

# Cyprus 2000

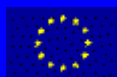
## 2000 REGULAR REPORT

FROM THE COMMISSION

ON

CYPRUS'S

PROGRESS TOWARDS  
ACCESSION



\*\*\*\*\*

8 November 2000

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## A. Introduction

### a) Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe in preparations for membership, and that it would submit its first report at the end of 1998.

The European Council in Luxembourg decided that

“From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*” ... “The Commission’s reports will serve as the basis for taking, in the Council context, the necessary decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States’ ability to meet the economic criteria and fulfil the obligations deriving from accession.”

After the European Council in Cardiff the same approach has been followed for Cyprus.

On this basis, the Commission presented a first series of regular reports in October 1998, with a view to the Vienna European Council; a second series was adopted in October 1999, with a view to the Helsinki European Council. The Helsinki European Council noted that the next regular reports would be presented in good time before the European Council in December 2000.

The structure followed by this regular report on Cyprus is largely similar to that of the Commission’s 1997 Opinion and of the subsequent regular reports; however, it differs from that used in previous years on two minor points. Firstly, the part of the present report assessing Cyprus’ ability to assume the obligations of membership (*Part B.3.1.*) has been structured to follow the list of twenty-nine negotiating chapters covering the *acquis*. Secondly, this part has been broadened to cover also Cyprus’ administrative capacity to apply the *acquis* under each of the negotiating chapters (previously discussed in a separate section of the report).

In line with previous regular reports, the present report:

- describes the relations between Cyprus and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);

- assesses Cyprus' situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Cyprus' capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. It encompasses not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*, as requested by the Madrid and Feira European Councils in December 1995 and June 2000 respectively. At Madrid, the European Council underlined the necessity for the candidate countries to adjust their administrative structures, so as to create the conditions for the harmonious integration of those States. The Feira European Council in June 2000 emphasised the vital importance of the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this required important efforts by the candidates in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter.

This report takes into consideration progress since the 1999 regular report. It covers the period until 30 September 2000. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 1999 regular report have been carried out, and examines new initiatives. Furthermore, complementing the assessment of new developments since the last regular report, this report provides also an overall assessment of the global situation for each of the aspects under consideration, setting out for each of them the main steps which remain to be taken by Cyprus in preparing for accession.

In accordance with this approach, the assessment of progress in meeting the political and *acquis* criteria (including Cyprus' administrative capacity to implement the *acquis*) focuses on what has been accomplished since the last regular report, complemented with a view of the global situation for each of the aspects discussed. The economic assessment, for its part, is based on a forward-looking evaluation of Cyprus' economic performance.

As has been the case in previous reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment and comparison between countries in terms of their concrete progress in preparing for accession.

The report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last regular report. The information they have provided in the framework of the Association Agreement and in the context of the analytical examination of the *acquis* (screening) and the negotiations, have served as additional

sources. Council deliberations and European Parliament reports and resolutions<sup>1</sup> have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the International Financial Institutions, as well as that of non-governmental organisations.

## **b) Relations between the European Union and Cyprus**

As the accession negotiations progress, the relations between the EU and Cyprus are intensifying. This relationship is based on an Association Agreement of 1973 as well as a new Accession Partnership<sup>2</sup>, supported financially by a Council Regulation<sup>3</sup> on the implementation of operations in the framework of the pre-accession strategy for the Republic of Cyprus. This regulation replaces the Fourth Financial Protocol, which expired at the end of 1999.

The European Council in Helsinki underlined that,

*“The European Council welcomes the launch of the talks aiming at a comprehensive settlement of the Cyprus problem on 3 December in New York and expresses its strong support for the UN Secretary-General’s efforts to bring the process to a successful conclusion.*

*The European Council underlines that a political settlement will facilitate the accession of Cyprus to the European Union. If no settlement has been reached by completion of accession negotiations, the Council’s decision on accession will be made without the above being a precondition. In this the Council will take account of all relevant factors.”*

### *Recent developments under the Association Agreement (including bilateral trade)*

Cyprus and the European Community have been linked since 1973 by an Association Agreement, which was intended to lead to a customs union. The Agreement contains arrangements on trade as well as on financial and technical co-operation. Full liberalisation of trade, as foreseen in the second phase of the Agreement, has not been completed in view of the start of the accession negotiations. Cyprus has continued to implement the Association Agreement correctly.

Since the publication of the last regular report the EC-Cyprus Joint Parliamentary Committee (JPC) has met three times, in Luxembourg in November 1999, in Nicosia

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<sup>1</sup> For the European Parliament the *rapporteur* is Mr Jacques Poos.

<sup>2</sup> Council Decision (EC) No 248/2000 of 20 March 2000 on the principles, priorities, intermediate objectives and conditions contained in the Accession Partnership with the Republic of Cyprus, which entered into force on 1 April 2000

<sup>3</sup> Council Regulation (EC) No 555/2000 of 13 March 2000 on the implementation of operations in the framework of the pre-accession strategy for the Republic of Cyprus and the Republic of Malta, which entered into force on 19 March 2000

in April 2000 and in Brussels in October 2000, to assess the progress made in Cyprus' accession process.

The EC has long been the major supplier of goods to Cyprus, accounting for 57% of total imports in 1999 and receiving 51% of Cyprus' total exports in 1999. The main imports were consumer and capital goods such as manufactured, agricultural and construction products as well as transport equipment. The main domestic exports to the EC were industrial products, mostly clothing, unprocessed agricultural products (potatoes and citrus fruits) as well as wine.<sup>4</sup>

### *Accession Partnership*

On the basis of the new Financial Regulation, an Accession Partnership was established by a Council Decision of 20 March 2000. The Accession Partnership sets out in a single framework the priority areas for further work, the financial means available to help Cyprus to implement these priorities and the conditions which will apply to this assistance.

In mid September Cyprus submitted a first National Programme for the Adoption of the *Acquis* (NPAA) to the Commission, in which it outlines its strategy for accession including how to achieve the priorities contained in the Accession Partnership (*see Chapter D below*).

### *Community Aid*

Four financial protocols were signed with Cyprus between 1978 and 1999. The instruments used were mainly loans (including special loans for infrastructure projects), grants (equipment, technical assistance training...) and also risk-capital funds (joint ventures and European Investment Bank participation in Cyprus Development Bank capital). The priorities covered were mostly in the fields of environment and SMEs. The Fourth Financial Protocol, signed in 1995, expired in 1999 and comprised a budget for grants of € 22 million. In 1999, four projects were committed for a total € 7,775 million: development of civil society; creating a system of selection and promotion of bi-communal civil society activities; participation in the Fifth Framework Programme for Research and Development and a project for harmonisation with the *acquis* to improve the capacity of the Cypriot administration to integrate and implement it in key sectors.

After the expiry of the Fourth Financial Protocol with Cyprus on 31 December 1999, the Council adopted on 13 March 2000 Regulation (EC) 555/2000, on the implementation of operations in the framework of the pre-accession strategy for Cyprus and Malta. The global amount of pre-accession aid available to Cyprus for the whole five-year period 2000-2004 will be € 57 million.

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<sup>4</sup> Also see chapter 2, economic criteria

Cyprus currently participates in the Fifth Framework Programme for Research and Development, in Media II, and in the Life II. It is expected also to fully participate in Customs 2000, Save, Altener, Culture 2000, Media Plus and Fiscalis. In addition, Cyprus has been participating in Socrates, Leonardo and Youth for Europe and will continue to do so in the new phase of the programmes from 2001.

Cyprus has been participating in the Third Multi-Annual Programme for SMEs since 1 September 2000. This participation in the programme will further strengthen its infrastructure supporting SMEs, in addition to helping prepare enterprises themselves for accession.

Cyprus will implement certain targeted projects in the field of judicial and administrative capacity and in the area of Justice and Home Affairs, such as the training of judges, external border control, law enforcement issues and the setting up of support and technical structures such as computerised databases compatible with European technical infrastructures (National Schengen Information System). These projects will address two main areas: on the one hand, adapting the organisational framework and procedures and training of personnel, and on the other hand the improvement of the existing systems and equipment.

The Financial Regulation mentions the importance of bi-communal projects. In 2000, € 3 million will be earmarked for these.

### *Twinning*

For the time being no twinning projects have been implemented but the possibility of using twinning is being envisaged for 2001.

### *Negotiations*

The analytical examination of the *acquis* (screening) for Cyprus started in April 1998 and concluded in autumn 1999 with the examination of the agricultural chapter. An updated screening exercise started in February 2000 to cover the new *acquis* up to 1 January 2000.

Since the opening of accession negotiations in March 1998, Cyprus has participated in four rounds of ministerial negotiations. As a result of these negotiations sixteen chapters have been provisionally closed. These chapters are Company Law; Fisheries; Economic and Monetary Union; Statistics; Employment and Social Affairs; Industrial Policy; Small and Medium Sized Undertakings; Science and Research; Education and Training; Telecommunication and Information Technologies; Culture and Audio-Visual Policy; Consumer and Health Protection; Customs Union; External Relations; Common Foreign and Security Policy as well as Financial Control. Negotiations for the remaining chapters continue.

## **B. Criteria for membership**

### **1. Political criteria**

#### *Introduction*

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

In its 1999 regular report on Cyprus’ progress towards accession, the Commission concluded that:

*“Cyprus fulfils the Copenhagen political criteria. There has been little progress in the last year in finding a just and lasting settlement to the overall problem of Cyprus although there was a welcome reduction in tension when the government decided not to deploy additional weaponry.”*

The section below aims to provide an assessment of developments in Cyprus since the 1999 regular report, as well as of the overall situation in the country, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country’s executive and judicial systems. Developments in this context are in many ways closely linked to developments regarding Cyprus’ ability to implement the *acquis*, in particular in the domain of Justice and Home Affairs. Specific information on the development of Cyprus’ ability to implement the *acquis* in the field of Justice and Home affairs can be found in the relevant section (*Chapter 24 – Co-operation in the field of Justice and Home Affairs*) of part B.3.1. of this report.

#### *Recent developments*

Since the last regular report, a number of developments have taken place which may contribute towards a political settlement, notably the resumption of the UN peace process, the improvement in Greek-Turkish relations, and the new status of Turkey as a candidate country for EU accession. Rounds of proximity talks were held in New York (December 1999) and Geneva (February and July 2000), with the aim of preparing the ground for substantial direct negotiations. In the fourth round of proximity talks, which took place in New York in September, it was reported that the two sides engaged in substantial discussion on the core issues (territory, property, security and constitution). The next round of talks was scheduled for early November in Geneva.

In the framework of the accession negotiations, the European Union regularly refers to the offer extended by President Clerides, inviting the Turkish Cypriot community to participate in the negotiations. This offer remains on the table. This would ensure that Turkish Cypriot concerns are taken into due account, and assist the Union’s determination that accession should benefit the whole of the island. It would also allow for the implementation of the *acquis* throughout the island.

### **1.1. Democracy and the rule of law**

As stated in the previous reports, Cyprus has achieved stability of institutions guaranteeing democracy and the rule of law. This section focuses on the most significant developments of the past year. It has to be taken into account that, as no political settlement has been achieved so far, the provisions of the Constitution of the Republic of Cyprus regarding power-sharing at the different levels between the Turkish and Greek Cypriots communities are not being applied.

#### *The Parliament*

The Parliament continues to function in full respect of democratic principles, and has again made impressive efforts to pursue an intense legislative programme. A great number of bills regarding alignment with the *acquis* have been adopted over the past year.

The special Committee for EU and External Affairs established last year continues to function well. This Committee, consisting of 19 members, examines all legislative instruments that are required for the approximation of the national legislation to the *acquis*, with the possibility of a fast-track procedure. All bills, which are submitted to the Parliament in the context of the harmonisation process are examined directly by this Parliamentary Committee, irrespective of the specific topic they seek to regulate. During 1999 and the first half of 2000, 21 harmonised laws and regulations were adopted by the normal procedure, whereas 61 were adopted in the framework of the fast track procedure; however, the aim of the initial proposal in the latter is sometimes softened by amendments or 'reviewing right' clauses.

The Planning Bureau, which co-ordinates the harmonisation process at the national level, has recently issued a Schedule ("Project 2003 - Harmonisation Monitoring System"), together with a very comprehensive National Programme for the Adoption of the *acquis*, which includes deadlines for legal drafting and legal vetting, submission to the House of Representatives, and approval through the fast-track procedure. The House of Representatives supervises the Government's ability to implement the various harmonisation bills once they have been enacted.

#### *The Executive*

The institutions of the state continue to operate smoothly. Since the previous regular report, efforts have been made to reinforce the Law Office, which plays a central role in the approximation of legislation, to strengthen the co-ordination of the harmonisation process within the various ministries, to speed up the computerisation of the public administration, and to enhance administrative capacity at sub-national level.

In view of Cyprus' preparation for accession, within the Law Office a European Union Section has been created, and its staffing has been reinforced with a number of lawyers qualified in European Law. The Law Office staff take part on a continuous basis in training courses on legal drafting and EC law. Collections of EU-related

textbooks and reference material in the Law Office library have been reinforced and are being kept up to date.

The chief negotiator in the negotiations for the accession of Cyprus to the European Union continues to have overall responsibility for the guidance and management of the negotiations, the supervision and co-ordination of the harmonisation process, and for the dialogue with the House of Representatives and the private sector. Within each ministry, an overall co-ordinator for the harmonisation process and the pre-accession strategy has been nominated.

Particular efforts have been made over the past year to speed up the computerisation of the public administration, and, in parallel, the re-engineering of certain administrative processes. The actual amount spent on computerisation in 1999 (€13.3 million according to provisional estimates) was more than double the corresponding amount for 1998 (€ 6.2 million). Continued progress in this regard will be required.

No significant developments are to be reported as regards the structure and functioning of the public administration. The Cypriot civil service is largely independent from political interference. Appointments, promotions and the exercise of disciplinary control over civil servants are performed by the Public Service Commission, an independent body. The agency responsible for the operation of the civil service, as well as for the assessment and improvement of its effectiveness, is the Public Administration and Personnel Service of the Ministry of Finance.

The Cyprus Academy of Public Administration (CAPA), with the approval of the Council of Ministers, continues to focus its activities on training civil servants with regard to the EU's institutions, structures, policies and legal framework.

Efforts are underway to enhance administrative capacity at the sub-national level (regional, district and local levels). Thus, through a decision of the Council of Ministers in November 1999, a further decentralisation of competencies to the district level has taken place. The tasks of the District Officers, who co-ordinate the activities of the various Government Departments at district level, now also include the monitoring of the implementation of development and infrastructure projects, the issuing of identity cards, passports and certain construction and town planning permits at the district level.

The Office of the Ombudsman, whose task is to investigate, report and recommend on acts or omissions of the administration, including local authorities, as well as on alleged ill-treatment by members of the police, continues to function well. During 1999, a total of 1.267 complaints were submitted to the Ombudsman's Office, out of which 1.050 were considered to be within his competence, representing an important increase compared to previous years.

### *The judicial system*

As already stated in previous reports, the principle of the separation of powers is fully applied in Cyprus, and the standard of justice is high. Most criminal and civil cases start in district courts, from which appeals can be made to the Supreme Court. No special courts exist for security or political offences. Cyprus inherited many elements

of its legal system from the United Kingdom. A fair public trial is provided for in law and accorded in practice.

The scale of remuneration of judges, with the exception of district judges, is fixed, and cannot be altered to their detriment. The salaries of the judges of the Supreme Court are not dependent on the approval of the budget.

Over the past year Cyprus has taken a range of measures to address issues identified in the previous regular report, notably to reduce the backlog of civil and administrative cases, to enhance the training of judges, to upgrade the infrastructure in the courts, and to develop a legal aid system for civil cases.

In order to reduce the backlog of civil and administrative cases, the civil court system has been restructured, involving such measures as extending competences of judges and the reform and simplification of procedural rules in administrative cases. In addition, nine new judicial posts have been created, bringing the total number of judges from 75 (including the 13 Judges of the Supreme Court) to 84. Furthermore, a third permanent Assize Court has been set up, and a third Rent Control Court. A new branch of the Industrial Disputes Court has been established.

In order to reduce the total number of cases before the courts, in early 2000 a Tax Tribunal became operational to arbitrate in cases between the Inland Revenue Department and individual taxpayers. This new Tribunal can revoke or affirm any decision taken by the Inland Revenue Department, and return the tax file for reconsideration to this Department.

Other measures to address the delays in civil and administrative procedures include the transfer of part of the original jurisdiction of the Supreme Court to the District Courts, and calculating interest on the amount of final judgement from the date of instituting court proceedings and not from the date of issuing the judgement.

As a result of these measures in the courts of first instance, the number of cases pending at the end of each year has shown a marked decrease. For second instance administrative jurisdiction of the Supreme Court, the number of appeals heard and concluded yearly is now higher than the number of cases filed.

In order to enhance the training of the judiciary, a committee consisting of judges of the Supreme Court has been set up to prepare and monitor a comprehensive programme for the training of judges in matters of EC law. A programme for the training of judges from first instance courts has been established which covers such fields as Human Rights, European Community Law and Civil Procedure.

The existing court infrastructure - buildings and equipment - is currently being modernised and upgraded. An automated Court administration system is being developed, which will facilitate the monitoring of all civil and criminal cases and which will automate the Court's functions. This system is expected to be operational before the end of 2000. In addition, a legal information data bank is being developed, which is also expected to be ready in 2000.

Finally, regarding legal aid in civil matters, new legislation is under preparation. However, the envisaged legal aid law is expected to cover human rights cases only. Parties would thus receive legal aid, both in criminal and civil matters.

In the meantime, the significant delays which exist in the publication and enforcement of judgements by the Supreme Court remain a source of concern.

### *Anti-corruption measures*

As indicated in last year's regular report, Cypriot legislation contains extensive provisions to prevent and combat fraud and corruption. Various bodies are involved in the enforcement of anti-fraud legislation, including the Unit for Combating Money Laundering (MOKAS, which was reinforced at the end of last year), and special investigation units. The Attorney General co-ordinates all investigations concerning fraud.

While corruption does not seem to present a major problem in Cyprus, an important case occurred at the end of 1999. Several high-ranking Cypriot police and immigration officers were involved, including the head of the Migration Office. The problems faced by the Office of the Migration Officer (charges of corruption as well as a large number of pending visa applications) led the Council of Ministers to decide in November 1999 to restructure it.

Over the past year, Cyprus has made further progress in acceding to the major international conventions in this field. In November 1999, Cyprus signed the Civil Law Convention on Corruption. In July 2000, the House of Representatives adopted the act ratifying the Council of Europe Criminal Law Convention on Corruption, which it had signed in January 1999. In March 2000, Cyprus applied to accede to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. However, there are indications that the accession procedure to this latter Convention is stalled, allegedly due to objections raised by one OECD member state.

Cyprus is a member of the Group of States against Corruption (GRECO), and has volunteered to be among the first ten participating states to be evaluated in the GRECO framework before the end of 2000.

## **1.2. Human rights and the protection of minorities**

As indicated in the previous regular reports, Cyprus continues to respect human rights and freedoms. The following section focuses on the main developments during the last year.

Cyprus has ratified most of the international legal instruments in the field of human rights. In January 2000 Cyprus ratified Protocol 6 to the European Convention on Human Rights concerning the abolition of the death penalty. In September 2000, Cyprus also ratified Protocol 7 to the European Convention on Human Rights as well as the revised European Social Charter (see Annex).

The Office of the Law Commissioner - who monitors the implementation of Cyprus' obligations under these international instruments and has the competence to propose necessary action - continues to function well. Due to the increasing workload, however, the Commissioner's work in updating and reviewing legislation has been evolving at a slower pace than expected. The Law Commissioner also chairs the National Institution for the Protection of Human Rights. He is entirely independent and is respected by the legal community as well as by the government.

### *Civil and political rights*

Besides the ratification by Cyprus of Protocols 6 and 7 to the European Convention on Human Rights, a number of other positive developments can be reported in this field. Over the past year, new legislation was enacted on asylum as well as on the trafficking in human beings and the sexual exploitation of minors, and amendments were made to legislation regarding homosexuality.

In January 2000, Cyprus adopted new *asylum* legislation. The Refugee Law lays down principles for the treatment of refugees, specifies their rights and obligations, provides for the entry of asylum seekers and the issuing of temporary residence permits to them, specifies the procedure for the recognition of refugee status as well as the appeal procedure, and establishes a relevant authority. To complement this legal framework, implementing regulations will now need to be adopted, including the creation of a Refugee Authority.

Also in early 2000, existing legislation on the *trafficking* in human beings and sexual exploitation was enhanced by new legislation on action to combat the trafficking in persons and the sexual exploitation of minors. Under the provisions of the legislation on combating trafficking of persons, the Council of Ministers has created the office of the Patron of Human Rights, which will operate from within the Department of Social Welfare of the Ministry of Social Insurance, in close co-ordination with the Police Force.

The House of Representatives furthermore enacted amendments to the homosexuality law, removing elements which had been objected to by the Council of Europe. The age of consent, set at 18, remained unchanged.

The legal framework specifically prohibits *torture* and the authorities generally respect these provisions in practice. Specialised courses in the respect and protection of human rights are now being taught in the Police Academy. However, in the past there have been instances of Cypriot police mistreating suspects in detention, mostly involving non-Cypriots. One officer is on trial in connection with the October 1998 beating of illegal immigrant detainees by members of a special police unit.

The police continues to respect laws providing freedom from arbitrary arrest and *detention*. Judicially issued arrest warrants are required. No-one may be detained for more than a day without referral of the case to the courts for extension of the period of detention. Most periods of investigative detention do not exceed 8 to 10 days before formal charges are filed. Attorneys generally have access to detainees; bail is permitted.

No new developments can be reported with regard to *prison conditions*. The existing regime and prison living conditions continue to comply with the minimum standards expected of penal institutions. An issue requiring further attention is the fact that, as a result of staff shortages, there continues to be an inadequate separation of inmates serving different sentences for different crimes.

*Freedom of speech* and of *the press* are provided for by law, and so is the freedom to hold meetings, *to associate and to organise*. These rights continue to be respected in practice.

*Freedom of religion* continues to be generally respected. The Constitution of the Republic of Cyprus recognises five religions that are exempted from taxes and receive government subsidies. Other religions may register routinely as non-profit organisations and receive tax exemptions, but not subsidies. Turkish Cypriots residing in the southern part of the island and non-Muslims in the north (see below) are allowed to practise their religions. A positive development over the past year has been the resumption of investigations to resolve the problem of persons missing after the inter-communal violence that started in 1963-64 and the events of July 1974 and thereafter. In November 1999, the autonomous tripartite (United Nations, Greek Cypriot, Turkish Cypriot) Committee on Missing Persons in Cyprus (CMP), formally met for the first time since early 1996 and agreed in principle to resume investigations. The official list of missing persons was published in the Government Gazette on 10 July 2000 and contained 1493 names compared to the original 1619 known to date. It excludes 126 names of persons whose files were not submitted to the CMP for investigation into the circumstances of their disappearance. The relatives of the 126 were informed of the reasons why these are no longer presumed missing. The list also excluded the names of three other persons whose remains were identified through DNA testing.

### *Economic, social and cultural rights*

Apart from the ratification of the revised European Social Charter, other developments to be reported in this area concern the implementation of legislation on spousal abuse, and the implementation of the original European Social Charter.

As regards *equal opportunities*, in Cyprus, women have the same legal status as men. Over the past year, progress has been made in implementing existing legislation aimed at making spousal abuse easier to report and prosecute. On the basis of this legislation, in force since 1994, but so far largely unimplemented, all cases of spousal abuse reported to the police are now being referred to the courts.

With regard to the rights and treatment of *disabled persons*, in July 2000 the House of Representatives enacted the "Law Providing for Persons with Disabilities", which provides, *inter alia*, for the introduction of the general principle of non-discrimination as well as for specific measures in the field of employment. These include provisions regarding recruitment, promotion in employment, vocational rehabilitation within the enterprise, special protection in cases of termination of employment, mobility, communications and means of transport.

Legal provisions with regard to *children's rights* demonstrate a strong commitment to children's welfare. Legislation on the employment of children is enforced through inspection visits by qualified Labour Inspectors; in case of infringements, employers are liable to a term of imprisonment of up to six months and/or a fine of up to 300 Cypriot pounds.

The European Committee of Social Rights -which supervises the application of the rights guaranteed under the *European Social Charter*, of which Cyprus has ratified 43 of the 72 paragraphs-has indicated that it considers two provisions of Cypriot legislation not to be in full compliance with the Charter. These provisions relate to the Defence Regulations (forced labour) as well as to the system of social pensions (residence requirement/contracting parties). In September 2000, Cyprus ratified the revised European Social Charter.

All workers, except for members of the police and military forces, continue to have the legal right to form and join *trade unions* of their own choosing without prior authorisation. More than 70 percent of the Cypriot work force belong to independent trade unions. Trade unions freely and regularly take stands on public policy issues affecting workers, and maintain their independence from the authorities.

### *Minority rights and the protection of minorities*

By virtue of Article 2 of the Constitution all Cypriot citizens belong either to the Greek or Turkish Cypriot community. The small Maronite, Armenian and Latin (Roman Catholic) communities, for their part, have opted to belong as a group to the Greek Cypriot community.

Legislation provides for protection against discrimination based on national, racial or ethnic origin and this legislation is largely respected. While the 300 to 400 members of the Turkish Cypriot community living in the southern part of the island are not otherwise discriminated against, they cannot vote in presidential or local elections, given that the Constitution of the Republic of Cyprus provides for separate voting in relation to the two Cypriot communities.

In contrast, the Maronite, Armenian and Latin (Roman Catholic) communities, not only benefit from normal voting rights in the context of the Greek Cypriot community, but also elect special non-voting representatives from their respective communities to the House of Representatives. The House is obliged to consult these representatives before the adoption of any legal measure that directly concerns the religious group(s). They are entitled to deliver their position or to express their view before the House, any subcommittee of the House or any authority. The minority representatives enjoy the same benefits as the rest of the Members of the House of Representatives.

### **1.3. The situation in the northern part of the island**

In the existing political circumstances it is not possible at this stage to identify and describe with precision the opportunities and problems which might arise for the northern part of the island as an integral part of the EU. In every chapter of the accession negotiations the EU makes a special reference to the future participation of

the Turkish Cypriot community. This would give the possibility to take account of its specific concerns and situation. A recent opinion poll showed that over 90% of the Turkish Cypriots are in favour of EU accession.

The area of Cyprus north of the UN buffer zone amounts to 3335 km<sup>2</sup> or approximately 37% of the island. In 1996 a total population of some 200000 persons lived in the north, of these 107000 are Turkish Cypriots.

Turkish forces have an important influence in Turkish Cypriot society. Since 1974 there has been a Turkish mainland force on the island estimated at around 30000 persons. Under the Turkish army are the Cyprus Turkish Security Forces (CTSF), a small force consisting almost entirely of conscripts which is deployed largely to guard the areas of the buffer zone in and around Nicosia. The '*police*' in the north is under the command of the CTSF. Concerning the rule of law and respect for human rights and the protection of minorities, issues identified in the 1999 regular report remain largely unchanged. While restrictions on free movement have been slightly eased, obligations under the 1975 Vienna III agreement concerning the treatment of Greek Cypriots and Maronites are still not fully respected. Furthermore, the continued non-execution of the judgement by the European Court of Human Rights with regard to the right of a Cypriot living in the south to property in the northern part, as well as recent developments with regard to the freedom of speech, give rise to serious concern.

Restrictions on the freedom of movement of the approximately 600 Greek Cypriots and Maronites living in the north have been somewhat eased. Turkish Cypriot 'authorities' usually grant the applications of Greek Cypriot residents in the north to visit the south. Applicants must return within a designated period or risk losing their right to return and to keep their property, although this rule is rarely enforced in practice. Turkish Cypriot 'authorities' have also eliminated the previous monthly limit on visits by close family relatives of Greek Cypriots resident in the north (once a month until 1996 and twice a month thereafter).

At the same time, fees imposed on Greek Cypriots and Maronites crossing at the Ledra Palace checkpoint have been reduced. The significant charge of £15 has been replaced by a £1 'administrative levy'. Furthermore, Greek Cypriots and Maronites visiting the northern part of the island are now allowed to stay for a 'reasonable period of time subject to confirmations from the relevant ministries'. Previously people visiting enclaved relatives were restricted to no more than two nights and three days in the north.

