state budget). The Fund was formed to act as the reserve to support the Turkish community by giving loans for economic development, becoming especially significant during the bi-communal conflicts between 1963 and 1974. The Fund had six board members who were representatives from different ministries. The management of the Fund was transferred to TRNC Office in charge of 'Money Exchange and Economic Growth Matters' (*Para Kambiyo ve Inkisaf Sandigi Isleri Dairesi*) that was established in 1987, and so the Fund effectively became part of the TRNC's 'sovereign' wealth, including its liabilities.

As early as 1976, there was a request in parliament (by Alpay Durduran) for a Parliament Research Committee to be established to research 'the workings of SEEs'. When asked by Nejat Konuk about what 'workings' were intended, Durduran responded with several examples.[11] He claimed that, in addition to financial mismanagement and problems at other SEEs, Cyprus Turkish Petroleum (*Kıbrıs Türk Petrolleri*, KTP) had been operational for 11 months, but there was still no personnel handbook: for example, workers were not insured even though they worked with dangerous materials, and there were no written rules about personnel vacation days. In the end, with 17 votes against 16, that a committee of enquiry be established was rejected thereby confirming a history of refusing due diligence, accountability and further easing *torpil*.

Table 7.1 shows the number of employees and percentage of share owned by the KTFD as of 1982. The endowment quantities reported are expressed in current monetary terms (to allow some comparison), and more endowments were promised at the time of establishment. Compared to the total roll of 11,000 civil servants in 1982, these 9 enterprises provided 3443 jobs. The largest share was in Sanayi Holding which was the main industry producing several different goods with high value added such as textiles, cleaning supplies, furniture, flour, construction materials and several others. Unfortunately, this enterprise was shut down in 1998, and some of the employees were transferred to other civil servant positions and the rest were forced to retire. ETI, KTHY (Cyprus Turkish Airlines), Tobacco Industry would also share the same fate in later years. Cyprus Turkish Petroleum (*Kıbrıs Türk Petrolleri*, KTP) was only recently privatized in 2011. The management of these enterprises have proved costly for the state and over time drastic measures had to be taken.

Table 7.1 List of state economic enterprises

	Actual endowment (in million TL)	Share of KTFD as of 1982 (%)	Employment in		
			1977	1982	2010
Turkish Cypriot Industrial Holding Company (Sanayi Holding)	412	50	1397	1258	Bankrupt
Turkish Cypriot Tourism Establishments (Kıbrıs Türk Turizm İşletmeleri)	60	50	362	212	Bankrupt
Cypfruvex	9	100	1139	940	92
Turkish Cypriot Tobacco Industry (Kıbrıs Türk Tutun Endustrisi)	5	49	49	90	34
ETI	6.5	100	303	428	73
Cyprus Turkish Petroleum (Kıbrıs Türk Petrolleri)	147	49	53	92	50
Cyprus Turkish Maritime (Kıbrıs Türk Denizcilik Sti. Ltd)	70	50	29	33	33
Vakiflar	116	100	310	255	NA

Source: SPO (1982), p. 65

There are several reasons for these outcomes. According to the second Five-Year Development Plan, the main reasons for difficulty in running these enterprises were lack of finances, lack of management experiences, inability to sell the products in international markets and the management difficulties due to shared ownership with Turkish-based enterprises. During the 1977–1982 period, the total contribution of SEEs to GNP was about 5.5%. Fixed capital investments of SEEs had decreased (as a ratio of total fixed capital investments in KTFD) from 9.8% in 1977 to 3.1% in 1982. Are these reasons enough to explain the failure in these organizations? The enterprises constantly borrowed money from the central bank or other commercial banks to manage their operations, and the state was the guarantor of the debt. Senior-level managers at these enterprises were appointed directly by government and were given extra privileges.[12] Once again, the politicians had direct influence on the management of these enterprises and they used it for their nepotistic purposes. We will discuss in more detail the histories of some of these enterprises in the following subsections.

Another set of semi-state-owned organizations were the so-called revolving-capital enterprises (*Doner Sermayeli Kuruluslar*). There were five such organizations but they also provided significant employment opportunities and economic activity potential (see Table 7.2). Four of these were related to the agricultural activities, with the fifth concerning the energy sector. These organizations had their own establishment laws and regulations regarding their management and operations. Although these enterprises had high potential, inappropriate policies have forced these to totter on the brink of bankruptcy or, indeed, fall.

Another reason for the abandonment of these SEEs could simply be the change in global economic conditions and overall political-economic views on such enterprises. A Privatization Committee was formed in the parliament in 1987, subsequent to the visit by Turgut Özal (prime minister of Turkey) to the island. This also coincided with the privatization and broader neo-liberalization attempts initiated in Turkey. After the '24 January 1980 decisions' in Turkey, economic policies were directed at privatization and lowering the burden on the state budget and introduction of 'free market' economy. The Turkish government enacted a law in 1986 (#3291) that gave power to the Council of Ministers to privatize the SEEs.[13] Ozal's visit to Cyprus ensured that TRNC policymakers adopted his 'suggestions'. Thus, the start of privatization in the TRNC echoed changing political-economic ideology, that is, the advent of neo-liberalism, around the world and in Turkey especially. Whatever else, this

Table 7.2 List of revolving-capital enterprises

	Number of full-time employment in		
Revolving-capital enterprise	1977	1982	2010
Cyprus Turkish Electricity Board (Kıbrıs Türk Elektrik Kurumu, KIBTEK)	327	435	654
Agricultural Supply Board (Tarimsal Donatim Kurumu, TDK)	93	102	NA
Milk Industry Board (Sut Endustrisi Kurumu, SUTEK)	8	23	29
Agricultural Products Board (Toprak Urunleri Kurumu, TUK)	78	81	153
State Hatchery (Devlet Uretme Ciftlikleri)	101	226	NA

Source: Numbers for 1978 and 1982 are obtained from SPO, First FYDP, p. 67. The numbers for 2010 are obtained from Güven (2013) gave opportunity for local policymakers to break decades of poor policies. Examination, next, of the individual histories of some SEEs will show the response not for public benefit of these 'opportunities' but to increase and concentrate private benefits at public expense.

Individual Histories of Some of the SEES

By examining in some detail the histories of some of the biggest SEEs in northern Cyprus, we shall show how rentierism, rent-seeking behaviour and endemic clientelistic politics continued to dominate the political economy of the TRNC. These characteristics were further complicated and compounded both by the continued dependent relationship with Turkey on the one hand and the enduring isolation of the de facto state on the other hand. We begin with the SEE which sought to break the TRNC out from isolation and assert an identity independent of Turkey, namely, the ultimately ill-fated Cyprus Turkish Airlines (KTHY).

Kıbrıs Türk Hava Yollari (KTHY): Cyprus Turkish Airlines

Cyprus Turkish Airlines (CTA) was registered immediately after the division on 4 December 1974 under equal ownership with Turkish Airlines. This was a great necessity as the fastest means of travelling to northern Cyprus was by air, and since the new state was not recognized officially by the international community, there could be no flights except from Turkey. Thus CTA was established to continue providing air transport services between northern Cyprus and the rest of the world through Turkey. The planes had to touch down in Turkey before they could continue to northern Cyprus or another country which added to the consumer cost of air travel. The company started providing services to Ankara and Adana in February 1975. As with other enterprises, the input of Turkish partners was very important as Turkish Cypriots lacked the know-how of air travel. The first step was to rent Turkish Airlines planes and operate under KTHY. By 1988 the company purchased six planes (four Boeing 727 and two Airbus 310) of its own. Although the company had equal share with Turkish Airlines, the executive board had two members from KTFD and three members from Turkey which would cause some resentment over the years. Table 13 shows annual total supply of seats and the corresponding actual number of passengers for 1975–1993.

Successive governments of the north have requested assistance from Turkey regarding air travel, including at the 1978 Second Joint Economic Commission of the two governments.[14] First, the northern Cyprus government asked for routes beyond the Turkey and northern Cyprus line, and that Turkish Airlines (Türk Hava Yolları, THY) could use airspace at Ercan (northern Cyprus airport) as a way out. Secondly, KTFD also requested extension of the contract between THY and KTHY regarding Ercan-Istanbul-London route. Both of these requests were duly noted by the Turkish side. Finally, KTFD requested that if KTHY leases an airplane from another country, they should be allowed to fly to European countries with this plane under THY name and logo. The Turkish side responded that they would be willing to consider this 'as long as this did not interfere with THY flight schedule'. None of these requests were mentioned in the third meeting in May 1979. In the third Joint Economic Meeting, there was a new decision. Both parties decided that whenever THY was bidding for airplane purchases, they should consider including in the project purchase of a plane to be paid and owned by KTHY. But then, in the fourth meeting in December 1979, this proposal was rejected because 'THY and KTHY have different carrier status' and KTHY was thus required to purchase on its own. In other words, the requests from northern Cyprus were not satisfied, and KTHY was left to struggle in asserting its presence. Thus, despite THY holding a 50% share interest in KTHY, no 'infant industry' protection or subsidy was forthcoming from the 'motherland'.

