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REGULAR REPORT

ON

CYPRUS'

PROGRESS TOWARDS ACCESSION

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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.”

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second series in October 1999, and a third in November 2000. The Commission has prepared this fourth series of Regular Reports with a view to the Laeken European Council in December 2001.

The structure followed for this Regular Report is the same as that used for the 2000 Regular 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. This part gives special attention to nuclear safety standards, as underlined by the Cologne and Helsinki European Councils. 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 emphasised by the Madrid European Council in December 1995, and confirmed by the Gothenburg European Council in June 2001. 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 Gothenburg European Council 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 and reforming their administrative and judicial structures.

This Report takes into consideration progress since the 2000 Regular Report. It covers the period until 30 September 2001. In some particular cases, however, measures taken after that date are mentioned. It looks at whether intended reforms referred to in the 2000 Regular Report have been carried out, and examines new initiatives. In addition, 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, provides, besides an assessment of progress made over the reference period, also a dynamic, forward-looking evaluation of Cyprus' economic performance.

The Report contains a separate section examining the extent to which Cyprus has addressed the Accession Partnership priorities.

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 of each country in terms of its 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 National Programmes for the Adoption of the *Acquis* of each of the candidate countries, as well as 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 negotiations¹, have served as additional sources. Council deliberations and European Parliament reports and resolutions² 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.

¹ As in previous years, the Report does not mention any commitments undertaken or requests made in the context of the accession negotiations.

² For the European Parliament the *rapporteur* is Mr. Jacques Poos.

b) Relations between the European Union and Cyprus

Relations between the EU and Cyprus are based on the Association Agreement of 1973 and the Accession Partnership (AP) of April 2000³. Cyprus has continued to implement the Association Agreement correctly.

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 by the year 2003. The Agreement contains arrangements on trade and customs matters. It was supplemented by four Financial Protocols concerning financial and technical co-operation. Full liberalisation of trade, due to take place as the next stage, has not been completed because of the start of the accession negotiations.

In December 2000, the 4th meeting of the *EU-Cyprus Association Committee* took place in Nicosia. The EU and Cyprus assessed the progress as regards the implementation of the Accession Partnership and the enhancement of Cyprus' administrative capacity as well as its participation in Community programmes. It was agreed that a few outstanding trade issues under discussion (see below) would continue to be negotiated.

The *EU-Cyprus Association Council* met for the 19th time in May 2001 in Brussels. The country's preparation for EU accession and on the result of the enhanced pre-accession strategy were discussed and financial co-operation was reviewed. International issues of common interest concerning the situation in the Balkans and in the Middle East were also raised.

The 19th meeting of the *EU/Cyprus Joint Parliamentary Committee*, which took place in Limassol in March 2001, focused on the progress of Cyprus' accession course and laid special emphasis on the implementation of the environmental *acquis*.

In the context of the envisaged second round of negotiations on reciprocal concessions for agricultural products with the countries of Central and Eastern Europe, the Commission is presently preparing for negotiations with Cyprus, aiming at further trade liberalisation concerning agricultural products.

The Council approved a mandate for the Commission to negotiate bilateral trade concessions in the field of fish and fishery products with Cyprus. A derogation from the rules of origin for certain textile products has been agreed between the Commission and Cyprus. The increase of two import quotas (on canned grapes and table wine in bulk) is currently considered.

In general, trade relations between the EU and Cyprus developed well. In 2000 EC imports from Cyprus stood at €999 million (compared to €607million in 1999), while during the same period, EC exports to Cyprus were valued at €3109 million (compared to €2368million in 1999).

³ 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.

Accession Partnership / National Programme for the Adoption of the Acquis

The first Accession Partnership with Cyprus entered into force in March 2000. Its implementation is reviewed in Part D. This Regular Report is accompanied by a proposal from the Commission to update the Accession Partnership.

In August 2001, Cyprus presented a revised National Programme for the Adoption of the *acquis* (NPAA), in which it outlined the strategy for accession, including how to achieve the priorities of the Accession Partnership (see Part D).

Community aid

After the expiry of the 4th Financial Protocol at the end of 1999, the Council adopted the Accession Partnership in May 2000. The total pre-accession budget allocated to Cyprus for the period 2000-2004 adds up to €57 million. These pre-accession funds will finance co-operation projects and activities which are a priority to prepare for accession. One third of the funds should be used to finance bi-communal projects (activities to contribute to the reconciliation of the two Cypriot communities).

The **2000** pre-accession allocation (€9 million) has been programmed to support activities in the following sectors: taxation, customs, Schengen Information System, administrative cooperation, bi-communal projects, and participation in the Community programmes in the sector of education (Socrates, Leonardo, Youth).

The main projects foreseen under the **2001** allocation (€11.5 million) include the following activities: bi-communal projects, VAT and customs harmonisation, upgrading of the state laboratories, urban wastewater, and participation in Community programmes. The implementation of these projects is expected to start in 2002.

As mentioned above, several **bi-communal projects** have been programmed under the 2000 and 2001 budget. The EU will contribute €6.3 million to the urban revitalisation schemes and historical preservation as part of the Nicosia Master Plan. This Plan is aiming to preserve the cultural and historical heritage of the walled city, so as to provide a new impetus for private investments and to improve the urban fabric. The EU project will be implemented through the executing agency of the United Nations Development Programme called UNOPS (United Nations Office for Project Services), which has been active with the Nicosia Master Plan since 1998. The EU is also providing €0.3 million of support for Trade Unions to improve the links between Greek Cypriot and Turkish Cypriot unions and to develop shared interests in the light of accession to the EU. A Communication Strategy (€0.2 million) is designed to increase public awareness and interest in the EU for both Greek and Turkish Cypriot communities.

As regards participation in **Community Programmes**, Cyprus is currently participating in Media II, Life II, the 5th Programme for R&D, Socrates, Leonardo, Youth, and the 3rd Multi-annual Programme for SMEs. In order to streamline Community legal procedures and thereby facilitate future participation of Cyprus in Community programmes, an Agreement is in the process of being concluded between the European Community and Cyprus establishing the general principles for such participation.

Twinning

One of the main challenges the candidate countries continue to face is the need to strengthen their administrative capacity to implement and enforce the *acquis*. As of 1998, the European Commission proposed to mobilise significant human and financial resources to help them in this respect, through the process of twinning of administrations and agencies. The vast body of Member States' expertise is now being made available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions.

For Cyprus several twinning projects will take place in 2001 and 2002, particularly in the fields of structural funds, state aids, metrology, insurance and asylum.