In the meantime, access by the United Nations Peacekeeping Force (UNFICYP)<sup>5</sup> to Greek Cypriots and Maronites living in the north remains limited. Obligations under the Vienna III agreement of 1975, concerning the treatment of Greek Cypriots and Maronites, are still not fully implemented. The agreement provides in general for voluntary transfers of populations, free and unhindered access by the UNFICYP to Greek Cypriot and Maronites living in the northern part and Turkish Cypriots living in the southern part, as well as facilities for education and religious worship. This

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<sup>5</sup> The UNFICYP was established in 1964, in order to prevent a recurrence of fighting between the Greek Cypriot and the Turkish Cypriot communities. Its mandate is renewed every six months.

agreement also foresees medical care by a doctor from the Greek Cypriot community; however, in practice only care by a doctor registered in the northern part of the island is permitted. A Greek Cypriot request to replace a retiring Orthodox priest in the north has been pending for more than two years. Both Greek Cypriots and Maronites living in the north continue to be unable to change their housing at will. They can only bequeath their properties to close family members who are also resident in the north.

So far, no Greek-language educational facilities for Greek Cypriot or Maronite children in the north exist beyond the elementary level. Parents are thus forced in many instances to choose between keeping their children with them or sending them to the south for further education. All textbooks sent from the south to the Greek Cypriot schools in the northern part must be screened, causing lengthy delays and shortages of up-to-date texts. For this reason most of these children move to the south for their secondary education; some of them choose to stay there for good. They are allowed to return but have to face heavy restrictions. There is no possibility of return if they complete military service with the Greek Cypriot National Guard.

As regards the ruling of the European Court of Human Rights that Turkey is continuing to violate the rights of the Greek Cypriot Mrs Loizidou by preventing her from going to her property located in the north, in July 2000 the Committee of Ministers/Deputies of the Council of Europe adopted a Second Interim Resolution concerning the case of *Loizidou vs. Turkey*. In this interim resolution, the Committee of Ministers deeply deplored the fact that Turkey had still not complied with its obligations under the judgement delivered by the European Court of Human Rights on 28 July 1998 to pay about € 800000 (plus annual interest of 8% until settlement). The Committee of Ministers declared:

*“Recalling its Interim Resolution DH (99) 680 of 6 October 1999, in which, inter alia, the Committee of Ministers strongly urged Turkey to pay the just satisfaction awarded in this case so as to ensure that Turkey [...] meets its obligations under the Convention;” and “emphasising that the failure on the part of a High Contracting Party to comply with a judgement of the court is unprecedented;” further “declares that the refusal of Turkey to execute the judgement of the Court demonstrates a manifest disregard for its international obligations [...]” and “[...] strongly insists that Turkey comply fully and without any further delay with the European Court of Human Rights’ judgement of 28 July 1998.”<sup>6</sup>*

Similar cases of Cypriots against Turkey, now pending before the Human Rights Court, are estimated to number around 150-200.

While freedom of speech is generally respected in the northern part, recent events related to the closure of the Turkish Cypriot daily newspaper ‘*Avrupa*’ (*Europe*) give raise to serious concern. At the end of 1999, ‘*Avrupa*’ was convicted and fined \$ 300,000 in a libel action following a complaint by the Turkish Cypriot leader Rauf Denktaş regarding articles and reports it had published. In May 2000, ‘*Avrupa*’ had all its property seized, as it was unable to pay this large sum. Furthermore, both the

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<sup>6</sup> Resolution DH (2000) 105

newspaper and several of its journalists were accused of inciting hatred against the ‘Turkish Republic of Northern Cyprus’ as well as humiliating the ‘government’. These actions were regarded as attempts to silence the newspaper and therefore evoked international protests from journalist unions and associations.

The OSCE (Organisation for Security and Co-operation in Europe) Representative on Freedom of the Media:

*“addressed the Turkish Government [in May 2000] asking them to use their influence in the northern part of Cyprus to try to return the equipment to its rightful owners. [...] He believes that the case of Avrupa is a flagrant violation of the commitments undertaken by an OSCE participating State regarding freedom of expression and expects the authorities in northern Cyprus to stop their attacks against Avrupa.”*

Subsequently, in July 2000 the editor-in-chief of ‘Avrupa’, Shener Levent, and others, were arrested on ‘spying charges’ against the ‘Turkish Republic of Northern Cyprus’ and for allegedly collaborating to pass secret military information to Greek Cypriots. They were to be tried in a military court. A group of 37 Members of the European Parliament signed a declaration condemning the arrests of the ‘Avrupa’ journalists and demanding their immediate release. In the meantime, the court, citing a lack of evidence against them, set the accused free.

#### **1.4. The efforts for a political settlement**

Since the previous regular report, the main development has been the launching of proximity talks. In the context of a G-8 initiative, on 29 June 1999<sup>7</sup> the Security Council asked the UN Secretary-General to invite the Greek and Turkish Cypriot leaders to hold negotiations in the autumn. It also called on the two sides in Cyprus, including the military, to work constructively with the UN representatives to create a positive climate on the island that could pave the way for these negotiations.

As an important step forward to achieving a political settlement, on 3 December 1999 the first round of “proximity talks” started in New York. The UN Secretary-General’s Special Adviser for Cyprus, Mr Alvaro de Soto, stated that the proximity talks should be seen as the beginning of an extended process. The first round was held with the aim of preparing the ground for future substantial direct negotiations on the Cyprus problem.

In December 1999 the European Council underlined in its meeting in Helsinki that,

*“The European Council welcomes the launch of the talks aiming at a comprehensive settlement of the Cyprus problem on 3 December in New York and expresses its strong support for the UN Secretary-General’s efforts to bring the process to a successful conclusion.”*

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<sup>7</sup> Resolution 1250/1999

Second and third rounds of talks took place in Geneva in February and July, without significant discussion of issues of substance. A fourth round of proximity talks was held in New York in September. Mr. de Soto reported that in this round the two sides engaged in substantial discussion, which he regarded as a “qualitative step forward”. He had put on the table ideas on the four core issues: territory, property, security and constitution, but he stressed that there were no formal proposals at this stage. Mr. de Soto referred to contacts with the EU in order to ensure that there was no contradiction between the EU accession process and the goals of the UN process. The next round of talks was scheduled for early November in Geneva.

Concerning the UN peacekeeping mandate, the General Assembly by its Resolution 53/231 appropriated an amount of about \$ 45 million for the maintenance of UNFICYP for the 12-months from 1 July 1999 to 30 June 2000. This amount includes the pledged voluntary contributions of one third of the cost of the force, equivalent to about \$ 14 million from the Government of Cyprus and the annual pledge of \$ 6.5 million from the Government of Greece.

On 14 June 2000, the Security Council adopted a Resolution extending the mandate of the UN Mission in Cyprus, after lengthy discussions on a controversial addendum to the Secretary-General’s Report, which referred to the position of Turkish Cypriot ‘authorities’. This was finally withdrawn.

The Turkish Cypriot side took measures against UNFICYP in reaction to the withdrawal of the addendum to the UN resolution on 15 June. These measures include limitations to the movement of UNFICYP across the 180 km buffer zone. Further, the UN is now obliged to insure all its vehicles with Turkish Cypriot insurance companies and to allow the Turkish Cypriot authorities to collect the fees for the water, electricity and other services consumed by UN camps in the north. The UN expressed its disappointment at the measures.

In early July 2000 Turkish troops advanced 300m into Strovilia, the UN buffer zone. The Government protested to the UN, which demanded that the *status quo* be reinstated. The UN still has access to the 8 Greek Cypriots who are now enclaved in this area, as well as to their own UN sentry post, which is also enclaved by the Turkish forces.

Nonetheless, over the last year, contacts between Greek and Turkish Cypriots on the island have increased. Most of them occur through events arranged with the help of UNFICYP in the United Nations buffer zone. These events included professional conferences, trade union meetings, a media forum, women’s gatherings, youth events and televised discussions between journalists. For the first time in several years, meetings took place between political party representatives from both sides. Also, a group of Greek Cypriots and Turkish Cypriots have set up a bi-communal Teacher’s Centre. In addition, the United Nations Development Programme (UNDP), through the United Nations Office for Project Services, is encouraging both communities to work together in preparing and implementing projects in areas of mutual concern, such as the preservation of natural resources and cultural heritage, public health and sanitation.

### **1.5. General evaluation**

Cyprus continues to fulfil the Copenhagen political criteria. The predominant political problem is the continued division of the island, but over the last year important efforts have been made in the search for a political settlement in line with the Accession Partnership. From the fourth round of proximity talks held in September there were encouraging signs that the two sides were engaging in substantive discussion.

## **2. Economic criteria**

### **2.1. Introduction**

In its 1993 Opinion on the application of the Republic of Cyprus for EU membership, the Commission concluded:

“The economy of the southern part of the island has demonstrated an ability to adapt and seems ready to face integration provided that the work already started on reforms and on opening up to the outside world is maintained, notably in the context of the customs union.”

This finding was confirmed in the 1998 and 1999 Regular Reports. In its 1999 Regular Report, the Commission found that:

"The Republic of Cyprus is a functioning market economy. It should be able to cope with the competitive pressures and market forces within the Union."

In examining the economic developments in Cyprus since 1998, the Commission's approach was guided by the conclusions of the European Council in Copenhagen in June 1993, which stated that membership of the Union requires:

- the existence of a functioning market economy;
- the capacity to cope with the competitive pressure and market forces within the Union.

In the analysis below, the Commission has followed the methodology applied in the previous Regular Reports.

### **2.2. Economic developments**

While economic growth is strong, and the economy is operating at full employment, the combined effect of expansionary fiscal policy, rapid monetary growth and trade restrictions on agricultural products led to an acceleration of inflation from the summer of 1999 onwards. During 1999, the government failed to take any significant measures towards curbing the fiscal deficit. More progress was made on limiting the deficit during the first half of 2000, but the additional measures are not sufficient to place the government accounts on a sustainable path. The speculative equity market bubble and the inevitable correction of equity prices presents risks for financial sector stability. The current account deficit was 2.6 percent of GDP, despite very strong tourist arrivals. Current account financing has increasingly relied upon debt creating inflows.

| Cyprus                                          |                 | 1996  | 1997  | 1998   | 1999          | 2000 latest           |
|-------------------------------------------------|-----------------|-------|-------|--------|---------------|-----------------------|
| Real GDP growth rate                            | per cent        | 1.9   | 2.4   | 5.0    | 4.5           | :                     |
| Inflation rate <sup>8</sup>                     |                 |       |       |        |               |                       |
| - annual average                                | per cent        | 3.0   | 3.6   | 1.9    | 1.3           | 3.4 <sup>9</sup> June |
| - December-on-December                          | per cent        | 2.5   | 3.9   | 0.2    | 3.9           | 5.3 June              |
| Unemployment rate, end-year                     |                 |       |       |        |               |                       |
| - ILO definition                                | per cent        | 3.1   | 3.4   | 3.4    | 3.6p          | :                     |
| General government budget balance <sup>10</sup> | per cent of GDP | -3.4  | -5.3  | -5.5   | :             | :                     |
| Current account balance                         | per cent of GDP | -5.3  | -4.0  | -6.6   | -2.6          | :                     |
|                                                 | million €       | -375  | -299  | -537   | -219          | :                     |
| Foreign debt                                    |                 |       |       |        |               |                       |
| - debt export ratio <sup>11</sup>               | per cent        | 137.3 | 204.7 | 293.4  | 348.6         | :                     |
| - gross foreign debt                            | million €       | 4,516 | 7,215 | 10,371 | E<br>13,274 E | :                     |
| Foreign direct investment in flow               | per cent of GDP | :     | 4.5   | 4.1    | 3.2           | :                     |
| - balance of payments data                      | million €       | :     | 335   | 336    | 268           | :                     |

E = Estimates

*Some limited advances have been achieved in the areas of liberalisation and structural reforms.* After many years of delay, Parliament passed legislation providing a timetable for the abolition of the interest ceiling by January 2001. However, the legislation also provided for a number of transitional measures, including subsidies protecting current mortgage holders from the adverse consequences of greater interest rate flexibility. The Cypriot Authorities have started an important health sector reform. Comparatively little progress has been made in other areas of structural

<sup>8</sup> PROXY HICP since 1998 (see methodological notes).

<sup>9</sup> Moving 12 month average rate of change

<sup>10</sup> Excluding local authorities.

<sup>11</sup> Series break in 1998: more complete definition

reform, and significant distortions due to government intervention remain in several important sectors.

| <b>Main Indicators of Economic Structure in 1999</b> |                        |        |
|------------------------------------------------------|------------------------|--------|
| Population (average)                                 | thousand               | 667.13 |
| GDP per head <sup>12</sup>                           | PPS-€                  | 17,082 |
|                                                      | Per cent of EU average | 81     |
| Share of agriculture <sup>13</sup> in:               |                        |        |
| - gross value added                                  | per cent               | 4.2    |
| - employment                                         | per cent               | 9.3 p  |
| Investment-to-GDP ratio <sup>14</sup>                | per cent               | 17.8   |
| Gross foreign debt/GDP <sup>15</sup>                 | per cent               | 155.4  |
| Exports of goods & services/GDP                      | per cent               | 44.6   |
| Stock of foreign direct investment                   | million €              | :      |
|                                                      | € per head             | :      |

P= provisional figure

### **2.3. Assessment in terms of the Copenhagen criteria**

#### *The existence of a functioning market economy*

*As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed*

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<sup>12</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>13</sup> Agriculture, hunting, forestry and fishing.

<sup>14</sup> Data refer to Gross fixed capital formation as % of GDP.

<sup>15</sup> The 1999 data for foreign debt are estimates.

financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

*While there is broad agreement on the main objectives of economic policy, recently there have been significant difficulties in implementing the necessary measures to achieve those objectives.* Many indispensable economic reforms suffer from excessive delays and when they are enacted, they are often burdened with additional conditionality to moderate the effects. In some cases, most notably with the recent increase of VAT rates, this additional conditionality has proved to be counterproductive.

*In recent years, the good macroeconomic performance in Cyprus has deteriorated.* While overall growth has remained strong, risks for macroeconomic stability have emerged, particularly in the financial sector, fiscal accounts and the external sector. Unfortunately, political difficulties have prevented the adoption of a coherent economic strategy to confront these risks.

*GDP increased by 4.5 percent in 1999, a third consecutive year of rapid economic growth.* Preliminary data for the first half of the year suggest that the growth rate for 2000 could be as high as 5 percent. In 1999, real consumption growth slowed to 2 percent, down from 9.1 percent in 1998. In 1998, consumers had anticipated a rise in VAT during 1999, and brought planned consumption expenditure forward. Early indications suggest that consumption expenditure has accelerated during the first half of 2000. Investment expenditures fell by 2.1 percent in 1999, as loanable funds were diverted to equity transactions. After slowing in 1998, the contribution of exports of goods and services to GDP growth recovered, owing to the sharp rise in tourist arrivals.

*The sectoral composition of growth has been uneven.* The service sector has enjoyed particularly robust growth. Tourist-related sectors, such as restaurants and hotels expanded by around 8 percent, while the explosion in the volume of equity transactions prompted the financial sector to increase by 26 percent. In contrast, the primary sector declined during the first half of 2000. This decline was largely due to a fall in agricultural production, which was particularly badly affected by the recent drought.

*By international standards unemployment is low.* In 1999, 3.6 percent of the active workforce was unemployed, marginally higher than the rate recorded in 1998. Overall employment grew by 1 percent in 1999. Growth was particularly strong in the services sector, while both agriculture and manufacturing continue to shed labour. Due to the tight labour market conditions, preliminary data suggest an acceleration of wage growth during 2000.

*In 1999, the current account deficit was estimated to be 2.6 percent of GDP.* As a result of a series of one-off defence-related expenditures during 1998 the current account deficit was almost 7 percent of GDP, while the elimination of these items during 1999 led to a significant correction. More recently, strong domestic demand has led to higher imports and a deterioration of the trade balance. The effect of the rising trade deficit was mitigated by a powerful increase in tourist receipts, largely from UK tourists. While the current account deficit is significantly lower than in 1998,

the deficit was almost entirely financed by debt-creating inflows used to finance the public sector deficit.

*The central government deficit was 4.1 percent of GDP in 1999, down from the 5.5 percent recorded in the previous year.* However, the reduction of the deficit was merely due to cyclical factors, which boosted tax revenues. Significant structural weaknesses remain, in particular the limited indirect tax revenue base, which in the event of an economic slowdown would lead to a deterioration in the fiscal accounts. Since 1995, central government deficits have been excessive, while public sector indebtedness has exceeded the government's 60 percent of GDP target. In 1998, the Ministry of Finance prepared a fiscal consolidation plan, however the implementation of its key measures have been persistently delayed by parliament.

*During the first half of 2000, Parliament passed a number of revenue measures including a tax on equity transactions, a temporary capital gains tax on stock market profits, and increases in a number of excises.* Unfortunately, the long delayed 2 percent increase in VAT, which was finally introduced in July 2000, was offset by a series of expenditure measures and increased tax allowances which will be at least as large as the additional VAT revenues.

*Cyprus has embarked upon an ambitious healthcare reform agenda.* While healthcare indicators compare favourably with the EU, the provision of services is fragmented, and there are significant concerns about the equity of healthcare provision. The public sector healthcare system is congested, while healthcare costs have risen sharply as a percent of GDP. The current system will be replaced by a general practitioner based referral system, which will be financed by a mixture of direct contributions from employers, employees and the public sector. The new system will also include several measures, including approved lists for pharmaceuticals and global budgets for healthcare institutions, which will limit the growth of healthcare costs.

*The average inflation rate during 1999 was 1.3 percent.* However, inflation accelerated during the second half of the year and by June 2000 the 12 month inflation rate had reached 5.3 percent. The severe drought, combined with the excessive tariffs on agricultural imports, limited the domestic supply of vegetables, and added 1.1 percentage points to the inflation rate. The direct effects of international oil price rises have been limited through the operation of price controls on oil products. The indirect effects of oil price rises through electricity prices added a further 0.8 percentage points. In addition, the expansionary monetary and fiscal stance boosted domestic demand and so contributed to the deteriorating inflationary performance. While some of these factors are external, a more restrictive fiscal policy and the elimination of the interest ceiling, which in turn would have allowed a more effective monetary stance, could have kept inflation lower. Rising inflation has become a policy concern.

*The government included the recent VAT increase in this year's cost of living adjustment.* This will inevitably give a further impulse to wage pressures at a time of deteriorating inflationary performance. Moreover, there is little rationale for including the VAT increase in the cost of living adjustment since workers will be already compensated for the VAT increase through increased tax allowances.

*Current developments in the local stock market have become a risk for macroeconomic stability.* During 1999, the Cypriot stock market enjoyed unparalleled growth, with the market index rising by 850 percent. The massive speculative gains were quickly followed by large falls in prices during the first half of 2000. By July 2000, the market index had fallen by 50 percent relative to the highs enjoyed the previous November, prompting fears that consumption may slow as investors seek to cover losses. Even so, the sharp fall in prices has not discouraged many local firms from seeking a market listing. The flow of funds into the market has limited the amount of domestic savings available for productive investment. The rise in stock prices has also drawn liquidity from the commercial banks, and since March 2000 it has eliminated demand for domestic treasury bills, forcing the government to borrow abroad to finance the deficit.

*The extensive financing of equity purchases by commercial banks is a particularly troubling aspect of the speculative bubble.* Somewhat belatedly, the central bank acted to prohibit such lending activity - a decision which contributed to the market correction that brought prices down to more realistic levels. Nonetheless, the speed and the magnitude of the drop in equity prices put the central bank under considerable political pressure to reverse its previous decision, and in late July it lifted the ban on bank financing of stock market purchases. At present, it is unclear what impact the correction will have upon the commercial bank portfolios.

*Recently Cyprus has introduced a number of measures that will further liberalise capital movements.* Controls on inward foreign direct investments have been relaxed for European Union residents. However, a number of other restrictions regarding foreign ownership continue to apply, most notably on foreign ownership of real estate, and the purchase of domestic treasury bills. Moreover, the new regulations do not affect the banking sector. Cypriot residents are now permitted to make direct investments abroad. Capital outflows would be permitted in cases where Cypriots participate with a minimum of 10 percent ownership in a foreign venture. However, important capital restrictions remain. Residents may not purchase stocks or bonds overseas, or place deposits in foreign banks. Moreover the central bank retains the right to prohibit foreign investments abroad in exceptional cases.

*After several years of delay, Parliament has finally passed legislation, which will remove the 9 percent interest rate ceiling.* However, the law requires that the central bank undertake a number of measures before it can come into effect. The new legal framework will include a number of provisions, which will provide temporary protection to vulnerable borrowers such as students and mortgage holders. However, the Central Bank retains the right to fix maximum and minimum interest rates which banks may charge for loans and advances, or pay on deposits.

*The interest rate ceiling continues to limit the capacity of the central bank to undertake an effective monetary policy stance.* If the central bank had been able to increase interest rates during 1999, it could have mitigated the expansionary consequences of fiscal policy and the speculative stock market bubble. In an effort to limit domestic credit expansion, the central bank introduced a 12 percent credit ceiling. Nonetheless, credit growth for the first half of 2000 was excessive. In an attempt to dampen the growth of monetary aggregates, the central bank increased

reserve requirements in July 2000. However, the somewhat tighter monetary stance implied by both the credit ceilings and increased reserve requirements was reversed in July when the central bank effectively raised credit ceilings to 14.4 percent.

*The exchange rate regime has functioned well.* The Cypriot pound is pegged to a central parity with the euro, with intervention bands of  $\pm 2.25$  percent. The level of foreign exchange reserves is high.

*In 1999, the private sector produced around 80 percent of GDP and the vast majority of prices are freely determined.* Nonetheless, there is a highly distortionary price cap on domestic fuel prices, while a number of residual controls remain on certain basic consumer goods. The government guarantees a pre-defined rate of profit for domestic fuel suppliers, and domestic oil prices have not been adjusted since 1996. In previous years, the government charged an excise on fuel, and its revenues contributed to the fiscal accounts. The recent rise in world oil prices coupled with the domestic oil price cap has eliminated these oil-related tax revenues, and even forced the government to offer large subsidies to oil suppliers. The government attempted to bring the domestic oil price cap into line with world prices, but the proposal was rejected by parliament. Furthermore, the authorities have not removed residual price controls on milk, common bread, and cement.

*Market entry is relatively straightforward in most sectors and bankruptcy procedures operate efficiently.* However, there are significant barriers to entry in several key sectors, with several semi-government organisations benefiting from legal monopolies, including telecommunications, and electricity.

*Cyprus has a long established and effective body of commercial law.* Changes are being made to bring it into line with EC law. Notwithstanding certain complex political issues arising from the conflict in 1974 and the subsequent division of the island, property rights are well established.

*The financial system is both sophisticated and effective.* The commercial bank sector is well regulated by the central bank. Domestic banks are adequately capitalised. As of the end of 1999, the average risk adjusted asset ratio of domestic banks was 11.5 percent. Significant progress has been made towards developing domestic securities markets. With the exception of the Cyprus Development Bank, the financial sector is in private ownership.

*The weak financial supervisory structures within the credit co-operative sector is worrisome.* The credit co-operatives, which account for around 30 percent of bank deposits, are not subject to the normal banking sector supervision undertaken by the central banks. In addition, the co-operatives enjoy a number of legal advantages - most notably exemptions from both stamp duties and required reserve ratios - which places them at a competitive advantage relative to the commercial banks.

*Cyprus has an extensive off-shore sector covering a diverse range of activities, including shipping, re-exports and financial services.* The strong legal structure, tax incentives, and infrastructure have contributed to making Cyprus an important regional business centre. Notwithstanding this achievement, concerns have been raised about preferential tax arrangements enjoyed by the off-shore sector. In

response, the authorities have announced their intention to eliminate the preferential treatment by 2005. Lately, the Cypriot off-shore financial system has become the subject of increasing international scrutiny as a potential location for money laundering activities. Recent reports by the Financial Action Task Force and the Council of Europe have given a generally positive assessment of the Cypriot supervisory authorities. Since 1996, a comprehensive anti-money laundering law has been in place. At the same time, the authorities put in place an information reporting system, which has improved the detection of suspicious transactions. In 1999, the law was further amended to improve customer identification procedures.

Cyprus is a functioning market economy. However, macroeconomic stability has weakened recently, and there is a need to develop a credible and coherent approach to fiscal consolidation. The current level and stance of fiscal policy is not sustainable over the medium term. Particularly with a view to progressive capital liberalisation, monetary policy must be made more efficient and market-oriented by the use of indirect instruments rather than direct interventions such as the interest rate ceiling, administrative measures and direct credit controls. Supervision must be improved in the co-operative banking sector. Recent developments in the stock market have been worrying, and the ultimate economic consequences of the speculative bubble may not yet have been fully felt. The completion of price liberalisation is also required, as remaining rigidities distort relative prices and lead to an inefficient allocation of resources.

*The capacity to cope with competitive pressure and market forces within the Union*

As set out in Agenda 2000, Cyprus' ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Both the volume and the range of products traded with EU Member States provide evidence of this.

*Cyprus is a functioning market economy with a sufficient degree of macroeconomic stability for economic agents to make decisions in a climate of predictability.* Nevertheless, the risks for macroeconomic stability need to be tackled in a consistent way in order not to endanger the competitiveness of the economy.

*The Republic of Cyprus has a sufficient amount of human and physical capital, including infrastructure.* Living standards are high, with per capita incomes comparing favourably with current Member States. Levels of investments are high, although capital account restrictions have limited foreign direct investment flows. The lack of adequate sources of water has become a serious economic and environmental constraint confronting the island. In recent years, average rainfall has been about 18 percent lower than during the first decade of the twentieth century. Furthermore, the quantity of water stored in dams and reservoirs has also fallen dramatically. With the

demand for water expected to grow significantly over the medium term, Cyprus needs further infrastructure investments to provide for additional supply. The government has proposed the construction of a new desalination plant. Unfortunately, these plans have been delayed due to political difficulties in obtaining an appropriate site. In addition, pricing policy should more closely reflect the costs of production, particularly in the area of supply to agricultural users.

*Government policy and legislation have provided a sheltered environment for the growth and development of the private sector.* Nonetheless, Cyprus has also adopted a protectionist and interventionist approach to industrial policy, which has favoured domestic producers at the expense of foreign competitors. The semi-public sector is extensive, and often protected by legal monopolies. Despite its comparative advantage in new technology with its highly educated and computer-literate workforce, Cyprus has largely failed to develop a significant internet-related service sector. This is in large part due to the excessive dominance of the state telecommunications company in the provision of internet services, which has limited the growth of the new economy. While the extent of government ownership in the business sector is not large, it owns significant equity holdings in a number of enterprises. The government has not yet developed a strategy for divesting these state-held assets, although it recently sold its outstanding stake in the Nicosia Hilton. In some areas, notably the oil sector, finance, and air transport, indirect state aids are significant, and lack transparency.

*The agricultural sector needs to be restructured extensively in the pre-accession period.* Although agriculture still makes a significant contribution to GDP, its importance has declined both in terms of GDP and employment. The prospects for future growth are poor. The sector is heavily concentrated in irrigation-dependent products, such as citrus fruits and vegetables. Agricultural production consumes around three-quarters of the total water supply. Moreover, the sector enjoys high levels of tariff protection and significant water-related subsidies.

*The European Union accounts for 51 percent of Cypriot exports and 57 percent of imports.* However, trade data understates the extent of integration between Cyprus and the EU. The majority of tourist arrivals come from the EU with around half coming from the United Kingdom alone. Reflecting its regional location, Cyprus also has intense trade relations with the countries of Central and Eastern Europe and the Middle East.

*Exports are not very diversified and expose Cyprus to external shocks.* The economy has become increasingly dependent upon tourist revenues. Many traditional sources of export earnings, particularly within the manufacturing sector, have suffered from long term decline. Although the financial sector has grown at a remarkable rate over the last 18 months, much of this growth is due to domestic factors, especially the speculative bubble within the local stock market. As such, these factors alone do not provide a sufficient basis for sustainable growth in the future. As capital account liberalisation proceeds, the financial sector will confront increasing competition from foreign financial institutions, which may limit its domestic growth.

*Cyprus has a strong entrepreneurial culture, demonstrated by the large number of small and medium sized enterprises.* Notwithstanding the damage caused by the recent speculative movements in local equity prices, the development of the Cypriot stock

market could provide an important source of financing for local enterprises over the medium term (*see also chapter 16 – Small and medium-sized enterprises*).

Cyprus should be able to cope with competitive pressure and market forces within the Union. Nevertheless, competitiveness is hampered by a number of structural rigidities which protect domestic enterprises. Cyprus must prepare its private sector to operate in the open environment that integration in the EU requires. Greater political consensus is needed to develop a comprehensive structural reform agenda which will address these rigidities. There is also a need to limit the extent of both implicit and explicit state involvement in economic activities, open up key sectors to foreign competition, and resolve important environmental constraints. The influence of the state in the economy needs to be reduced through the divesting of its assets in private enterprises, the further reduction of direct and indirect state aids and the introduction of more competition in a number of key sectors.