Members of the CTP party brought a motion for investigation of KTHY (M.A. No: 3/3/96) by a Parliament Research Committee on 21 June 1996. The basis for the investigation was mainly allegations regarding mismanagement of KTHY, thereby causing financial losses to the company in the previous two years.[15] The motion was accepted unanimously at a parliamentary session on a Sunday 20 June 1996 albeit without the presence of the UBP. An investigatory committee was formed but a report was never produced. Tellingly, in those previous two years the

CTP had been in government (with DP since 1 January 1994) and thus, if there was any mismanagement, shared responsibility lay with the CTP. In fact, during the first six months of that coalition government, 37 temporary personnel were employed at KTHY.[16] This is just another example of many examples where the coalition members placed the blame of any wrongdoing on their partners even though they were also serving in the government at the same time. Two months after this motion, the government failed and DP joined forces with UBP.

The government began the privatization process for this company in 2005.[17] According to Lisaniler et al. (2013), the ground crew operations were initially given to a private-public company. Then in 2010 the company was liquidated and 418 full-time personnel were let go. In March 2012, the TRNC Parliament passed a law providing for the re-employment of SEE employees who had lost their jobs due to privatization of the companies that they had worked for, resulting in 303 employees being assigned to civil service positions. Not only did this cause extra financial burden on the government budget, but also it created more inefficiency in the civil services since the reallocation of the people was done at random without any attempt trying to match their skills to the new positions. For example, I have met a woman who had been working at ground services with KTHY but who was transferred to the office of National Archives. The only aim of the government, with pressure from the unions, was to provide permanent employment to potential voters without giving much thought on long-run consequences.

KTHY enjoyed a significant market power for airline travel between northern Cyprus and Turkey for a long time. In the early years, there was virtually no competitor other than THY itself, even when towards the end of the 1990s some private operators took a small fraction of the market. However, the demand for airline services between north Cyprus and London in particular was very high mainly due to Turkish Cypriot diaspora living in the UK. When the financial troubles became visible in the 2000s, the number of competitors also increased and the market share of KTHY decreased. Turkish Airlines withdrew from the company and sold its shares to a private company in Turkey (Ada Havacilik ve Tasimacilik AS) in 2005 before, with long-sensed inevitability, the KTHY declare bankruptcy on 21 June 2010.

The TRNC Parliament has established a committee to research the 'reasons behind discontinuance of KTHY flights' on October 2015 that ultimately prepared and shared the report on February 2017. The committee was formed of five members, and two CTP members chose not to cast their vote on the report instead of voting against it. However, CTP had prepared its own report on this issue.[18] The details of both reports are obviously important, but I will give a very brief summary here. The Parliament Report (only prepared by UBP members) basically points to the competition faced by low-cost carriers from Turkey after 2005 as putting extreme pressure on the company's financial sustainability as the sole reason for failure (which raises the question of why this company could not achieve economies of scale in the past 35 years). On the other hand, CTP report blamed the government of Turkey and in particular President Erdogan's negative attitude towards the issue, and claimed that Turkey started a price war on purpose and put pressure on KTHY to pay off debt owed to Turkey which brought the company to the brink of bankruptcy. A common point of both reports is that they don't talk about the practices of the company from the twentieth century and give the illusion that the company's troubles had only began in the last decade. But I think the following extract from CTP's own report summarizes the main problem (although not the point intended by this report): 'Since the establishment of KTHY on December 4, 1974 and since the beginning of its first flight on February 1975 until 2005, there had been no serious attempts to reorganize the company to make it competitive.'[19]

If this statement is correct, then how is it possible that this airline survived for 30 years without any problems? If the increased competition is to blame for the bankruptcy as claimed by the UBP report, then why didn't the government use protectionary policies (tariffs, quotas) to circumvent the problem? If the problem was the pressure from Turkish governments, then why couldn't the northern Cyprus governments stand up to protect their nation's interest? Insofar as this airline was formed in cooperation with Turkish Airlines and they were the only airlines providing services between an undeveloped and isolated northern Cyprus and the rest of the world, it was no wonder that such a state monopoly could not survive. First of all, THY did not see KTHY as a partner but instead as a competitor. THY operated flights on the exact same routes as KTHY to a relatively fixed market. As KTHY could not jointly purchase aircraft (as we saw in the Joint Economic Meetings) combined with reckless spending of the airlines on personnel and unproductive activities, this ensured that KTHY only survived as long as it did for non-commercial reasons driven by clientelistic rent distribution. Finally, we can see the inability of local governments to protect local interests when it clashes with that of Turkey's.

Kıbrıs Türk Sanayi İşletmeleri Holding Ltd. (Sanayi Holding) (Cyprus Turkish Industrial Enterprises Holding)

Before 1974, Turkish Cypriots were not very active in the industrial sector of the Republic of Cyprus. Amongst all firms, the total shares of employment of Turkish Cypriots were 8.7% (in firms employing less than five persons) and 10.3% (in firms employing more than five). In terms of the total employment in this sector, Turkish Cypriots made up 7.2%, but in terms of contribution to GNP, by the firms solely owned by Turkish Cypriot entrepreneurs, it was around 2%. After the division, a substantial portion of the fixed capital wealth in industry, 30% of total fixed investments, 26% of GNP potential and 32% of total employment potential, remained on the northern part of the island.[20] Before 1974, there were 2549 Turkish Cypriots employed in industry at 686 factories (80% of which employed less than 5 employees). By 1976 the total number of factories under TC control was 1441, with a total employment of 4579 (6596 in 1977, with maximum potential of 7764). Another source puts the total employment in this sector at 4500 (with max capacity of 6500) as of 1979.[21] By 1980, there were 266 factories with 6107 total employment, strongly suggesting an increase in employment together with a concentration of industry.

After the separation, around 40 of such factories began to be managed by Sanayi Holding Ltd, upon which I now focus, that was established in February 1975. As of 1976, 50% share belonged to the Consolidated Fund, and the other half was controlled by six different companies from Turkey. The company had 43 factories under its control and six other that were rented out in 1976 where the tenants could not pay the rent and the cost of the raw materials. In 1991, the company increased its capital, and the shareholders from Turkey withdrew from this company[22] which resulted in 51% of shares owned by the Consolidated Fund, 29% by the state Provident Fund and 20% by the state Social Insurance Fund. In other words, all the shares now were owned by the domestic and public participants.

Already by 1976 the value of production was a lot lower than had been planned.[23] The main reasons cited were the lack of skilled labour, lack of raw materials, high excise duties for exports and issues that arose as a result of maintenance. About 87.7% of all Sanayi Holding sales were to domestic consumers, and the rest were exports to Turkey (2.3%) and to other countries (10%). Nevertheless, the total gross sale amounts (in TL) did increase substantially compared to 1975. The total share of labour costs (direct and indirect) was around 40% of all costs.

This company also provided good employment opportunities. When it started operations in February 1975, there were 241 hourly paid employees (workers) and 73 full-time permanent employees. By the end of the year, the numbers increased to, respectively, 813 and 176. By the end of 1976, there were a total of 1115 people (898 workers, 217 permanent employees) working at more than 40 factories. As we can see there was a rapid increase in the employment numbers although the same report concludes that 'even though personnel expenditures have been 53% of total expenditures, given the duty of this company to provide employment within KTFD, we [the company] should at least keep the numbers constant until we can reach a more efficient production capacity'.[24] But the number of employment within the company decreased substantially in the later years. By the end of 1977, this number had decreased to 1058.

As early as 1976, collective bargaining agreements had not been honoured by the management. Workers went on strike in January 1976, whilst the ruling UBP concurred that the items in the bargaining agreements had not been honoured, yet the management prohibited workers from joining a labour union (although against the constitution). Furthermore, 20% was being deducted from the wages of probationary status workers when the upper-level management were receiving high salaries, a practice eventually abandoned. Labour representative Ozel Tahsin from Türk-Sen at the parliament called the government into action to fix the problems between workers and management and reminded them that the state controlled 50% of this enterprise.[25]

At the beginning of 1982, the company saw a significant clash between two unions. DEV-IS and Türk-Sen were struggling to become the representative union for collective bargaining at this company. In fact, when members of DEV-IS went to one of the factories to talk to the workers, they were not allowed to enter, upon which there was disorder.[26] In the end, the ballot to determine the representative union was held in June 1982, and DEV-IS received 59% of the total votes (976 votes).[27] This was a huge victory for CTP and the left political parties as DEV-IS was mainly under their control.

The 1976 Report cited above noted the lack of potential development of the company, and the managers of the company provided certain recommendations in order to reach full production capacity. Unfortunately, development faltered, and by March 1983, the Parliament Research Committee prepared a report on Sanayi Holding and KTTI[28] which revealed mismanagement and financial difficulties of both enterprises. Some of the findings of the report on Sanayi Holding are summarized below:

1. Many of the factories were not actually operating, and even those that were had been producing on-demand.
2. The company was in serious financial difficulty and needed immediate re-capitalization.
3. Due to fire and loss of production at a paint-producing factory (destroyed by suspected arson although the investigating committee did not find any such evidence), most of the paint needs of the public sector were met by private sector producers controlled by very close friends (or relatives) of administrators of Sanayi Holding.
4. Even though there are reports by Court of Accounts regarding 'abuse of power' by some administrators at Sanayi Holding, the government, the Holding or the Court did not take any legal actions. Instead these individuals were removed from their positions.