Negotiations / screening

The analytical examination of the *acquis* (screening) for Cyprus started in April 1998 and was concluded in 2000, covering the new *acquis* up to 1 January 2000. Since that time, screening takes place in the framework of the accession negotiations.

Since the opening of the accession negotiations, substantial discussions on the individual chapters of the *acquis* have started, and negotiations on all chapters (with the exception of chapter 30 - Institutions and chapter 31 – Other) have been opened. It is to be recalled that President Clerides reiterated his invitation to the Turkish Cypriot community to nominate its representatives in the negotiating team.

By the end of September 2001, the following 23 chapters had been provisionally closed: Free Movement of Goods; Free Movement of Persons; Freedom to Provide Services; Free Movement of Capital; Company Law; Fisheries; Transport; Economic and Monetary Union; Statistics, Employment and Social Affairs; Energy; Industrial Policy; Small and Medium-Sized Undertakings; Science and Research; Education and Training; Telecommunication and Information Technologies; Culture and Audio-Visual Policy; Environment; Consumer and Health Protection; Customs Union; External Relations; Common Foreign and Security Policy as well as Financial Control.

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 they must have achieved “stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”⁴

In its 2000 Regular Report on Cyprus’ progress towards accession, the Commission concluded that:

“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.”

The section below provides an assessment of developments in Cyprus since the 2000 Regular Report, notably from the perspective of the Copenhagen political criteria, including the functioning of the executive and the judicial system. This is closely linked to Cyprus’ ability to implement the *acquis*, in particular in the field of justice and home affairs. More detailed information on this 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

Parliamentary elections were held on 28 May 2001, in line with international standards, and were contested by eight parties. While the Progressive Party of the Working People now has the most seats in Parliament, the results brought no change to the coalition government consisting of the Democratic Rally and the United Democrats. Three new parties won seats for the first time and are now represented in the National Council (advisory body to the President on the Cyprus issue).

The European Court of Human Rights (ECtHR) has delivered three rulings in cases of relevance to Cyprus: “Cyprus vs Turkey” (10 May 2001)⁵, “Egmez vs Cyprus” (20 December 2000) and “Denizci and others vs Cyprus” (23 May 2001).

⁴ These principles have been emphasized in the Charter of Fundamental Rights of the European Union, that was proclaimed at the Nice European Council in December 2000.

⁵ This ruling is addressed in Part B. 1.3. Prospects for a political settlement.

1.1. Democracy and the rule of law

As mentioned in the previous Regular 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.

The parliament

The House of Representatives has eighty seats and the term of office is five years. Fifty-six representatives are elected by the Greek Cypriot community while twenty-four seats are allocated to the Turkish Cypriot community.

The House has continued to function smoothly and has made considerable progress with legislation. A large number of bills regarding alignment with the *acquis* have been adopted over the past year. The House applies a fast-track procedure for adopting EU-relevant bills and regulations which have been examined by the Committee on Foreign and European Affairs.

The new parliament held its inaugural session on 7 June. The leader of the Progressive Party of the Working People was elected President (Speaker) of the House. One notable change in the working of the current Parliament is the division of the Foreign and European Affairs Committee into two committees, for Foreign Affairs and European Affairs respectively, in view of the amount of legislation still to be adopted in the context of EU accession.

The executive

Executive power is vested in the President of the Republic who is elected for a five-year term. He appoints a Council of Ministers. Each Minister heads a Ministry (of which there are eleven) which exercises executive power in its domain as defined in the Constitution. The Public Service Commission, appointed by the President, is responsible for appointing, promoting, retiring and exercising disciplinary control over officials.

The Chief Negotiator and Coordinator of the harmonisation process has overall responsibility for the negotiations. He is supported by the Ministry of Foreign Affairs, the Law Office and the Planning Bureau. The latter is responsible for inter-ministerial technical co-ordination on the harmonisation process and the implementation of the pre-accession strategy. Each Ministry has appointed one or two co-ordinators for the harmonisation process and the pre-accession strategy.

Public administration reform is an ongoing process aiming at increased effectiveness and preparing for future participation in EU structures. During the last year the Public Administration and Personnel Service has undertaken a number of studies in order to re-examine current organisational structures, including staff numbers, grades and levels of responsibility. As a result of these studies a supplementary budget for 2001 (including 185 additional posts) was approved.

Efforts have been made to emphasise merit and transparency in the appointment and promotion of staff, for instance, by clearly defining the boundaries within which the Public Service Commission and advisory committees can exercise discretionary power. During the last year there were 309 appeals to the Supreme Court against decisions of the Public Service

Commission (245 in 1999). A law was adopted by the House of Representatives on 1 March 2001 which makes it illegal to intervene in the appointment or promotion of any person within the Public Service or semi-governmental organisations. During the last year, 10 disciplinary procedures have been brought before the Public Service Commission and six have been concluded, some cases leading to dismissal.

The Cyprus Academy of Public Administration provides training for the civil service. It has undertaken activities in the fields of management training, information technology and EU issues. On the latter, training has been organised through the European Institute of Public Administration at Maastricht and the National Centre of Public Administration of Greece. Technical assistance has also been financed through TAIEX.

In line with requirements of the European Charter of Local Self Government, local government in Cyprus is recognised by the Municipalities Law of 1985 and the 1999 Communities Law. Cyprus is divided into 6 districts and two types of local government, i.e. Municipalities (33) and Community Councils (576). The Union of Municipalities of Cyprus participates in special sessions of the Committee of the Regions. The main financial resources of the Municipalities and the Community Councils are government subsidies, and professional and local taxes. The Council of Ministers has decided on the establishment of two programming regions that will allow for a more coherent development policy. A Citizen's Charter assists citizens in exercising their rights vis-à-vis the administration.

The judicial system

There continues to be a high standard of justice. Independence and impartiality of the judiciary is ensured. Through a two-tier system (first instance courts and Supreme Court), the right to fair trial is guaranteed.

The Supreme Court is the final appellate court, determining *inter alia* the constitutionality of laws and the legality of administrative acts. Supreme Court judges are appointed by the President of the Republic.

There are currently 84 judges - 55 in the District Courts, 13 in the Supreme Court, and the remainder in the Family, Industrial Disputes, Rent Control and Military Courts. The judiciary has requested the creation of 10 new posts for this year. Adequate budgetary support and appropriate remuneration for judges is ensured. First instance judges are appointed by the Supreme Council of the Judicature. The tenure of judges is predetermined by the constitution in the case of Supreme Court judges, and by law in the case of first instance judiciary. In addition, a Tax Tribunal made up of arbitrators continue to decide in cases between the Inland Revenue Department and individual taxpayers.