## **2.4. General Evaluation**

Cyprus is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union.

The Cypriot economy continues to grow strongly and is operating at full employment. Some progress is being made in the areas of liberalisation and structural reforms. After many years of delay, Parliament passed legislation providing a timetable for the abolition of the interest ceiling by January 2001. The Cypriot Authorities have started major health sector reform.

However, macroeconomic stability has weakened recently, and the current level and stance of fiscal policy are not sustainable over the medium term. Supervision must be improved in the co-operative banking sector. The completion of price liberalisation is also required. Competitiveness is hampered by a number of structural rigidities and significant state involvement in the economy.

There is a need to develop a credible and coherent approach to fiscal consolidation. With a view to progressive capital liberalisation, monetary policy must be made more efficient and market-oriented by the use of indirect instruments rather than direct interventions. Cyprus must prepare its private sector to operate in the open environment that integration into the EU requires. Greater political consensus is needed to develop a comprehensive structural reform agenda which should limit the extent of state involvement in economic activities, open up key sectors to foreign competition, and resolve important environmental constraints.

## **2.5. The economic situation in the northern part of the island**

*The northern part of Cyprus has fallen far behind the southern part of the island in terms of economic development and per capita income.* Excessive "state" intervention has thwarted the growth of the private sector, while the financial dependence upon the Turkish government has increased markedly over the last few years. The recent banking crisis has further weakened a vulnerable and badly supervised financial sector. There is significant evidence of poverty, particularly in the rural areas.

*The economic data produced by the "TRNC (Turkish Republic of Northern Cyprus)"<sup>16</sup> authorities" appears to be limited and unreliable.* Fiscal data lacks transparency particularly with respect to transfers from Turkey. Current account data is highly aggregated, while capital account data has only limited coverage. National accounts data is a particular problem, and the per capita GDP of \$4,500 claimed by the "TRNC authorities" seems to be significantly overestimated. Moreover, recent data does indicate a clear deterioration in both the fiscal accounts and the external sector.

*The public sector plays a disproportionate role in economic affairs.* It is the biggest employer and accounts for over half of fixed capital investment. The 'state' currently has a monopoly on agricultural purchases and is thereby active in price support for citrus, milk and cereals. In addition, a significant number of industries are in direct public ownership, including airline, electricity, telecommunications, tobacco products, shipping, and fuel supply.

*Recent increases in public expenditure, combined with a limited tax revenue base, have led to growing fiscal deficits.* In 1999, the deficit was in the order of 20 percent of GDP, compared to a deficit of around 15 percent in 1995. The growing deficit is almost entirely due to rising expenditures, which have increased from 39 percent of GDP in 1995 to almost 50 percent in 1999. The domestic tax revenue base is very weak with the total revenues amounting to just 30 percent of GDP.

*The "TRNC administration" is heavily dependent upon fiscal transfers from Turkey.* The extent of financial assistance is difficult to ascertain. Financial aid is granted through a series of economic protocols with the Turkish Government. There is also a moratorium on debt repayments, while certain large public sector infrastructure investments are financed directly by the Turkish government and are not included in the "TRNC" budget. Reflecting the deteriorating fiscal position, transfers from Turkey have grown significantly since 1996, such that by 1999, acknowledged financial assistance from Turkey was in the order of \$200 million, and covered around 40 percent of total government expenditures and 20% of GDP. Despite this enormous financial support, the "TRNC government" has also accumulated domestic payments arrears. However, the acknowledged financial assistance from Turkey amounts to 0.3% of Turkey's consolidated government expenditures and therefore has a limited fiscal impact within Turkey.

*The need for fiscal restraint in Turkey, and the deteriorating financial position within the "TRNC" have prompted the Turkish authorities to develop a fiscal consolidation plan for the north.* In an effort to limit the "TRNC" fiscal deficit, the authorities in Ankara have proposed significant increases in taxes, cuts in expenditures, particularly in the areas of social security expenditure and subsidies, and extensive privatisation. The "TRNC" has a currency union with Turkey. As a consequence, high and persistent inflation has been imported from Turkey. In 1999, the local inflation rate was estimated to be around 60 percent. Recently, the "authorities" have considered giving the local "central bank" greater independence. However, it is not clear what practical

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<sup>16</sup> The "Turkish Republic of Northern Cyprus" is recognised only by Turkey.

implications this initiative might have, given the limited number of tasks the "central bank" currently undertakes.

*Since 1996 the current account has worsened significantly.* Both export receipts and tourism revenues have stagnated while import growth has been strong. The development of financial services has, in part, covered the short fall. In 1999, the current account deficit was around 7 percent of measured GDP. However this figure understates the true extent of financial dependence, since part of the direct transfers from Turkey are included as current account credits, and thus reduce the deficit. The financing gap, which excludes financial assistance from Turkey seems to be at least 25 percent of GDP.

*Due to the existing political situation, the export of goods to the EC is complicated.* In 1994, the European Court of Justice ruled that the certificates for preferential treatment of goods can only be issued by authorities with which the EC has signed an agreement, which is not the case with the non-recognised "TRNC". Offers by the Republic of Cyprus to provide the necessary documents have been so far refused by the Turkish Cypriot community. The "TRNC" has continued to export through Turkey, where Turkish officials issued the required documentation before the exports continued to the EC. Nonetheless, the court judgement has led to a increase in transportation and administration costs, and export volumes have fallen considerably.

*The manufacturing and agricultural sectors are underdeveloped because of the limited export possibilities.* The manufacturing base is characterised by small to medium sized companies, mainly focused on the processing of food and beverages, textiles (hides, leather, wool) and finished clothing. The agricultural sector was badly affected by last year's drought, which followed devastating fires in the summer of 1998. The farmer's union has lobbied for assistance, but, given the present fiscal difficulties, it is unlikely that the "authorities" can offer a significant contribution. Moreover, the "agricultural insurance fund" is effectively bankrupt.

*Tourism is the most important source of foreign exchange earnings.* Despite its importance, the industry remains considerably less developed than in the south of the island. Around 80 percent of tourists come from Turkey. The north finds it difficult to attract high expenditure tourists from EU countries, who are unable to travel directly to the north, and must go via Turkey. In an effort to attract more tourist revenues, the "authorities" have encouraged the expansion of casinos, which are not permitted in Turkey. Nonetheless, the potential for growth, in the event of a political solution is enormous.

*The north has a large tertiary education system with five universities, as well as a Teachers' Training College and a distance learning based Open University.* This sector now constitutes the north's fastest growing sector. The majority of students come from Turkey, and its significance as a source of current account earnings has grown in importance.

*Despite its small size, the "TRNC" has a significant financial sector.* The domestic sector is known to have at least 35 banks while another 38 off-shore banks are known to operate in the north. Many off-shore banks are subsidiaries of Turkish banks and offer higher deposits rates than those on the mainland. Some off-shore banks are

extremely small, and seriously under-capitalised. The minimum capital required to set up a bank is extremely small by international standards. There is also a concern that the banking system may have been used for money laundering.

*In January 2000 a serious banking crisis developed in the "TRNC".* In response to banking difficulties in Turkey, in December 1999, the "TRNC authorities" placed the off-shore subsidiaries of five mainland banks under the supervision of the "government's Saving Deposit Insurance Fund". The decision provoked a run on five domestic banks, forcing the "authorities" to also take control of them. The crisis exposed the lack of supervisory control, and excessive connected lending within the domestic banking system. The "judicial authorities" have also launched a number of criminal investigations against the previous management of the affected banks. In an effort to prevent further deposit withdrawal infecting the rest of banking system, the "TRNC government" has offered a "state" guarantee covering all bank deposits and a timetable for the repayment of outstanding deposits over 18 months. The ultimate fiscal cost of this guarantee is unclear. The "central bank" received an emergency credit line from Turkey that provided the resources to cover the initial payments. Nevertheless, the "TRNC authorities" have found it difficult meeting later deposit repayments.

*The banking crisis has exacerbated the economic problems in the north.* Confidence in the financial system has evaporated and there has been widespread capital flight, particularly within the off-shore sector, which in turn has further weakened the system. The slow speed of deposit repayment and the widespread belief amongst deposit holders that the "authorities" have insufficient resources to refund all the deposits have provoked considerable social unrest.

Given the present political environment, the possibilities for sustained economic growth over the medium term are poor. There is limited potential for export growth, and the practical difficulties with receiving EU visitors limit the extent to which tourist revenues can increase. The financial dependence upon Turkey has distorted economic activity, and encouraged the growth of a bloated public sector. The recent banking sector crisis has eroded confidence in the domestic financial system and it will inhibit future private sector investment. The Turkish fiscal consolidation plan may help to reduce the severe fiscal imbalance, but it is unlikely to make an important contribution to the long-term growth potential of the northern economy.

### **3. Ability to assume the obligations of membership**

#### *Introduction*

This section aims to update the Commission's 1999 regular report on Cyprus' ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union implements its objectives. Alongside an evaluation of relevant developments since the 1999 regular report, this section seeks to provide an overall assessment of Cyprus' ability to assume the obligations of membership, and of what remains to be done. This section has been structured to follow the list of twenty-nine negotiating chapters, and incorporates also an assessment of Cyprus' administrative capacity to implement the *acquis* in its

various aspects (in previous regular reports this had been covered in a separate section). The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme, in Agenda 2000 the Commission underlined the importance of incorporating Community legislation into national legislation effectively, and the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership, which has become a central issue in the negotiation process.

The European Council in Feira in June 2000 recalled the link between progress in the negotiations and the candidate countries' capacity to effectively implement and enforce the *acquis*, and added that this called for important efforts by the candidate countries in strengthening their administrative and judicial structures. The Feira European Council invited the Commission to report to the Council on its findings on the matter. Building on the assessment of Cyprus' administrative capacity provided in the 1999 regular report, the present report seeks to add further depth and detail, focusing on the main administrative structures which are required for implementing the *acquis* in its various aspects.

In the 1999 regular report, the Commission concluded that :

“Cyprus has made very little progress in further alignment with the internal market *acquis* since the last Regular Report. There has been no new legislation in the area of standardisation and the adoption of a new law regulating this area is urgently needed. So far Cyprus has only adopted 15% of existing European standards. Progress in liberalisation of capital movements has been modest and should be accelerated. In competition there is already quite a high degree of alignment on anti trust and this has been further improved by the adoption of a law on control of concentrations although public undertakings with special or exclusive rights are still not subject to competition rules. However, there is no systematic control of state aids and the adoption of a framework law to ensure compliance with the *acquis* should be treated as a matter of priority.

There has been some progress in preparing Cypriot agriculture to participate in the common agriculture policy but alignment in the veterinary and phytosanitary areas is only partial. There is a need to strengthen veterinary controls at border posts. In transport there is still substantial legislative work to be done, and there is a particular need to improve maritime safety. Alignment with the environment *acquis* is well advanced but further progress is pending, awaiting adoption of several pieces of sectoral legislation. Cyprus needs to pay particular attention to the allocation of sufficient budgetary and administrative resources to the environmental sector to ensure implementation of the *acquis*, given the size of the alignment task in this sector. In the area of justice and home affairs Cyprus has made little progress in the fields of immigration and asylum. Attention should be paid to alignment in the area of visa control. Cyprus has a modern customs administration but needs to take forward the process of harmonisation and further computerisation.

Concerning administrative capacity, whilst starting from a good base, Cyprus needs to set up institutions in the areas of telecommunications, free movement of goods and justice and home affairs. Further re-inforcement is needed in the maritime transport and environment sectors."

### **3.1. The chapters of the *acquis***

As indicated, the review of Cyprus' ability to assume the obligations of membership that is provided below has been structured in accordance with the list of twenty-nine negotiating chapters. Accordingly, this section opens with an assessment of progress related to the so-called "four freedoms", the cornerstones of the internal market, and continues with a systematic review of progress on each of the chapters, to cover the *acquis* in all its various aspects: sectoral policies, economic and fiscal affairs, economic and social cohesion, innovation, quality of life and environment, justice and home affairs, external policies, and financial questions.

#### ***Chapter 1: Free movement of goods***

During the period covered by this report, Cyprus has made progress in the field of free movement of goods.

Since the last regular report, in the area of **horizontal and procedural measures** there has been no concrete progress, although the Government has decided to speed up the process and to give priority to the adoption of harmonised standards relating to the New Approach Directives. Accelerating the adoption of EN standards was identified as short-term priority.

As regards the administrative infrastructure that is necessary to apply the *acquis* in the areas of standardisation, the establishment of a national accreditation and certification system and the introduction and application of the notification procedure, the Council of Ministers approved the establishment of the private organisation which will be responsible for certification. On the basis of this decision the Cyprus Organisation for Standards and Control of Quality (CYS) will maintain the function of standardisation and will be assigned the responsibility of national accreditation and notification.

As regards **sector specific legislation**, new legislation on fertilisers complying with the *acquis* entered into force in November 1999. In the field of legal metrology and pre-packaging, a Weights and Measures Order was enacted in March 2000. There is also new legislation to comply with the Quick Frozen Foodstuffs Directive, adopted in early 2000, as well as with the Directives on Materials and Articles in Contact with Foodstuffs, in effect as from December 1999. Cyprus also aligned its legislation in the field of motor vehicles and forestry tractors as a new law concerning type approval of motor vehicles came into force in February 2000. Cyprus has partially met the short-term priorities identified in the Accession Partnership as regards public procurement.

Concerning **non-harmonised areas** to which Articles 28-30 of the EC treaty apply, screening of the existing legislation is currently taking place in order to identify the statutes to be amended through the introduction of mutual recognition clauses.

As regards **public procurement**, a centralised statistical system was set up at the beginning of 2000, at the Treasury Department of the Ministry of Finance, for recording public contracts. To this end a database has been developed for keeping the necessary statistical information according to the requirements of the relevant provisions of the *acquis* on public procurement. In the 1999 Accession Partnership for Cyprus further harmonisation of legislation with regard to publication, time limits and review bodies was identified as a short-term priority.

### *Overall assessment*

The transformation of the Cypriot legal system in this area, aiming at full integration into the EU system as well as its implementation, requires adaptation of the legislation and a different institutional infrastructure. This implies that the existing administrative capacity needs to be reinforced and well-equipped in order to ensure application and enforcement. Cyprus has already a clear understanding of the principles and legislation covered by EC directives on products. However, continuing serious efforts are required to transpose and implement the *acquis* as far as possible prior to accession.

The sector specific Cypriot legislation in a number of areas covered by the New Approach Directives, is significantly different from that applied by the EC. In other fields no national legislation exists at all. Therefore Cyprus is in the process of adopting a framework law on the principle of New Approach Directives and implementing regulations covering different product groups such as mechanical devices; personal protective equipment in explosive atmospheres; or simple pressure vessels and pressure equipment.

Concerning **horizontal and procedural measures**, with respect to the adoption of EN standards, according to the Government Cyprus adopted 1300 EN standards up until August 2000. Additional human resources were made available to the Cyprus Organisation for Standards and Control of Quality.

Regarding restructuring in the areas of standardisation, accreditation, certification and notification procedure the above mentioned decision on the establishment of a private organisation for the certification activities and the future role of the CYS provides the legal basis for the operation of the basic infrastructure that is necessary to apply the *acquis* in these areas, which were identified as short term priorities. On the basis of this organisation, framework legislation could be enacted for the transposition of the New Approach Directives, supplemented by regulations for each of the groups of products covered by those directives. In the 1999 Accession Partnership, continuing to strengthen administrative structures in particular on standards, certification and accreditation and continuing with the transposition of New Approach Directives were identified as short-term priorities.

The Cyprus Organisation for Standards and Control of Quality takes part as an observer in the European Co-operation for Accreditation.

As regards foodstuff legislation, further efforts are needed for the transposition of the *acquis* in this area. The Ministry of Health is responsible for the implementation of

foodstuffs legislation. In the field of official control of foodstuffs, for Health Inspectors provisions are foreseen for further training at the local level as well as in other European countries including seminars and workshops, as well as scholarships (e.g. on Environmental Health or Food Safety). An important effort to strengthen the administrative capacities in this field needs to be made.

As regards **sector specific legislation**, concerning the pharmaceutical sector: no medical products may be placed on the market unless the competent authority, namely the Drugs Council, issues a marketing authorisation. The criteria for the issue of marketing authorisations as well as for their renewal are quality, efficacy and safety. Only about 5000 products with an active licence are currently on the market. New harmonised legislation providing for the setting up of a Drugs Price Control Committee, which will be the body responsible for the implementation of the *acquis* relating to medicinal products should be adopted.

As regards administrative capacity, several authorities and institutions are responsible in this sector such as the Cyprus Organisation for Standards and Control of Quality. Different Ministries carry out market surveillance activities such as the Ministry of Labour and Social Insurance for machinery, lifts and personal protective equipment whereas for pressure vessels the market surveillance responsibilities lie with the Ministry of Communications and Works. Market surveillance in the fields of toys and electrical equipment is carried out by the Ministry of Commerce, Industry and Tourism. Necessary laboratory tests are carried out at the Higher Technical Institute, the University of Cyprus and the State General Laboratory as well as the Electricity Authority and the Electrical and Mechanical Services.

The general import licensing system and the compulsory origin marking of imported products are due to be lifted before accession. The Ministry of Commerce, Industry and Tourism will be the administrative entity responsible for the follow-up of the application of Articles 28-30 of the EC Treaty on **non-harmonised areas** and the implementation of the principle of mutual recognition.

As regards the *acquis* in the field of the functioning of the internal market and information exchange the Ministry of Commerce, Industry and Tourism has been designated as the authority responsible. As regards firearms and the return of unlawfully removed cultural goods, the Ministry of Interior as well as the Department of Antiques are assigned for the implementation of the relevant *acquis*.

As regards safety checks on products at external borders, Cyprus still needs to establish appropriate customs and market surveillance infrastructure as well as effective administration co-operation between competent authorities.

In the field of **public procurement**, the Cypriot legislation maintains at present a national preference clause by imposing a 20% charge over the duty free value of the respective imported goods and up to 5% on the tender amount of services and works of foreign bidders (under certain conditions). However, in accordance with a provision already incorporated in the existing Public Procurement Law, this type of protection will be automatically eliminated upon accession. In addition, laws to extend the scope of public procurement legislation to local authorities as well as to achieve compliance

with EC review procedures still need to be enacted; however preparatory work has been undertaken.

Concerning the *administrative remedy system*, all tenderers are entitled, during the tendering stage, to submit to the main Tender Board comments, suggestions and complaints in relation to the technical specifications and the general terms of the tender. As regards the *judicial remedy system*, Cypriot legislation foresees that a decision by a public body to award, reject or cancel a tender is treated as an administrative act or decision subject to judicial review. During the period, June 1999 to June 2000, 31 cases in relation to public procurement were subjected to judicial review before the Supreme Court.

The Treasury Department of the Ministry of Finance under the Accountant General, is the competent authority for the overall monitoring of public procurement issues. During 1999, the total number of public procurement procedures came to 1515.

## ***Chapter 2 Free movement of persons***

During the period covered by this regular report, Cyprus has continued to undertake measures for further harmonisation with the *acquis* in the field of free movement of persons.

In the field of the **mutual recognition of professional qualifications**, in February 2000 the Council of Ministers issued a Decision that provides for a distinct separation between recognition of academic qualifications and professional qualifications. Professional recognition will be vested with the various professional councils. The Ministry of Labour and Social Insurance has been appointed as the national co-ordinating authority for the implementation of the General System Directives.

As regards **citizen rights** no further developments can be reported since last year.

In the field of **free movement of workers**, while no further legislative changes have taken place, the computerisation of the Public Employment Services of the Department of Labour has been completed and is now operational.

With a view to the future **co-ordination of social security systems**, the preparatory work to develop sufficient administrative structures is continuing.

### ***Overall assessment***

Cyprus has undertaken certain measures to abolish existing discrepancies between its legislation and the *acquis* in this area, but important legislative work still remains to be done.

Concerning the **mutual recognition of professional qualifications**, a number of professions are already regulated in Cyprus but not all. For example, those not requiring a university degree are not regulated. Common features of most of the regulated professions are the requirements of Cypriot nationality, of residence, and obligatory membership of professional bodies/associations.

Further alignment with the *acquis* as regards the abolition of existing restrictive conditions (e.g. the requirement of Cypriot citizenship, the recognition of good character/repute certificates from other member States or the above mentioned points concerning lawyers, architects and the health care professionals) is needed, as there should be no provisions in the legislation which contradict Community rules, in particular with respect to nationality, residence or language requirements.

The various professional councils are the competent authorities in their specific sphere of responsibility. A unit dealing with the recognition of professional qualifications still needs to be created in the Ministry of Labour.

As regards **citizen rights**, amendments to the existing legislation relating to voting rights will be required to comply with the *acquis* on municipal elections and elections to the European Parliament. As existing legislation on student rights is not in line with the principle of equal treatment, further efforts for alignment will be needed.

With respect to the *free movement of workers*, with regard to the right of residence and public order, currently residence permits are classified into temporary permits and permanent permits. The *employment of foreign nationals* is regulated by the Aliens and Immigration Law as well as the Aliens and Immigration Regulations issued under this Law. All foreigners employed in Cyprus enjoy equal treatment with nationals as regards e.g. conditions of work, salaries, social insurance benefits or income tax liabilities. There are permanent and temporary work permits. EU nationals enjoy preferential treatment in this regard. However, as current legislation gives Cypriot nationals preferential access over foreign nationals to professional positions, further alignment in this regard is needed.

Efforts will have to be continued to strengthen public employment services in view of future participation in the EURES network.

In the field of *supplementary pension rights* of workers moving within the Union, the existing legislation already provides that there should be no discrimination regarding the preservation of vested rights for members in respect of whom contributions are no longer being made and who moves to another country.

With a view to the future **co-ordination of social security schemes** existing structures, procedures and institutions will need to be upgraded and improved in order to meet the requirements of the *acquis*.

The Department of Social Insurance, which is planned to be the competent body for implementation of the regulations, has gained experience in the area of co-ordination of social security through the implementation of bilateral agreements. This department should be further strengthened.

### ***Chapter 3: Freedom to provide services***

Since last year's regular report, Cyprus has made significant progress regarding financial services and enhancing administrative capacity.

In the field of **the right of establishment and the freedom to provide services** (other than financial services) there has been no significant legislative and administrative development since last year.

In the field of **financial services**, with regard to the *banking sector*, in December 1999 the Central Bank of Cyprus issued a directive to banks with effect from 1 January 2000 incorporating in detail the layout and content of the balance sheet and profit and loss account, in line with the provisions of the *acquis* in this field. In addition, for further alignment with the *acquis*, regulations for the establishment of a deposit protection scheme were approved in January 2000. The deposit guarantee scheme for commercial banks as well as for Co-operative Credit and Savings Societies has been in operation since the beginning of September.

Concerning the *insurance sector*, during 1999 an Information Systems Strategy was elaborated to provide a framework within which the Service for the Control of Insurance Companies can develop and operate information systems to support its supervision. As regards *administrative capacity*, an increase in the personnel of the Service has already been approved by the Government and foreseen in the National Budget. In addition, legislation to achieve further alignment with the *acquis* in the field of motor insurance was approved in June 2000.

With regard to *investment services and securities markets* the Securities and Exchange Commission has recruited additional staff to ensure compliance with the requirements of the Securities and Stock Exchange Laws of Cyprus and has issued regulations with respect to the clearance and settlement of transactions, including the supervision of prospectuses information and the ongoing obligations of issuers.

Concerning the **protection of personal data and the free movement of such data and information society directives** there have been no legislative and administrative developments since last year.

### *Overall assessment*

Cyprus has progressed in the harmonisation process, although further legislative alignment is needed.

In the field of **the right of establishment and freedom to provide services** there are still provisions in Cyprus leading to discriminatory effects against non-Cypriot nationals. Restrictive provisions exist, such as the requirement of Cypriot nationality or the requirement of permanent residence, in the exercise of certain regulated professions.

Concerning *self employed commercial agents*, the *acquis* in this field is partially transposed; minor amendments are needed as regards the time limit for the obligation of the principal to notify the agent for the commission due.

Concerning **financial services**, the Cypriot domestic law is already in line with most of the EC requirements. Further alignment is needed in the field of the recognition of contractual netting agreements, consolidated accounts and capital adequacy for market risks.

The question of the possible exclusion of the Co-operative Credit and Saving Societies regulated by the Co-operative Societies Law from the scope of EC Banking Directives is still under consideration. The authority responsible for the supervision of these societies is the Ministry of Commerce, Industry and Tourism. Co-operative Credit and Saving Societies are examined on-site, twice a year. According to the 1999 Accession Partnership, to ensure and complete reporting by the offshore banking sector was identified as a short-term priority for 2000.

Regarding the administrative capacity, the Central Bank of Cyprus is the competent authority for the regulation and supervision of the banking sector. The rules, policies and practices are similar to the Recommendations of the Basle Committee of Banking Supervision and to EC directives. The supervisory process includes both on-site examination and off-site monitoring, exercised by the Banking Supervision and Regulation Division. The competent division in the Central Bank appears to be well staffed with qualified personnel.

As regards the *insurance sector*, some basic features of the EC supervisory system are covered by the current legislation. However, some of the Cypriot prudential provisions are still quite different from those contained in the *acquis*; this goes, for instance, for those concerning reinsurance or for the minimum capital requirements. In addition, further alignment is needed as regards accounting rules.

Concerning administrative capacity all the powers of the law are conferred upon the Superintendent and the Assistant Superintendent of Insurance. The supervisory authority called the Insurance Companies Control Service carries out an average of 6-7 on site inspections every year.

In the field of *investment services and securities markets*, in order to align with the *acquis*, there is still need for certain amendments to the Securities and Stock Exchange Laws, e.g. to ensure the ability of the Securities and Exchange Commission to exchange information and co-operate with other competent authorities. There is also a need to amend the existing Joint Compensation Fund for broker members of the Stock Exchange.

The Council of the Stock Exchange and the Securities and Exchange Commission are the relevant competent authorities for the implementation and supervision of the Stock Exchange Laws and Regulations. In 1998 and 1999 few on-site examinations have taken place, because of limited human resources. However, in general, the standard of supervision in the financial service sector in Cyprus appears to be satisfactory.

In the field of the **protection of personal data and the free movement of such data**, legislation is under preparation which will have to ensure, *inter alia*, the transfer of data to third countries with an adequate level of data protection and the setting up of an autonomous supervisory authority.

In the field of **Information Society Services** there are no regulations in Cyprus covering the area of the *acquis* on the provision of information in the field of technical standards and regulations and on the legal protection of services on conditional access to information society services respectively.

## ***Chapter 4 Free movement of capital***

Since the previous regular report Cyprus legislation has achieved some progress in this area and has therefore partially fulfilled the Accession Partnership short-term priorities identified in this area.

In the area of **capital movements**, at the beginning of this year the Central Bank of Cyprus (CBC) lifted some of the restrictions on outward and inward investments to and from the island. With regard to direct investment in Cyprus, all restrictions concerning the maximum or minimum allowable percentages of foreign participation in any Cypriot enterprise were abolished in January 2000 with the very important exception of the banking sector, where investment is limited to 50% of the total share capital. Also, since the beginning of this year, residents of Cyprus are allowed to undertake direct investment abroad. However, the transfer of capital is only effected when the Central Bank of Cyprus (CBC) is satisfied that it concerns a genuine direct investment. Where the foreign exchange cost is substantial, the CBC reserves the right to take measures in order to mitigate the impact on balance payments.

A new law for the abolition of the existing 9% interest rate ceiling was adopted in December 1999. Entering into force on 1 January 2001, this legislation will allow the CBC to proceed with the gradual abolition of remaining exchange controls on capital flows, in accordance with the liberalisation programme.

Concerning **cross border credit transfers**, an amendment to the Banking Law extending the areas where the central Bank can issue mandatory instructions to banks, including the matters covered by the *acquis* on cross border transfers, was approved in June 2000, thus giving Cyprus the legal base to implement the *acquis* in this field.

In the field of **money laundering**, Cyprus has brought its legislation further in line with the Money Laundering Directive as it enacted an amendment of the Prevention and Suppression of Money Laundering Activities Law with respect to the threshold amount of customer identification in October 1999.

In November 1999 the staff of the Unit for Combating Money Laundering was increased with the permanent attachment to the Attorney General's Office (Office of the Unit) of four members of the police and a member of the Customs Department. Therefore, the number of members of the Unit has now been increased to fourteen (3 attorneys and 11 investigators/analysts). During the past year emphasis was also placed on the training of staff of the Unit on Financial Intelligence and Financial Crime Investigation.