İsmet Kotak (the Minister of Industry and Cooperatives) mentioned, in one of his visits to Ankara in 1982, that Sanayi Holding was operating at only 20% capacity but if Turkey provided financial capital to the company, it could provide for an additional 5000 jobs in northern Cyprus.[29] He also mentioned that although the asset value of Sanayi Holding had increased to 800 million TL, Turkish shareholders had not done what they were supposed to and that an increase of capital 'on paper' meant nothing. Such a description was coming from the highest authority showing the condition of the company in 1982. Between 1983 and 1986, the company was able to produce far below its production capacity. Even by 1986, only 28% of its total productive capacity was utilized, and the number of employees decreased to 481 although the maximum capacity under those circumstances could have been 1200.[30] The problems with marketing, human resources, technology and finance were still cited as the causes of underproduction. Yet the Council of Ministers continued appointing general managers without relevant experience but with generous salary packages,[31] thereby reinforcing clientelistic politics on the one hand and rent distribution on the other hand (Table 7.3).

The company had become very difficult to manage for the government and they decided to reduce the operations.[32] The Council of Ministers decided in 1987 to leave only 11 factories under the Holding's management and rent out the rest.[33] The *Ece* Flour Factory was given to Agricultural Products Board, and *Narpak* was given to Eastern Mediterranean University, EMU.[34] Another factory, Thermal Plastic, was being managed as a partnership with another private company (Council of Ministers, Decision #E(K-2) 1388-87). There were two other factories that were auctioned off to the highest bidders in February 1988. One of them was rented for five years at a monthly rent of 400,000 TL in the first year which was to increase to 976,000 in the fifth year. The other one was leased for 33 years at 900,000 TL per month in the first year, and then

Table 7.3 Production values for Sanayi Holding, 1983–1986

Year	1983	1984	1985	1986	Max capacity
Actual production (tons)	8872	11,906	10,028	8000	28,700

Source: TFSC Parliament Proceedings, 11 March 1983, p. 65

increasing to 1,860,000 in year five at which time it would be renegotiated. These rental fees were massively under-rated for a factory, signalling an effective hidden subsidy and/or *torpil*.

The employment within the factory continued to decrease from 481 in 1987 to 270 in 1991.[35] By 1991, there were only 24 factories under the control of this company. A combination of liberal competition with imports from Turkey and the impact of the Gulf War and the Poly Peck crisis had reduced the total volume of sales by 1991. The company was also in financial crisis as they had used a lot of their earnings to pay off previous debt, and they couldn't invest in new equipment or raw materials. The nominal personnel expenses had increased by 13% between 1990 and 1991 although total employment had decreased by about hundred employees to 270, again suggesting a concentration in the redistribution of rent. By this time the share of labour expenditure was 71.5%. The workers were being paid on average about three times as much as the national minimum wage requirement and the other permanent staff five times as much.

In order to decrease company costs and to become competitive in foreign markets, the management first wanted to reduce labour costs by decreasing employment (see Table 7.4). Out of 270 staff in 1991, 99 of them were full-time staff and the rest were hourly paid workers. The number of employees increased to 312 by 1995 but then decreased again to 283 in 1997 right before the company closed its doors.[36] The total debt of the company at the central bank that was backed by the state guarantee increased from 1.4 billion TL in 1988 to 2.3 billion TL in 1990.[37] In other words, the cost-cutting strategies did not really help the financial

Table 7.4 Employment and average salaries at Sanayi Holding, 1987–1991

Year	1987	1988	1989	1990	1991
Total staff	481	392	422	372	270
Average monthly salary (TL)—worker status	266,907	358,126	571,794	1,153,757	1,806,081
Average monthly salary (TL)—permanent staff status	372,068	574,191	928,642	1,766,416	2,593,719
National minimum wage (TL)	90,000	121,000	205,000	340,500	520,000

Source: Cyprus Turkish Industrial Holding (1991) situation of the company, but it did secure rents to the top management and ruling strata.

Although this company increased its capital in 1991 and got rid of foreign shareholders, the company was no longer able to sustain itself. The Council of Ministers decided in 1997 (#E-275-97, 19 February) to establish a 'Privatization Committee' (*ozellestirme birimi*) that consisted of six members from different ministries that would prepare a report on the privatization of SEEs. The council asked the committee to prepare the report on Sanayi Holding on 26 March 1997 (# E-515-97).[38] The committee's report that was completed on 7 May 1997 was forwarded to the Council of Ministers by Erdal Onurhan (Minister of Economics at the time, and who had worked at the Holding in the 1980s) on 16 May 1997. The report basically suggested that the Holding could not sustain itself financially anymore and thus should be privatized. They forecast per month averages of 23 billion TL personnel expenditure and 25 billion TL interest fees in 1997 compared to 61 billion TL per month sale revenues (based on the sales obtained in 1996 and adjusted for inflation in 1997). The committee criticized the state for irrational borrowing on behalf of the company, for example, when in the past loans at 180% interest rate were contracted when alternative loans at 55% were available. The Report advised that the whole company could not be sold in one piece and thus the smaller and non-profitable factories of the Holding should be given a priority for their sale or liquidation and immediately prepare the technical specification for this purpose. Similarly, the staff of the company who would be laid-off had to be compensated though should employees wish to bid for the sale of the factories, they were to be given priority in case of a highest or close to highest bid. On 28 October 1998 the company had the last executive board meeting opting for voluntary liquidation. In December 1998, the liquidation board convened and the Holding was permanently shut down.

What could have been an economic success story for Turkish Cypriots after the division ended in disaster? The Holding that had enough factories to sustain the economy of northern Cyprus turned out to be a burden rather than a saviour. Non-recognition of TRNC and other economic embargos definitely contributed to this failure but cannot be the only reasons. Apart from the high politics and economic data which has described the collapse of Sanayi Holding, personal testimony reveals much more of its significance to the economic life of northern Cyprus. Halil Erdim's (2014) collection of interviews provides important testimony, which I offer in Box 7.2 with my translation from the original Turkish.[39] Limiting my own commentary (only brief clarifications [in italics in square parentheses]), nevertheless these typical testimonies show clientelism in business practices, mismanagement of the company and the unrest between the managers and the labour unions. It was under such experiences that a central pillar of the northern Cyprus economy lurched from crisis to crisis, eventually collapsing having functioned for so long in serving private, personal interests and political positioning at public expense and the livelihoods of ordinary Turkish Cypriots. Another huge opportunity in contributing to the economic development of the north could have come from the use of tourism establishments. We discuss other related enterprises next.

Box 7.2 Personal Testimonies of Sanayi Holding Employees

Erdal Onurhan (p. 93): 'The shareholders from Turkey always helped with the management but the effect of domestic governments was always felt and the Board of Governors of the Holding was never independent [*he left Sanayi Holding in January 1981 and then served as a minister between 1985–1988, 1992, 1996–1998. He was the Minister of Economics when Sanayi Holding was shutdown*]. Due to ABAD decision [*this is the decision of European Court to prohibit sale of goods produced in northern Cyprus. We will discuss this in detail in the next chapter*], we were paying 28% extra tax, but the company would have still been in a difficult position even without this decision.'

Mustafa Ali Sefik (p. 233): 'I bought DO-RE-MI [*one of the companies*] for $33K on Feb 6, 1998. The second highest bid was $7000.' [*The machines at this factory was valued at $68K as of 1.4.1997*, p. 370.]

Mustafa Altuner (p. 236): 'I received a call directly from [Rauf] Denktaş who asked me to hire a woman who lost her husband in the bi-communal conflict and I did. But that was the only political request that I have granted. They fired three directors after the fire at the painting factory.'

Mustafa Esatoglu (p. 252): 'The Elektrod factory was bought by an investor from Turkey who took the factory apart, bit by bit to Turkey. The general management was in charge of everything about the 40 factories which made the process very slow and added negatively to the feasibility and efficiency of production. During one period, colonels from Turkey were in the general management who had no business experience. DEV-IS [*the* *labour union*] who was supported by the directors of the factories in the early stages have contributed to the loss of Holding because of financial demands that were not possible to be met by the Holding.'

Mustafa Gunduz (p. 264): 'There was some suspicion at the Ozmen Textile factory regarding insider thieves. One day the buses were kept waiting while security searched the workers. They found that some of the workers had small amounts of products stolen from the factory. These individuals were fired by the disciplinary committees but until that time, the managers received many phone calls including from Ministers regarding cancelling firing of these individuals.'

Namik Comunoglu (p. 266): 'The educated young leftist generation who couldn't find jobs as civil servants or other young adults who were not leftist but did not have any brothers in the government would seek employment at Sanayi Holding and this will ease the development of a labour union called DEV-IS who would act as a political party at the Holding.'

Nermin Olgac (p. 271): 'Berkmen was given to Irfan Nadir [*father of Asil Nadir*] and the Dikmen factory was given to Haci Ali in 1997–1998.'

Ozgun Faruk (p. 272): 'We borrowed money to buy raw materials for the Turbine Factory without the help of the general management. We promised that we will pay back the loan once we made sales. And we had very good sales but the revenues were collected by the general management and thus we couldn't pay off our debt.'

Ozkan Barisel (p. 276): 'When we fired a technician after several warnings for engaging in shirky behavior in the workplace, the regional manager called us into his office and asked us to rehire the technician. After I refused, I asked them I need written request to do that. Never received such a request in writing.'

Seval Bayramoglu (p. 304): 'The average salaries of factory directors were around 2500 TL, I asked for 6300 TL. The general manager of the Holding Orhan Alicli offered me 5500 TL and I accepted with the condition that we will renegotiate in 6 months. Nejat Konuk would tell my director to fire me because I forwarded his message regarding prohibiting DEV-IS members to enter the factory in 1977. But then he changed his mind. Orhan Alicli's [*the general manager*] contract was up at the end of 1977 who was earning 16-18,000 TL. He was given 2000 TL increase but he refused and resigned. His replacement was Yucel Dolmaci. I was treated as the one responsible for the fire at the paint factory and then I was fired "because of lack of work".'