Cases are generally concluded within a reasonable time. According to a Supreme Court regulation, all Court judgements must be delivered within 6 months from the conclusion of the hearing of the case. However, twice in 2000 Cyprus was ordered by the European Court of Human Rights to pay damages for unreasonable delays in civil proceedings before the Supreme Court. Cyprus is addressing these shortcomings through a series of legislative amendments, aiming at expediting the administration of justice at first instance. These include the expansion of powers of District Court judges, and changes in the rules of civil and criminal procedure. In first instance jurisdiction (civil, criminal, family, rent control, labour disputes and military courts), the

number of cases pending has decreased in recent years. Judgements seem also to be enforced more speedily. For example, out of 106 195 writs of movables issued between 1996 - 2000 (inclusive), 105 998 were executed in that period.

The training programme for judges includes human rights law with particular reference to the European Convention on Human Rights, EC law, and civil and criminal procedure with special emphasis on arrest and detention. Five seminars on European Law were organised during 2000.

The development of a Courts' administration system to facilitate the monitoring of all civil and criminal cases and automation of the Courts' processes has continued. In addition, a comprehensive legal information data bank is being prepared.

Criminal proceedings for any offence against any person in the Republic are conducted under the instructions of the Attorney-General, an Independent Officer who holds office on the same terms and conditions as the Supreme Court judges. The Attorney-General exercises his powers in person or through officers of the Law Office who are qualified lawyers appointed by the Public Service Commission. Prosecution may also be initiated by police officers or other governmental officials such as District Administrations, Social Insurance Department, Customs and Excise Department and Inland Revenue, under the direction of the Attorney General. 50 new posts for prosecutors will be created at the Law Office of the Republic, thus changing the current system. In addition, following the *Egmez vs. Cyprus* case (*see below*), the Attorney-General can now appoint criminal investigators in any case concerning alleged use of criminal force by the the police forces which may come to his notice.

Anti-corruption measures

Cypriot legislation contains extensive provisions to prevent and combat fraud and corruption. The Criminal Code defines a series of offences of official corruption, such as extortion by public officers, abuse of office, or neglect of official duty.

As regards the harmonisation process and the ratification of international conventions, Cyprus ratified the Council of Europe Criminal Law Convention on Corruption in January 2001, but has not yet ratified the Civil Law Convention on Corruption that it signed in November 1999. It has submitted an application to join the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (for further details see chapter 24 – Justice and Home Affairs – of Part B. 3.1).

Cyprus is a member of the Group of States against Corruption (GRECO) of the Council of Europe which monitors the implementation measures against corruption in each member state. The evaluation mission for Cyprus took place in December 2000 but the report has not yet been published.

1.2. Human rights and the protection of minorities

As mentioned in the previous Regular Reports, Cyprus continues to respect human rights and freedoms. The following section concentrates on major developments since the last Regular Report.

Cyprus has ratified all major human rights conventions (see Annex) and signed Protocol 12 to the European Convention on Human Rights on 4 November 2000 prohibiting discrimination on any grounds.

Whereas Art. 28 (2) of the Constitution prohibits any direct or indirect discrimination against any person on the grounds of his community, race, religion, language, sex, political or other convictions, national or social descent, birth, colour, wealth, social class, or any ground whatsoever, there is no specific implementation legislation for the EC non-discrimination directives adopted in 2000 (see in detail Chapter 13 – Social and Employment Policy of Part B. 3.1).

The Office of the Ombudsman, whose task is to investigate, report on and recommend acts or omissions of the administration, including local authorities, as well as alleged ill-treatment by members of the police, continues to function well. During 2000, the Ombudsman dealt with 1 121 cases, a considerable number of which were filed against the Immigration Services.

Civil and political rights

The situation as regards the respect for civil and political rights continues to be generally satisfactory. Several further positive developments can be reported, while some specific issues that exist due to the Cyprus problem remain a matter of concern.

Art. 7(2) of the 1960 constitution allows for the *death penalty* in cases of premeditated murder, high treason, piracy *jure gentium* and capital offences under military law provided that a law exists to that effect. Under the revised Military Criminal Code of 1995 six military offences are punishable with death only if committed in times of war. With the entry into force of Protocol 6 to the ECHR in February 2000 Cyprus committed itself internationally not to reintroduce the death penalty in times of peace.

Cypriot law prohibits *torture and inhuman or degrading treatment*. The Council of Ministers has delegated to the Attorney General the power to appoint special investigators to look into alleged criminal offences by the police force. Several times he has exercised this right and, in some cases, criminal charges against police officers have been brought.

In two cases⁶, relating to events in 1995 and 1994 respectively, the European Court of Human Rights found that policemen had gone beyond reasonable use of force against suspects who were Turkish Cypriots. In the latter case the Court also found a violation of the right to liberty and security, since no legal basis for the applicants' arrest and detention could be shown. The government promptly paid the compensation awarded to the applicant in the first case and has announced its intention to pay shortly in the second. However, in the Denizci case, the perpetrators have not yet been sanctioned.

As regards *trafficking in human beings* Cyprus signed the two Protocols to the UN Convention against Transnational Crime on trafficking in women and children and the smuggling of would-be immigrants in December 2000 (for more details, see Part B. 3.1. Chapter 24).

Pre-trial detention is strictly regulated. Any person arrested must be brought before a judge

⁶ Egmez v. Cyprus of 20 December 2000 and Denizci vs. Cyprus of 23 May 2001.

within 24 hours. Any person deprived of his liberty has the right to institute proceedings challenging the validity of detention. He can also apply to the Supreme Court for the issue of a writ of Habeas Corpus ordering his release. In April 2001, the Government proposed a bill providing for payment of just and reasonable compensation to persons having partially served a term of imprisonment following conviction for a criminal offence, when their conviction is quashed or their sentence reduced on appeal to the Supreme Court.

In March 2001, a group of some 150 Turkish Cypriots of Roma origin crossed from north to south. It appears that initially the Ministry of Interior was unable to offer housing and some of this group were held at detention centres to determine their origin. Finally, the Attorney General ordered and secured the immediate release of 43 Roma detained in violation of the law.

Prison conditions in Cyprus respect international standards. During the last year two new detention-centres have been created and two other wards are being upgraded. These measures should alleviate overpopulation and allow for the separation of prisoners according to their age and the severity of punishment, a principle that is currently not fully respected in practice. In 2001, 48 new posts were created to meet the needs of the Prisons Department.

Free *legal aid* is currently available only in criminal cases. A bill providing for legal aid in civil proceedings is pending.