### ***Overall assessment***

In general, although some progress has been achieved since the last regular report, Cyprus should make important efforts in aligning with the *acquis* in the sector of free movement of capital. For proper functioning of the markets from the date of accession, a timely and orderly removal of remaining restrictions on capital movements, as well as restrictions on the acquisition of secondary residences, together

with an appropriate strengthening of the financial sector and its supervision, will be necessary.

As regards **capital movements and payments**, the liberalisation process is well underway but there is considerable distance to go in complying with the *acquis*. The law abolishing the interest rate ceiling should come into effect, as provided in the Law, on 1 January 2001 in order to enable the Central bank to go ahead with the implementation of its plan for the removal of the remaining restrictions.

Concerning payment systems, Cyprus has introduced a framework for the harmonisation of the payment systems legislation by granting to the Central Bank of Cyprus the powers to issue mandatory instructions to banks. However, further efforts are needed to align the Cypriot legislation to the EC *acquis* in this area.

To prevent the use of the financial system for the purpose of **money laundering**, after the amendment of the Prevention and Suppression of Money Laundering Activities Law with respect to the threshold amount of customers identification in October 1999, the legislation on money laundering appears to be in line with the *acquis*. Its effective application (particularly regarding the offshore sector) will however need to be monitored closely.

Cyprus has anti money laundering legislation in place since 1996 and since 1997 a special “Unit for Combating Money Laundering” (MOKAS) has been created with investigative powers. The Unit was recognised as a member of the Egmont Group (International Group of Financial Intelligence Units). In the course of its investigative functions, the unit is assisted by the Financial Crime Unit of the Police and the Investigation Section of the Customs Department. *Concerning this section see also chapter 24, Co-operation in the Field of Justice and Home Affairs.*

Since January 1997, 333 cases have been reported to the Unit, MOKAS has obtained 28 freezing orders and 219 disclosure court orders. There have been 2 prosecutions/convictions, while four cases are before the courts. MOKAS supports international co-operation in this area of combating criminal activities. To this end, it gives priority to requests for legal assistance submitted by foreign authorities. From the above 333 cases dealt with by the Unit up to June 2000, 70 cases represented requests for legal assistance by foreign authorities through formal rogatory letters, 77 cases represented requests for information by foreign Financial Intelligence Units and 9 cases represented requests for information by drug liaison officers posted in Cyprus.

### ***Chapter 5: Company law***

Since last year’s regular report, Cyprus has made good progress in this area as regards company law and the protection of intellectual and industrial property rights, the latter being a field which was identified as a short-term priority in the 2000 Accession Partnership for Cyprus.

Regarding **company law** as such, Cyprus enacted in early 2000 a new law amending the existing Company Law, in order to cover the provisions of the Twelfth Council Company Law Directive on single-member private limited-liability companies. The

Department of the Registrar of Companies and the Official Receiver is continuing to take various measures to exercise effective implementation of the legislation. New computer hardware and software were installed aiming at facilitating the publication of company documents. In this respect, the Council of Ministers approved in July 2000 new legislation, which is in line with the First Company Law Directive and now has to be endorsed by the House of Representatives. Companies that do not comply with the disclosure requirements of the Company Directives (to file annual reports with the registrar of Companies), also incorporated under Cyprus Company Law, are being struck off the register. Statistics show that the number of companies struck off were 1205 in 1998 and 5167 in 1999. From January to June 2000 more than 900 companies were struck off the Register. Fifteen additional staff have been recruited to strengthen the enforcement efforts.

In the field of *accounting law*, no particular developments occurred. In the field of **industrial and intellectual property rights**, the law ratifying the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations entered into force in October 1999.

As regards the computerisation of the Patent Registry, in June 2000 a co-operation programme was agreed between Cyprus and the European Patent Office aiming at the strengthening of the administrative capacity of the country through further computerisation and training of employees working in this field so that the implementation of the Cyprus Patent Law and Regulations may be facilitated. The programme also aimed at assisting in the efficient retrieval of information on patents and in bringing the patent system closer to industry.

A special unit, the IPR Management Centre, within the Department of the Registrar of Companies and Official Receiver to deal with Intellectual Property Rights issues and to enforce effective border control has been established. To this end, two officers have been assigned the task of co-ordinating, at a central level, the various issues concerning the implementation of the relevant provisions of the legislation. In addition, the training of personnel of the services involved has started.

As regards border enforcement the number of seizures performed at the border for the protection of intellectual and industrial property rights, amounts to 31 seizures of a total value of € 210 000 and up to the middle of June 2000, 7 seizures with a total value of € 16 500. There were 15 infringement cases in 1999; none have been reported for 2000. During the period January 1998 to December 1999, 46 different cases under the Trade Descriptions Law for misleading information and for infringement of intellectual property rights were pursued. However, due to shortage of staff, there have been no cases of prosecution so far as the existing staff is focusing on the product safety provisions of the law.

### *Overall assessment*

Cyprus has already achieved to a large extent alignment with the *acquis* in the area of company law, and transposition in the field of industrial and intellectual property rights is continuing at a steady pace.

As regards Cypriot **company law**, even though many of the EC directives in this field are already incorporated in the national law of Cyprus, some divergences still remain, for instance as regards the First Council Directive on the co-ordination of safeguards. Although some work on the implementation of the Second Directive on co-ordinating safeguards has started, further efforts to implement the *acquis* are needed, especially as regards the Third Directive on mergers as well as the Sixth Directive concerning the division of public limited liability companies.

Concerning *accounting law*, Cypriot legislation is already to a large extent in line with the *acquis*. As regards the Eighth Council Directive on the Approval of Persons Responsible for Carrying out the Statutory Audits of Accounting Documents the legal vetting has been completed but still needs to be enacted.

Cyprus is interested in joining the Lugano Convention, which is equivalent to the Brussels Convention and open to third countries. With respect to the Rome Convention, Cyprus has to prepare the necessary legislation in order to allow for swift implementation of the convention after accession, specifically in relation to the courts.

In the field of **industrial and intellectual property rights (IPR)**, Cyprus' *trademark law* is already to a large extent in line with the *acquis*. Patent protection for pharmaceutical products, has been provided in Cyprus since 1920. With regard to the Supplementary Protection Certificate, all medicinal products can obtain such a certificate, irrespective of whether they are protected by a patent under the Patent Law or rather by a patent which has been registered before the enactment of that law.

In the field of intellectual property rights, further legislative and enforcement measures are needed as regards copyright. As regards *administrative capacity* in the field of intellectual and industrial property rights, the Courts and the competent Copyright Authority are strict in implementing the provisions of the copyright law. The Department of the Registrar of Companies and Official Receiver, consisting of eleven persons, the Ministry of Commerce, Industry and Tourism, the Law Office of the Republic, the Department of Customs and Excise of the Ministry of Finance, the Police and the Courts are the institutions responsible for administering and enforcing company law as well as intellectual and property rights.

Further efforts are required to strengthen capacity to enforce legislation in the area of IPR, especially as regards border controls as they should be implemented more efficiently. Also, further attention should be given to combating piracy. Particular attention should be given to strengthening the effectiveness of the administrative and judicial bodies involved in enforcement such as the customs services, the police and the judiciary, and to reinforce co-ordination between them. Further targeted training is necessary both for copyright officials and for enforcement officials.

## ***Chapter 6 Competition***

During the period covered by the regular report, Cyprus has achieved progress in the field of anti-trust. No progress has been made with regard to the State aid sector.

Since the last regular report Cyprus has continued to make progress in the alignment and enforcement of its **anti-trust** policy. A Bill amending the Protection of Competition law to achieve further alignment with the *acquis* by submitting public undertakings and undertakings with special and exclusive rights to the rules of competition, was enacted in June 2000. Completing the harmonisation with the anti-trust legislation was identified in the Accession Partnership for Cyprus as a short-term priority. An order named the Block Exemption on agreements between air transport undertakings (concerning joint planning and co-ordination of schedules, joint operations, consultations on passengers, on scheduled air services and slot allocation at airports) was approved with immediate effect in June 2000 and provides for the application of measures within the territory of Cyprus equivalent to the relevant *acquis*.

A decision of the Council of Ministers for reforming the Commission for the Protection of Competition was adopted on 16 February 2000. The reforms are included in the second amendment to the Protection of Competition Law, which is presently with the House of Representatives for adoption. They provide for the Chairman of the above Commission to be employed on a full-time basis and for the reduction of the Commission's members from 7 to 5, aiming at enabling it to operate in a more flexible way and reach decisions faster and more efficiently. The reforms provide also for permanent specialised staff to be recruited, so that the Commission acquires its own data collection and investigation capability. Its investigative powers are also being reinforced, especially as regards examining transgressions of the Competition Law, including dawn raids. In addition, the said amendment provides for increased fines, *inter alia*, for cases of non-co-operation of enterprises with the Commission for the Protection of Competition.

No progress has been made in the creation of a **State aid** control and monitoring system since the last regular report.

### *Overall assessment*

Although Cyprus has already achieved good alignment with the EC's anti-trust legislation, further efforts to establish an efficient State aid discipline are needed.

Competition legislation has been in force since June 1990 in the form of the Protection of Competition Law. Cyprus legislation includes most of the principles of the EC's **anti-trust** legislation, including a large part of the secondary legislation. Merger control has been in place since March 1999. Further alignment is still necessary especially in view of developments in the *acquis* on vertical restraints.

Concerning administrative capacity, the Commission for the Protection of Competition (CPC) examines cases of suspected breaches of the Law *ex motu proprio* or upon complaint. It has investigative powers and may impose fines of up to 10% of an enterprise's annual turnover. For its investigations the Competition and Consumer Protection Service of the Ministry of Commerce, Industry and Tourism currently supports the CPC. The said Service has a staff of 30 people, of which 5 qualified officers deal exclusively with competition matters. With only 5 employees, the Office needs reinforcing with additional qualified and properly trained staff. Since 1990, the

CPC has examined 50 cartel cases, 49 cases of abuse of a dominant position and 5 applications for individual exemption and/or negative clearance. Additionally, since March 1999, 14 merger control cases have been examined. The main challenge now is to ensure that the application and enforcement of anti-trust rules is effective and that priority is given to cases that concern the most serious distortions of competition.

With regard to **State aid**, currently no proper control exists. There is no legal base for State aid discipline and there is no effective State aid monitoring authority.

Cyprus should consequently accelerate its efforts to establish an efficient State aid discipline. In the framework of the preparations for the establishment of the State Aid Unit an inventory of the existing support schemes and ad hoc measures has been drawn up by the existing Working Group for State Aid within the Ministry of Finance, with the aim of preparing an assessment of the compatibility of each scheme/measure with Community State aid rules. This inventory should be continuously updated. The alignment of State Aid legislation and an increase in transparency, identified as short-term priorities, cannot be considered achieved.

With a view to drawing up a Regional Aid Map for the promotion of regional development objectives, Cyprus will have to designate the regions eligible to receive aid under the derogation of the *acquis* for this objective. This being a key area of the state aid *acquis*, Cyprus should accelerate its efforts in this regard.

An additional priority in the State aid field concerns the taxation regime in Cyprus (in particular the offshore tax regime) which seems to include export aids, various forms of operating aid and other aid measures that need to be brought into line with the Community's State Aid *acquis*. Another special case with regard to Cyprus is the importance of the role played by co-operatives in the Cypriot economy and the advantages offered to these bodies. The tax regime applicable to co-operatives appears to include State aid elements that need to be further clarified.

## ***Chapter 7: Agriculture***

Over the years the contribution of agriculture has gradually fallen to 4.2%<sup>17</sup> of GDP and 9.3% of employment. Due to the fall in agricultural production, which was particularly badly affected by the recent drought, the primary sector declined by almost 7% in 2000. The output of the agricultural sector expanded by 7.5% in real terms in 1999 following an increase of 6.2%<sup>18</sup> in 1998, due to less adverse weather conditions as compared to previous years.

In 1999 total agricultural support was 46 million Cyprus Pounds and included various types of direct and indirect subsidies in favour of agriculture as well as ad hoc measures to compensate farmers for the effects of drought.

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<sup>17</sup> Source of all agricultural statistics is EUROSTAT unless otherwise specified

<sup>18</sup> These figures have been provided by the Cypriot authorities

In 1999 EC imports of agricultural products originating in Cyprus increased by 5% to € 108 million. EC exports to Cyprus increased by 16% to € 259 million. The trade balance in favour of the Community amounted in 1999 to € 151 million compared to € 120 million in 1998.<sup>19</sup>

### **Horizontal issues**

As regards an *integrated administration and control system* (IACS) and the establishment of a Paying Agency, only some preparatory work has been undertaken, such as the formation of a core group in the Department of Agriculture.

### **Common Market Organisations**

New legislation on harmonised marketing standards in floriculture has been enacted by the House of Representatives in 2000.

Several legislative and administrative adaptations in order to achieve further alignment with the *acquis* in the field of eggs and poultry, have taken place in the last few months, for instance the reduction of import duties on day-old chicks and hatching eggs in January 2000 and the enactment of legislation on the “Production, Grading, Labelling and Marketing Standards for Poultry Meat” in July 2000. In addition, for *fresh fruit and vegetables*, the Council of Ministers adopted in July 2000, new harmonised legislation related to 32 standards in the fruit and vegetable sector.

Further incentives providing for the establishment and further development of co-operative producer organisations, specifically for the fruit and vegetable sector, were established in July 2000 by a Government decision; adoption by the House of Representatives is not required.

### **Rural development and forestry**

No concrete developments can be reported in this area since the last regular report.

### **Veterinary and phytosanitary issues**

An amendment to the Welfare of Animals Law was approved in June 2000. With this amendment the law became a basis on which further alignment with the *acquis* as regards the directives on animal welfare will take place. As regards plant protection, *inter alia*, revised implementing regulations concerning the *acquis* in the field of the toxicity classification of pesticides and the content of the active substance in a pesticide were enacted in July 2000. In addition, regarding plant health, a programme for the upgrading of offices, equipment and other facilities at the border inspection posts is under implementation.

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<sup>19</sup>Source of trade figures: Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see Agriculture in the EU – statistical and economic information 1999 p. 36 for definition of the products).

## *Overall assessment*

Although there has been some progress in preparing Cyprus' agriculture for the Common Agricultural Policy --notably through preparatory work with regard to the necessary reforms such as the abolition of state monopolies-- substantial elements and mechanisms of the agricultural *acquis* remain to be applied, in particular related to the Common Market Organisations.

Concerning **horizontal issues**, with regard to the *European Agricultural Guidance and Guarantee Fund* (EAGGF), Cyprus has substantial experience in support, restructuring and development measures. Concerning budgetary and financial aspects, agricultural policy is conceived and implemented within the framework of multi-annual Strategic Development Plans. Some administrative and financial adjustments are required for full harmonisation with the procedures prescribed by the *acquis*.

Although preparatory work has started, the procedure for the establishment of the IACS has to be accelerated. Under the present national agricultural support framework, payments to farmers and other beneficiaries are made by the Department of Agriculture and a number of other governmental and semi-governmental agencies. Present arrangements need to be reformed and Cyprus will have to establish a Paying Agency to handle the Common Agriculture expenditure, this being identified as a short-term priority.

Legislation in the field of *quality policy* relating to designations still needs to be adopted. Furthermore, Cyprus has not yet signed international agreements on designation of origin and geographical indications. The ratification of the Lisbon Agreement is progressing. In the field of certificates of special character, currently no equivalent regulations exist. In addition, the *acquis* on organic farming has not yet been adopted.

The competent authority for geographical indications, designations of origin and certificates of specific character as a special unit within the Office of the Official Receiver and Registrar of Companies needs to be appointed, the core of which already exists. A body of inspectors needs to be established too.

With a view to **Common Market Organisations** the envisaged system of direct hectare payments for cereals still requires adoption by the Council of Ministers. Several areas in the field of arable crops need to be brought in line with the *acquis*. In parallel to the abolition of the monopoly of the Cyprus Grain Commission, reorganisation of the existing administrative infrastructure will have to take place in order to create an intervention agency and intervention centres as well as management of export and import licenses and tenders for cereal export.

For *fresh fruit and vegetables* there is no legal framework in Cyprus for the recognition of POs according to community criteria, therefore the relevant provisions governing the setting up, recognition and operation of Producer Organisations remain to be adopted. As regards wine, legislation is already partially harmonised. However further alignment with the *acquis*, mainly as regards the rules of wine growing potential, market rules for wine and the protection of wine designations, is needed.

Apart from fruit and vegetables, as regards specialised crops, legislative work still needs to be done to achieve alignment with the *acquis* on marketing standards.

The monopolies of the Cyprus Grain Commission, of the Cyprus Olive Products Marketing Board and of the Cyprus Milk Industry Organisation as well as the statute of the Cyprus Vine Products Commission will have to be brought in line with the *acquis*. Preparatory work with regard to the necessary reforms has already been undertaken.

In terms of administrative capacity to implement the *acquis*, Cyprus has a good basis but the state monopolies managing the different markets hamper the necessary restructuring of the existing infrastructure. Therefore the process of abolishing these monopolies should be accelerated.

As regards **Rural Development and Forestry**, Cyprus has already some experience in these areas, also comprising agri-environmental measures. However, the necessary control bodies for the environmental scheme will have to be put in place. Furthermore, a code of good agricultural practice needs to be established.

As regards rural development, the Department of Agriculture is gradually aligning its procedure for authorisation, internal audit and execution of payment to those of the *acquis*. The administrative capacity for the implementation of the rural development *acquis* (also identified as a short-term priority) needs to be further enhanced .

Concerning **veterinary and phytosanitary legislation**, transposition of the *acquis* is still partial. Cyprus should further align its veterinary and phytosanitary legislation with the *acquis* as well as upgrade inspection arrangements, in particular at future external borders, as this was identified as a short term priority in the Accession Partnership.

In the *veterinary sector*, in the field of animal disease control measures, Cyprus laboratories are capable of carrying out serological diagnosis regarding notifiable viral diseases. Contingency plans, such as for food and mouth disease and classical swine fever, should be developed.

As for *phytosanitary issues*, the border inspection posts, *inter alia*, will have to be equipped with laboratory facilities for initial on the spot examination of imported produce. The relevant market-place surveillance and control of imports and exports of food (both of plant and animal origin) are carried out by the State General Laboratory of Additional Veterinary Checks, required in the framework of the internal market. Strengthening of the personnel and the diagnostic capability of the Laboratories of the Veterinary Services will be required. A computerised system will also be needed for recording movement of animals and products in the internal market. Inspection and Certification of organic produce is currently undertaken by inspection bodies, approved for this purpose in member states of the EU, since there is no relevant legislation as yet in Cyprus.

Cyprus' legislation has been going through a gradual process of harmonisation in key areas, however important elements of the *acquis* have not yet been adopted. The proposed Framework Law, under which all Community Veterinary Legislation will be

covered -- such as for instance control systems in the internal market, expenditure in the veterinary field, animal disease control measures, animal health (live animals and animal products) and public health protection-- still needs to be enacted.

The process of preparing Cyprus' agriculture for the Common Agricultural Policy needs to be continued, notably regarding the establishment of the necessary administrative and structural procedures. This concerns, in particular, the import and trade of animals and animal health as well as plant health and plant quality.

### ***Chapter 8: Fisheries***

Since the last regular report, Cyprus has made progress in the field of fisheries, especially concerning the implementation of legislation and the enforcement of its infrastructure. However, in the field of **market policy**, no further developments have been recorded.

As regards **resources management, inspection and control**, in the field of monitoring and licensing, amendments of the Fisheries Law and Fisheries Regulations to regulate the fishing licence system outside territorial waters and the monitoring of fishing activities were adopted in June 2000. These amendments foresee, inter alia, the obligation for the installation on all fishing vessels of a blue box for monitoring purposes. Furthermore, a Law on Aquaculture was adopted in June 2000.

In view of strengthening Cyprus' infrastructure and inspection capabilities, a new patrol boat was purchased and was delivered to the Department of Fisheries and Marine Research in February 2000. Therefore Cyprus has fulfilled the short-term priority of the Accession Partnership concerning the strengthening of the administrative capacity notably in the areas of inspection and control of fishing vessels. Besides, Cyprus is initiating a project to introduce a system for satellite monitoring.

Concerning **structural measures** (including fleet registration), further alignment with the *acquis* in the field of licensing of fishing vessels under the Cypriot flag was identified as a short-term priority. This priority has been met, since Cyprus has introduced new measures for fishing vessels. All fishing vessels under the Cyprus flag are required to obtain a fishing license from the Fisheries Department of the Republic of Cyprus, irrespective of whether they fish in or outside the territorial waters of Cyprus. Failure to obtain a license implies deletion from the registry.

With respect to **state aid to the fisheries sector**, no developments have been reported since the last regular report.

### ***Overall assessment***

In spite of having achieved progress in some areas, Cyprus needs to pursue legislative implementation as well as strengthening of institutions and instruments capable of implementing the Common Fisheries Policy. In addition, further progress is needed with regard to the current and planned structure of the fishing fleet under the Cypriot flag.

Concerning **market policy**, with regard to Common Market Organisation for fisheries products, they are of limited importance for Cyprus, since Cyprus does not engage in fishing of the main species covered by CMO and daily quantities are very small as well. The majority of the products covered by CMO are not imported. Since there is no wholesale market and representative wholesale price, Cyprus will have to submit an equivalent representative wholesale price for imports of fish and fish products. However, a relevant system for recording landing prices of imported products already exists.

In the field of international fisheries agreements Cyprus is already signatory to the General Fisheries Commission for the Mediterranean Agreement.

Concerning **resources, management, inspection and control**, according to the Cyprus Fisheries Regulation, a ceiling to the number of licences that can be issued for fishing within territorial waters exists. The Fishing Regulations also provide for the issue of permits for landing catches in Cyprus.

Cyprus has initiated the procedure for ratifying specific UN and FAO agreements in this area as well as for becoming a member of the International Commission for the Conservation of Atlantic Tunas. Cyprus co-operates with the relevant International and Regional Fisheries Organisations for the sustainable exploitation of fishing resources.

With regard to the administrative capacity, the Department of Fisheries and Marine Research of the Ministry of Agriculture, Natural Resources and Environment, is responsible for the fisheries sector. Within the Department of Fisheries and Marine Research, a specialised Inspectorate Service comprising 11 inspectors and 3 fast patrol boats exists. This Service carries out regular patrolling of the coastal fishing zone as well as on-the-spot checks

Concerning **structural measures**, Cyprus' policy to reduce the number of fishing vessels under its flag that operate in distant waters will have to be steadily continued. The efficiency of the means introduced so far, including penalties for infringement will have to be reviewed after a year. The establishment of a Fishing Vessel Register in line with the requirements of the *acquis*, identified as a short-term priority in the Accession Partnership, is being pursued. The legal framework was adopted in June 2000 and implementation regulations will follow.

Concerning **State aid**, there is a subsidy scheme for trawling in international waters, aiming at the encouragement of Cypriot trawlers to fish continuously in the international waters of the Eastern Mediterranean. The purpose of this is to increase the production and alleviate the pressure exerted on Cyprus' fishing grounds. Alignment with the *acquis*, in this area, should be ensured upon the time of accession.

## ***Chapter 9: Transport Policy***

Since the last regular report, noticeable progress has been made in the field of land, air and especially as regards maritime transport. However, concerning **horizontal issues**, there is very little progress to report other than the completion in October 1999 of the

Transport Infrastructure Needs Assessment (TINA) process, in which Cyprus participated. Cyprus has approved the Final Report that should form the basis for extending the Trans-European Networks to Cyprus. Within this framework, Cyprus had proposed the inclusion of its ports, its airports and a number of its highways in the extension of the Trans-European Networks.

In the field of **land transport**, in June and July 2000 regulations amending the Motor Vehicles and Road Traffic Regulations were approved in order to achieve further alignment with the *acquis*. This concerns the field of distinguishing signs, tread depth of tyres of motor vehicles and trailers, as well as the installation and use of speed limitation devices for certain categories of motor vehicles. In the case of speed limiters, legislation was adopted, taking effect for all newly registered vehicles as from 1.1.2001 and for existing vehicles from 1.1.2003. The authorities have taken the necessary decisions to increase the administrative capacity in the different fields of road transport by recruiting and training additional personnel, *inter alia*, on technical inspections of public and high risk vehicles, to be carried out by the Department of Road Transport of the Ministry of Communications and Works.

As regards **air transport**, the latest amendments and the revised Convention of Eurocontrol were ratified by Cyprus in June 2000. Following the Council mandate of December 1999, negotiations between the EC and Cyprus to join the draft Multilateral Agreement on the Establishment of a European Common Aviation Area started in January 2000. As regards administrative capacity, recruitment of additional staff has been approved for the Department of Civil Aviation (DCA) with a view to the implementation of the action plan “Development of Oversight Capabilities in the DCA Cyprus”, ending in December 2002.

Concerning **maritime transport**, at the beginning of 2000 the Government introduced a new, more restrictive policy for the registration of Cypriot ships, to enhance the quality of the Cypriot flagged fleet and to improve its overall safety record. The policy restricts the new registration of ships over 15 years of age unless specific criteria are met and additional inspections are carried out by government surveyors. At the end of 1999, the Council of Ministers adopted the International Maritime Organisation (IMO) Code for the Investigation of Marine Casualties and Incidents.

In February 2000 the Harmonised System for Survey and Certification (HSSC) was put in place to better regulate the role of classification societies.

In an effort to accelerate harmonisation with the *acquis*, in July 2000, five new bills were approved under the Merchant Shipping Law of 2000, which implement the Convention on Standards of Training, Certification and Watchkeeping (STCW Convention). These bills separately regulate issues such as the issue/recognition of seafarers’ certificates and the registration of seafarers and the establishment of seafarer’s Register.

Amending legislation introducing a common model identity card for Port State Control inspectors to align with the *acquis* was also approved.

The Convention for the Suppression of Unlawful Acts Against the Safety of Maritime Navigation of 1988 and the Protocol for the Suppression of Unlawful Acts Against the

Safety of Fixed Platforms Located on the Continental Shelf were ratified in October 1999.

In addition, in June 2000 Cyprus signed an Amended Agreement with Sri Lanka deleting the relevant cargo-sharing clause in order to achieve further alignment with the *acquis* relating to the principle of freedom to provide services concerning maritime transport.

Promising results are expected from the implementation of the 1999 Action Plan on strengthening the capacity of the Department of Merchant Shipping and improvement of the safety record of the Cyprus fleet. This would ensure Cyprus' fulfilment of its obligations under international and European regulations in the field of maritime safety. In 1999, Cyprus increased the number of Flag State inspections. For these inspections Cyprus relies upon a world-wide network of inspectors. Measures have been taken to considerably increase the total number of inspectors from 24 at present to around 44 by the end of this year. In March 2000, the Minister of Finance approved the recruitment of 11 additional Marine Surveyors and 4 additional Merchant Shipping Officers for the Department of Merchant Shipping (DMS). The administrative capacity of the DMS will be further enhanced through technical assistance, training of personnel and computerisation of the DMS. Cyprus fulfilled its Accession Partnership short-term priorities in this field. Likewise, with regard to Port State Control, more inspections are being carried out and followed up in Cyprus ports. In addition, the implementation of the new computerised Flag State Administration System "MARCUS" of the DMS has started in September 2000.

Regarding detentions, the steady decline in their number is welcomed and reflects the increased efforts of the Cypriot authorities in this domain (the detention rate decreased from 10.85% in 1998 to 9.97% in 1999), however, further efforts are needed for the Cyprus fleet to achieve a safety record corresponding to the current EU average of 3.6%.

### *Overall assessment*

Overall, during the last year Cyprus has advanced well in its harmonisation of the basic legislative and administrative framework with the *acquis*.

Regarding **horizontal issues**, the overall responsibility for administering the Community guidelines in the field of Trans-European Transport Networks (TEN-T) lies with the Ministry of Communications and Works.

Regarding **land transport**, legislation to align with the *acquis* on recording equipment (tachographs), minimum levels of driver training as well as, among others, regarding market access, fiscal harmonisation and driving licences, still need to be put in place.

As regards technical and safety issues, as specific legislation transposing the extensive *acquis* on transport of dangerous goods is not yet in place, Cyprus should considerably strengthen its efforts for achieving alignment in this field prior to accession.

The main responsibility for administering and enforcing the land transport *acquis* lies with the Ministry of Communications and Works.

In the field of **air transport**, in view of the envisaged achievement of full liberalisation and harmonisation of the air transport sector, the relevant legislation still needs to be put in place. Cyprus still needs to make substantial progress in the field of aviation safety, particularly to strengthen the applicability of the JARs (e.g. JAR OPS), as well as the licensing and safety oversight procedures.

The Department of Civil Aviation of the Ministry of Communication and Works is the competent authority. Recruitment of additional personnel has been approved for the DCA.