Ulvan Polili (p. 325): 'I went to Sinasi Tekman's house. The general management of Holding was right in front of his house and we went to visit the person in charge of marketing who was a cousin of Mr. Tekman. I was immediately hired. The managers did not want to hire women at high level positions. Assistant General Manager invited me to his room and told me either to quit DEV-IS or I would be fired. I chose to quit. Those who were on union's side were later fired [e.g.*, Zeki Erkut who wrote columns at Yeni Duzen*].'

Yilmaz Yigit (p. 355): 'The factory lost 40 billion TL in 1985 with the deal they made with Borusan. This was because the contract did not include 18% production loss for the pipes. When I insisted that an investigation should be held, I was fired.'

Kıbrıs Türk Turizm İşletmeleri Ltd. (KTTI, Cyprus Turkish Tourism Businesses Ltd.)

The Cyprus Turkish Tourism Businesses was founded on 8 November 1974 with shareholders from Cyprus and Turkey. The Consolidated Fund held 30%, and Vakiflar Idaresi (Vakiflar Management) held 20% of the shares, whereas the remaining 50% were held by five public enterprises in Turkey. Shareholding was redistributed in 1990 when the Consolidated Fund took 51% of the company and Turban Tourism AS from Turkey had the rest. The KTTI had the control of most of the touristic accommodation that were inherited from the Greek Cypriots (excluding the Varosha area). However, again, due to mismanagement and political meddling, the company did not survive into the twenty-first century. At first the company was downsized as part of the privatization of the SEEs, as discussed earlier, and only Mare Monte Hotel remained under the control of the firm. Then, the Council of Ministers decided on 12 January 1998 (BK# E-90-98) to liquidate the firm, appointing liquidators who terminated the company in November of the same year. The liquidators hived off Mare Monte to Vakiflar Idaresi, and that was the end of the company.[40] How did the key tourism company in the north, on a Mediterranean island increasingly dependent on tourism revenues, fail so dramatically? Politicians in the north will blame the Cyprus problem.

According to the 1980 budget report of company (16 June 1980), total capitalization for 1979, all paid, was 20,000,000 TL. However, a general board decision to increase capitalization threefold to 60,000,000 for 1979 was not accomplished. According to Article 7 of the company's articles of incorporation, the company would be managed by a group of five representatives, three from foreign shareholders and two from KTFD although both sets held an equal number of shares. This put the KTFD management at a disadvantage.

The Autonomous Turkish Cypriot Administration and KTTI signed an agreement on 8 November 1974 regarding the management of touristic establishments. The protocol was signed for 11 years and could be cancelled with two years of advance notice on either side. The company was responsible for management, outsourcing the management or renting of all the properties under its control. In exchange, the state would receive 15% of net profits as corporation tax, and pay 20% of the remainder of the net profits as rents. The company had not produced any profits since 1974 but anticipated coming into profit by 1979; thus until that time rents still had to be paid. There were also other properties leased by the state to this company. In 1979 there were plans to invest in new establishments (Philecia Court Hotel and Salamis Bay Apartment Hotel) as well as to increase the capacity of an existing hotel (Mare Monte), but these fixed investments could not be realized because of the inability to obtain the necessary funding due to bureaucratic problems. The list of immovable properties under the control of this company that were rented is available in Table 14. There were 8 hotels, 12 bar/restaurant/beach facilities, 20 office space and more than 70 flats/apartments that were rented out.[41] Yet by 1983, this company was also in trouble just like many other SEEs. The policymakers continued their historically consistent practice of 'discussing' these issues in the parliament without reaching any substantive conclusions. Box 7.3 shows an example pertaining to KTTI.

Box 7.3 Parliament Discussions on KTTI-Related Parliamentary Investigation Report

A February 1983 parliamentary investigation reported, as summarized below, that[42]:

1. KTFD held 50% of the initial share capital. This should be increased to at least 51%.
2. In the previous nine years, there had been 12 directors appointed, most of whom were not qualified.
3. The company had successfully marketed its facilities but had been very good at providing free or at very low cost accommodation and other services to many individuals.
4. The company had been providing completely free room and board to Turkish and KTFD state ministers and their families (current and past), the board of directors of the company, and their guests. Fifty per cent discounts

were given to the Turkish ambassador in Nicosia, the commander of local Armed Forces (*Güvenlik Kuvvetleri Komutanı*), KTFD head of the parliament, Military Division commanders, the Council of Ministers and their families; the Supreme Court judge, the chief prosecutor, head of Court of Accounts and their families, members of the board of director, secretaries (reporter), accountants (past and present) and their families (sibling, partner, children); and all the past and present MPs and their families; and 35% discounts were given to others.

5. The rental prices of hotels and apartments were too low in any case.

6. The transportation of tourists was the real problem according to the report and Gozel Halim (a TKP representative member of the committee who prepared the report) criticized THY for not finding a solution to this since they were partners of this company.

The minister responsible for tourism (Nazif Borman) responded to the allegations made in the report as follows:

1. The vice-director who authorized advance payments to individuals and who never paid these back had left the company in 1981, and had been fully compensated by the company (p. 32); therefore, there was no way to file any charges against this person at this time. The minister also claimed that the Court of Auditors should have notified the head prosecutor's office if this finding required any further investigation.

2. The payments to two individuals (15K and 6K per month in 1980) who were appointed at KTTI temporarily while holding other civil servant positions had been illegal under the Civil Servants Law. But it was claimed that this was done under alternative bylaws which was legal. The minister asked the prosecutor's office for further clarification.

3. He also claimed that 8 of the 11 (previously it was 12) general managers appointed to this company were only replacement directors who were appointed when the incumbent directors left. He claimed that it is very difficult to find qualified personnel to fill these positions in northern Cyprus.

4. There had also been attempts to increase the share of KTFD to 51% as required by the law.

5. The apartments and guesthouses were rented to the people in need, refugees, and due to increase in inflation, the current rent prices are low. [*Yet, if we look at the tenants of the apartments in 1980, they were other SEEs or large companies.*]

6. Regarding the discounts extended to some groups, the minister claimed that the regulations are still not approved by the Ministry and the practice would be stopped immediately. However, he added that it might be reasonable to provide these discounts to attract more tourists since the current occupancy rates were around 20% (p. 38).

Such nominal concern did not prevent at all the accumulated debts of the hotels and the general management of KTTI reaching alarming levels by the mid-1990s. Most of the debt owed was to the Social Security and Provident Funds. As of February 1996, the total debt of Salamis Bay, Mare Monte and Dorana Hotels was, respectively, 105.6 billion, 15.1 billion and 9.9 billion Turkish lira. The general management of this enterprise also had 12.8 billion TL public debt. On top of all this, the company owed 139.9 billion TL to the banks.[43] Eventually the establishments under the control of this company were handed over to various public and private organizations. Rebecca Hotel was taken away from this enterprise by the Council of Minister decision (#A-254-96) and leased to EMU for 49 years in 1996. Dorana Hotel was given to Social Insurance Fund to compensate for state's debt to this fund in 1996 (7.2.1996, #A-200-96), but then the council decided to sell it to Yakin Dogu Universitesi (Near East University) for 711,000 pound sterling (18 December 1996, #E-566-96). The accumulated rental fees and corresponding late penalties of Salamis Bay Hotel unpaid by the KTTI from January 1995 to July 1996 were pardoned or postponed (#A-930-96). This hotel was later leased for 49 years to Istanbul Airlines (#E-1381-97). As it can be seen, privatization sales or transfers had been decided by the Council of Ministers and not by the parliament or specific legislation. Without any public resistance to these decisions, governments have continued for many years in discretionary manner.

Cypfruvex (Cyprus Fruit and Vegetable Exports)

This company, established on 21 November 1974 with promised share capitalization of 10,000,000 TL specialized in the export of citrus fruit products. The shareholders were the Consolidated Fund (80%), Vakiflar Idaresi (10%) and Cooperative Central Bank (10%), and yet by 1979 Vakiflar Idaresi had still not paid the promised capital. The state allocated some of the workshops/factories that were inherited after the bi-communal conflict to Cypfruvex. The finance capital was assigned to Cypfruvex by the nascent de facto state with the condition that the company should lease or expand the immoveable capital. In addition the citrus fruit lands of 11,794 dönüms in Famagusta and 11,345 dönüms in Morphou were placed under the control of the company (Council of Ministers decision, #6158/January 1975) but later were taken away without any compensation despite monies having been spent on the maintenance of these lands. However, the company paid neither rent nor compensation for the immoveable properties and real estate allocated to them. However, the estimated value of the physical capital (3,604,483 TL) was counted as the part of the contribution made by Consolidated Fund (around 8,000,000 TL). Thus, the initial real financial capitalization of the company was actually less than 10,000,000 TL.