According to statistics of the UN High Commissioner for Refugees, Cyprus received 651 applications for *refugee* status in 2000, followed by another 676 applications in the period up to 1 August 2001, mainly from Yugoslav and Iranian nationals. Although this constitutes a sharp increase compared with the average number of applications up until 1998, for the most part the system operates satisfactorily, and the number of applicants kept in detention decreased in 2000. However, cases of forced return at the border have been reported this year.

Immigrants face incidents of *racism* and discrimination according to the report of the European Commission on Racism and Intolerance of 15 December 2000 and statements made by an association for the rights of migrant workers, an association of foreign workers in Cyprus. Following a recommendation of the Ombudsman, all complaints by foreign workers against their employers about sexual harassment of women, mistreatment, non-payment of wages and threat of deportation are now dealt with by the District Labour Offices of the Ministry of Labour and Social Insurance.

A difference in age as regards consent, depending on sexual orientation, remains in Cypriot penal law.

Freedom of religion and *freedom of speech* are guaranteed under Art. 18 and 19 of the constitution and continue to be generally respected.

The constitution affords to every person the right of *freedom of peaceful assembly and of association* with others, including the right to form and join trade unions for the protection of his interests. The right of association also applies to the formation of companies, societies and other associations functioning for profit.

Some specific issues in relation to various civil and political rights exist due to the Cyprus problem.

The exact state of *missing persons*, including children, is still uncertain since the UN Committee involving both communities has not made any progress. However, the government has unilaterally proceeded to exhume and identify remains bringing the original number of 1619 listed missing to 1 482 in July 2001. The Ministry of Foreign Affairs requested the assistance of Turkish Cypriot relatives in the northern part in the DNA testing process.

The *right to marry* is restricted *de facto* for Turkish Cypriots living in the south since there are no proper institutions to carry out the relevant law on marriages adopted by the Turkish Cypriot Communal Chamber at the beginning of the 1960's. Therefore inter-communal marriages are impossible. A bill aimed at remedying this situation is pending.

The *right to vote* of Turkish Cypriots living in the south is restricted by the fact that the Turkish Cypriot Community does not hold elections in accordance with the 1960 constitution. The application by a Turkish Cypriot living in the south and holding a Cypriot passport to be enrolled in the voters list of the Greek Cypriot Community for the national elections was dismissed by the Supreme Court on 23 May 2001 on constitutional grounds. Two days later, he filed an application before the ECHR for an alleged breach of his right to free elections.⁷

A small number of the approximately 300-400 Turkish Cypriots residing in the south complained to UNFICYP⁸ of being subject to unlawful surveillance by members of the security forces.

Economic, social and cultural rights

As regards *equal opportunities* Cypriot women have the same legal status as men. Measures are being undertaken in order to implement equality between men and women in the field of social security. There is an advisory body to the Council of Ministers on gender policies (for further detail see Part B. 3.1., chapter 13: Social policy and employment). Despite the recent increase in the number of women elected to the House of Representatives (of the 454 candidates for the House there were 86 women, compared to 55 in 1996; 6 were elected, 3 more than in the previous legislature), women are still under-represented in political life.

The minimum age for employment of *children* in the industrial sector is 16 years. The application of this legislation is checked by Labour Inspectors. Laws prohibiting forced child labour are effectively enforced. In February 2001 Cyprus signed the May 2000 Protocol to the UN Convention on the Rights of the Child on the sale of children, child protection and child pornography.

Legislation provides incentives for employment of *disabled persons*. When applying for a public sector position they are entitled to preference as long as their qualifications are the same as those of the other applicants and they are considered able to perform the required duties. There are also provisions that new buildings and tourist facilities should allow access for the disabled, although they are not always enforced.

The *right to form and join trade unions* is guaranteed by the Constitution. More than 70% of the workforce belong to trade unions. These unions are independent, and the right to strike is

⁷ Aziz vs. Cyprus, ref. number 69949/01.

⁸ United Nations Peace Keeping Force in Cyprus.

granted. They are free to organise and bargain collectively, and most wages and benefits are the result of such agreements.

Cyprus is a party to the *European Social Charter* as well as its revised version. It has accepted the system of collective complaints under the Additional Protocol. Between June and December 2000, the European Committee of Social Rights examined the report submitted by Cyprus. It concluded that most of the provisions of the Charter are respected, but that Article 1 para. 2 on the prohibition of forced labour was not fully complied with.

Minority rights and the protection of minorities

Cyprus has ratified the Framework Convention for the Protection of National Minorities. According to Art. 2 of the constitution, all Cypriot citizens are deemed to belong to either the Greek Community or the Turkish Community. The three religious groups - Armenians (0.4%), Maronites (0.6%) and Latins [Roman Catholics] (0.1 - which were given the option of becoming members of either the Greek or the Turkish Community, opted as a group to belong to the Greek Community. It appears that this constitutional provision may not be compatible with Art. 3 of the Framework Convention under which every person belonging to a national minority shall have the right freely to choose whether to be treated as such.

However, in addition to their normal voting rights, the Armenian, Maronite and Latin groups elect non-voting representatives to the House of Representatives from their respective groups. These advise on religious affairs.

The five major religious groups receive government subsidies and are exempt from taxes. The right of religious groups and communities to set up and operate their own schools is safeguarded and financially assisted by the State. The State thus covers fees and expenses of, *inter alia*, Turkish Cypriot pupils whose families reside in the south and who attend private schools, both at elementary and secondary levels. The government has recently decided to establish an elementary school for Maronites.

1.3. General evaluation⁹

Cyprus continues to fulfil the Copenhagen political criteria. Further efforts have been made to prepare the administration for operation within the EU, and the authorities' record on democratic and human rights remains generally good.

⁹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

2. Prospects for a political settlement

The UN process

Since the last regular report, the fifth round of proximity talks took place in Geneva in November 2000. At the end of that round, the UN Secretary-General (UNSG), Mr. Kofi Annan, presented orally to both parties ideas for a comprehensive settlement with regard to the four core issues – constitution, security, territory and property. He referred to two component states, each with its own basic law, forming a common state. The component states should be largely self-governing. He indicated that “a comprehensive settlement would commit Cyprus to EU membership”. He expressed the hope that “the EU would be prepared to address special and legitimate concerns in regard to accession”. Mr. Annan added that “a comprehensive settlement negotiated by the UN should not present an obstacle for EU membership nor need to be re-negotiated when the terms of accession are established”. It is to be noted that the Greek Cypriot side expressed its readiness to continue the talks on the basis of the relevant UNSC Resolutions and the UNSG’s ideas.