Concerning **maritime transport**, Cyprus needs to improve its performance on Port State Control. Care should be taken that there is a sufficient number of trained inspectors to apply the *acquis*. Specific efforts are still required in order to ensure that Cyprus adequately monitors the performance of the classification societies acting on behalf of the Cyprus government.

Due to the size of the Cyprus merchant fleet further strengthening of the administrative capacity of the Department of Merchant Shipping is needed and efforts are in fact being focussed on this aspect. New legislation to align with further elements of the maritime safety *acquis* still needs to be put in place. The Ministry of Communications and Works, the Department of Merchant Shipping, and the Cyprus Ports Authority, as regards the operation of ports, are the competent authorities in this area.

Cyprus still needs to renegotiate its bilateral agreement with Syria in order to align with the *acquis* regarding freedom to provide services in maritime transport, as has already been done with Sri Lanka.

## ***Chapter 10: Taxation***

Since the last regular report, Cyprus has achieved some progress in the area of taxation.

In the field of **indirect taxation**, the standard *Value Added Tax* (VAT) rate of 8% was increased to 10% as of 1 July 2000. Furthermore, the House of Representatives approved in June 2000 a VAT Bill which includes substantive alignment with the Community VAT *acquis*, *inter alia*, for the abolition of the special VAT provisions in favour of international business enterprises, which was identified as a short-term priority in the Accession Partnership, and a refund scheme for foreign taxable persons not established within Cyprus. However, the entering into force of the Bill, which is not expected until sometime during 2001, is dependent on a Decision of the Council of Ministers pending the adaptation of the existing VAT computerised system to the new Bill.

Since the end of 1999, the *excise duties* on domestic produced spirits and petrol have been increased. In addition, excise duties have been introduced on gas oil, kerosene and imported spirits whereas the import duty on imported alcoholic beverages has

been decreased. The specific duty on cigarettes was increased in June 2000, bringing the duty level close to the Community's minimum excise duty incidence of 57%.

Whereas no concrete progress is to be reported in the field of **direct taxation**, it should be noted that Cyprus has undertaken a commitment towards OECD to eliminate harmful tax practices by the end of 2005. That political undertaking is interpreted to be valid as well as with regard to the – political - obligations stemming from the Code of Conduct for Business Taxation and therefore must be seen as “indirect” but substantial progress. It is however, to be noted that the rollback obligation of harmful tax measures under the Code of Conduct is set at end of 2002 at latest.

No further developments since the previous year can be reported in the area of **direct taxation** and **administrative co-operation and mutual assistance**.

As regards the *administrative capacity*, a new section has recently been established at Customs Headquarters for the promotion of the harmonisation effort and the effective implementation of the *acquis* on excise duties. In addition 53 VAT officers have been recruited and trained. The new officers have been deployed to the field of control.

### *Overall assessment*

Although Cyprus has undertaken several measures to further align its legislation with the *acquis*, there are some discrepancies in several essential areas between Cyprus' legislation and the *acquis*, therefore further efforts are required.

Regarding **indirect taxation**, VAT was introduced in Cyprus in 1992. Two VAT rates are applied, a zero rate and a standard rate of 10%. The main difficulties for Cyprus in terms of the *acquis* relate to the application of rates. The substantive use of the zero rate raises some concern, since full alignment in this area is most likely to have a significant impact on consumer prices. The pursuit of VAT harmonisation by diminishing the zero-rate extension was identified as a short-term priority. Although it has recently been decided to increase the standard VAT rate from 8% to 10% the gap between that and the EC standard rate of 15% remains very large. There are concerns as to whether Cyprus will be able (both on political and economical grounds) to introduce the necessary adjustments in a reasonable timeframe, especially if it has to be accompanied by –politically- sensitive adjustments of rates also in other areas (reduced rates VAT, excises, taxation of off-shore companies).

The VAT Service, with a separate structure within the Department of Customs and Excise, administers VAT in Cyprus. Although it is a modern tax administration further efforts are needed to ensure Cyprus' capacity, including that of computerisation, to implement, control and enforce the *acquis*. The administrative system of control of VAT is based on central administration with local control.

Some substantial efforts have been made since the last regular report, however, the excise legislation of Cyprus remains different in several essential areas from that of the *acquis*. This is in particular the case regarding the taxable scope, the duty level and the level of duty rates. The continued use of protective measures in the form of in

particular the Temporary Refugee Levy, results in imported goods being taxed more heavily than similar domestically produced products. Abolishing such discrimination has been identified as short-term priority in the Accession Partnership. Although it is fully recognised that efforts have been initiated to align the excise legislation, a more complete assurance for the remaining parts should be pursued.

The Department of Customs and Excise of the Ministry of Finance is the authorised government body for the administration of excise duties. Further efforts are required with regard to the introduction of a tax warehouse system.

In the field of **direct taxation**, the special regime for offshore companies in Cyprus needs to be addressed. (There are about 42,000 registered offshore companies in Cyprus, which employ 3000 non-Cypriots and 2500 Cypriots. It is estimated that they brought some 200 million CY Pounds in foreign currency to Cyprus in 1999, roughly 4.4% of the GDP.)

The Department of Inland Revenue is the competent authority for the administration of direct taxation. Currently, the Department employs around 600 employees. Its systems are computerised for the issuing of income tax returns, raising of assessments and collection of taxes.

In the area of **administrative co-operation and mutual assistance**, Cyprus will have to introduce harmonised legislation on the VAT Information Exchange System (VIES) and develop the existing infrastructure to apply this system. Cyprus already has a computerised system for the collection and processing of VAT returns. In order to be able to meet the new demands concerning administrative co-operation and mutual assistance, Cyprus will have to further reinforce its tax administrative structures and control procedures. The establishment of a strategy for the modernisation of the tax administration is an essential starting point.

## ***Chapter 11: Economic and Monetary Union***

A detailed assessment of Cyprus' economic policy in its various aspects has been given above, in the chapter discussing the economic criteria (B-2). Therefore, the present section is limited to a discussion of those aspects of the Economic and Monetary Union *acquis* – as defined by title VII of the EC treaty and the other relevant texts – which candidate countries should implement by accession at the latest, i.e. the prohibition of direct public sector financing by the central bank, the prohibition of privileged access of the public sector to financial institutions, and independence of the national central bank. As to the process of liberalisation of capital movements, upon the completion of which compliance with the EMU *acquis* is conditional, this aspect has been covered above, in the section on *Chapter 4 – Free movement of capital*.

Since the last regular report, Cyprus has made some progress in the adoption of the EMU *acquis*.

Concerning the **direct public sector financing by the central bank**, no further developments since last year have been recorded.

In December 1999 Cyprus enacted a law liberalising interest rates. This law, which, *inter alia*, repeals provisions for an interest rate ceiling, will come into force in January 2001. These provisions can be seen in the framework of **privileged access of the public sector to financial institutions**, therefore their removal represents progress in the adoption of this part of the EMU *acquis*.

No concrete progress can be reported in ensuring the **independence of the Central Bank**.

### *Overall assessment*

Cyprus will participate in EMU upon accession with the status of a country with a derogation as *per* article 122 of the EC treaty. It will need to implement the necessary changes to its institutional and legal framework by the date of accession.

Overall, Cyprus has yet to fully implement important parts of the EMU *acquis*, such as the direct financing of the public sector and the independence of the Central Bank.

From June 1992 to December 1998 the Cyprus pound was pegged to the ecu within the fluctuation margins of  $\pm 2.25\%$ . Since the beginning of 1999 it has been pegged to the euro within the same fluctuation band.

Concerning *administrative capacity* in the field of EMU, the services responsible are the Ministry of Finance, the Central Bank of Cyprus as well as the Planning Bureau. The Central Bank of Cyprus has the overall responsibility for defining and conducting monetary policy. For the efficient conduct of monetary policy, the Central Bank of Cyprus will need to have full responsibility for setting the interest rate. Therefore Cyprus still needs to amend the Law on the Central Bank as well as the relevant provisions of the Constitution in order to establish statutory independence of the central bank and to achieve compatibility in all material respects with the EMU *acquis*, a process which should be accelerated.

### ***Chapter 12: Statistics***

Since the last regular report Cyprus has made good progress in the field of statistics.

As regards **statistical infrastructure**, at the beginning of 2000 a new Statistics Law was enacted. This forms the legal basis for the collection, production and dissemination of statistical information and includes general provisions governing the statistical system in Cyprus. It also specifies the tasks of the Statistical Service of Cyprus (renamed in January 2000, former Department of Statistics and Research) and redefines its role and function as the central agency responsible for the production of official statistics. It contains provisions for the carrying out of statistical enquiries required by the EC, access to administrative records, and the transmission of data subject to statistical confidentiality to EUROSTAT, and the creation of an Advisory Council. The fundamental principles of impartiality and reliability of data as well as the transparency of statistics and confidentiality of personal data are safeguarded under the Statistics Law.

A census of enterprises was carried out in May 2000, which will form the basis for the drawing up of a fully harmonised business register of local units and enterprises. As regards *transport*, a pilot survey on transport of goods by road was completed in November 1999, another survey was launched in the second quarter of 2000 to fulfil the requirements for statistical returns in respect of transport of goods by road.

In addition, a unit within the Statistical Service for the co-ordination of the work of various Government Departments dealing in the collection of environmental data, with the aim of initiating the production of statistics on the state of the environment on a systematic basis, was set up. Seven statistics assistants were recruited in October 1999 and the budget for 2000 contains provisions for another seven statistics officers. The Statistical Service is computerised to a high level in terms of terminals, personal computers, and connection to the LAN and access to the Internet.

### *Overall assessment*

Although Cyprus possesses the main statistical infrastructure and fulfils the statistical requirements of the international organisations to which it belongs, there are still a number of areas in which Cyprus does not at present provide comparable data, which in some cases is due to the small size of the country. Further efforts need to be made to bring the statistical system into line with EC requirements.

As regards **demographic, social and regional statistics**, several important new data collection systems are needed. A *labour force survey* was undertaken in 1999, while labour cost and public health surveys still have to be introduced. The introduction of NUTS classification is under discussion in order to allow the compiling of regional community statistics.

In order to improve **macro-economic statistics**, the Statistical Service and other statistic producers will have to strengthen the provision of basic statistics. Existing production accounts have to be complemented by economic accounts at regional level. Quarterly national accounts, accounts by institutional sector and financial accounts which do not exist yet need to be compiled, while maintaining the principle of independence of statistics production from policy-making instances. As far as debt and deficit statistics are concerned, the delimitation of the government sector has to be reviewed according to the ESA 95 requirements.<sup>20</sup>

Cyprus has started to implement the **consumer price indices**, but no full compliance has yet been reached. In the area of **business statistics**, a number of existing surveys need to be adopted and extended. Statistics need to be established for money and finance. In general, a good compliance level has already been reached in the field of agriculture, forestry and fisheries. Some changes in *crop* and *livestock* surveys are necessary.

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<sup>20</sup> European System of National and Regional Accounts in the Community

### ***Chapter 13: Social policy and employment***

Since the last regular report Cyprus has achieved some progress in the field of social policy and employment.

As regards **labour law**, in June 2000 two laws relating to the provision of information to employees (employment contract) and the preservation and safeguarding of employee's rights in the event of transfer of business or undertakings were enacted. In addition, in September 2000 Cyprus ratified the revised European Social Charter.

Concerning **equality of treatment**, although legislation is under preparation for instance regarding parental leave, equal treatment for women and men in employment and vocational training or indirect discrimination, no new legislation has been adopted since the last regular report.

In the field of **health and safety**, in order to bring Cyprus' legislation further in line with the *acquis*, an amendment to the Asbestos Law relating to the protection of workers from risks related to exposure to asbestos at work was enacted in April 2000. In addition, in July 2000, legislation for further alignment in the field of provisions of safety and health sign boarding at work was enacted. The Labour Inspectorate has been upgraded to the level of a Government Department within the Ministry (as from the beginning of this year) and reorganised, in order to exercise the new responsibilities and functions emanating from the transposition of the *acquis*. The strengthening of enforcement structures in the fields of health and safety at work, in particular as regards the Labour Inspectorate, was identified as a short-term priority in the 1999 Accession Partnership.

Regarding **social dialogue**, no further developments since the last regular report have been recorded.

Employment is estimated to have grown by 1% in 1999, and unemployment remained relatively low at just over 3%. Overall labour force participation and employment rates remain relatively high – in 1998, for example, some 72% of the working-age population was in the labour force, as compared with 68% in the EU-15.

The government has commenced work on a national **employment** action plan. An assessment of employment policy priorities is also being prepared jointly by the national authorities and the Commission.

In the field of **social protection**, as from the beginning of 2000 the pensionable age for the social pension was decreased to sixty-five years, the same as the pensionable age under the Social Insurance Scheme.

With regard to **discrimination**, in July 2000, a “Law Providing for Persons with Disabilities” was enacted which, inter alia, provides for the introduction of the general principle of non-discrimination against the disabled as well as for specific measures in the field of employment, like provisions regarding recruitment, promotion in employment, vocational rehabilitation and training as well as accessibility and mobility.

### *Overall assessment*

Although Cyprus has achieved progress in this area, substantial parts of the *acquis* have not yet been fully transposed. Further progress in transposition thus is necessary, in particular as regards labour law, equality of women and men and occupational health and safety.

Cyprus has the essential enforcement structures, which the government plans to strengthen further. This will in particular be needed with regard to labour inspection services monitoring health and safety at work, Labour Law and equality treatment.

Concerning **equality of treatment** further adaptations to Cypriot legislation will be needed to fully align with Community provisions.

In the field of **health and safety** at work, in order to reduce work accidents and occupational injuries and diseases, the implementation of health and safety legislation, entailing investment both in enforcement structures by the Government and in technical and organisational measures by enterprises, has to be strengthened.

In the field of **public health**, steps have already been taken to upgrade the provisions of health care services and to improve the quality of health, as for example through a programme for training, computerisation or development of health prevention programmes.

Cyprus needs to undertake further efforts to develop a health monitoring system in order to obtain health data and indicators comparable with the Community health monitoring system. It will also have to nominate an organisation that can fully contribute to tasks at European level agreed in the framework of the Network as regards a systematic surveillance of communicable diseases.

In the public health area some further adaptations to legislation will be needed to fully align with the *acquis* in the area of labelling of tobacco products and on maximum tar yields of cigarettes. Cyprus will have to establish a laboratory to measure tar yield.

Concerning **social dialogue**, Cyprus has a long-standing practice. Workers' and employers' organisations are strong and play an active role in particular in various existing tripartite bodies. However especially at sectoral level, bipartite social dialogue, including the Government's administrative capacity in this field, is relatively less well developed. This could influence the implementation of the Community *acquis* at the local level, and also limit social partners' future participation in the sectoral social dialogue at European level. The support of social partners' capacity-building efforts to develop and implement the *acquis* was identified as a short-term priority in the Accession Partnership.

Concerning **employment** and the **European Social Fund**, preparatory work has started for developing a National Action Plan for Employment according to the EC Employment Guidelines. It is planned that the management of the ESF will be under the responsibility of the Labour Department and for this purpose, suitable training of personnel should be organised.

With regard to Eures (European Employment Service), the Ministry of Labour is the national authority dealing with employment services. Cyprus is computerising the existing system in order to be able to participate fully in the network. However, the employment policy delivery systems and specifically the Public Employment Services will need to be strengthened.

In the field of **social protection**, regarding the healthcare system, draft legislation, which provides for the introduction of a National Insurance Health Scheme, has been submitted to the House of Representatives. The new Health Scheme will provide universal coverage and its financing will be based on contributions from the social partners and the budget.

Legislation transposing the EC Directive based on Article 13 of the Treaty relative to **discrimination** on the grounds of race or ethnic origin will have to be introduced and implemented.

### ***Chapter 14: Energy***

Since the last regular report, Cyprus has undertaken two assessment studies in the energy sector, the results of which will assist in the development of a national energy strategy as well as in the transposition of important areas of the energy *acquis* as yet to be transposed. The studies are now reaching completion. Since further steps to align with the *acquis* are dependent on these findings, progress with regard to legislation in this area over the past year has been limited.

The first of these studies provides Cyprus with an assessment of the costs and infrastructure required for the building up of its oil stocks to reach the requisite 90 days supply. The second, which addresses the current monopoly in the electricity market, will allow Cyprus to put into place the measures needed to ensure the liberalisation of the energy sector, including the appointment of an energy Regulator, and the establishment of a regime for network access and for building of new capacity in the electricity market.

Consequently, no concrete developments have taken place with regard to the **security of supply** since last year and Cyprus does not yet have legislation in place regarding oil stocks.

Similarly, there has been no progress with regard to aspects of **competitiveness and the internal energy market**.

In order to achieve further alignment with the *acquis* and to promote **energy efficiency** in the industrial, commercial and agricultural sectors, a grant scheme for investments in energy efficiency promotion, encouraging the use of energy from renewable sources, became fully operational at the beginning of 2000.

Moreover, in 2000 Cyprus, has joined the Organisation for the Promotion of Energy Technology (OPET), the main aim of which is the implementation of measures in the fields of rational use of energy, renewable energy sources and fossil fuels. In June 2000, the Government of Cyprus established an Institute of Energy, which together with the Applied Energy Centre, will implement the OPET-Cyprus Program.

Cyprus has no **nuclear energy** production and no plans in this regard.

### *Overall assessment*

There has been limited progress towards the adoption of the *acquis*, therefore further efforts are needed.

With regard to the **security of supply**, due to the heavy dependency of Cyprus on imported oil, the issue of oil stocks is of particular significance. Currently, stocks are held by the petroleum refinery, the Electricity Authority and oil companies for their own requirements, but additional storage capacity needs to be developed.

In the field of **competitiveness and the internal energy market**, concerning *electricity*, the Electricity Authority currently remains the sole producer and distributor of electricity in Cyprus. It has the status of a semi-governmental organisation with a legal monopoly. Under the present rules only when the Electricity Authority lacks capacity can permission to generate electricity be granted to others. This monopoly position will need to be altered in order to comply with the *acquis*.

Cyprus being an island, there is physically no *transit* possible. As regards the rules of *transparency* of energy prices, efforts for the implementation of these are needed.

Although possibilities for the future development of a *gas* sector continue to be under study, the current situation whereby there is no consumption of natural gas, no gas network and no interconnections remains unchanged. Similarly, as Cyprus does not have any coal mines the sector of *solid fuels* is of no significance, although a new oil fired power plant is under construction, which also can be converted for coal. Cyprus continues to have no plans for on-shore/off-shore oil exploration.

Concerning the oil related *acquis*, further adjustments are necessary for alignment.

Although Cyprus has already taken some steps with regard to energy efficiency, further efforts are needed to achieve alignment with the *acquis* in this field. As most electrical equipment/appliances are imported, particular emphasis will be needed with regard to placing on the market as well as on market surveillance.

In the field of **nuclear energy** Cyprus has already ratified a number of IAEA Conventions, is a member of the International Atomic Energy Agency and has ratified a safeguards Agreement with the IAEA. It has also signed an Additional Protocol to this Agreement. Due attention should be given to preparing the implementation of Euratom safeguards.

As regards administrative capacity, the Energy Section of the Ministry of Commerce, Industry and Tourism is the competent department for all energy matters and has the overall responsibility for implementing the *acquis*. The Energy Section incorporates an Inquiry Point to which any request for information about laws, regulations, and administrative rulings may be addressed. No Energy Regulator has as yet been established in Cyprus.

## ***Chapter 15: Industrial Policy***<sup>21</sup>

Since the 1999 regular report, Cyprus has made some progress in the field of industrial policy, particularly with regard to investment promotion.

With respect to **industrial strategy**, in January 2000 Cyprus eliminated the controls on Foreign Direct Investment (FDI) in companies for EU investors. The foreign investment ceiling previously in force was never above 50%. Restrictions still exist for investors from third countries. In the same period, control restrictions on share capital of Cypriot companies for EU citizens were also abolished. These regulations are a step towards the abolition of all capital controls.

A Foreign Investors Service Centre (“One-Stop-Shop”) has been set up in the Ministry of Commerce, Industry and Tourism to provide guidance to international enterprises searching for local partners. It will be gradually developed into a fully-fledged one-stop-shop both for foreign investors and local enterprises providing detailed information concerning the national administrative procedures.

As regards **privatisation and restructuring**, few developments such as the sale of the shares in the Cyprus Tourist Development Company since the last regular report have been recorded.

### *Overall assessment*

The industrial policy of Cyprus is significantly in line with the concepts and principles of EC industrial policy. It has always been based on the premise that productive and commercial activity is the responsibility of the private sector, whereas the role of the state is to foster an environment conducive to private initiative and to create the necessary infrastructure. The degree of state intervention in the production process in the manufacturing sector in Cyprus is limited, although the government participates in some companies. However, special efforts have to be made to fight structural problems such as high production costs or low productivity.

Cyprus’ industrial policy is laid down in the 1999-2003 Strategic Development Plan. The five-year plan puts emphasis on structural reforms aimed at improving the competitiveness of Cypriot industry. Main objectives of the industrial strategy are support for the restructuring of traditional industrial sectors, assistance to existing production units and the attraction and development of new high-tech industries as well as better exploitation of the industrial potential of policies on innovation, research and technological development. Progress to implement this strategy should be further sustained. Many manufacturing sectors like textiles, clothing and leather suffer from intensifying foreign competition. Special efforts have to be made to fight structural problems like high production costs and low productivity.

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<sup>21</sup> Developments in Industrial policy should be seen in relation to developments in the context of SME policy (see chapter 16- Small and medium sized enterprises)

Incentives were also introduced in June 1999 to promote exports of manufactured products. Measures have been introduced to support co-operation between companies such as mergers, joint ventures or subcontracting, the technological upgrading of industrial units and the quality improvement of manufactured products. Planned investments in infrastructure and tourism are expected to boost the construction sector, which is still characterised by low productivity. In this respect, it should be noted that an important element of any industrial policy is the control of state aid and that the compatibility of support schemes with EC rules will have to be examined (see *Chapter 6: Competition policy*).

No clear progress has been recorded on the creation of the Centre for Technology, Research and Development mentioned in the previous regular report.

The execution and monitoring of the implementation of industrial policy is the responsibility of the Ministry of Commerce, Industry and Tourism, which introduces the appropriate policy and administrative measures and formulates policy or sets objectives according to emerging needs. Co-operation with other Ministries and the Planning Bureau is well established. Private sector institutions such as chambers, business associations etc. participate, through the Advisory Committee on Commerce and Industry, in both the formulation and the monitoring of implementation of industrial policy. At local level, apart from the Cyprus chamber of Commerce, there are regional Chambers of Commerce in the five major cities.

Industrial policy is developed in an integrated manner among the different Ministries and private sector institutions. There is no need to establish new institutions or administrative bodies for the implementation and the enforcement of the *acquis*.

### ***Chapter 16: Small and medium-sized enterprises***<sup>22</sup>

Since the last report, the main progress in the area of **SME policy** has been made in improving the access of companies to finance.

Guarantees for loans to SMEs and interest rate subsidies and a special scheme for start-up loans have been introduced. At the same time, a one-stop shop has been set up within the Ministry of Commerce, Industry and Tourism to provide guidance to international enterprises searching for local partners.

A national Euro Info Centre was established in Nicosia, hosted by the Chamber of Commerce and Industry.

#### ***Overall assessment***

In Cyprus **SME policy** is overall in line with the principles and objectives of EC enterprise policy. A specific chapter on SMEs was included in the Five-Year Strategic Development Plan (1999-2003). It sets, among others, the following objectives: the

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<sup>22</sup> Developments in SME policy should be seen in relation to developments in the context of Industrial policy (see *chapter 15-Industrial policy*)

creation of a simplified legal and institutional framework for SMEs, the improvement of the financial environment as well as the enhancement of the competitiveness of SMEs through their internationalisation and their access to the information society.

As regards the implementation of SME policy in Cyprus, sufficient infrastructure already exists. The Ministry of Commerce, Industry and Tourism is responsible for SME policy. Its action is supported by other ministries and private bodies such as Trade Associations or Chambers of Commerce. Private sector institutions participate in both the formulation and the monitoring of the implementation of the policy.

The simplification of the **business environment**, within which SMEs operate, is an important policy objective in Cyprus. For example a single number is given to each company registered and all companies are listed in an easy to handle computerised catalogue. In the registration procedure, there is no involvement of any other government department apart from the Department of the Registrar of Companies and Official Receiver. These efforts are welcomed and should be further sustained.

Concerning **SME definition**, Cyprus has adopted provisions that distinguish between medium-sized, small and micro-enterprises. The definition is in line with the EC definition with respect to the number of employees. Financial data (turnover, balance sheet) are not available for all enterprises.

### ***Chapter 17: Science and Research***

Cyprus has undertaken further measures to strengthen its capacity to implement the *acquis* in the field of Science and Research since the previous report.

Since the agreement on association with the **Fifth Framework Programme** for Science and Research, Technological Development and Demonstration Activities (FP5) entered into force in May 1999, Cyprus has established a National Contact Point (NCP) system in order to promote participation at national and at European levels, and aiming at the effective utilisation of the Fifth Framework Programme. Cyprus also participates in the FP5 Programme Committees.

One of the main characteristics of the agreement is that it is based on the principle of reciprocity. Cyprus opened all research programmes launched at national level, to institutions and researchers from EU member states.

In the field of European co-operation in science and technology (COST) Cyprus was accepted as a full member in 1999.

The authority responsible for the formulation and implementation of the national science and research policy is the Planning bureau, in co-operation with the Research Promotion foundation. This Foundation has become the means through which the planning bureau's strategy and policies in Research and Development are implemented.

### *Overall assessment*

In Cyprus, co-operation in the field of science and technology is well established and participation in the FP5 should enable Cyprus' authorities to become more familiar with Community rules and proceedings.

For the further development of the sector it is important to have an increase in the gross domestic expenditure in research and development as a percentage of GDP which is relatively low (0.23% in 1998). Within the framework of the New Industrial Policy for the Development of High Technology Industry in Cyprus, the concept of incubators for high technology companies and centres for applied research and development is promoted. However, as the research infrastructure in Cyprus is relatively limited and the main research institutions are within the public sector, further concrete measures are required in order to gradually increase the support of this sector.

The human resources available to the Research Promotion Foundation increased in September 1999. Apart from launching national research programmes the Foundation is actively involved in the co-ordination and encouragement of the participation of Cypriot institutions in the Fifth Framework programme for research and Development. It has also included among its priorities the improvement of links between academia and research institutions with the industry and SMEs.

### ***Chapter 18: Education and training***

Since the last regular report Cyprus has achieved progress in the alignment of its legislation as well as capacity building measures with the *acquis* in the field of education and training. Cyprus has continued to participate actively in a number of **Community programmes** (see *bilateral part A*). Once the necessary legal arrangements have been completed by the end of this year, Cyprus should take part from 2001 in the second phases of Socrates and Leonardo da Vinci programmes, as well as in the new Youth programme, which incorporates European Voluntary Service activities.

Concerning the issue of **non-discrimination towards EU citizens in the field of education**, a Council of ministers decision, which provides for the recognition of the European Baccalaureate as equivalent to the corresponding qualifications in Cyprus, entered into force at the end of 1999.

Concerning **reforms in the field of education, training and youth**, in particular as regards the establishment of a National System of Vocational Qualifications relevant amendments/provisions have been included in the new law of the Human Resource Development Authority (HRDA). This human resource development law published in November 1999, foresees, amongst other things, the development of vocational qualification standards, which will constitute a major step forward in the transparency and mutual recognition of qualifications. Sustainable, coherent and comprehensive development of a national system of vocational education and training (VET) standards, from initial to continuing vocational education and training, remains a priority.

The newly established Cyprus Council on Academic Recognition and Equivalence of Tertiary Education Diplomas has started its work and it is expected that by the end of the year the council will be fully operational. This will further enhance the transparency of the educational qualification structure. In addition, a proposal for the reform of secondary vocational education and training by the Minister of Education has been developed. The proposal addresses a number of issues such as the need to upgrade curricula, the need to develop the capacities of secondary VET, retraining of teachers etc.

### *Overall assessment*

In general, appropriate legislation is in place and does not conflict with EC laws. In addition, basic structures are already in place to enable participation in EC education, vocational training and youth programmes. Cyprus has made good progress in the field of education and training, however, further efforts in strategic policy making as well as implementation are required especially in order to ensure the development of high quality vocational education and training as part of an open, flexible and transparent lifelong learning system. Besides, it will be necessary to set up institutions and procedures for the future use of European Community financial instruments relevant for the ongoing improvement of vocational education and training.

As regards **Community programmes**, the national Co-ordinating Committee is the central body for setting the general policy in relation to the participation of Cyprus in the said programmes. The Ministries of Labour and Social Insurance, Education and Culture and Justice and Public Order, are the competent national authorities responsible for their implementation.