The 1976 Activities Report of the company realized potential problems and made the following suggestions[44]: Export and trade issues aside, more financial capital should be secured and ways to utilize the second grade products should be found. The report also emphasized the importance of deficiencies in the Equivalent Property Law (*Esdeger Mal Yasası*, 41/1977) where the deeds of the establishments given to the firm were still not legalized and thus ownership is ambiguous. Finally, it was suggested that the management of citrus fields should be controlled and if necessary should be reallocated to the people who can manage efficiently, and the new juice company should be managed by Cypfruvex and its products should be sold to foreign countries (to get more foreign currency), and financial capital should be increased to 50,000,000 TL. Obviously, these steps could only be taken by the governance at the time, but the suggestions went unheard. The company did not have a profitable business in the initial years. In the three full years that the firm operated between 1976 and 1978, there were considerable losses. There was a project to establish a citrus fruit juice company whose investments would cost around 63,000,000 TL of which 30,000,000 TL has already been paid by Cypfruvex despite continuing uncertainty as to who would manage this company once in operation (as of 1979) (Table 7.5).

There had been an immediately pressing problem that the company faced in 1976.[45] Some of the citrus fruit cooperatives that were operating in the south of the island took the importing firms, which were buying Cypfruvex products exported from KTFD ports, to the courts in Holland and the UK. The complainants basically claimed that their members were forced to flee their lands in the north after 1974 without being paid any compensation and the management of those lands were now under the control of an unrecognized entity (Autonomous Turkish State and TSK) and, crucially, that they were unlawfully selling the products to the defendants. Thus, the complainants asked for an injunction from the courts which, if given, would prohibit the purchase of citrus fruits from some parts of the northern territories by Dutch and British importing firms. The litigation was withdrawn when six of the seven firms made an out of court commitment not to buy these products from Cypfruvex. The remaining seventh firm, Rodolfo, worked closely with Cypfruvex (Zaim Necatigil acted as lead counsel in this matter), and the court in Rotterdam rejected the application for an injunction on 6 January 1976. The actual court hearing still continued. Although at this stage it was a victory for the Turkish side which enabled them to continue selling citrus fruits produced in the north, Ziya Necatigil warned parliament that if the UK Foreign Office were to produce any document for the courts that showed its de facto or de jure non-recognition of the KTFD, then the court could ban the sale of citrus fruit products produced in KTFD.[46] The saga of trade isolation which started with Cypfruvex continues to the present day as we shall see later.

Table 7.5 Cypfruvex's net profits, 1975–1986

Year	Net profits (TL)	Net profits ($)
1975	43,336	
1976	−57,401,353	
1977	34,042,303	1,870,456
1978	19,352,334	786,680
1980	329,000,000	4,380,826
1981	219,000,000	1,938,053
1982	356,000,000	2,174,046
1983	−570,000,000	−2,458,698
1984	−1,997,000,000	−5,441,417
1985	−426,000,000	−806,360
1986	742,000,000	1,087,052

Source: The values for 1980–1986 are obtained from TRNC Parliament Proceedings of 2 October 1989. Other years are obtained from Cypfruvex's own reports. $ amounts are calculated by using the exchange rate provided by SPO which is not available prior to 1977

Although the company was supposed to be managed by its own board of governors, some of the key decisions were made by politicians. For example, the Council of Ministers had declared the price of Yafa, Valencia and Fusa orange varieties as 1500, 1750 and 1550 TL/ton, respectively, for 1977–1978 season (Council of Ministers, Decision #1256-77). Then in May 1978, the same council approved 10,000,000 TL borrowing of the company for ten years at 8.5% APR (Council of Minister, Decision #O-156-78). Subsequently government treasury bills were used as collateral when the company sought to borrow money from commercial banks. In other words, the Council of Ministers had been involved in the decision process of this company since the beginning. The following table shows the sale of citrus fruits overseas as well as the employment numbers of this firm during the initial years.

By the beginning of the 1980s, the firm began at least to report accounting profits. This was probably because of the experience the managers had gained over the past five years and learned from their mistakes, but this fairytale did not continue long. The firm experienced significant losses between 1983 and 1985 before returning to profitability in 1986. The interesting thing is that since 1975, the yield of citrus fruit lands and the resulting export of citrus fruits (which were handled only by Cypfruvex till then) have increased continually, but the profits did not.[47] The reason for this was that the costs (operating and human capital) of this company increased more. Even though the company was supposedly independently managed, it used to buy the products from the local producers at the prices announced by the Council of Ministers. However, once the company exported the products and sold them at competitive world market prices, they did not get the prices they had promised to local producers. This was simply bad management arising from political interference.

There was another danger for the company in the second half of the decade. When a private firm (Sunzest) owned by businessman Asil Nadir entered into fruit market, the share of Cypfruvex decreased substantially. Sunzest offered the producers higher prices and paid them in advance (rather than Cypfruvex which paid producers a portion in advance and the rest after exporting the products). Sunzest's practices increased their market power from 30% of all citrus fruit exports in 1986 to 72% in

1990 (whereas Cypfruvex's share of exports in this market decreased from 37% to 18.7%).[48]

The minister in charge of agriculture (Taşkent Atasayan) explained the situation of the company in 1989 as follows.[49] The minister claimed that the loss of profits of the company was not because of lack of financial capital (which he claimed that there are plans to increase it to 10 billion TL), or the entry of a private firm (Sunzest) into the market, or the mismanagement of the firm, rather, he claimed that the reason was simply there was an increase in the supply of products in the world market which led to a decrease in prices and hence lower profits.[50] Later, the minister said that the losses would have been much smaller if 'Valencia and grapefruit products were squeezed in Cyprus as concentrated juice instead of being send to the UK for sale as fruits'.[51] In other words, the minister was admitting that the loss in profits due to lower prices that resulted from increase in world supply of citrus fruits could have been averted if the company had made better decisions and utilized the products in another way. A lesson the company and the government should have learned for the future. In the same speech, the minister was also proud to announce that his government (UBP) had just extended 2.5 billion TL loan (which was more than the existing financial capital (1.2 billion) of the firm at the time) to the company at zero interest rate in order to pay off the money owed to the producers as well as the debt owed to TRNC Central Bank and Cooperative Central Bank. As of 1990, the company's accumulated debt at the Central Bank was 5.3 billion TL which was about 2 billion more than the debt in 1988.[52] Thus, it is fair to say that the money extended by the government was not used to pay off debt at the Central Bank. By this time the company was showing signs of insolvency and already acting under government directives rather than as an independent entity. The opposition parties blamed the government for intentionally weakening the company to give advantage to Sunzest in order to make them a monopoly by turning the producers against Cypfruvex.[53] However, Sunzest went bankrupt even before Cypfruvex had chance to do so, in 1991, yet the problems of Cypfruvex persisted.

The financial hardship of the Cypfruvex continued into the 1990s. The total accumulated debt at the central bank increased to 106 billion TL by the end of 1994.[54] The Council of Ministers approved $7,280,250 from

Cooperative Central Bank to be under state guarantee (Council of Minister, Decision #A-1651-95, 27.2.95). The Council of Ministers also authorized Cypfruvex to borrow 200 billion TL (Council of Minister, Decision #E-737-97) and 400 billion TL (Council of Minister, Decision #E-879-97) from the Provident Fund in May 1997 which were backed by state guarantees. With the company borrowing more money to pay off their debts, the government chose to reduce the size of the company and then finally considered its privatization, sharing the fate of other important SEEs in this decade. The Privatization Committee was asked to prepare a report on privatization of Cypfruvex (Council of Minister, #Decision E-931-97) in June 1997.

In the end, Cypfruvex has not been privatized, but the significance of the company has been reduced substantially.[55] This company had been the major exporter of citrus fruits in the north between 1975 and 1985. When Sunzest entered the market, the share of Cypfruvex averaged 34% between the years 1986 and 1994. Although the company regained 52% of export market in 1995, the shares have declined afterwards. Between 1996 and 2003, the company had on average a little less than 15% of the citrus fruit exports from northern Cyprus. The market is now dominated by 'Other' firms which are basically private firms coming from Turkey. The size of the company has been reduced with almost zero economic impact and now remains only as a reminiscence of a time where north Cyprus was productive.

Revolving-Capital Establishments (*Doner Sermayeli Kuruluslar*)

Distinct from the classic SEEs discussed so far were so-called revolving-capital enterprises. They were established under the Fasil 113 law and they were subject to the laws of Company Registration. Although these firms—focusing here on the Milk Industry Board, the Electricity Board and the Agricultural Products Board—did not have any shareholders including the state, their executive boards were not free from interference from the government. Parliament had passed separate laws for each of these establishments that dictated the operating principles. Each of these companies was responsible for their own finances, but they could also receive transfers from the state's budget.

Süt Endüstrisi Kurumu (SUTEK, Milk Industry Board)

The law that regulates the workings of SUTEK (*SUTEK Yasası*, 01-1977) was passed in January 1977 and has been amended only three times since then (1986, 2011 and 2016). The main goal of this board, amongst its eight responsibilities, was to regulate the domestic milk market as effectively as possible. The president and vice-president of the board were appointed, yet again, by the Council of Ministers, but they were required to have no 'conflict of interest in the milk industry'. In 1980, the proposed annual salary for the general manager was 239,781 TL, and the lowest skilled worker scale was 66,040 (31 TL/hour). Originally, there were a total of ten other members of this board, but this number was reduced to seven in 1986 changes. Four of these members were required to be civil servants appointed by three different ministries, and the other two were to be representatives from the industry (animal husbandry and milk, and who were required to be registered members of the related associations) and another one from Cooperative Central Bank. All of these members were to be appointed by the Council of Ministers except the two representatives from the sector although they would also be appointed in the same manner if their associations do not appoint them within one month of the deadline. The amendments in 2016 have eliminated the requirement of the appointed four members to be civil servants. So now, in principle, anybody could be appointed by the related ministry irrespective of conflict of interests. Each of these members is paid fees for their services on the board although these amounts are not very large. Finally, before 2011, the minimum quorate requirement was participation of six members to the meetings, changed in that year to decisions of a simple majority.