In December 2000 the UNSG invited the leaders of the two sides to attend a sixth round of proximity talks in Geneva in late January 2001. The Turkish Cypriot leader, Mr. Denktash, asked that no date for proximity talks be set, and since then the talks have not been resumed. The UN continued to hold consultations with a number of governments and organisations. In that context officials of the UN and the Commission have discussed (in March 2001 in Geneva and in June 2001 in Brussels) aspects of the *EC acquis*.

In late August 2001 Commissioner Verheugen and Mr. Denktash met in Zurich. They exchanged views on the Cyprus issue, the enlargement process and discussed how Turkish Cypriot concerns could be taken into account.

A renewed invitation to resume the search for a comprehensive settlement was made by the UN following the visit of the UN Secretary-General’s Special Adviser for Cyprus, Mr. Alvaro de Soto, to the island in early September. While President Clerides accepted the invitation, Mr. Denktash declined the invitation, claiming that the ground had not been sufficiently prepared. Following this development, on 26 September, the President of the UNSC expressed in a statement its disappointment. This statement was supported by the EU Presidency.

The UN Security Council adopted resolutions in December 2000 and June 2001 for the six-month extension of the mandate of the UN Peacekeeping Force in Cyprus (UNFICYP). UNFICYP has assisted in organising activities involving both Greek and Turkish Cypriots at Ledra Palace: meetings of political party representatives; an information technology conference; gatherings of businessmen and non-governmental organisations; and a large public event involving approximately 3,000 young people, organised by the youth branches of political parties.

The UN Development Program (UNDP), through the UN Office for Project Services (UNOPS), has continued to implement its bi-communal programmes in areas of mutual concern, notably public health, environment, sanitation, water, urban renovation, preservation of cultural heritage, natural resources and education.

EU position

The Helsinki European Council of December 1999 underlined that “...a political settlement will facilitate the accession of Cyprus to the European Union. If no settlement has been reached by the completion of the accession negotiations, the Council’s decision on accession will be taken without the above being a precondition. In this the Council will take account of all relevant factors.”

The EU Summit in Nice in December 2000 welcomed and strongly supported the efforts of the UNSG to achieve an overall settlement of the Cyprus problem consistent with the UN Security Council Resolutions and to arrive at a positive conclusion of the process initiated in December 1999. It appealed to all the parties concerned to contribute to the efforts made to this effect. The European Parliament has frequently addressed various issues arising from the political situation.

The Cyprus problem was discussed at meetings of the EU-Cyprus Association Committee (December 2000) and Association Council (May 2001), and efforts for a settlement were identified as a short-term priority in the Accession Partnership with Cyprus, published in November 2000. As laid down in the Accession Partnership with Turkey of March 2001, it is also a short-term priority for this country to strongly support the UN Secretary General’s efforts to bring to a successful conclusion the process of finding a comprehensive settlement. The issue was raised in the enhanced political dialogue and in the Association Council with Turkey in June 2001, and has also been discussed in bilateral contacts with certain third countries.

EU representatives expressed disappointment at Mr. Denktash’s unwillingness to continue to participate in the UN proximity talks and his decision to decline the invitation of the UN Secretary-General in early September referred to above. In this respect, the EU considers that Turkey has an important role to play in ensuring that the efforts undertaken by UNSG lead to positive results in the months ahead.

As requested by the General Affairs Council in 1995, the Commission promotes bi-communal projects, partly in cooperation with the UN, and provides information about the EU to the Turkish Cypriot community. These efforts include the opening of an information center, supported by the Commission’s Delegation in Nicosia, within the premises of the Turkish Cypriot Chamber of Commerce. As part of the Commission’s information campaign, lectures on Community policies are given to Turkish Cypriot businesspeople and other interested persons through the framework of the Chamber of Commerce. Bi-communal activities could be developed more effectively by the removal of restrictions imposed by the Turkish Cypriot leadership on crossing the “green line” to take part in such events.

The situation in the northern part of the island

In last year’s Regular Report information was provided on the situation in the northern part of Cyprus. The overall political situation remains essentially unchanged in the period covered by the present report. Nonetheless a number of developments have occurred which are reported below. This section also contains an analysis of the economic situation.

The European Court of Human Rights (ECtHR), in a Decision of 10 May 2001¹⁰ highlighting the situation between 1974 and 1994 established *inter alia* that Turkey is obliged to secure all human rights set out in the European Convention on Human Rights (ECHR) in northern Cyprus. The Court found that “having effective overall control over northern Cyprus, its (Turkey’s) responsibility cannot be confined to the acts of its own soldiers or officials in northern Cyprus but must also be engaged by virtue of the acts of the local administration which survives by virtue of Turkish military and other support”.

The Court also held that the refusal to allow the return of Greek-Cypriot displaced persons to their homes in northern Cyprus constitutes a continuing violation of the ECHR.

Furthermore, the ECtHR found that Turkey has failed to conduct an effective investigation into the fate of Greek Cypriot missing persons who disappeared after July 1974, which amounted to a violation of the right to life and the right to personal liberty. Finally, it held that “there is a functioning court system for the settlement of disputes (...) which is available to the Greek-Cypriot population”.

The Committee of Ministers of the Council of Europe, in its third interim resolution in the case *Loizidou vs Turkey* on 26 June 2001, deplored the fact that Turkey has still not complied with its obligations under this judgement to pay compensation for the unlawful interference with the property rights of Mrs. Loizidou.

In other developments, a Greek Cypriot, Mr. Tsiakourmas, was abducted from a UK Sovereign Base Area (SBA) on 12 December 2000. On 26 April 2001, he was sentenced for possessing 1.1 kilos of cannabis to six months in prison, but was released the same day because of time already served in prison. During the trial, SBA police presented statements to the effect that there had been an abduction and that no trace of drugs had been found in Mr. Tsiakourmas's car. This case, and the circumstances in which it was brought, pose a number of questions concerning due process of law in the northern part of the island.

More encouragingly, proceedings against a journalist, who had written a critical article on the quality of justice, were dismissed on the grounds that he had exercised the right of free speech.

A new organisation calling itself the National People’s Movement and professing extreme nationalist views, was established on 19 May 2001.

On 24 May 2001, a bomb destroyed the printing materials of the newspaper AVRUPA, which frequently expresses critical views. There is no evidence of proper investigation of this attack.

On 11 July 2001, four teachers of the Turkish Teachers Trade Union KTOS were prevented from flying to Greece to attend the Children’s Olympics with 17 children from Famagusta. KTOS, which has expressed dissatisfaction with the Turkish military presence on the island, has been the subject of repressive measures.