As regards the **education of children of migrant workers**, the principles of the existing legislation (which have to be implemented effectively), are in line with the *acquis*. In particular there are already provisions in public schools for facilitating the reception of the children of migrants. Specifically, a number of teachers have been trained especially for teaching the local language and facilitating the integration of these children in the school system. The main EU languages are already taught in public schools, the system for providing means for learning the local as well as foreign languages is in place and could further be enhanced according to arising needs. In addition, in order to increase the capacity for teaching these children a special teacher-training programme is being developed. This programme, besides enhancing the contents of the existing training, also provides for the training of additional teachers.

As regards **non-discrimination toward EU citizens in the field of education**, free circulation of persons and the principle of non-discrimination, in particular, on grounds of nationality must be applied throughout the fields of education, training and youth. Concerning the equal treatment for students in higher education, regarding fees and admission procedures, further alignment with the *acquis* is needed in order to avoid discrimination between Cypriots and EU nationals.

With respect to **reforms in the fields of education, training and youth**, the competent authority is the Ministry of Education and Culture. Concerning vocational

training, The Ministry of Labour and Social Insurance is the authority responsible involved in the formulation of the national policy and the promotion of relevant measures. The Youth Board of Cyprus is the competent authority for the formulation and implementation of the national youth policy. Youth organisations are represented in the Youth Board, a statutory public corporation operating under the auspices of the Ministry of Justice and Public Order.

### ***Chapter 19: Telecommunications and Information Technologies***

Since the last regular report some progress has been achieved in the telecommunications and information technologies sector.

For the **telecommunication market**, various harmonisation measures have been undertaken by administrative acts, for example the *acquis* on technical requirements on various telecommunications systems, the introduction of a single European emergency call number, the international telephone access code as well as reserving frequency bands for land-based mobile communications (GSM), land-based public radio paging (ERMES) and digital European cordless telecommunications (DECT). In addition, from August to November 1999 the Cyprus Telecommunications Authority (CYTA) lowered international tariffs, in part up to 59%.

A new tariff rebalancing package has been under discussion in Parliament since July 2000. This new tariff rebalancing scheme includes new tariffs in three steps up to April 2001 and increases relating to fixed local telephony (installation, rental and local costs) and leased lines. It also includes reductions on international and long distance calls in the fixed network, mobile telephony and ISDN.

As to the current **regulatory** system and the **postal market**, although legislation is under preparation, no concrete developments since the last regular report have been recorded.

#### ***Overall assessment***

Whereas infrastructure and services are well advanced in Cyprus, considerable efforts have to be made to adopt a regulatory framework in line with the *acquis*, in particular in the field of gradual market opening and licensing.

Steps have been taken concerning the establishment of an independent National Regulatory Authority covering the **telecommunications sector** as well as the postal service. The establishment of an independent regulatory authority, identified as a short-term priority by the Accession Partnership, has not been met yet. This authority will have to be sufficiently staffed in order to carry out the essential tasks of drafting regulations and ensuring market surveillance. In addition, a new law on telecommunications to align with the *acquis* needs to be adopted in the short-term as identified in the Accession Partnership in order to put in place the regulatory framework required.

As the use of Very Small Aperture Terminal (VSAT) networks for providing non-voice services is permitted, the Cyprus market has further been opened to competition.

The main regulatory functions are currently exercised by the Directorate of Telecommunications of the Ministry of Communications and Works. The administrative capacity of the Directorate of Telecommunications was enhanced in the last two years through the recruitment of additional personnel, training of staff and the purchase of modern equipment, e.g. a sophisticated mobile radio frequency monitoring station.

Concerning the **postal market**, there is not yet provision for a Universal Service Provider, but in practice the Department of Postal Services offers the universal service to 98% of the population. In addition, there is no licensing regime in the existing postal field. The regulatory functions in the field of postal services are currently exercised by the Ministry of Communication and Works. Although Cyprus Post is still a civil service department there were improvements in its profitability last year. Meanwhile, Cyprus Post has, in its capacity as a member of the European association of postal public operators (USPs)-PostEurop, established a full-participation in a cross-border QoS end-to-end measuring-UNEX.

## ***Chapter 20: Culture and audio-visual policy***

During the period covered by this report, Cyprus has made further substantial progress in alignment with the culture and audio-visual policy *acquis*.

In February 2000 Cyprus amended its legislation aiming at achieving full alignment with the **audio-visual** *acquis*.

Cyprus, being a party to the Convention of the Council of Europe on trans-frontier television, also ratified the Protocol amending the above Convention in February.

In January 2000, implementing regulations to the Radio and Televisions Stations Law were approved.

The Radio-Television Authority completed its main recruitment phase, thus providing the basis for an effective implementation of the legal framework concerning private television and radio stations.

A set of Regulations was approved, as mentioned above, allowing the Cyprus Radio-Television Authority to proceed with the issuing of permanent licences for all private television and radio stations; furthermore this authority can impose fines and other penalties on stations which violate the law. In addition, the Cyprus Broadcasting Corporation set up a self regulating mechanism during 1999, which is headed by a three member Committee.

## ***Overall assessment***

On the whole, Cyprus has made substantial progress and reached a high degree of alignment with the Community *acquis*.

The new law has brought Cyprus audio-visual legislation closer to the *acquis*. However, further progress and clarification will be needed, in particular, concerning certain definitions, public access to major events and right to reply.

### ***Chapter 21: Regional policy and co-ordination of structural instruments***

Over the reporting period, few new developments are to be reported in this area, given that most of the elements required to participate in EC structural policies are already in place. A decision was however taken in April 2000 by the Council of Ministers for the further involvement of local authorities in the programming and implementation of development programmes.

#### ***Overall assessment***

Cyprus can be considered as being very close to having the full capacity to implement structural policies.

As regards **territorial organisation**, Cyprus administration relies on the division of the island into six districts and 33 self-governing municipalities, as well as 352 village authorities. Cyprus still needs to submit to the Commission a proposal for a provisional definition of NUTS Levels 2, 3 and 4 regions.

Concerning the **legislative framework**, no further legislative initiatives appear necessary in order to implement the EC structural policy *acquis*.

As regards **preparation of programming**, the Planning Bureau (comprising a staff of 57 persons) is the national planning and co-ordination authority, which is also responsible for medium and long term macroeconomic planning. The administrative capacity seems to be sufficient.

Since 1960, the Government of Cyprus has drawn up five year national Strategic Development Plans (SDP). The current SDP covers the period 1999-2003. The SDP is implemented annually through the budget category of development expenditure. Programming of expenditure is established on an annual basis with a Memorandum, which accompanies the budget document covering multi-annual issues. This procedure is to a large extent in line to meet the pluri-annual commitment requirement needed by the Structural Funds.

In the field of **administrative co-operation**, co-ordination of government's policies for regional development is performed by the Planning Bureau. Concerning evaluation, although Cyprus has already been implementing an ex-post assessment of the development projects within the planning mechanism, the system is not at the level required by Structural Funds regulations.

The Ministry of the Interior co-ordinates consultations with all local authorities on development programmes and other related issues, through the District Officers (Community Councils) or the Directorate responsible for Town Planning and Housing. However, the current system will have to be adjusted in order to meet EC requirements.

In the field of **financial and budgetary management**, the budgetary procedures required for the implementation of the Structural Funds are generally in line with the provisions of the relevant regulations. The Directorate for the Development Expenditure of the budget, within the Planning Bureau, is responsible for the formulation as well as the implementation of development expenditure.

**Financial control** is carried out by the independent Internal Audit Directorate of the Treasury, external auditing is carried out by the Office of the Auditor-General. The institutional, legal and administrative framework for the financial control of structural assistance is already to a large extent in place. (See *chapter 28-Financial control, and Chapter 29- Financial and budgetary provisions*)

Cyprus' development objectives are generally in line with the objectives and policy framework of the EC structural policy as stipulated in the regulations. No further legal initiatives seem to be necessary in order to implement the EC structural policy *acquis*. With the exception of evaluation, and pending minor adaptations concerning financial and budgetary management, Cyprus administrative and budgetary framework appears to be already in line with the *acquis*.

## ***Chapter 22: Environment***

Since the last regular report there has been concrete progress in the transposition of the *acquis* and several laws and orders have been adopted. Administrative structures need to be further strengthened.

A programme for legislative transposition and implementation to align Cyprus' legislation, institutions, programmes and policies to the *acquis*, has been finalised.

As regards **horizontal legislation**, at the end of 1999 Cyprus signed a ratification law on the United Nations Convention on Environmental Impact Assessment in a Transboundary Context. This will assist Cyprus implement article 7 of the EIA Directive (involvement of the neighbouring countries in case of projects having a transboundary effect). Furthermore, in order to reduce greenhouse gas emissions, an Action Plan for improving the efficiency of the energy sector and a Strategic Energy Plan for the future accession of Cyprus to the EU have been completed. In July 2000 the Environmental Information Directive was fully brought in line through a Cypriot Law on Freedom of Access to Environmental Information, providing, *inter alia*, for the publication of a State of the Environment report every two years.

As regards **air quality**, there has been little change since the last report, although the acceleration of transposition in this area was identified as a short-term priority. At the beginning of this year, Cyprus enacted a new law on type approval of motor vehicles that will enable it to request an EC certificate of conformity for all imported vehicles upon accession.

In the field of **waste management**, in April 2000 a law was passed ratifying the amendment to the Basel Convention concerning hazardous waste, Cyprus partially fulfilled its short-term Accession Partnership priority.

With respect to **water quality**, several legal orders adopting ambient quality standards and measurement methods, were enacted at the beginning of 2000 for bathing water and surface waters intended for the abstraction of drinking waters, Cyprus therefore partially fulfilled its Accession Partnership short-term priorities. In the framework of the LIFE programme a project for the monitoring of the quality of waters in reservoirs was completed in April 2000.

In the field of **nature protection**, an interim Decision of the Council of Ministers taken in March 2000 provided policy guidance for the Akamas Peninsula. The government will make its final decision on the protection measures to be taken once it has completed its dialogue with the various interested parties. With the designation of NATURA 2000 sites not due for formal completion before the latter half of 2001 the situation will need to be monitored in the interim period to ensure that Cyprus complies with the spirit of the legislation.

At the end of 1999 a law ratifying the Desertification Convention was passed and the Council of Ministers approved the ratification of the Convention for the Protection of Migratory Species of Wild Animals. In July 2000 legislation in order to take full account of the stricter protection requirements for CITES species was approved.

With regard to **industrial pollution control and risk management**, no major developments have been recorded since last year.

In the field of **chemicals and genetically modified organisms**, in 2000 implementing regulations under the Animals (Scientific Experiments) Law were passed, in addition, the amended Protocol to the European Convention for the Protection of Vertebrate Animals Used for Experimental and Other Purposes was ratified, which completed the alignment with the *acquis*.

Concerning **nuclear safety**, although legislation is under preparation no concrete progress since the last regular report has been reported.

In the Environment Service, two additional posts have been approved by the parliament. There are provisions in the Budget for 2000 for the enhancement of monitoring operations through the purchase and installation of upgraded equipment.

### *Overall assessment*

Cyprus continued with its harmonisation measures in terms of transposition of legislation as well as strengthening administrative capacity, but given the importance and scope of the environment *acquis* this sector should be given further priority attention.

Concerning **horizontal legislation**, harmonisation has made good progress so far although efforts are still needed to achieve alignment with the *acquis* as regards environmental impact assessment, policies and measures aiming at the reduction of greenhouse gas emissions and reporting requirements. It is expected that this will be one of the first areas to achieve full alignment.

With regard to **air quality**, further alignment with the *acquis* is needed in areas such as air quality framework, air pollution by ozone or the control of volatile organic compound (VOC) emissions resulting from the storage of petrol and its distribution from terminals to service stations. On the latter point, Cyprus has issued a legal notification under the Atmospheric Pollution Control Law, by which all existing service stations are obliged to install the necessary equipment to comply with the relevant *acquis* until the beginning of 2003. However, according to the Accession Partnership the transposition in the field of air quality should be accelerated in the short-term.

In the field of **waste management**, Cyprus rates of recycling are limited, partly because the relevant legislation is missing. A Household Recycling Partnership programme is under way, aiming to demonstrate the necessity for recycling, cultivate awareness and establish a pilot-recycling network. Further alignment is needed regarding, *inter alia*, hazardous waste, supervision and control of shipment of such waste, packaging and packaging waste as well as batteries and accumulators containing dangerous substances. The acceleration of transposition of the *acquis* in this area should be treated as a short-term priority according to the Accession Partnership.

Water is particularly scarce in Cyprus. Water protection therefore features highly in Cyprus' environmental policy. Strict provisions apply for discharges into any waters, so that a basis for alignment with the *acquis* in the field of **water quality** exists. Much of the *acquis* relating to drinking water is still to be transposed. The necessary administrative and technical infrastructure is however largely in place.

**Nature protection** has been subject to legislation since the early 60s (town and country planning law, forest law, fisheries law, law on game and wild birds). Further alignment is needed with regard to trade in endangered species, wild birds as well as the habitats directive, although concerning the latter, Cyprus is party to the Bern Convention on the protection of habitats. How Cyprus treats the Akamas issue will need to be monitored closely in the coming months.

Parts of the *acquis* in the field of **industrial pollution control and risk management** still need to be transposed, for instance concerning integrated pollution prevention and control, air pollution from industrial plants or the control of major accident hazards (Seveso II). The application of the *acquis* on large combustion plants in Cyprus still requires clarification. A project on Integrated Pollution Prevention and Control and Chemical Substances is being implemented.

The basic institutional and administrative structures for effective control of industrial pollution and risk management have been established. Within this context most of the industrial plants have been licensed and are regularly inspected under the Atmospheric Pollution Control Law and the Water Pollution Control Law.

In the field of **chemicals, genetically modified organisms**, the competent authority in this field is the Director of Veterinary Services of the Ministry of Agriculture, Natural Resources and Environment. There is only one laboratory in Cyprus carrying out animal experiments. Further efforts are needed to complete transposition and implementation of the legislation relating to chemicals.

With respect to **nuclear safety and radiation protection**, under the present arrangements five different ministries are involved in the area of radiation protection. (See also Chapter 14, Energy) There are 3 monitoring stations used for an early warning system. Further alignment with the *acquis* is needed in such areas as health protection of individuals against ionising radiation in relation to medical exposure or the supervision and control of shipments of radioactive waste. In the absence of the legal framework Cyprus reports that there is still a high level of practical compliance.

As regards *administrative capacity*, at the national level, the Council of Ministers has overall responsibility for the formulation of environmental policy. The Environment Service of the Ministry of Agriculture, Natural Resources and Environment is mandated to advise on environmental policy, ensure implementation and co-ordinate the programmes for the protection of the environment. The enforcement of environmental legislation is in the hands of the respective departments.

An important component in the environmental management mechanism is the Council for the Environment, with a wide representation of NGOs, which advises the Minister and on environmental problems.

The short-term priorities of the Accession Partnership need further attention, especially the adoption of a strategy and detailed directive-specific programme for the transposition, implementation and enforcement of the EC environmental *acquis* as well as the development of a plan for financing investments (directive specific), based on estimations of costs of alignment and realistic sources of public and private finance year-by-year. However, the approximation policies and programmes have been incorporated into the new Strategic Development Plan 1999-2003.

### ***Chapter 23: Consumers and health protection***

Since the last regular report Cyprus has achieved some progress in this field.

In the field of **safety related measures**, the Certain Aspects of the Sale of Consumer Goods and Associated Guarantees Law entered into force in January 2000, thus improving alignment with the *acquis* in the field of consumer protection in this area. Through legislative amendments, adopted in July 2000, progress was also achieved in the field of the liability of defective products.

With regard to **non-safety related measures**, the Consumer Contracts Away from Business Premises Law, relating to the *acquis* in the field of doorstep sales, entered into force in January 2000. Also, a new law incorporating the provisions of the *acquis* on the protection of consumers in respect of distance contracts entered into force in March 2000.

Concerning a **functioning market surveillance mechanism** the Control of Misleading and Comparative Advertising Law was adopted with immediate effect in June 2000, bringing Cyprus' legislation further in line. In addition, progress was made in the field of product pricing through legislation adopted with immediate effect in July 2000.

### *Overall assessment*

The present state of compliance with the *acquis* is already quite satisfactory. Transposition is continuing in Cyprus, with no major difficulties with the adoption or with the practical implementation.

Overall responsibility for the enforcement of legislation concerning general product safety and dangerous imitation rests with the Minister of Commerce, Industry and Tourism, and with its Competition and Consumer Protection Service which acts as the national market surveillance authority. This Service is staffed with 30 people, 25 of them dealing exclusively with consumer protection matters. The Minister can (by a reasoned decision) prohibit any person from supplying products or require a warning to consumers in the case of unsafe products. The Department of Veterinary Services with 56 veterinarians of the Ministry of Agriculture, Natural resources and Environment assumes the responsibility for veterinary matters related to consumer protection.

The Cyprus law on unfair contract terms is not yet in conformity with the *acquis*, in particular concerning the power of consumer associations to take actions before courts. Cyprus does not yet have laws covering time-share and consumer credit; however, new legislation in these fields is under preparation. In non-safety fields, the Minister of Commerce, Industry and Tourism can delegate to the Competition and Consumer Protection Division the control of the application of the national law implementing the Package Travel Directive. The Division has, according to the Law on Unfair Terms in Consumer Contracts, the authority to proceed to an injunction in the case of unfair contract terms.

Education programmes for consumers have been held by the Cyprus Consumer Association, which is a non-government organisation registered since 1973, and is a full member of Consumers International since 1980.

In the field of the functioning market surveillance mechanism, concerning redress for consumers; judicial measures are open to consumers on the basis of civil law and in some cases, on the basis of the criminal law. The Director of the Competition and Consumer Protection Division of the Ministry of Commerce, Industry and Tourism may, either after a complaint made by a consumer, or *ex proprio motu*, intervene and enforce compliance with the Law through a process of injunctions.

The Competition and Consumer Protection Division of the Ministry of Commerce, Industry and Tourism will need to be reinforced to cope with implementation issues as a result of compliance with new areas of consumer protection, and staff will need to be trained accordingly. There are two testing laboratories, the Higher Technical Institute and the Government General Laboratory.

### ***Chapter 24: Co-operation in the fields of justice and home affairs***

Since the last regular report, progress has been registered in Cyprus especially in the fields of judicial co-operation in criminal and civil matters and concerning the fight

against fraud and corruption as well as in the area of asylum through the setting up of an institutional framework.

In the field of **data protection**, although legislation is under preparation, no concrete developments can be reported since the last regular report.

As regards **visa policy**, Cyprus has been gradually aligning its visa policy since October 1999. It has extended visa requirements to nationals of Commonwealth countries, and has published an order revising the visa free list of countries. Cyprus also harmonised in November 1999 its policy with regard to travel facilities for school pupils from third countries resident in a Member State.

Concerning **border control**, some progress has been registered. The 1999 Accession Partnership had identified as short-term priority to upgrade border control equipment and to improve training of personnel to prevent illegal immigration as well as to ensure further progress in the detection of forged documents. Border guards and other police officers took part in 1999 and 2000 in training provided under the Odysseus and the Oisin programmes. Cyprus has already adopted an upgrading programme for acquiring border control equipment such as coastal radar, patrol boats and forgery detection equipment at ports of entry.

In addition, Cyprus is upgrading its existing police computer network by purchasing new equipment to install at all entry points and police stations. The installation of the Automated Fingerprint Identification System (AFIS) is underway.

As far as **migration** is concerned, the Aliens and Immigration Law was enacted in March 2000. The problems faced by the office of the Migration Officer (charges of corruption and pending applications for visa, about 17 600) led the Council of Ministers to decide in November 1999 to restructure the Office of the Migration Officer, who is the main authority for migration policy, and to unify it with other Ministry Services by creating a Public Registry Department with three separate Divisions, i.e. the Aliens Division, the Citizenship and Passports Division and the Registration Division.

In July 2000 an amendment to the “Aliens and Immigration Regulations” concerning family reunification was enacted.

Cyprus has made further progress in aligning with the *acquis* relating to the organisation and the development of the CIREFI (Centre for Information, Discussion and Exchange on the crossing of frontiers and immigration) in May 2000. The contact point for the CIREFI information system is the Police Aliens and Immigration Department. In addition, the Aliens and Immigration (Carriers’ liability) Law on combating illegal immigration was enacted in March 2000.

In the field of **asylum**, Cyprus has made progress since the previous Regular Report as it adopted new legislation on asylum in January 2000 thus fulfilling partially one of the short-term priorities in the Accession Partnership. Generally speaking, the legislation is in line with the 1951 UN Convention (and its 1967 Protocol) relating to the status of refugees and is aimed at aligning with the *acquis*. This law provides for the setting up of a Refugees Authority composed of the Permanent Secretaries of the

three key Ministries. Under this law an asylum seeker can appeal any decision to the Ministry of the Interior and if the later decision is still negative, to the Court. There are also provisions for legal and linguistic assistance.

Regarding **police co-operation and the fight against organised crime**, Cyprus enacted in January 2000 the Combating of Trafficking of Persons and Sexual Exploitation of Minors Law, aimed at bringing its legislation in line with the *acquis*.

With a view to the **fight against fraud and corruption**, Cyprus signed the Council of Europe Criminal Law Convention on Corruption in 1999 and in July 2000, the House of Representatives adopted the act ratifying the Convention, thus fulfilling a short-term priority in the Accession Partnership. Cyprus applied in March 2000 to accede to the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, as required by the short-term priorities of the Accession Partnership, Cyprus should sign this convention. Cyprus signed the Council of Europe Civil Law Convention on Corruption in November 1999.

Cyprus is a member of the Group of States against Corruption (GRECO), and has volunteered to be among the first ten participating States to be evaluated in the GRECO framework before the end of 2000.

Concerning **drugs**, the Drugs and Pyschotropic Substances Law was amended in January 2000 to criminalise the sale of cannabis seeds. In view of Cyprus' participation in Reitox (information network on drugs and drug addiction) preparations for the necessary legislative and administrative arrangements for the appointment of a national focal point and representative for the European Monitoring Centre for Drug Addiction are underway.

In July 2000 a bill establishing the Anti-Drug Board and Fund which will be the main co-ordinating body for public and private initiatives in the field of drug demand and drug supply reduction was enacted.

As regards **money laundering**, Cyprus has further intensified its preventive measures necessary for ensuring protection against criminal activities, including money laundering. Cyprus achieved further alignment with the *acquis* as it enacted in October 1999 an amendment to the Prevention and Suppression of Money Laundering Activities Law concerning the threshold amount of customer identification. The special Unit for Combating Money Laundering (MOKAS) was reinforced in November 1999 (from 9 to 14 people), thus fulfilling a short-term priority in the Accession Partnership.

In the field of **customs co-operation**, a bilateral Memorandum of Understanding on Mutual Administrative Co-operation on Customs Matters was signed in March 2000 between the Customs Administrations of the United Kingdom and the Republic of Cyprus.

In an effort to reinforce the Department of Customs and Excise's personnel, especially at the Investigation Section of the Customs Headquarters and at the Preventive Services of the Customs Stations, the procedure of filling about 85 vacant posts was

initiated. Furthermore, seminars on risk analysis for customs officers were organised in June 2000.

As regards **judicial co-operation in criminal and civil matters**, Cyprus ratified the European Convention on Mutual Assistance in Criminal Matters and its additional protocol, which entered into force in May 2000, thus fulfilling one of the short-term priorities in the Accession Partnership. Also, Cyprus ratified in June 2000 the European Convention on the Transfer of Proceedings in Criminal Matters. The ratification law includes provisions facilitating the implementation of Protocols 6 and 7 of the European Convention for the Protection of Human Rights. In addition, Cyprus ratified in January 2000 the Convention on Civil Procedure as well as the Convention on International Access to Justice. In December 1999 an amendment to the Ratification Law of the UN Convention on the Elimination of all forms of Racial Discrimination was enacted.

The Department of Information Technology Services responsible for the computerisation in the field of public services is currently developing an automated court administration.

### *Overall assessment*

Cyprus has undertaken considerable efforts to align its legislation and to reinforce its administration in the field of justice and home affairs and has therefore achieved a good base for further alignment and implementation efforts. Cyprus' infrastructure and equipment have already reached a good level, and all the staffing of the administration is in general sufficient, except for specific fields such as the Refugee Authority. However further training is needed and co-ordination between the relevant authorities has to be improved.

Concerning **data protection**, Cyprus signed the Council of Europe Convention for the protection of individuals with regard to automatic processing of personal data in 1986, but has not yet ratified it. However, the relevant harmonisation legislation is under preparation and the adoption of legislation in this field as well as the ratification of the Council of Europe Convention should be accelerated.

As regards **visa policy**, Cyprus should continue the process of aligning its visa legislation and practice. It has several bilateral agreements for issuing visas at the border with Lebanon, Syria and Israel as well as bilateral merchant shipping agreements regarding seamen in transit, which are not aligned. Cyprus should also provide an on-line system for issuing visas. Cyprus is undertaking efforts to prepare for the issuing of a uniform visa as well as to participate in the Schengen Information System.

With a view to **border control**, further efforts are needed as regards the infrastructure in order to bring all points of entry in line with the *acquis*, for instance regarding the instalment of equipment for the detection of forged documents or the establishment of the Schengen Information System. As far as international airports are concerned (Larnaca and Paphos), the architectural plans of the Larnaca airport will need to be upgraded to be compatible with the Schengen requirements.

As regards **migration**, due to its geographical situation, Cyprus is a target country and a potential transit area for illegal immigration. As the majority of illegal residents have entered legally, e.g. as visitors or under not-renewable work permits, the implementation of the legislation on combating illegal migration has to be strengthened. In 1999 1,966 non-nationals, who were not working, were arrested because they had overstayed their visa term. Also 396 non-nationals were found to be working illegally (without a proper visa). Implementation of the legislation on combating illegal employment as well as on expulsion also has to be strengthened. In addition, Cyprus should accelerate its efforts as regards adopting legislation in the field marriages of convenience.

As regards **asylum**, Cyprus should make further progress in developing a fair, effective and efficient set of procedures relating to the treatment of asylum applications. To complement the Refugees Law enacted in January 2000, 6 implementing regulations have been drafted, which need to be adopted. The implementation capacity should be strengthened, in particular through the creation of a Refugee Authority as foreseen in the Refugee Law.

Regarding **police co-operation**, much of the necessary legislation is already in place through ratification of major international conventions and the transposition of EU decisions and joint actions.

Although Cyprus has no specific legislation dealing with terrorism and terrorism-related offences, provisions are contained in different laws and regulations such as regarding the Convention Against Taking of Hostages.

Organised crime is relatively rare in Cyprus, and the overall crime rate is one of the lowest in Europe. The main criminal activities of local organised crime groups include narcotic drugs trafficking, illegal gambling, extortion and prostitution. Cypriot legislation does not contain a definition of a criminal organisation, therefore it will have to align its legislation in this regard.

The Cyprus police co-operates closely with the police authorities of all Member States concerning exchange of information, for example in the fields of suspected money-laundering cases, illegal trafficking in human beings or terrorist activities. Finally, the Cyprus Police has established an information network with Interpol as regards the exchange of information on suspected money-laundering cases, unlawful drug trafficking, trafficking of nuclear and radioactive substances, illegal immigration, motor vehicle crime and terrorist activities. The administrative capacity of the police, however, should be reinforced by additional training.

As regards the **fight against fraud and corruption**, there is a broad legislation covering both active and passive corruption.<sup>23</sup> Still, Cyprus has to prepare for accession to international instruments including European conventions and protocols on the fight against fraud affecting the financial interests of the Communities and on corruption. Cyprus should also continue to strengthen its efforts towards alignment

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<sup>23</sup> Criminal Code, Prevention of Corruption Law, Customs and Excise Law

with the *acquis* on the fight against fraud affecting the financial interests of the European Communities and on corruption.

As regards the administrative infrastructure, public expenditure and control is within the sphere of competence of the Auditor-General, who is an independent officer of the Republic. Investigation of corruption cases is assigned to expert police officers who are members of a special team at the Criminal Investigation Department (CID) Headquarters. Enforcement and co-ordination of antifraud work is carried out by the Unit for Combating Money Laundering at the Law Office of the Republic, the Financial Crime Unit of the Police and the Special Investigation Unit at the Department of Customs and Excise. Furthermore, in the income Tax and VAT Departments, investigation units were set up for the investigation of irregularities, including fraud cases. The Attorney General co-ordinates all investigations concerning fraud.

In the field of **drug** prevention, Cyprus is a party to the UN Vienna Convention on narcotic drugs and psychotropic substances. Following its ratification in 1990, amendments to the existing legislation on drugs, together with new laws for its implementation were adopted.