The trends of registered cow milk production and corresponding animal wealth have been moving simultaneously over the years (Table 15). There was a constant increase in the numbers until the establishment of

TRNC, and there was some decline which later picked up again until 1997. After 1998, the increase was much steeper where the number of cattle doubled between 1997 and 2007 period. This trend seemed contrary to the economic development of northern Cyprus. During the early years of the breakaway state, the percentage of people who were working in the agricultural sector was more than 40% which in later years was replaced by service sector. And there was also a European Court of Justice (ECJ, now Court of Justice of the European Union, CJEU) decision that prohibited sale of TRNC products to European Economic Countries (EEC) which would have crippled the export of milk and milk products (halloumi especially), but we see in the same table the amount of hellim (halloumi) exports continuously increasing since 1975. Despite a banking crisis and economic slowdown at the end of the 1990s lasting until 2005, the dairy industry seemed to develop unaffected.

In a rare example of good governance practices of TRNC officials, all milk produced was sold to SUTEK—effectively as a milk marketing board—which in turn would sell the milk to dairy product producers. Although the number of people working in this sector officially decreased over the years, due to old traditions, those who owned animals in the past continued to do so as they could earn extra income from milk production by selling the products to SUTEK with zero risk. SUTEK, provided with public subsidy, would then sell on the milk for less than its original purchase price. In principle, it was possible for a farmer to sell milk to SUTEK and then go back and buy the same milk at a cheaper price and produce cheese or other milk products. Since the rules required registry by SUTEK in order to be paid for the milk purchased, many individuals (civil servants) would register their relatives as the owners of the animals since it was prohibited for civil servants to be working in a second job.

As is the case for many countries, agriculture industry is also subsidized and protected against international competition in northern Cyprus. Traditionally, farmers would pressure the politicians for more subsidies on exports or tariffs on imports, obviously the only imports being from Turkey. Some of the subsidy amounts for 1998 are shown in Table 7.6. As can be seen, there is 13% price difference for cow milk and 7% for sheep milk per kg between the price paid to the farmers and price received from the producers. In other words, SUTEK would lose money

Table 7.6 Exports and employment at Cypfruvex, 1975–1980

	Export (tons)	Employment
1974–1975	23,129	1518
1975–1976	36,936	1534
1976–1977	60,498	1139
1977–1978	76,208	1430
1978–1979	71,958	1028
1979–1980	98,762	928

Source: Cypfruvex Activities Report (1980)

from the sale of milk to the producers if they were in charge of this exchange. If the government is actually paying the premium shown on the tables, there still would be losses but to a lesser extent. How could a company be expected to survive if they sell a product less than its cost? The answer is that a state should subsidize vulnerable industries despite losing money, but SUTEK is not state owned. Of course, the alternative use for milk was an intermediate product to produce something else—notably hellim and yoghurts, to be sold at a profit. The government also provided an export subsidy for hellim (1998 (BK:E-1234-98), 250,000 TL/kg destined for Turkey and 400,000 TL/kg for other countries). The ultimate measure of the competitiveness of this industry, if data can be found, would be to compare the total amount of annual subsidies to total revenues or profits of the firms. I doubt that the Council of Ministers who have taken decisions to interfere in this market ever did any such calculation (Table 7.7).

Any international trade textbook will show that when a small country that cannot influence the world price imposes a tariff, the price of the product will increase by the amount of tariff for the domestic consumers. Similar outcomes are predicted for subsidies. Nevertheless, countries continue engaging in these protectionist policies purely because of political reasons, to receive campaign donations during elections. It is hard to imagine significant donations from farmers in the case of TRNC. Regardless, the Farmer's Association has been very organized to put pressure on the governments for protectionist policies on this sector since 1975. Once again, the burden of subsidies on the government budget or the increased prices on the country's welfare has not been accounted for; instead the policies were only motivated by clientelistic principles made possible with uncontrolled funding from Turkey.

Table 7.7 Milk subsidies by the Council of Ministers, 1998

	Cow milk (TL/kg)	Sheep milk (TL/kg)
Farmer's price	98.3	177
SUTEK premium	7.2	7.2
Subsidy	20	20
Sale price to producer	85.5	164.2

Source: Council of Minister, Decision E-1079-98, 17.6.1998

Kıbrıs Türk Elektrik Kurumu (KIBTEK, Cyprus Turkish Electricity Board)

The management of electricity systems in northern Cyprus has been carried out by Cyprus Turkish Electricity Board (KIBTEK) since 1975. Right after the division, the management was carried out by the Electricity Office which was converted into a non-profit organization on 1 March 1975 by the Council of Minister decisions (#6216). The first Five-Year Development Plan predicted total investments of 114.8 million TL for the improvement and maintenance of the electricity services in northern Cyprus. There were also initiatives to establish a 60 Mw power fuel oil thermal power plant. The early borrowings were transferred from the state Price Stabilization Fund (*Fiyat Istikrar Fonu*) to buy diesel oil, but then KIBTEK also began to borrow from commercial banks such as the Central Bank, Vakiflar Bank, Cooperative Bank, and Akdeniz Garanti Bank. As shown in other examples, the Cyprus Turkish Electricity Board was to be managed independently of the state albeit accountable and monitored by government. Again, the regulations seemed innocent but the executions were not.

Insofar as the main KIBTEK responsibility from its foundation was to 'efficiently manage the production, transmission and distribution of electricity', it is odd that electricity production in northern Cyprus did not begin until 1994. Until that day KIBTEK produced some electricity from old gas turbines, but mostly used electricity from the Republic of Cyprus until the first power plant was built in the north (Teknecik, east of Kyrenia). In fact, the Electricity Authority of Cyprus (EAC, the state-owned monopoly electricity company in the south) claims that they had provided northern Cyprus with electricity without any reimbursement between 1974 and 1994, now worth two billion euros with interest.[56] However, every individual living in the north could confirm that they had to pay KIBTEK monthly for domestic electricity, as well as electricity fees for construction permits to KIBTEK since 1975. This raises the question as to what happened to all the revenues collected during this time.[57] Interestingly, an independent audit report of the company in 2010 claims that 'there are no provisions for repayment of the debt for the electricity received from South Cyprus and billed to the consumers'.[58] Furthermore, central government departments (including all the affiliated offices) and the armed forces were legally not required to pay for electricity consumption until 2006 and the armed forces until 2002, although combined they consumed about 10% of total electricity produced by KIBTEK. About 19% of the electricity produced was lost in the system in 2006, but this number went down to around 10% in 2015. In order to increase the revenues, the company started collecting fixed fees for the street lamps from the registered users but which had previously been collected by the local municipalities.

There are various rates for electricity users in northern Cyprus where the number of users within each group is shown on Table 16. In the early years (1975–1987), there were only residential and commercial tariffs. Then, other tariffs for industrial, irrigation, street lighting and off-peak usage were subsequently added; a separate tariff was added after 1995 covering touristic establishments, with different rates emerging within each sector. Using the tariff rates and number of users in various groups for 1995, I calculated the potential billed revenue for KIBTEK to be $25.8 million.[59] This amount (it is not clear if it was all collected) would not have been enough for the survival of this company. In February 1997, the Council of Ministers authorized KIBTEK to borrow money from Cyprus Credit Bank to the amount of UK£600,000 (#E-283-97, 19.2.97) to be used to pay off 2 million US dollars (#E-284-97) borrowed earlier from Cyprus Vakiflar Bank that will be under the state guarantee. Over the years, similar decisions made this firm to borrow money under state guarantee in order to be able to continue its operations.

Two power plants were built in 1994 and 1996. But they could not keep up with the increasing electricity demand. Thus, the government signed a protocol for establishment of a private electric company to complement KIBTEK. The government signed a contract in 2003 with a Turkish company, AKSA, and gave them 15 years long exclusive rights which would then be extended until 2024. One of the interesting features of the protocol was the 'guaranteed buying agreement' between the firm and the government. TRNC Court of Accounts (2012) has found that this will cause $1,085,663,651 financial burden between 2010 and 2024 on the central government.[60] The same report also outlines many other extra financial liabilities of this agreement. However, to date the protocol has still been honoured by the state.

The historical number of employees at KIBTEK is shown in Table 17. Before 1994 when electricity was still supplied from the south (which should have obviated the need for production personnel), the staff numbers were increasing. In the first year of DP-CTP coalition government in 1994, 48 new people were employed at KIBTEK.[61] Furthermore, the Council of Ministers have added in the same year two new upper-level management positions to the available positions of the company (Decision #A-148-94). These were the "head consultant" position who would assist the director of the company, and two "consultant" positions who would consult the head consultant. These positions were basically designed to generate more *musavirs*. There were a total of 611 KIBTEK employees as of 2014 and 344 retirees.[62]

The KIBTEK board of directors comprises seven members, all of whom were appointed by the Council of Ministers. The members can serve on the committee up to five years but of course the Council can remove these members before their term is up without any excuse. The Council also decides the wages and salaries of these appointed members. The board is in charge of hiring employees to work at the company, but these employees are considered public servant although they have different rights than civil servants (see below). The board of this company is also in charge of electricity production and sales across the north. Once again, an ostensibly independent specialist enterprise has its key personnel appointed as a 'grace and favour' of the political Council of Ministers.