Restrictions have been placed on bi-communal activities and non-governmental organisations have been warned not to contact embassies.

¹⁰ Cyprus vs. Turkey, Application No. 25781/94.

On 12 July 2001, forty one associations, opposition parties and trade unions organised a rally with 3000-4000 participants under the slogan "This Country is Ours!". The demonstrators protested against the economic situation and called for a more positive attitude to the EU and to bi-communal activities.

In terms of the *economic situation*, per capita income in the northern part of Cyprus continues to lag far behind. Estimates put income at some €5000 per head in 2000. The northern part of the island faces severe shortages of capital, skills and business opportunities. The public sector is the largest employer and has a pervasive presence in the economy, with many branches of the economy in public ownership.

The financial and economic crisis in Turkey in early 2001, following the crisis in 2000, further aggravated the economic situation and the difficulties in the financial sector. Turkish currency is in use in the northern part of the island, which has no independent monetary policy. High inflation, currently over 50 per cent on an annual basis, coupled with large trade and budget deficits, have produced an economic situation which is only sustained by transfers from Turkey. Trade is heavily dependent on the Turkish market. The large tourism potential remains largely undeveloped.

Real growth in output fell from 7.4 per cent in 1999 to just 0.8 per cent in 2000. Although data for 2001 are mostly lacking, it is clear that the northern part of Cyprus is facing an economic crisis. Public-sector wages were raised by only 8 per cent for 2001, implying a substantial decline in purchasing power. The loss of purchasing power by private-sector workers is of a similar order of magnitude. Since February 2001, 76 companies in northern Cyprus have declared bankruptcy, with the textile industry among the most affected. Eight banks have collapsed since late 1999.

The northern part of Cyprus remains heavily dependent on fiscal transfers from Turkey. On an annual equivalent basis, Turkey provides at least €100-200 million in economic and financial support, in the form of direct aid, loans, subsidies and other grants. However, a protocol signed in January 2000 effectively reduced annual economic support by at least 40 per cent for the period 2001-2003.

Output in the agricultural sector, the largest sector in terms of employment after public services, has increased so far this year. Rainfall has been sufficient, following severe droughts in recent years. However, the increase in the local supply of agricultural products has led to a decline in prices. Plans to end intervention in agricultural markets, in line with the economic and social package, have been abandoned and a minimum price maintained.

Educational establishments have become an important source of earnings, generating around fifteen per cent of gross income in the northern part of the island.

Turkey has indicated that it may pursue a greater level of integration of the northern part of Cyprus with the Turkish economy; in January 2001, a programme along these lines was approved in Ankara covering transport and trade.

A political settlement and EU accession

It is the preference of the European Union that a settlement under UN auspices be reached before Cyprus's accession, although, in line with the Helsinki European Council conclusions, this is not a pre-condition for Cyprus's accession.

EU membership, in the context of a political settlement, will enable all Cypriots to enjoy the guarantee of fundamental democratic and human rights including the respect of cultural, religious and linguistic diversity. In the context of EU membership, the principles of democracy and the rule of law will be safeguarded throughout the island. Both Greek and Turkish Cypriots will participate in the work of EU institutions.

EU membership, in the framework of a settlement, will provide the most effective means for the northern part of the island to catch up in terms of economic modernisation, growth and development. The economic reforms associated with EU accession will reduce disparities in incomes and in living standards on the island.

Structural adjustments will be needed to prepare for the implementation of the *acquis* and for economic actors to cope with competitive pressure. With a view to accession, priority objectives will include the establishment of a supportive and stable financial environment, and a high level of public and private investment, leading to the improvement of physical infrastructure. Trade and investment, in particular with EU partners, will expand rapidly, subject to any conditions which may be included in a settlement. The EU's customs union with Turkey will ensure that no new barriers are created in trade with that country.

Many sectors, such as agriculture and tourism, will develop rapidly in the course of accession. Efforts in the north to develop a market economy with the capacity to cope with competitive pressure and market forces within the single market will be supported, in the context of accession, through the structural funds and other EU programmes and networks.

There is a window of opportunity for reaching a settlement, reflecting the concerns of the respective parties, before the end of the accession negotiations. This will allow the Turkish Cypriots to be part of the accession process and to enjoy the benefits of accession.

The Commission considers that matters arising from a settlement, which have implications for the *acquis*, can be accommodated in the accession framework in line with the principles on which the European Union is founded. In the pursuit of a settlement it should be borne in mind that a Member State is free to determine its own constitutional arrangements provided that it is able to speak with one voice in the EU decision-making process and to ensure fulfilment of its EU obligations.

Member States of the European Union are entitled to decide on their own security arrangements. Therefore security arrangements agreed by the parties in the framework of a settlement of the Cyprus problem would not be affected by EU accession.

A majority of Cypriots throughout the island appreciate the economic and political benefits of EU membership. Opinion polls show that more than 90 per cent of Turkish Cypriots favour EU accession following a settlement.

The efforts of the United Nations to find a solution to the Cyprus problem and the EU accession process are mutually reinforcing. There is now an opportunity for the successful conclusion of both processes. This will bring reconciliation, higher living standards and greater stability in the region.

3. Economic Criteria

3.1. 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 2000 Regular Report the Commission found that:

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

In examining the economic developments in Cyprus since the Opinion, 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; and
- the capacity to cope with competitive pressure and market forces within the Union.

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

3.2. Economic Developments

During the last 12 months, the macroeconomic environment has improved. Economic growth has continued to be strong, largely as a result of strong tourism receipts. Consumer demand has proven to be very resilient, despite the significant reduction in private sector wealth in the wake of the stock market crash of 2000. The fiscal deficit, which has caused some concern in recent regular reports, narrowed significantly. Inflation, which rose sharply during the first half of 2000, began to fall quickly after the summer. Recently, strong consumption-related import growth has led to a substantial current account deterioration.