Currently, the co-ordination of public and private initiatives in the field of drug demand reduction and drug supply reduction is performed by an inter-ministerial committee. The Drug Law enforcement Unit of the Police and the Customs and Excise Department co-operate with various foreign institutions and governmental organisations through the drug liaison officers.

As adequate implementation of the *acquis* requires the preparation of a national drug strategy and preparation for the participation in the European information network on drugs and drug addiction (Reitox) of the European monitoring centre for drugs and drug addiction (EMCDDA), Cyprus has to continue with its preparatory work for its participation in Reitox.

As regards **money laundering**, a special unit for combating money laundering (MOKAS), consisting of representatives of the Attorney General, the Police and the Customs and Excise Department, is a recognised Financial Intelligence Unit and member of the Egmont Group. (*See also Chapter 4, free movement of capital.*)

Cyprus ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime already in 1996. Cyprus' legal structure regarding money laundering is based on existing international anti-money laundering standards and goes even further than the requirements. It does not matter whether or not the offence was subject to the jurisdiction of the Cyprus courts. Cyprus has criminalised laundering of proceeds from a broad range of enumerated predicate offences. The law applies to both natural and legal persons. There is a system for the confiscation of proceeds, which includes the reversal of the burden of proof when assessing the benefit.

In the field of **customs co-operation**, the full computerisation of the Department of Customs and Excise is a high priority, therefore Cyprus has decided to implement a

fully integrated Customs Information System, which should be completed by September 2001.

The Department of Customs and Excise is in close co-operation with the Customs Administrations of other countries, including those of the EU.

Cyprus should further improve its customs computer network and the development of risk analysis, using in particular information derived from Memoranda of Understanding. Besides, Cyprus should reinforce its implementation capacity in particular with regard to inter-agency co-operation; mutual assistance agreements; the establishment of a special investigation service with sufficient resources, and adequate methods for the fight against fraud (including the introduction of mobile surveillance units).

As regards **judicial co-operation in criminal and civil matters**, Cyprus is already party to most of the relevant conventions. It ratified in 1999/2000 Protocol No 7 to the European Convention for the Protection of Human Rights and Fundamental Freedoms, the European Convention on the transfer of sentenced persons as well as the Hague Conventions on Civil Procedure and on International Access to Justice.

The Ministry of Justice and Public Order is designated under all Conventions as the Central Authority or the Transmitting/Receiving Agency and acts as the co-ordinator for the execution of requests. Other authorities involved in international judicial co-operation are, among others, the Judicial Service and the police. A Unit for International Legal Co-operation is in charge of improving and accelerating International Co-Operation.

## ***Chapter 25: Customs Union***

Very limited progress was achieved by Cyprus during the period covered by this regular report. The Department of Customs and Excise has prepared an action plan for ensuring alignment and effective implementation of the *acquis* by 2003. The adoption of a pre-accession strategy for the harmonisation of the Cypriot customs legislation was identified as a short-term priority in the Accession Partnership.

Regarding alignment with the **EC customs code and its implementing provisions**, some preparatory work has been undertaken by Cyprus as regards customs value, temporary importation and customs warehouses, but none of the legislative drafts that have been prepared has been adopted to date. As regards the **customs *acquis* outside the customs code**, preparatory work has been carried out in relation to the Common Customs tariff, precursors and intellectual property rights protection. Also in this case, no legislative draft has been adopted. No particular developments are to be reported in the field of **mutual administrative assistance on customs matters**.

As regards *administrative and operational capacity*, a Reform and Modernisation Programme for the Department of Customs and Excise has been prepared, consisting of a Business Change Management Plan elaborated through the process of “gap-and-needs-analysis”, covering 2000-2002 and targeting at strengthening the legal, administrative and operational capacity of the Department. Although an integrated

computerised system and risk profiles modules need still to be developed, a National Risk Assessment document has been prepared in order to assist in proper analysis of the risk involved in all areas where customs control is exercised. Currently customs controls are based on a manual risk analysis and selectivity system.

### *Overall assessment*

Cyprus needs to accelerate the development of its administrative and operational capacity in this area.

It should be noted that Cyprus appears to have some difficulties in meeting certain of its own deadlines for alignment and tends to postpone them, therefore it should undertake serious efforts to ensure a timely transposition of the *acquis*. Cyprus should also take steps to achieve further alignment in the area of customs procedures with an economic impact as soon as possible, with a view to ensuring sufficient experience for its customs administration prior to accession. In addition, although the legislation is already to some degree in line with the *acquis*, further alignment is needed as regards simplified procedures, import and export of counterfeit and pirated goods as well as of cultural goods and Customs Warehouses.

As for *administrative capacity*, the training of staff is taking place and the computerisation of the Customs and Excise Department is proceeding. However, the existing operational systems are limited and must be developed, as requested in the framework of the 1999 Accession Partnership. The methodology used by the Customs and Excise Department includes, *inter alia*, the use of informants, risk analysis, profiling and targeting. An integrated computerised system and risk profiles modules should also be developed.

### ***Chapter 26: External relations***

During the period covered by this report, Cyprus has continued with its harmonisation measures.

Upon accession, Cyprus will need to apply the Common External Tariff. In the framework of the Customs Union Agreement with the EC, Cyprus has already adopted the Common Customs Tariff for industrial products and for a number of agricultural products covered under the Cyprus–EC Protocol. Cyprus' external trade regime is already substantially aligned with that of the EC. In 1998 Cyprus' applied tariffs averaged 12.1% (EC 5.4 %) on all products, 4.8% (EC 4.2 %) on industrial products, 35.4% (EC 9.4 %) on agricultural products and 9.8% (EC 12.4%) on fishery products.

As regards the **Common Commercial Policy**, Cyprus has continued its alignment with the Community *acquis*.

Since the last regular report no major developments have occurred as regards **bilateral agreements with third countries** as well as **development policy and humanitarian aid**. The *acquis* for external relations consists mainly of Community legislation, which is directly binding on Member States and therefore generally does not require transposition into national law.

### *Overall assessment*

Cyprus has continued alignment with the Common Commercial Policy *acquis*, yet further progress still needs to be achieved.

Cyprus is a member of the WTO and has an open trading economy, in line with the agreements concluded under the Uruguay Round. The EU and Cyprus have established a framework for co-operation regarding WTO issues both at ministerial and at services level. Cyprus has been supportive of EU policies and positions within the WTO framework. As regards the new round, Cyprus concurs with the EU on the need to launch a comprehensive trade round as soon as possible and shares the view that the results of work under the build-in-agenda would be less substantial in its absence.

As regards *export credits*, the Cypriot system is in line with the OECD consensus. Where medium and long term export credits are granted, further alignment to the *acquis* is necessary.

Concerning *textiles*, as regards the WTO Agreement on Trade in Textiles and Clothing, Cyprus needs to use the third stage of integration under the ATC to align its integration programmes with those of the EC, while notably avoiding the integration of products not yet integrated by the EC.

Further co-ordination is also necessary in order to consolidate the adjustment of the Cypriot list of commitments in GATS with the EC commitment and EC MFN exemptions.

As regards dual-use goods, legislation is under preparation. Some progress has taken place in this field, however further alignment with Community *acquis* is necessary. Cyprus became recently a member of two international arrangements, a step which contributes to further alignment to international commitments in this area.

As Cyprus will have to accede to the WTO plurilateral Agreements on Government Procurement and on Civil Aircraft, it needs to set target accession dates to these instruments. Cyprus is already a signatory to the Information Technology Agreement.

As regards *administrative capacity*, responsibility for commercial policy lies with the Ministry of Commerce, Industry and Tourism, which co-operates closely with other Ministries especially the Department of Customs and Excise. The administrative infrastructure which needs to be in place as regards customs services is dealt with under the chapter relating to the Customs Union (*Chapter 25 – Customs Union*).

Concerning **development policy and humanitarian aid**, recently, regarding *humanitarian aid*, there has also been growing co-operation with international non-governmental organisations. This facilitates the provision of humanitarian assistance in the form of medicines, clothing and food aid.

Although there is not as yet a Ministry or Department dedicated to *development issues*, development aid and technical assistance are promoted through the Bilateral Political Affairs Division of the Ministry of Foreign Affairs. Internally, such

assistance is coordinated and managed by the Planning Bureau, in cooperation with the ministries and services involved in each case.

The Ministry of Foreign Affairs is responsible for the formulation of national policy in other fields, such as the sanctions imposed by the UN Security Council, the control and transit of dual-use goods and the Law of the Sea. For the implementation of these policies, the Ministry is jointly responsible with the Law Office of the Republic and other relevant Ministries.

### ***Chapter 27: Common foreign and security policy***

Cyprus continues to participate actively in the multilateral political dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings of Political Directors, European Correspondents and at the Working Group level.

Cyprus has shown a keen interest in the development of the European Security and Defence Policy (ESDP) as part of CFSP and has actively participated in exchanges in this context with the EU, in EU + 15 format (i.e. non-EU European NATO members and candidates for accession to the EU).

As regards **alignment with EU statements and declarations**, Cyprus has regularly aligned its positions with those of the Union and when invited to do so has associated itself with the Union's joint actions and common positions. In addition, Cyprus has co-operated with the European Union in international fora such as the United Nations and the OSCE.

Since January 2000 the Associated Correspondents' Network Mail System is in operation at the Ministry of Foreign Affairs, ensuring direct communication with the Secretariat of the Council and the other Associated States. The main purpose of the system is the association of Cyprus with the Common Foreign and Security Policy, e.g. alignment with declarations, common positions etc., and the exchange of information between the aforesaid parties.

### ***Overall assessment***

Cyprus' national policy is in line with the Common Positions regarding sanctions. Cyprus applies equally the mandatory sanctions of the United Nations, of the Security Council and the autonomous measures of the European Union. In both cases, decisions of the Council of Ministers apply existing legislation such as the Law on Transportation, the Customs and Excise Law and the Law on Defence. Decisions of the Council of Ministers are implemented by Decrees, Circulars and other administrative measures issued by the competent Ministries and Departments. Such decisions, implementing EU Common Positions attach, as a point of reference, the implementing regulations issued by the European Union. With respect to the sanctions applied by the EU against the Federal Republic of Yugoslavia, Cyprus applies an embargo of arms, an oil embargo, an entry ban on officials and others, as well as financial sanctions in so far as the existing legislation allows.

Following the adoption by the European Council of Feira of the Common Strategy of the European Union on the Mediterranean Region, Cyprus has declared its readiness to co-operate with the Union alongside other Mediterranean Partners in strengthening security in the region.

Concerning the implementation capacity, the structures required to participate in the formulation and implementation of the CFSP are in place, including the posts of European Correspondent and Political Director.

At the Ministry of Foreign Affairs there are two divisions, the Multilateral Political Affairs Division and the Bilateral Political Affairs Division. Overall responsibility in this area rests with the Director of the Multilateral Political Affairs Division, who is also the Political Director. The post of the European Correspondent is situated within this Division.

## ***Chapter 28: Financial Control***

The 1999 regular report on the Financial Control Chapter concluded that the public financial control system in Cyprus is sound and consistent with European standards. Although no substantial progress in the field of financial control for the period covered by this report can be mentioned, emphasis was placed on the training of staff in the Unit on Financial Intelligence and Financial Crime Investigation.

### ***Overall Assessment***

Although Cyprus is already far advanced in the area of financial control, further efforts are needed on such issues as the implementation of risk analysis methods; strengthening the internal control of revenues; the proper management of pre-accession funding and future structural funds, as well as alignment in the area of the protection of financial interests of the EC.

**Public Internal Financial Control** is carried out by the Internal Audit Directorate (IAD) of the Treasury. The IAD comprises 23 persons, they are supported by a team of 18 auditors. The Cypriot Ministries/Departments have internal accounting departments, the heads of which are appointed by the Accountant General. At the moment the *ex ante* control of individual transactions is not carried out on the basis of risk analysis. Cyprus needs therefore to take the necessary steps to ensure that risk analysis methods are implemented as soon as possible.

**External financial control** is carried out by the Auditor General as head of the Audit Office which is independent from the executive, legislative and juridical powers of government. The Office of the External Auditor has a staff of about 100 auditors and 10 administrative staff.

Regarding **control measures relating to Own Resources**, the VAT administration at the Ministry of Finance is in charge of controlling revenues resulting from VAT. Customs duties are collected (and controlled) by the Customs and Excise Department of Cyprus. However, Cyprus needs to take measures to further strengthen the internal control of revenues.

In the field on **structural action expenditure**, Cyprus should take the necessary steps to ensure the proper management of pre-accession funding and future structural funds, in particular through the development of adequate financial management and control systems for receiving EC funds. Cyprus should also develop an audit trail tool for the control of EC funds as identified as a short-term priority in the Accession Partnership. Although preparatory work is underway, Cyprus will have to have all necessary instruments in place to assist the EC bodies in charge of on-the-spot checks.

Concerning the **protection of financial interests of the EC**, the Attorney General, as head of the Law Office of the Republic, co-ordinates all investigations concerning fraud and is the "single contact point", responsible for co-operation with the relevant EC bodies in the field of the protection of financial interests of the Community, in particular the European Anti-Fraud Office (OLAF). Cyprus should pay attention to ensure full legislative alignment in this area.

Most of the Accession Partnership short-term priorities are fulfilled. The Cypriot government has in place a fully-fledged system of public external and internal financial control for the entire national budget. As regards reinforcement of administrative and judicial capacity to manage and control EC funds, further efforts are being made to ensure sound financial management and transparency in the use of these funds. Further efforts are, however, needed regarding the introduction of 'functional independence' for national, internal controllers/auditors at both central and decentralised levels.

### ***Chapter 29: Financial and budgetary provisions***

During the period covered by this report Cyprus has made progress in the area of financial and budgetary provisions.

As regards **the national budget and EC co-financed measures**, as from the year 2000, the three Budgets of the Central government were amalgamated into a single unified budget. The new comprehensive Budget is divided into three categories of expenditure, i.e. direct charges on the Consolidated Fund (e.g. pensions and gratuities), ordinary (current) expenditure and development expenditure. The latter category covers all capital expenditure, which is of a non-recurrent development nature and reflects the public investment programme for that year.

In the field of **own resources and administrative infrastructure**, a technical committee chaired by the Statistical Service and involving representatives from all relevant Government Departments has been established. In March 2000 this technical committee started to study in detail the issue of the calculation of VAT own resources.

In 1999 the VAT Service was strengthened by the recruitment of 53 officers.

### ***Overall assessment***

Overall Cyprus has established the necessary rules and procedures concerning its Development Budget for medium term programming of expenditure as well as for evaluation and follow-up. However, these procedures need to be strengthened.

The competent administrative authorities in the field of the national budget and EC co-financed measures are the Directorate of Budget and Fiscal Control of the Ministry of Finance and the Directorate for Development Expenditure of the Planning Bureau. Both administrative bodies are supported by qualified and experienced staff as well as by the latest computerised systems. However, further strengthening of their administrative capabilities is needed.

*Traditional Own Resources* fall under the responsibility of the Customs and Excise Department of the Ministry of Finance. The Treasury Department (through the Internal Audit Directorate) is responsible for conducting all checks and enquiries concerning the establishment and the making available of Traditional Own Resources.

In the field of VAT, for estimating the weighted average rate for the VAT resource (which is basically an estimate of the average rate applicable to the various categories of taxable goods) Cyprus will have to adopt the Classification of Individual Consumption by Purpose (COICOP) and other classifications used in the European System of Accounts (ESA 95), as well as the institutional sectors breakdown. VAT is administered by the VAT Service within the Department of Customs and Excise. The VAT Service, a well-organised and computerised independent structure, is responsible for the collection of VAT in Cyprus. The Cypriot administrative system of VAT control is based on a central administration with local control. The Treasury and the VAT service will have to be able to ensure that VAT resources and all required information is made available to the Commission.

As regards *GNP*, the Department of Statistics and Research is responsible for implementing the European System of Accounts. The making available of GDP/capita data in accordance with EC methodology was identified as a short-term priority in the 1999 Accession Partnership.

The Directorate of Budget and Fiscal Control of the Ministry of Finance will have to ensure the co-ordination of the proper collection, monitoring and payment of funds to and from the EC budget. The Directorate is making efforts to enhance its capacity through the continuous training of its staff and the upgrading of its technological infrastructure (equipment and software).

### **3.2. General evaluation**

During the period covered by this regular report, Cyprus has achieved substantive progress in various areas of the *acquis* and continued with further harmonisation measures. As regards administrative capacity, it continued with the upgrading of the existing infrastructure, including staff recruitment.

Over the last year, there has been progress in adopting legislation in key areas of the internal market. Although new legislation has been adopted in some areas of free movement of goods, further efforts are still needed in respect of standardisation and certification as well as of the framework for the New Approach Directives. In financial services further progress has been achieved in the adoption of appropriate national legislation and enhancing administrative capacity. The steps taken towards liberalisation of capital movements are positive; however, further efforts are still

needed for a timely and orderly removal of remaining restrictions on capital movements before accession. Moreover, the already quite high degree of alignment on anti-trust has been further improved by amending legislation on public undertakings and undertakings with special and exclusive rights in respect of the rules of competition. However, as regards State aid, the situation remains unsatisfactory, as there still exists no proper State aid control and no legal basis for it. Cyprus has achieved progress in the field of indirect taxation, as the standard rate of Value Added Tax (VAT) has been increased from 8% to 10% and legislation for further alignment with the VAT *acquis* has been adopted.

During the last year Cyprus has enacted some harmonisation legislation in the field of agriculture, however, what has been done is mainly preparatory work, therefore harmonisation with the *acquis* in the veterinary and phytosanitary fields continues to be partial. Further efforts are still needed regarding veterinary controls at border posts.

In the fields of transport and fisheries, Cyprus has undertaken serious efforts to achieve further alignment with the *acquis* by adopting legislation as well as strengthening its administrative capacity.

As regards alignment with the environment *acquis*, several laws and orders have been adopted, but the emphasis lay on preparatory work. Although more attention has been paid to the allocation of sufficient budgetary and administrative resources to the environmental sector to ensure the implementation of the *acquis*, given the size of the alignment task in this area, this sector still remains a high priority.

In the area of justice and home affairs, Cyprus has made progress with the adoption of legislation on asylum and also with a view to judicial co-operation in criminal and civil matters. However, attention should be paid to the enforcement of border control, with special regard to the fact that Cyprus will be an external border of the EU, as well as to efficient implementation of the existing legislation on money laundering, although in this area considerable efforts have already been undertaken.

Cyprus has further strengthened its *administrative capacity*. Several institutions have already gained experience in several areas of the *acquis*, such as for instance the Department of Social Insurance in the case of the co-ordination of social security. In the fields of regional policy and financial control the required structures are already to a large extent in place. Various measures are being taken to further strengthen the capacity to implement the *acquis* and to upgrade the existing equipment; this applies for example to the area of free movement of goods, company law, fisheries and justice and home affairs. In some of these sectors, and as regards employment and social policy, this also involves administrative restructuring and reorganisation. A concrete example is the efforts undertaken for maritime transport, where in order to improve the safety record of the Cyprus fleet, the last year has seen the number of ships inspected more than double and an increase in the world-wide network of inspectors of Cyprus' ships. Furthermore, additional staff have been recruited/trained, or this is foreseen in the budget, for areas such as taxation and combating money laundering.

However, despite the strong basis of its administrative capacity, the country still has to set up regulatory authorities, and build institutions in the field of free movement of goods, agriculture, energy, telecommunication and justice and home affairs. Further

recruitment of staff in several areas such as company law, transport, taxation, environment and justice and home affairs is needed.

During the last year Cyprus has met the short-term priorities of its Accession Partnership with regard to fisheries and transport. In most other areas the priorities were partially fulfilled. However, in some areas of the *acquis* such as the State aid sector in the field of competition and the transposition and enforcement of the environmental *acquis* further harmonisation measures are needed.

Cyprus has made progress in addressing the medium-term Accession Partnership priorities, and has partially fulfilled a number of them, including in such areas as the internal market, energy, and justice and home affairs.

## C. Conclusion

Cyprus continues to fulfil the Copenhagen political criteria. The predominant political problem is the continued division of the island, but over the last year important efforts have been made in the search for a political settlement in line with the Accession Partnership. From the fourth round of proximity talks held in September there were encouraging signs that the two sides were engaging in substantive discussion.

Cyprus is a functioning market economy and should be able to cope with competitive pressure and market forces within the Union.

The Cypriot economy continues to grow strongly and is operating at full employment. Some progress is being made in the areas of liberalisation and structural reforms. After many years of delay, Parliament passed legislation providing a timetable for the abolition of the interest ceiling by January 2001. The Cypriot Authorities have started major health sector reform.

However, macroeconomic stability has weakened recently, and the current level and stance of fiscal policy are not sustainable over the medium term. Supervision must be improved in the co-operative banking sector. The completion of price liberalisation is also required. Competitiveness is hampered by a number of structural rigidities and significant state involvement in the economy.

There is a need to develop a credible and coherent approach to fiscal consolidation. With a view to progressive capital liberalisation, monetary policy must be made more efficient and market-oriented by the use of indirect instruments rather than direct interventions. Cyprus must prepare its private sector to operate in the open environment that integration into the EU requires. Greater political consensus is needed to develop a comprehensive structural reform agenda which should limit the extent of state involvement in economic activities, open up key sectors to foreign competition, and resolve important environmental constraints.

During the period covered by this regular report, Cyprus has achieved substantive progress in various areas of the *acquis* and continued with further harmonisation measures. As regards administrative capacity, it continued with the upgrading of the existing infrastructure, including staff recruitment.

Over the last year, there has been progress in adopting legislation in key areas of the internal market. Although new legislation has been adopted in some areas of free movement of goods, further efforts are still needed in respect of standardisation and certification as well as of the framework for the New Approach Directives. In financial services further progress has been achieved in the adoption of appropriate national legislation and enhancing administrative capacity. The steps taken towards liberalisation of capital movements are positive; however, further efforts are still needed for a timely and orderly removal of remaining restrictions on capital movements before accession. Moreover, the already quite high degree of alignment on anti-trust has been further improved by amending legislation on public undertakings and undertakings with special and exclusive rights in respect of the rules of competition. However, as regards State aid, the situation remains unsatisfactory, as

there still exists no proper State aid control and no legal basis for it. Cyprus has achieved progress in the field of indirect taxation, as the standard rate of Value Added Tax (VAT) has been increased from 8% to 10% and legislation for further alignment with the VAT *acquis* has been adopted.

During the last year Cyprus has enacted some harmonisation legislation in the field of agriculture, however, what has been done is mainly preparatory work, therefore harmonisation with the *acquis* in the veterinary and phytosanitary fields continues to be partial. Further efforts are still needed regarding veterinary controls at border posts.

In the fields of transport and fisheries, Cyprus has undertaken serious efforts to achieve further alignment with the *acquis* by adopting legislation as well as strengthening its administrative capacity.

As regards alignment with the environment *acquis*, several laws and orders have been adopted, but the emphasis lay on preparatory work. Although more attention has been paid to the allocation of sufficient budgetary and administrative resources to the environmental sector to ensure the implementation of the *acquis*, given the size of the alignment task in this area, this sector still remains a high priority.

In the area of justice and home affairs, Cyprus has made progress with the adoption of legislation on asylum and also with a view to judicial co-operation in criminal and civil matters. However, attention should be paid to the enforcement of border control, with special regard to the fact that Cyprus will be an external border of the EU, as well as to efficient implementation of the existing legislation on money laundering, although in this area considerable efforts have already been undertaken.

Cyprus has further strengthened its *administrative capacity*. Several institutions have already gained experience in several areas of the *acquis*, such as for instance the Department of Social Insurance in the case of the co-ordination of social security. In the fields of regional policy and financial control the required structures are already to a large extent in place. Various measures are being taken to further strengthen the capacity to implement the *acquis* and to upgrade the existing equipment; this applies for example to the area of free movement of goods, company law, fisheries and justice and home affairs. In some of these sectors, and as regards employment and social policy, this also involves administrative restructuring and reorganisation. A concrete example is the efforts undertaken for maritime transport, where in order to improve the safety record of the Cyprus fleet, the last year has seen the number of ships inspected more than double and an increase in the world-wide network of inspectors of Cyprus' ships. Furthermore, additional staff have been recruited/trained, or this is foreseen in the budget, for areas such as taxation and combating money laundering.

However, despite the strong basis of its administrative capacity, the country still has to set up regulatory authorities, and build institutions in the field of free movement of goods, agriculture, energy, telecommunication and justice and home affairs. Further recruitment of staff in several areas such as company law, transport, taxation, environment and justice and home affairs is needed.

During the last year Cyprus has met the short-term priorities of its Accession Partnership with regard to fisheries and transport. In most other areas the priorities

were partially fulfilled. However, in some areas of the *acquis* such as the State aid sector in the field of competition and the transposition and enforcement of the environmental *acquis* further harmonisation measures are needed.

Cyprus has made progress in addressing the medium-term Accession Partnership priorities, and has partially fulfilled a number of them, including in such areas as the internal market, energy, and justice and home affairs.

## D. Accession Partnership and National Programme for the Adoption of the *Acquis*: Global assessment

The purpose of the Accession Partnership is to set out in a single framework:

- the priority areas for further work identified in the Commission's regular report;
- the financial means available to help candidate countries implement these priorities;
- the conditions which will apply to this assistance.

Each candidate has been invited to adopt a National Programme for the Adoption of the *Acquis*. This sets out how the country in question envisages to deal with the Accession Partnership, the timetable for implementing the Partnership's priorities, and implications in terms of human and financial resources. Both the Accession Partnerships and the National Programmes for the Adoption of the *Acquis* are revised on a regular basis, to take account of progress made, and to allow for new priorities to be set.

### 1. Accession Partnership

In the following assessments the main sub-headings are indicated in bold type and further key concepts taken from the Accession Partnership highlighted in italics<sup>24</sup>.

#### *Short-term priorities*

**Political criteria:** As an important step towards achieving a political settlement the first round of proximity talks started in New York on 3 December 1999 and was subsequently followed by three further rounds. This process is ongoing and Cyprus **therefore continues to maximise its efforts to support a settlement under the auspices of the UN.**

**Economic criteria:** In 1999, the *current account deficit* was estimated to be around 2.6 percent of GDP. More recently, strong domestic demand has led to higher imports and a deterioration of the trade balance. Little progress has been achieved in *correcting the widening of the fiscal and current account deficits*. The interest rate ceiling has limited the capacity of the central bank to undertake an *effective monetary policy* stance. However, a law which will remove the nine percent interest rate ceiling has been adopted. Apart from this, Cyprus has introduced a number of measures which will further *liberalise capital movements*, such as the relaxation of control on inward foreign direct investment for European Union residents. As regards the co-

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<sup>24</sup> For the detailed text on the short and medium term priorities established in the 1999 Accession Partnership please refer to Council Decision 2000/248/EC (OJ L 78, 29.03.2000).

*operative credit and saving societies*, no further developments concerning the *alignment with the acquis and international accounting standards* have been reported. **Therefore, this priority has been addressed to a limited extent.**

#### **Internal Market:**

- As regards *public procurement*, a centralised statistical system has been set up for recording public contracts. To this end a database has been developed for keeping the necessary statistical information according to the requirements of the relevant provisions of the *acquis* on public procurement. The law still needs to be *extended to local authorities* and bodies governed by public law.
- In the field of *industrial and intellectual property rights*, the law ratifying the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisation entered into force. In addition further efforts to strengthen the administrative capacity have been undertaken as regards computerisation and the creation of a special unit to *enforce effective border control*. However, further efforts are needed as regards the alignment and enforcement of industrial and intellectual property rights.
- In the area of *free movement of goods*, Cyprus has adopted new legislation in various fields such as fertilisers, foodstuffs and motor vehicles. In addition the government decided to speed up the adoption of harmonised standards relating to the New Approach Directives. However further efforts are still needed in the field of *standardisation and certification* and the adoption of a framework law regarding the New Approach Directives.
- As regards *capital movements*, the Central Bank of Cyprus *lifted some of the restrictions* on outward and inward investments to and from the island. A new law for the abolition of the existing 9% *interest ceiling* was adopted. This legislation will allow the Central Bank to proceed with the gradual abolition of remaining exchange controls on capital flows, in accordance with the *liberalisation programme*.
- In the field of *competition*, further legislative alignment with the anti-trust *acquis* has been achieved and a decision has been taken to reform the existing infrastructure, however this will need further reinforcement. Attention should be also paid to the *State aid sector*, where no proper legislation currently exists.
- Several harmonisation measures have been undertaken in the *telecommunications sector* and a new law on telecommunications to align with the *acquis* has been drafted, however the establishment of an independent regulatory authority is further awaited.
- The *VAT standard rate* has been increased and further legislation has been adopted in order to abolish the special VAT provisions in favour of *international business enterprises*. In addition, the *excise duties* on several products such as home produced spirits, petrol and cigarettes have been increased. Cyprus decided not to introduce any tax measures which are considered harmful under the terms of

the *Code of Conduct on Business Taxation*. Further efforts are needed in the field of a *tax warehouse system* and the *movement procedures of excisable goods*.