The labour regulations in this company are not regulated by standard civil service laws. Hiring and promotion criteria are decided within KIBTEK. The salaries and retirement benefits are very generous with personnel salaries which were 11% of the total expenditures of the company in 2014.[63] The workers at KIBTEK also receive 26 additional payments on top of their normal salaries. Some of these include 18% of extra payment, 715 TL per month subsidy for electricity usage (equivalent to 1000 KwH), family subsidy (500 TL/month), clothing subsidy, incentive payment to those who use less than 5 sick days per month (519 TL/month), job risk payment (11.65 TL/day for first-degree risk and 5.81 TL/day for second-degree risk) and many others.[64] Yucel (2015) also reported that the average cost of a worker at KIBTEK is 12,635 TL per month as of 2014. Given that only around 30% of the company are employed under worker status,[65] this average is rather large compared to other civil servant salaries.

KIBTEK's financial position is shaky, having received significant funding over the years from the central government and outside sources. Loans from Turkey to KIBTEK have been substantial wherein 2006, 2007 and 2008, the Turkish government has transferred, respectively, 30,000,000, 20,000,000 and 57,000,000 TL to KIBTEK[66] (TR Aid Office, 2014). KIBTEK has also borrowed funds from local banks by using government collateral. Most of this money goes to purchase of fuel oil (that is paid in the next six months) needed for the electricity plants whose price is of course in US dollars. The company board and the related labour union defended high borrowings pointing to the fact that Turkish lira depreciates constantly and even if they could bill and collect the price of electricity completely (which is unlikely), they will still have difficulty in paying debts because of currency depreciation. Table 7.8 shows the extent of total debt of this company under government guarantee.

Table 7.8 KIBTEK's total debt under state guarantee

	Million TL	Million $
2010	124.6	53.9
2011	120	126.4
2012	104.7	84.9
2013	206.5	69.3
2014	213.8	50.2

Source: Turkish Republic Aid Office (2014), p. 55

It can easily be said that KIBTEK has been a major SEE in northern Cyprus that has been very badly managed. For example, the State Court of Accounts found that some KIBTEK directors continued to participate in board meetings even though their membership has expired, and thus an important bid for 'smart electric meters' had to be cancelled.[67] Furthermore, the revenues collected from the public for so long were not used to improve the company, and uncollected revenues from the central government and armed forces caused significant financial losses. There are also claims that large hotels and some universities do not pay their electricity bills. Finally, overemployment with very high compensation packages also deteriorated public's attitude towards this company. The politicians have only started talking about improvements in the management and business activities of this company as late as 2006 in their government programmes.[68]

It is not uncommon to have energy firms in a country to operate as a natural monopoly, especially with a small size such as northern Cyprus. Despite its importance in the economic and social lives of people living in northern Cyprus, this firm has been mismanaged by the previous governments. One of the key faults on this falls on the related labour union—EL-SEN. This union has been very strong against the governments, and given the significance of energy in everyday lives, they have threatened the policymakers by going on strike and cutting the power in the country. However, when new governments appointed new members to the company, the union remained quiet. The firm increased the electricity prices when price of fuel oil in the world has increased, but they neglected to decrease the prices when oil prices plummeted. If you ask the leaders of the union, they will talk about how they raised these issues on several occasions, but just like numerous other occasions, they never took it far enough to pressure the politicians.

The situation of this firm is different from the other examples we have in this chapter. The country can survive without citrus fruit firm or milk product firm as the goods produced by those can be imported. But import of electricity is not as easy. However, in the last five years, there has been talk of combining the electricity grid of northern Cyprus with Turkey's grid (and hence join the interconnected system of Europe). Since these talks have begun, EL-SEN had been very outspoken and criticizing of the governments. They even started collecting revenues from users whom they were not 'able to do so' before. They have also produced 'expert reports' to show that the price of electricity supplied by a cable from Turkey will not be cheaper.[69] This is very symptomatic among Turkish Cypriots in general that they will not act on something until the last moment, and I am not convinced that the union or the policymakers are thinking about the future energy supply in northern Cyprus. In the end, they will be bullied to take action dictated by Turkish governments, and there will not be much public support for the local actors due to history of KIBTEK filled with nepotism and insincerity.

Toprak Urunleri Kurumu (TUK, the Agricultural Products Board)

Another significant but distinctive SEE-type board has been that of the Agricultural Products Board (*Toprak Urunleri Kurumu*, TUK). There has been media attention on this enterprise in the last couple of years as the financial sustainability of the company has been questioned. The most recent government of UBP-DP has taken 'initiatives' to improve the financial condition of this enterprise and prevent it from going bankrupt. However, there have been Court of Accounts reports as early as 2008 that shows mismanagement within the board of directors. Why governments have waited this long to take precautions is unknown.

The TUK was first established in 1976 but the relevant law was not passed until 1992. On its own website, it says that 'since the Board is a state economic enterprise attached to the Ministry of Agriculture and Natural Resources, it is under the protection and supervision of the central government'.[70] However, this contradicts its actual status as a 'revolving-capital enterprise' which is supposed to be operationally independent from central government. The regulating law defines the main objective of this board as 'to control and evaluate the purchase, sale, export, import and usage in production of any agricultural product in the interest of benefit and necessity of the general public'. One of the key responsibilities of this board was to set up a fund called the Agricultural Products Stability Fund that was to maintain the price stability of the agricultural products regulated by this board, but no such separate fund exists.

The budget of this company has to be approved by the parliamentary assembly. The 1993 budget was submitted for approval to parliament in January 1993 which was after the end-of-year deadline for budget discussions. Regardless, the budget was approved by 'majority vote'. During parliamentary discussions on the budget, it came to light that the scales of the company had been problematic for many years. Apparently, the mechanical scales used to measure the weight of the trucks would measure 150 okkas (1 okka = 1.25 kg) less than the actual weight. The Minister of Agriculture and Forestry admitted the existence of such a problem and promised that in the next couple of months, all of the scales would be converted to electronic scales.[71] But he also added that this had been an issue for some time now. In other words, this company had been stealing from the producers for many years.

The monthly salaries of the permanent staff (42) and workers (72) for 1993 can also be calculated based on this document. The average staff salary for 1993 was proposed to be 4.7 million TL, and the average for workers was around 4 million TL. The averages are calculated by total budget divided by the number of staff in each category. Of course, the permanent staff had different scales; thus the average is misleading. Regardless, these averages were a lot higher than the minimum wages in 1993 (1.37 million TL), and keep in mind that these amounts did not include overtime payments.

Finally, the financial condition of the Board was not very promising according to the budget proposal. The company had borrowed twice as much as their own revenues from the government budget and *Toprak Mahsulleri Ofisi* in Turkey. Surprisingly no MP discussed these issues during these gatherings with the exception of İsmet Kotak (DP) who would suggest that it was time for this Board to be dissolved.[72] The 1993 budget of APB would be approved by 26 votes against 9 votes (15 in absentia including 4 ministers of the cabinet). The 1988–1994 overall budget of this organization is shown in Table 7.9.

The board of directors of TUK was also not free of political influence. There are five members on the board, three of whom are appointed by the ministries of agriculture and finance. The other two are representatives

Table 7.9 Total budget of TUK, 1988–1994

	1988	1989	1990	1991	1992	1993	1994
Total wages and compensation	684.5	1160	1868	3137	4227.6	7401.3	12,414.6
Total expenditure	941.285	1525.6	3142.6	3574.2	4700.6	27,849.4	35,229.2
TRNC budget subsidy	380.88	498.47	1468.38	5131.87	12,065.78	8332.37	43,407.38

from the Chamber of Agricultural Engineering and Cyprus Turkish Farmers Union. Furthermore, the board of ministers have the power to identify any agricultural product to be under the control of TUK. In other words, the TUK cannot freely execute its main objective. There is a legal requirement to have a Consulting Panel within the TUK with ten members from different sector representatives. But it is not sure if this panel has ever been established. Although this company is supposed to operate on a revolving-capital basis with the board responsible for its operations, the state stepped in many occasions to pay off its debt. In 1996, the Council of Ministers decided that the state would pay the interest fees of the loans TUK borrowed in 1995 from various sources to pay off the cereal producers (BK# A-157-96). Similarly, the Council decided that the 136 billion TL loss from potato marketing due to 'ECJ decision' shall be compensated by the state (BK# A-159-96). This amount is three times more than total revenues of the firm in 1994. Total accumulated debt of this company at the Central Bank that was backed by the state at the end of 1996 was 311 billion TL.[73] The main income of the board is supposed to be from the sale of the agricultural products. However, over the years, the central government also allocated certain funds to this enterprise although the total amounts were small percentage of enterprise's budget. In 2014, 2015 and 2016, the government allocated a budget of, respectively, 5,500,000 TL, 5,000,000 TL and 1,500,000 million TL. The board also owns 66.6 million kg capacity (11 different depots) of storage facility as well as seed preparation and potato packing plants.