Main economic trends							
Cyprus		1996	1997	1998	1999	2000	2001 latest
Real GDP growth rate	per cent	1.9	2.5	5.0	4.5	4.8	:
Inflation rate ¹¹							
- annual average	per cent	3.0	3.3	2.3	1.1	4.9	3.0 ¹² July
- December-on-December	per cent	2.5	3.8	0.8	3.5	3.7	2.2 Sept.
Unemployment rate, end-year							
- ILO definition	per cent	3.1	3.4	3.4	3.6	4.9 ¹³	:
General government budget balance	per cent of GDP	-3.3	-5.2	-3.7	-4.0	-3.2	:
Current account balance	per cent of GDP	-5.3	-4.0	-6.6	-2.4	-5.2	
	million ECU/euro	-370	-299	-538	-204	-495	:
Foreign debt							
- debt export ratio	Per cent	258.3	312.9	312.8	360.7	377.9	:
- gross foreign debt	million ECU/euro	8,495	11,030	11,056	13,736	16,570	:
Foreign direct investment in flow							
- balance of payments data	per cent of GDP	0.6	0.9	0.8	1.3	1.8	:
	million ECU/euro	44	67	61	114	174	:

Over the last year, Cyprus has also made progress towards resolving a number of structural policy challenges, most notably within the financial sector, the environment, and healthcare. Both the financial sector and the capital account took major steps towards greater liberalisation. In January 2001, the nine-percent interest rate ceiling was abolished. At the same time, a further round of capital account liberalisation was completed. These measures pose new challenges to the economy which need to be addressed. The supply of water - the

¹¹ PROXY HICP since 1998 (see methodological notes).

¹² Moving 12 month average rate of change

¹³ Unemployment rate until 1999 based on registered unemployed, as from 2000 based on LFS methodology\

most pressing environmental challenge - was greatly improved with the completion of a new desalination plant. The health sector reform process moved decisively into the implementation stage when the enabling legislation was approved by Parliament.

Main Indicators of Economic Structure in 2000		
Population (average)	thousand	757
GDP per head ¹⁴	PPS	18,500
	per cent of EU average	83
Share of agriculture ¹⁵ in:		
- gross value added	per cent	3.8
- employment	per cent	9.2 P
Investment-to-GDP ratio ¹⁶	per cent	18.7
Gross foreign debt/GDP ¹⁷	per cent	174.3
Exports of goods & services/GDP	per cent	46.1
Stock of foreign direct investment	million euro	:
	euro per head ¹⁸	:

In recent years, GDP per capita has converged quickly towards the EU average. In 2000, GDP per capita in purchasing power standard (PPS) as a percentage of the EU average stood at almost 83%, compared to just over 79% in 1995. The situation in the labour market is favourable. The employment rate, at 65.5% in 2000, is high, especially for males. The overall unemployment rate stood at 4.9% in 2000¹⁹. The unemployment rate for young people (under 25) was relatively high at 10.5% . The gap between male and female unemployment continued to be wide, with 3.6% for males and 7.5 % for females in 2000. There is only limited long-term unemployment, estimated at 28.6 % of all unemployed in 2000. There is a comprehensive social security system, buttressed by a powerful informal social safety net based upon the family.

¹⁴ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁵ Agriculture, hunting, forestry and fishing.

¹⁶ Data refer to Gross capital formation as % of GDP.

¹⁷ Estimated.

¹⁸ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

¹⁹ The unemployment rate until 1999 was based on registered unemployment, while from 2000 onward it is based on labour force survey (LFS) methodology.

3.3. Assessment in terms of the Copenhagen criteria

The existence of a functioning market economy

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

There is broad consensus about the key objectives of economic policy. Accession to the European Union enjoys wide support among all political parties. In May 2000, the Cypriot authorities presented their pre-accession economic programme (PEP) to the European Commission. The programme was adopted by the Council of Ministers in July 2001, and a summary presented to Parliament. There was a high degree of inter-institutional co-operation during the elaboration of the PEP, particularly between the fiscal and monetary authorities. In addition, relevant line ministries provided strong contributions to the structural reforms chapter.

Cyprus has enjoyed many years of robust economic growth. Between 1996 and 2000, the Cypriot economy grew by an average 4% per year. The external sector, and in particular the tourism sector, has been the primary source of this impressive economic performance. In 2000 the economy is estimated to have grown by 4.8%. More recent data suggests that domestic demand has become an increasingly important source of GDP growth. Private sector consumption and investment grew rapidly, while government consumption growth was much more subdued. Data for the first half year of 2001 suggest that growth has been slowing down somewhat.

In 2000, the inflation rate increased relative to 1999. The inflation rate based on the EU's harmonised index of consumer prices (HICP) was 4.9%, while the authorities' estimate of consumer price inflation (CPI) was 4.3%. Higher world oil prices increased local energy prices. A drought in early 2000 reduced local agricultural production and so pushed up prices of domestically produced food. An increase in the standard VAT rate from 8 to 10% in July 2000 also placed upward pressures on prices. More recently, these transitory effects have subsided and the inflation rate has fallen considerably. The year-on-year HICP inflation rate for September stood at 2.2%

The labour market is operating close to full employment. For 2000, the registered unemployment rate was estimated at 3.4%²⁰. Due to the rapid expansion of economic activity during the first six months of 2001, registered unemployment fell to below 3%. In 2000, labour productivity growth was 3.4%, unit labour costs increased by 3.5%, and real wages increased by 2.7%.

The central government consolidated deficit declined significantly. Following the slowdown in economic activity in 1996, the fiscal deficit increased to unsustainable levels in 1998 and 1999. In response to the deteriorating fiscal position, in 1999 the authorities introduced the Strategic Fiscal Consolidation Plan (SFCP). The SFCP has proved to be very

²⁰ The labour force survey (LFS) methodology gives an unemployment rate of 4.9%; for 2001 no data are yet available

successful. Subsequently, the consolidated central government deficit fell sharply, particularly after July 2000, when VAT rates were increased by 2 percentage points. For 2000 as a whole, the central government consolidated deficit was 2.7% of GDP, down from 4% in 1999, while the primary surplus (the government budget balance corrected for interest payments) was 2.4% of GDP. Despite the relatively low deficit, conditions in the domestic financial markets have necessitated the renewed use of central bank advances to finance the deficit. The government's overdraft with the central bank accounted for the full deficit financing. General government gross debt as a percentage of GDP increased marginally to 63%.

In 2000, the general government deficit according to harmonised EU standards (ESA95) was 3.2% of GDP. However, this estimate of the deficit is provisional and it does not include the significant downward revisions of the data, which the Ministry of Finance has recently included in the central government consolidated deficit.

Fiscal performance during the first half of 2001 has been slipping somewhat and it is increasingly unlikely that the government will be able to meet its deficit objective of 2.2% of GDP. Although government revenues are enjoying the full impact of the 2% VAT increase, introduced in July 2000, the revenue increase of 10% in January-May 2001 is far less than in 2000. Simultaneously, expenditures increased by 14.5% effectively doubling the government deficit, compared to the same period of 2000.

Already in 1980 Cyprus introduced a full three-tier pension system. All Cypriot workers make an earnings-related contribution to the pension system. All pensioners are guaranteed a minimum level of income, while those who made significant contributions to the system receive higher pension levels. Furthermore, there is extensive private sector provision.