- As regards *customs matters*, the Department of Customs and Excise prepared an *action plan* for ensuring alignment and effective implementation of the *acquis*. The computerisation of the Department is proceeding and the adoption of the ASYCUDA software is already at an advanced stage.

Overall, although not all issues have been effectively addressed, **this priority has been partially met.**

**Agriculture:** Although preparatory work has started, the procedure for the establishment of the integrated administration and control system (IACS) should be accelerated and a Paying Agency to handle the *Common Agricultural expenditure* should be established. Administrative structures should also be established for *rural development policies*. Some legislation has been adopted in the *veterinary and phytosanitary area*, and a Programme for the upgrading of the offices, equipment and other facilities at the *border inspection posts* is currently under implementation. **Therefore, this priority has been partially met.**

**Fisheries:** Cyprus adopted, in June 2000, amendments to the existing legislation on *licensing*. Among other things, the amendments foresee the obligation of a fishing licence for all *fishing vessels*, licence fees and the installation of a blue box for satellite monitoring. A *Fishing Vessel Register* has been established and the *administrative capacity* has been reinforced. **Therefore this priority has been met.**

**Environment:** The transposition and enforcement of the *Environmental Impact Assessment directive* should be completed. A *programme* for legislative transposition and implementation to align Cyprus' legislation, institutions, programmes and policies to the *acquis* has been finalised. However, further efforts are still needed in this regard. Some laws and orders have been adopted in the area of *air and water quality as well as waste management*, in particular relating to type approval of motor vehicles, legislation in the field of quality standards and measurement methods and the law ratifying the amendment to the Basle Convention concerning hazardous waste. Further acceleration of the transposition in this area is still needed. In addition, following a study, estimates of the costs of approximation have been established. However, a *plan for financing investments* (directive specific) based on these cost estimates and realistic sources of public and private finance year-by-year is still to be developed. **Therefore this priority has been partially met.**

**Employment and Social Affairs:** Social dialogue is a long standing practice and in addition to the various existing tripartite bodies, bipartite social dialogue, although not formalised, is important and developing. *Capacity-building efforts of social partners* should be further supported. Cyprus continued its legislative alignment process with the *acquis* in some areas such as labour law, health and safety at work and discrimination. The country has undertaken efforts to strengthen its administrative capacity. The *Labour Inspectorate* especially has been upgraded and reorganised. **Therefore this priority has been partially met.**

**Transport:** Cyprus has adopted several laws and regulations in this area and has strengthened its administrative capacity. To *enhance the quality of the Cypriot flagged fleet and to improve its overall safety record*, the government introduced a new, more restrictive policy for the registration of Cypriot ships. Regarding *detentions*, although the steady decline in their number is welcomed and reflects the increased efforts of the Cypriot authorities in this domain, further efforts are still needed for the whole Cyprus fleet to achieve a safety record corresponding to the current EU average of 6%. An *action plan* on Merchant Shipping, including monitoring of classification societies and the improvement of the Cyprus flag, has been prepared. **Therefore this priority has been met.**

**Justice and Home Affairs:** Cyprus adopted new legislation on *asylum*. This law provides for the setting up of a Refugee Authority, which has yet to be established. Further efforts are needed to ensure regular and complete reporting by the *offshore banking sector*. Cyprus has already adopted an upgrading programme for acquiring *border control* equipment such as coastal radar, patrol boats and *forgery detection* equipment at ports of entry. In addition, the existing police computer network is upgraded. Cyprus ratified several conventions in this area, however, as regards the Council of Europe *Criminal Law Convention on Corruption*, only the act ratifying this convention has been adopted yet. Cyprus applied to accede to the *1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions*. In addition, the country has further *intensified its preventive measures necessary for ensuring protection against criminal activities, including money laundering*. The special Unit for Combating Money Laundering has been reinforced, however the actual implementation of the money laundering legislation should be further enhanced. **Therefore this priority has been partially met.**

**Reinforcement of administrative and judicial capacity including capacity to manage and control EC funds:** The preparatory work undertaken has laid the groundwork for further harmonisation measures. A *liaison officer* from the tax authorities was appointed by the Director of the Inland Revenue Department to co-operate with the Unit for Combating Money Laundering (MOKAS) on tax issues. A new consolidated *Budget* divided into three categories of expenditure has been introduced. The Cypriot government has in place a fully-fledged system of public external and internal financial control for the entire national budget. As regards reinforcement of administrative and judicial capacity to manage and control EC funds, further efforts are being made to ensure sound financial management and transparency in the use of these funds. This covers the priorities as regards the completion of the legislative framework for *internal and external financial control* and the *setting up of internal audit/control units in spending centres* and ex-ante financial control as well as the issuing of an audit manual and the development of audit trails for the control of EC funds. Further efforts are needed as regards the introduction of '*functional independence*' for national, internal controllers/auditors at both central and decentralised levels. On the other hand, the capacity of the VAT service has been strengthened by the recruitment of new staff and a central *co-ordination* point has been created. Cyprus needs to undertake further efforts to *make available GDP/per capita data* in accordance with EC methodology. **Therefore, this priority has been largely met.**

### *Medium-term priorities*

Only those medium-term priorities of the 1999 Accession Partnership that have been met or where a degree of progress has been made are mentioned below.

**Internal market:** As regards *free movement of goods*, new legislation in the field of *legal metrology* and pre-packaging has been adopted. In accordance with a provision already incorporated in the existing Public Procurement Law, the national *preferential clause* will be automatically eliminated upon accession. In the field of *free movement of persons*, the Council of Ministers issued a Decision that provides for a distinct separation between *recognition of academic qualifications and professional qualifications*. A new law amending the existing *Company Law* in order to cover the provisions of the Twelfth Council Company Law Directive on single-member private liability companies was enacted and preparatory work has been undertaken as regards the other directives mentioned in the Accession Partnership. As regards *free movement of capital*, at the beginning of this year the Central Bank of Cyprus (CBC) lifted some of the *restrictions* on outward and inward *investments* from and to the island. In addition, since the beginning of this year, residents of Cyprus have been allowed to undertake direct investment abroad without restrictions as to the amount of foreign exchange involved or the sector of the investment. The transfer of capital will be effected as soon as the CBC is satisfied that it concerns a genuine direct investment. Furthermore, the CBC has abolished all restrictions on the use of credit cards for current payments abroad. As regards *competition*, in February the Council of Ministers took a decision for reforming the *Commission for Protection of Competition*. The reforms provide also for a permanent specialised staff to be recruited. Its investigative powers are also being reinforced. Several measures have been undertaken for further alignment with the *acquis* on *taxation*. In the field of *consumer and health protection*, concerning *functioning market surveillance mechanisms* the Control of Misleading and Comparative Advertising Law was adopted, bringing the Cypriot legislation further in line with the *acquis* in this area. In addition, progress was made in the field of product pricing by adopting legislation.

**Agriculture:** Cyprus has begun with preparations for the implementation of the *common agricultural policy and rural development policies*.

**Energy:** In order to achieve further alignment with the *acquis* and to promote *energy efficiency* in the industrial, commercial and agricultural sectors, a grant scheme for investments in energy efficiency promotion encouraging the use of energy from renewable sources became fully operational. Moreover, Cyprus joined the Organisation for the Promotion of Energy Technology (OPET), the main aim of which is the implementation of measures in the fields of rational use of energy, renewable energy sources and fossil fuels. The Government of Cyprus established an Institute of Energy, which together with the Applied Energy Centre will implement the OPET-Cyprus Programme.

**Employment and Social Affairs:** The process of *employment review* in Cyprus has been initiated and a background study on the labour market in Cyprus has been completed. Preparatory work has started for developing a *National Action Plan for Employment* in accordance with the EC Employment Guidelines. The management of

the *European Social Fund* will be under the responsibility of the Labour Department and for this purpose, suitable training of personnel will be organised. **Transport:** Regulations amending *the Motor Vehicles and Road Traffic Regulations* were approved in order to achieve further alignment with the *acquis*. In addition, the latest amendments and the revised Convention of *Eurocontrol* were ratified by Cyprus. Furthermore, five new bills were approved under the *Merchant Shipping Law* which implement the Convention on Standards of Training, Certification and Watchkeeping (STCW Convention). Apart from this, further legislation in the maritime sector has been adopted and further efforts have been undertaken to strengthen administrative capacity, especially as regards the Department of Merchant Shipping.

**Justice and Home Affairs:** Several measures have been undertaken to *upgrade law enforcement bodies and the judiciary*, such as an increase in the number of judges, the extension of competencies or the setting-up of an additional court. In addition the number of staff of the Unit for Combating Money Laundering has been increased. Furthermore, the position of a Patron of Human Rights has been approved by the Council of Ministers under the provisions of the legislation on Combating Trafficking of Persons.

## **2. National Programme for the Adoption of the *Acquis***

A full first NPAA for Cyprus has been submitted to the Commission for evaluation in the first half of September 2000.

## **Annexes**

***Human Rights Conventions ratified by the Candidate Countries,  
September 2000***

| <i>Parties to following conventions and protocols</i>                                     | <b>BG</b> | <b>CY</b> | <b>CZ</b> | <b>EE</b> | <b>HU</b> | <b>LV</b> | <b>LT</b> | <b>MT</b> | <b>PL</b> | <b>RO</b> | <b>SK</b> | <b>SV</b> | <b>TK</b> |
|-------------------------------------------------------------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| <b>ECHR</b> (European Convention on Human Rights)                                         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         |
| Protocol 1 (right of property et al.)                                                     | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         |
| Protocol 4 (freedom movement et al.)                                                      | O         | X         | X         | X         | X         | X         | X         | O         | X         | X         | X         | X         | O         |
| Protocol 6 (death penalty)                                                                | X         | X         | X         | X         | X         | X         | X         | X         | O         | X         | X         | X         | O         |
| Protocol 7 (ne bis in idem)                                                               | O         | X         | X         | X         | X         | X         | X         | O         | O         | X         | X         | X         | O         |
| <b>European Convention for the Prevention of Torture</b>                                  | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         |
| <b>European Social Charter</b>                                                            | O         | X         | X         | O         | X         | O         | O         | X         | X         | O         | X         | O         | X         |
| <b>Revised European Social Charter</b>                                                    | X         | X         | O         | X         | O         | O         | O         | O         | O         | X         | O         | X         | O         |
| Additional Protocol to the ESC (system of collective complaints)                          | O         | X         | O         | O         | O         | O         | O         | O         | O         | O         | O         | O         | O         |
| <b>Framework Convention for National Minorities</b>                                       | X         | X         | X         | X         | X         | O         | X         | X         | O         | X         | X         | X         | O         |
| <b>ICCPR</b> (International Covenant on Civil and Political Rights)                       | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | O         |
| Optional Protocol to the ICCPR (right of individual communication)                        | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | O         |
| Second Optional Protocol to ICCPR (abolition death penalty)                               | X         | X         | O         | O         | X         | O         | O         | X         | O         | X         | X         | X         | O         |
| <b>ICESCR</b> (International Covenant on Economic, Social and Cultural Rights)            | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | O         |
| <b>CAT</b> (Convention against Torture)                                                   | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         |
| <b>CERD</b> (Convention on the Elimination of All Forms of Racial Discrimination)         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | O         |
| <b>CEDAW</b> (Convention on the Elimination of All Forms of Discrimination against Women) | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         |
| <b>CRC</b> (Convention on the Right of the Child)                                         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         | X         |

X = Convention ratified

O = Convention NOT ratified

BG = Bulgaria; CY = Cyprus; CZ = Czech Republic; EE = Estonia; HU = Hungary; LV = Latvia; LT = Lithuania; MT = Malta; PL = Poland; RO = Romania; SK = Slovakia; SV = Slovenia; T = Turkey

## Statistical data<sup>25</sup>

|                              | 1995                     | 1996  | 1997  | 1998  | 1999  |
|------------------------------|--------------------------|-------|-------|-------|-------|
| <b>Basic data</b>            | <b>in 1000</b>           |       |       |       |       |
| Population (end of the year) | 645                      | 652   | 658   | 663   | 667   |
|                              | <b>in km<sup>2</sup></b> |       |       |       |       |
| Total area                   | 9.251                    | 9.251 | 9.251 | 9.251 | 9.251 |

|                                                                   |                                        |        |        |        |        |
|-------------------------------------------------------------------|----------------------------------------|--------|--------|--------|--------|
| <b>National accounts</b>                                          | <b>Mio Cyprus Pound</b>                |        |        |        |        |
| Gross domestic product at current prices                          | 4.004                                  | 4.157  | 4.366  | 4.680  | 4.943  |
|                                                                   | <b>1000 Mio ECU/euro</b>               |        |        |        |        |
| Gross domestic product at current prices                          | 6,8                                    | 7,0    | 7,5    | 8,1    | 8,5    |
|                                                                   | <b>ECU/euro</b>                        |        |        |        |        |
| Gross domestic product per capita <sup>26</sup> at current prices | 10.500                                 | 10.800 | 11.400 | 12.300 | 12.800 |
|                                                                   | <b>% change over the previous year</b> |        |        |        |        |
| Gross domestic product at constant prices (nat. currency)         | 6,1                                    | 1,9    | 2,4    | 5,0    | 4,5    |
|                                                                   | <b>in Purchasing Power Standards</b>   |        |        |        |        |
| Gross domestic product per capita <sup>27</sup> at current prices | 13.829                                 | 14.524 | 15.259 | 16.033 | 17.082 |
|                                                                   | <b>in % of Total Gross Value Added</b> |        |        |        |        |
| Structure of production                                           |                                        |        |        |        |        |
| - Agriculture                                                     | 5,3                                    | 4,8    | 4,3    | 4,4    | 4,2    |
| - Industry (excluding construction)                               | 15,0                                   | 14,7   | 14,2   | 13,8   | 13,4   |
| - Construction                                                    | 8,9                                    | 8,9    | 8,4    | 8,1    | 7,7    |
| - Services                                                        | 70,8                                   | 71,6   | 73,1   | 73,7   | 74,7   |
|                                                                   |                                        |        |        |        |        |
| Structure of expenditure                                          | <b>as % of Gross Domestic Product</b>  |        |        |        |        |
| - Final consumption expenditure                                   | 79,8                                   | 83,1   | 84,9   | 87,8   | 84,9   |
| - household and NPISH                                             | 63,7                                   | 65,1   | 66,1   | 68,5   | 66,9   |
| - general government                                              | 16,1                                   | 18,0   | 18,8   | 19,3   | 18,0   |
| - Gross fixed capital formation                                   | 19,2                                   | 19,9   | 19,0   | 17,3   | 17,8   |
| - Stock variation                                                 | 4,3                                    | 3,3    | 1,2    | 2,6    | 2,0    |
| - Exports of goods and services                                   | 46,6                                   | 46,8   | 47,0   | 43,6   | 44,6   |
| - Imports of goods and services                                   | 49,9                                   | 53,1   | 52,1   | 51,3   | 49,3   |

|                                    |                                        |     |     |     |     |
|------------------------------------|----------------------------------------|-----|-----|-----|-----|
| <b>Inflation rate</b>              | <b>% change over the previous year</b> |     |     |     |     |
| Consumer price index <sup>28</sup> | 2,6                                    | 3,0 | 3,6 | 1,9 | 1,3 |

<sup>25</sup> Data provided refer to the Republic of Cyprus only, with the exception of data on area which refer to the whole of the island.

<sup>26</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>27</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

<sup>28</sup> Changes in Methodology: Data upto 1997 refer to the national CPI, while data as from 1998 onwards are calculated in accordance to the Harmonised Indices of Consumer Prices (HICP).

| <b>Balance of payments</b>             | <b>in Mio ECU</b> |        |        |        |      |
|----------------------------------------|-------------------|--------|--------|--------|------|
| -Current account                       | -131              | -375   | -299   | -537   | -219 |
| -Trade balance                         | -1.595            | -1.720 | -1.827 | -2.175 | :    |
| <i>Exports of goods</i>                | 939               | 1.097  | 1.099  | 955    | :    |
| <i>Imports of goods</i>                | 2.534             | 2.817  | 2.926  | 3.130  | :    |
| -Net services                          | 1.398             | 1.352  | 1.509  | 1.632  | :    |
| -Net income                            | -23               | -100   | -73    | -94    | :    |
| -Net current transfers                 | 90                | 93     | 91     | 101    | :    |
| <i>-of which: government transfers</i> | 15                | 14     | 15     | 23     | :    |
| - FDI (net) inflows                    | :                 | :      | 335    | 336    | 268  |

| <b>Public finance</b>                            | <b>in % of Gross Domestic Product</b> |      |      |      |   |
|--------------------------------------------------|---------------------------------------|------|------|------|---|
| General government deficit/surplus <sup>29</sup> | -0,9                                  | -3,4 | -5,3 | -5,5 | : |

| <b>Financial indicators</b>                           | <b>in % of Gross Domestic Product</b> |       |       |       |         |
|-------------------------------------------------------|---------------------------------------|-------|-------|-------|---------|
| Gross foreign debt of the whole economy <sup>30</sup> | 60,4                                  | 64,3  | 96,3  | 128,0 | 155.4 E |
|                                                       | <b>as % of exports</b>                |       |       |       |         |
| Gross foreign debt of the whole economy <sup>31</sup> | 129,6                                 | 137,3 | 204,7 | 293,4 | 348.6 E |
| Monetary aggregates                                   | <b>in 1000 Mio ECU/euro</b>           |       |       |       |         |
| - M1                                                  | 1,0                                   | 1,1   | 1,2   | 1,3   | 1,8     |
| - M2                                                  | 6,3                                   | 7,0   | 8,0   | 8,3   | 9,9     |
| Total credit                                          | 6,8                                   | 7,8   | 8,8   | 9,9   | 11,2    |
| Average short-term interest rates                     | <b>% per annum</b>                    |       |       |       |         |
| - Lending rate                                        | 8,5                                   | 8,5   | 8,0   | 8,0   | :       |
| - Deposit rate                                        | 5,8                                   | 5,8   | :     | :     | :       |
| ECU exchange rates                                    | <b>(1ECU/euro=...Cyprus Pound)</b>    |       |       |       |         |
| - Average of period                                   | 0,592                                 | 0,592 | 0,583 | 0,577 | 0,579   |
| - End of period                                       | 0,599                                 | 0,589 | 0,580 | 0,582 | 0,577   |
|                                                       | <b>1995=100</b>                       |       |       |       |         |
| - Effective exchange rate index                       | 100,0                                 | 102,0 | 102,8 | 108,3 | 106,0   |
| Reserve assets                                        | <b>Mio ECU/euro</b>                   |       |       |       |         |
| - Reserve assets (including gold)                     | 985                                   | 1.360 | 1.382 | 1.315 | 1.825   |
| - Reserve assets (excluding gold)                     | 850                                   | 1.231 | 1.260 | 1.183 | 1.824   |

<sup>29</sup> Excludes local authorities.

<sup>30</sup> Series break in 1998: more complete definition.

<sup>31</sup> Series break in 1998: more complete definition.

| <b>External trade</b> | <b>Mio ECU/euro</b>      |        |        |        |        |
|-----------------------|--------------------------|--------|--------|--------|--------|
| Trade balance         | -1.865                   | -2.089 | -2.168 | -2.354 | -2.443 |
| Exports               | 403                      | 386    | 377    | 383    | 372    |
| Imports               | 2.268                    | 2.475  | 2.545  | 2.737  | 2.815  |
|                       | <b>previous year=100</b> |        |        |        |        |
| Terms of trade        | :                        | :      | :      | :      | :      |
|                       | <b>as % of total</b>     |        |        |        |        |
| Exports with EC-15    | 59,0                     | 55,4   | 48,0   | 50,4   | 50,7   |
| Imports with EC-15    | 59,0                     | 57,2   | 56,3   | 61,9   | 57,3   |

| <b>Demography</b>                                        | <b>per 1000 of population</b> |     |      |     |     |
|----------------------------------------------------------|-------------------------------|-----|------|-----|-----|
| Natural growth rate                                      | 7,7                           | 7,2 | 6,3  | 5,2 | 5,1 |
| Net migration rate (including corrections) <sup>32</sup> | 3,1                           | 2,8 | 3,1  | 3,0 | 0,0 |
|                                                          | <b>per 1000 live-births</b>   |     |      |     |     |
| Infant mortality rate                                    | 8,5                           | 8,3 | 8,0  | 7,0 | 6,0 |
| Life expectancy :                                        | <b>at birth</b>               |     |      |     |     |
| Males:                                                   | 75,3                          | :   | 75,0 | :   | :   |
| Females:                                                 | 79,8                          | :   | 80,0 | :   | :   |

| <b>Labour market (ILO methodology)</b>   | <b>% of labour force</b> |      |      |      |        |
|------------------------------------------|--------------------------|------|------|------|--------|
| Economic activity rate                   | 62,0                     | 62,0 | 61,3 | 61,2 | 61.5 P |
| Unemployment rate, total                 | 2,6                      | 3,1  | 3,4  | 3,4  | 3.6 P  |
| Unemployment rate of persons < 25 years  | 2,3                      | 2,7  | 3,2  | 3,1  | 2.9 P  |
| Unemployment rate of persons >= 25 years | 2,7                      | 3,1  | 3,5  | 3,4  | 3.8 P  |
| Average employment by NACE branches      | <b>in % of total</b>     |      |      |      |        |
| - Agriculture and forestry               | 10,8                     | 10,5 | 9,5  | 9,6  | 9.3 P  |
| - Industry (excluding construction)      | 16,3                     | 15,5 | 15   | 14,5 | 14.0 P |
| - Construction                           | 9,1                      | 8,9  | 8,8  | 8,4  | 8.3 P  |
| - Services                               | 63,8                     | 65,1 | 66,7 | 67,5 | 68.4 P |

| <b>Infrastructure</b> | <b>in km per 1000 km²</b> |     |     |     |     |
|-----------------------|---------------------------|-----|-----|-----|-----|
| Railway network       | 0                         | 0   | 0   | 0   | 0   |
|                       | <b>km</b>                 |     |     |     |     |
| Length of motorways   | 168                       | 194 | 199 | 204 | 216 |

| <b>Industry and agriculture</b>              | <b>previous year=100</b> |      |      |       |         |
|----------------------------------------------|--------------------------|------|------|-------|---------|
| Industrial production volume indices         | 101,5                    | 96,9 | 99,8 | 102,8 | 101,7   |
| Gross agricultural production volume indices | 116,0                    | 99,6 | 88,8 | 109,1 | 108.4 P |

<sup>32</sup> Net migration for the Republic of Cyprus, excluding the northern part of the island.

| <b>Standard of living</b>      | <b>per 1000 inhabitants</b> |     |     |     |     |
|--------------------------------|-----------------------------|-----|-----|-----|-----|
| Number of cars                 | 342                         | 350 | 359 | 377 | 387 |
| Telephone subscribers          | 541                         | 565 | 590 | 613 | 638 |
| Number of Internet connections | :                           | 10  | 24  | 44  | 56  |

P=provisional figures E= estimates

## Methodological Notes

### Finance

#### Note on sources:

*General government deficit / surplus:* Candidate Countries are presently unable to provide reliable data on a national accounts basis. Eurostat is working closely with these countries with the aim of improving these statistics. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (see explanation below).

*Gross foreign debt:* the OECD External Debt Statistics publication has been used as the source. Data for 1999 are estimates.

*Foreign official reserves, monetary aggregates, interest rates, and effective exchange rates:* where possible, Eurostat's reporting form for Candidate Countries is used for the data on. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source.

*Exchange rates against the ECU (euro):* European Commission data is used for ECU rates, European Central Bank data for euro rates.

#### Note on methodology:

*General government deficit / surplus:* approximation of the national accounts definition, derived from data based on the IMF's GFS (government finance statistics) methodology. The general government deficit / surplus is obtained by adding the consolidated central government deficit / surplus (normally including certain extra-budgetary funds) to the local government deficit / surplus. The total is adjusted for net lending / borrowing for specific policy purposes, which is a financing item in the national accounts. GFS data are on a cash basis. For Cyprus, the data exclude local government.

*Gross foreign debt:* of the whole economy; includes both short- and long-term debt. According to the convention, the stock of outstanding debt is converted from US dollars into ECU at end-year exchange rates, whereas GDP is converted into ECU using annual average exchange rates. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used.

*Monetary aggregates:* end-year stock data. M1 refers to notes and coin in circulation plus bank sight deposits. M2 refers to M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions.

*Interest rates:* annual average rates. Lending rates consist of the average rate charged on loans granted by reporting banks. Deposit rates refer to average demand and time deposit rates.

*Exchange rates:* ECU exchange rates are those that were officially notified to the Commission until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank, where available.

*The effective exchange rate index (nominal) is weighted by major trading partners, and calculated on a base period of 1995 (annual average).*

*Reserve assets:* end-year stock data. They are defined as the sum of central bank holdings of gold, foreign exchange, and other (gross) claims on non-residents. Gold is valued at end-year market price.

## **External trade**

*Imports and exports (current prices):* data is based upon the special trade system, according to which external trade comprises goods crossing the customs border of the country. Trade data excludes direct re-exports, trade in services and trade with customs free zones as well as licences, know-how and patents. Value of external trade turnover includes the market value of the goods and the additional costs (freight, insurance etc.).

*Trade Classification:* trade in goods is recorded using the commodity classification according to the Combined Nomenclature (CN).

The term FOB means that all costs incurred in transport up to the customs frontier are charged to the seller. The term CIF means that the purchaser pays the additional costs. Imports are recorded on CIF basis, exports on FOB basis.

*Imports and exports with EC-15:* data declared by the Republic of Cyprus.

## **Demography**

*Net migration rate:* crude rate of net migration for year X is:

$\{ \text{population as at 31 December (X)} - \text{population as at 1 January (X)} + \text{Deaths (X)} - \text{Births (X)} \} / \text{average population (X)}$ . This assumes that any change in population not attributable to births and deaths is attributable to migration.

## **Labour force**

*Economic activity rate (ILO Methodology):* percentage of labour force in the total population aged 15+. This rate is derived from an Establishments Survey observing the following ILO definitions and recommendations:

- Labour force: employed and unemployed persons according to the ILO definitions stated below.

- The employed: all persons aged 15+, who during the reference period worked at least one hour for wage or salary or other remuneration as employees, entrepreneurs, members of co-operatives or contributing family workers. Members of armed forces and women on child-care leave are included.

- The unemployed: all persons aged 15+, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

have no work,

are actively seeking a job

are ready to take up a job within a fortnight.

*Unemployment rate (by ILO methodology):* percentage of the unemployed in labour force. This rate is derived from the number of registered unemployed observing the ILO definitions and recommendations (see ILO definitions above).

*Average employment: by NACE branches.* This indicator is derived observing the ILO definitions and recommendations.

## **Infrastructure**

*Railway network:* all railways in a given area. This does not include stretches of road or water even if rolling stock should be conveyed over such routes; e.g. by wagon-carrying trailers or ferries. Lines solely used for tourist purposes during the season are excluded as are railways constructed solely to serve mines; forests or other industrial or agricultural undertakings and which are not open to public traffic. The data considers the construction length of railways.

*Length of motorway:* road, specially designed and built for motor traffic, which does not serve properties bordering on it, and which:

(a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;

(b) does not cross at level with any road, railway or tramway track, or footpath;

(c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

Entry and exit lanes of motorways are included irrespectively of the location of the signposts. Urban motorways are also included.

## **Industry and agriculture**

*Industrial production volume indices:* industrial production covers mining and quarrying, manufacturing and electricity, gas, steam and water supply (according to the NACE Rev.1 Classification, Sections C, D and E).

*Gross agricultural production volume indices:* gross agricultural production volume indices are calculated in constant prices of 1995.

### **Standard of living**

*Number of cars:* passenger car: road motor vehicle, other than a motor cycle, intended for the carriage of passengers and designed to seat no more than nine persons (including the driver).

The term "passenger car" therefore covers microcars (need no permit to be driven), taxis and hired passenger cars, provided that they have less than ten seats. This category may also include pick-ups.

*Telephone subscribers:* the number of telephone subscribers per 1000 inhabitants refers to the number of direct exchange lines (fixed telephone only) and does not include mobile phone subscribers.

*Internet connections*: the number of internet connections per 1000 inhabitants refers to the number of internet subscribers of the four internet access service providers in Cyprus.

**Sources**

Total area, external trade, labour market, infrastructure, demography, industry and agriculture, standard of living (except Internet connections): National sources.

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.