There are 42 permanent positions legally allocated at TUK. According to Guven (2013), there were around 250 personnel working at TUK in 2007–2008 period and 153 during 2009–2010. The 100 people difference is due to steps taken by the government to reduce the financial burden of the board and relocation of these employees as civil servants in central government. However, the number went back up to 222 as of 2014.[74] The financial burden of these individuals on central budget in 2015 (2016) was 4.7 million TL (7.6 million TL). This is one of the most criticized practices of the central government where they transfer employees from troubled SEEs to central government as public servants and increase the taxpayers' burden. As noted earlier, similar transfers were made when Cyprus Turkish Airlines (CTA) went bankrupt.

As has been shown with the examples in this section, these SEEs have been badly managed since their very establishment. Politicians have used these places as employment providers and the governments did not invest in business development of these enterprises in order to survive against outside competition or even just float in the domestic market. On the contrary, the governments have meddled with the administration of these enterprises directly (by deciding the prices, outputs and other key business decisions) and turning a blind eye to administrative abuses, and constantly resorting to emergency rescue measures by direct transfers from the central budget or borrowing money from banks with state guarantee. The result has been the bankruptcy of some of these economically significant industries, while others remain in financial difficulty. The data provided here has all been from official sources, and in that respect is already unreliable, contributing to the strong suspicion that matters are actually worse than reported.

The end of SEEs could very well be due to global transformations into neo-liberal economic ideologies from the 1980s. The discussion on free market versus state-controlled monopolies notwithstanding the economic power of these SEEs after the separation cannot be denied. Of course, any burden on the central budget should be carefully analysed, especially on a very fragile and foreign aid-dependent budget of the TRNC. However, the reasons behind the burden created also are important. Was it a consequence of a structural economic weakness or of systemic mismanagement? After a careful analysis, if policymakers had decided that the burden on the state had to be reduced, then privatizations could have been carried out in a way to provide advantage to the state.

I don't think that the export-oriented enterprises would have survived in the twenty-first century against the global markets, but they were not even allowed to fully develop to be given a chance prior to the neo-liberal turn. Even if Cypfruvex could not export products to European countries after 1994, they could still utilize the products in the domestic market. Alternatively, instead of offering advanced payments to the producers at prices that could not be realized in the world market, they could have worked some arrangements with the related associations regarding payments. Similarly, Sanayi Holding could have continued to produce products for the domestic market if the governments had protected them from foreign competition. And, at some point, if it had been necessary to privatize some of these enterprises as they could very well end up being unprofitable and difficult to manage, then these enterprises could have been managed better free, from the beginning, from political influence, and their privatization (or bankruptcy) could have been avoided or delayed. The state had more than 20 years to prepare these companies for their own survival. How did the private sector perform during this period especially since the state-manipulated enterprises were weakened and collapsed? The response of the private sector in key economic sectors in northern Cyprus forms the next chapter.

Notes

1. The state refers to KTFD before 1983 and TRNC after that.
2. The word 'Fasil' indicates that the related law was first passed during the colonial period.
3. TFSC, Parliament Proceedings, 21 November 1975, pp. 27–28.
4. Ibid., p. 30.
5. Ibid., p. 34.
6. Ibid., p. 24.
7. TRNC Parliament Proceedings, 6 June 2005, p. 1003.
8. Ibid., p. 1006.
9. The relevant decision is AM.5/98–D.4/98 dated 26 November 1998.
10. Sonan (2014), p. 95.
11. TFSC Parliament Proceedings, 6 February 1976, pp. 88–90.
12. For example, the director of the executive board will be paid at least 10,000 TL/month, and other members of the board and the accountants will receive at least 8000 TL/month as part of *Hakkı Huzur Tahsisati* (honorarium allocation, Council of Minister decision #C-720-81, 2/9/81) which was on top of salaries they obtained at their own employment. (The minimum wage at this time was 13,000 TL.).
13. Aksoy (1994), p. 20.
14. Information on Second Joint Economic Commission obtained from TFSC Parliament Reports (10 November 1981), pp. 73–74.
15. TRNC Parliament Proceedings (30 June 1996), pp. 8226–8250.

16. TRNC Parliament Proceedings (6 January 1995), p. 4174.
17. The information in this paragraph is obtained from Lisaniler et al. (2013).
18. Available in Turkish at https://www.cumhuriyetciturkpartisi.org/8-subat-2017-iste-gercek-KTHY-Raporu.html.
19. Ibid. Original text is 'KTHY'nin kurulduğu 4 Aralık 1974 ve uçmaya başladığı Şubat 1975'ten, 2005 yılına gelene kadar geçen 30 yıllık süreçte şirketin yeniden yapılandırılarak rekabet edilebilir hale getirilebilmesi için hiçbir ciddi adım atılmamış, mevcut yapı sürdürülegelmişti'.
20. Annual Report of Industry-Commerce and Tourism Ministry, 1977.
21. TR Commerce Ministry, 1979.
22. Mungan (1999), p. 130.
23. Cyprus Turkish Industrial Holding (1976).
24. Ibid., p. 43.
25. TFSC Parliament Proceedings, 6 February 1976, pp. 3–6.
26. We have introduced the details of the court's decision in Box 4. Kenan Akin (one of the defendants) later became part of UBP and then DP and he came at crossroads many times with CTP. Hasan Sarica announced publicly (on Facebook) that he resigned from CTP membership in 2017 when CTP nominated the head of Chamber of Commerce as an MP candidate for 2018 elections.
27. İşçi Postası [Worker Post] Newspaper, 30/6/1982, front page.
28. TFSC Parliament Proceedings (11 March 1983).
29. İşçi Postası, 30/6/1982.
30. SPO (1987), p. 65.
31. On June 1983, the Council of Ministers approved appointment of an individual as a general manager (BK #:C(K-I)565-83) with gross monthly salary of 150,000 TL (six times more than the minimum wages), 5000 TL budget for guest expenditures, free boarding and a company car.
32. The information in this paragraph was obtained from the answer of the commerce and industry minister to the written question of Salih Usar (#175/4/88) on 5 December 1988.
33. TRNC Council of Minister decision number E(K-2) 1203-87.
34. TRNC Council of Minister decisions number, respectively, E(K-2) 1203-87 and E(K-2) 238-88.
35. Cyprus Turkish Industrial Holding (1991), p. 20.
36. Erdim (2014), p. 376.

37. TRNC Central Bank Bulletin, No. 14, December 1990, Table 2, p. 11.
38. Mungan (1999), p. 135.
39. Erdim (2014).
40. All of the information in this paragraph are taken from Mungan (1999), p. 128.
41. KTTI, 1980 Activities Report.
42. TFSC Parliament Proceedings (11 March 1983).
43. These numbers are obtained from TRNC Parliament Proceedings (5 April 1996), pp. 6147–6168.
44. Cyprus Turkish Industrial Holding (1976).
45. The information on this are obtained from Ziye Necatigil's speech at the parliament which is available at TFSC Parliament Proceedings (10 March 1976), pp. 10–17.
46. Ibid., p. 17.
47. For amounts of citrus fruit exports/imports, please refer to TRNC Ministry of Agriculture (2003).
48. There is also "other" category for exporters who had less than 10% market share between 1988 and 1990 but increased their share after Sunzest went bankrupt and Cypfruvex continued to be managed poorly.
49. TRNC Parliament Proceedings (2 October 1989), p. 416.
50. Ibid., p. 417.
51. Ibid.
52. TRNC Central Bank Bulletin, No. 23, May 1995, Table 2, p. 9.
53. Mehmet Civa (CTP) would make this accusation in the parliament on that day, but other MPs would blame the high-level government officials including the president for having close personal relationships with Asil Nadir (the owner of Sunzest) and providing him with unfair advantages in the markets his firms were operating.
54. TRNC Central Bank Bulletin, No. 23, May 1995, Table 2, p. 9.
55. The market shares for 1986–2003 are taken from TRNC Ministry of Agriculture and Natural Resources, 75-2003 Agricultural Statistics Almanac, Table 36 available at http://www.tarim.gov.ct.tr/tr-tr/istatistik.aspx.
56. Andreou (2015).
57. We don't know the electricity rates before 2000; hence we cannot calculate the total potential revenues prior to this date.
58. Erdal & CO (2012), Independent Audit Report of KIBTEK covering 1 January 2010 to 31 December 2010, page 4, Nicosia.

59. I don't have the tariff rates before 1995 and I also don't have the amount of electricity usage between 1995 and 2004. Thus, the potential revenues cannot be calculated before 2004 except for 1995.
60. TRNC SAC (2012), p. 20.
61. TRNC Parliament Proceedings (6 January 1995), p. 4172.
62. TR Aid Office (2014).
63. Ibid., Table 25. The same source reveals that the permanent personnel salaries make up 68% of total employee expenditures and worker salaries are 27% of the total. The remaining 5% is for 'other' personnel.
64. Yucel (2015).
65. 'Worker' status is given to full-time employees who work at technical positions in the government, and their salary scale is significantly less than full-time civil servant's scale.
66. TR Aid Office (2014).
67. TRNC SCA (2014).
68. Diler (2015), p. 233.
69. I have contacted the producer of this report and asked for full manuscript and methodology of how the price is calculated, but despite my numerous attempts, I was not able to obtain such details.
70. http://www.toprakkurumu.org/site/sayfa.aspx?pkey=2.
71. TRNC Parliament Proceedings, 29 January 1993, p. 5004.
72. Ibid., p. 4998.
73. TRNC Central Bank Bulletin, No. 25, May 1997, Table 2, p. 8.
74. Turkish Republic Aid Office (2014).

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