While the pension system is well financed, some adjustments are needed to ensure its long-term sustainability. While population demographics will deteriorate, the situation is not as severe as in other European economies. At present, there are 24 pensioners for every 100 contributors to the pension system. This ratio is unlikely to deteriorate significantly in the next 20 years. However, population projections suggest that over the longer term the ratio of pensioners to contributors will significantly rise. The authorities are considering a number of initiatives, including raising the pension age slightly, and linking pensions more directly to the financial performance of the pension fund.

The health sector reform process is proceeding well. In April 2001, Parliament passed enabling legislation, and now Cyprus has entered the implementation phase. The core ideas of the reform remain unchanged – a) universal and free provision of healthcare, b) a general practitioner-based referrals system, c) mandatory insurance based financing, and d) greater emphasis on cost control mechanisms. Nonetheless, the parliamentary approval process encountered some difficulties. The Legislature has requested the Health Ministry to re-estimate the costs of the new system.

Over the last two years, the tourism sector has grown very rapidly. In 2000, almost 2.7 million tourists visited the southern part of the island; an increase of over 10% compared to 1999. Tourism receipts account for 22% of GDP. Cyprus benefited from favourable exchange rate developments, particularly with respect to the pound sterling.

Despite increased tourist receipts, the current account worsened substantially. The current account deficit has increased from 2.4% of GDP in 1999 to 5.2% of GDP in 2000. Strong private-sector consumption led to a sharp rise in imports, which led to a deterioration in the external sector accounts. Exports of goods and services also enjoyed rapid growth, but imports grew more strongly. In 2000, exports increased by 9%, but imports of goods and services increased by 12.5%. In 2000, foreign direct investment (FDI) inflows were 1.8% of GDP, suggesting that the difference with current account deficit was largely financed by debt creating inflows.

On 1 January 2001, the authorities finally abolished the 9% interest rate ceiling. Interest rates on certain high-risk loans have now broken the 9% ceiling. Additional charges, which were endemic under the old regime, and essentially substituted for higher interest rates, have now disappeared. Monetary policy has now entered a transitional phase. For the next twelve months, a central bank policy determined rate – the Lombard rate – will be the base rate for lending by the commercial banks. However, banks are now free to apply the spreads on their lending according to their assessment of risk and the credit rating of the client. As part of the abolition of the interest rate ceiling, the central bank introduced a number of provisions that would provide temporary protection to vulnerable borrowers such as students and mortgage holders. Due to the comparatively low level of interest rates, these initiatives have not yet had any significant financial implications.

Recent strong capital inflows have exposed potential inconsistencies in the overall macroeconomic policy framework. The authorities are trying to combine a fixed exchange rate with an independent monetary policy as the capital account becomes increasingly liberalised. In January this year, capital account liberalisation took a major step forward. The Central Bank of Cyprus abolished all restrictions on medium-term and long-term borrowing with maturities over two years by residents. One practical implication of this change is that both the banks and private individuals are now allowed to borrow in foreign currency. In an effort to restrain domestic demand, the Central Bank has maintained a rather tight monetary stance. However, during the first half of 2001, a sizeable interest rate differential has developed between euro-denominated loans and domestic loans, and inevitably foreign currency borrowing has risen. This has exposed clients and therefore banks to increased exchange rate risks, although the Central Bank has repeatedly warned about this.

In an effort to confront the challenges posed by greater capital mobility, the central bank has announced that the exchange rate regime will be more flexible. The central bank at first was committed to keeping the exchange rate within the $\pm 2.25\%$ bands in normal times, with fluctuations of $\pm 15\%$ permitted in the event of unusual pressures in the exchange rate market. Yet, during the first half of 2001, there were few convincing signs that the central bank was prepared to be more flexible. Despite strong inflows, the exchange rate remained close to its pre-announced central parity. The central bank's resolve to defend the parity was tested in June, when capital inflows were particularly strong, and it was forced to neutralise the impact of these flows. Subsequently, the central bank abolished the narrower margins in August, concurrent with a decision to lower interest rates to counter the anticipated negative impact of a global economic slowdown on the Cyprus economy. This also reduced the interest differential between euro denominated and domestic loans, diminishing pressure to borrow abroad.

If the authorities continue to maintain a relatively fixed exchange rate regime, fiscal policy will have to become more flexible. More specifically, the fiscal deficit will have to be

reduced further, in order to curtail domestic demand and reduce the current account deficit to more sustainable levels.

With the exception of petrol prices, the vast majority of prices are freely determined. In 2000, the Cypriot authorities partially liberalised petrol prices. Previously, the authorities operated a price stabilisation scheme which capped the price of petrol when world oil prices increased. This scheme proved to be very costly in 2000 when world oil prices rose sharply. While the new system links the domestic price more closely to world prices, there remains a strong element of subsidisation. There are also residual price controls on milk, common bread, and cement.

In 1999, the private sector produced around 80% of GDP. During the last 12 months, the authorities did not privatise any public enterprises. However, in the Pre-accession Economic Programme, the authorities made a commitment to divesting their remaining equity holdings by 2003 in a number of important enterprises, including Cyprus Airways, Cyprus Forest Industries Limited, and the Cyprus Oil refinery.

Market entry is relatively straightforward in most sectors and bankruptcy procedures operate efficiently. However, there are significant barriers to entry in certain key sectors. Several semi-government organisations including telecommunications and electricity enjoy extensive legal monopolies. The authorities are now committed to liberalising these sectors by 2003.

Cyprus has a highly effective legal system, with a well-established body of commercial law. Indeed, the relative strength of its legal system is a major contributory factor to the growth of the offshore sector. Property rights are well established in the southern part of the island, notwithstanding certain complex political issues arising from the conflict in 1974, and the subsequent de facto division of the island.

The financial system is highly developed, and it provides an effective intermediation between savers and investors. The commercial bank part of the sector is well regulated by the central bank. In 2000, domestic banks were adequately capitalised. As of the end of 2000, the average risk adjusted asset ratio of domestic banks was 13.5% (as against 11.7% in 1999). With the exception of the Cyprus Development Bank, the financial sector is in private ownership.

The co-operative banking sector plays a very important role in providing financial services, in particular, to the household sector. There are about 360 co-operative credit and savings societies (CCSS), and the sector accounts for around 30% of bank deposits. At present, 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. The Department of Co-operative Development supervises the co-operative banking sector, while the Co-operative Central Bank, an institution independent of the Central Bank of Cyprus, manages the overall liquidity operations for the sector.

The banking sector needs to be supervised in a consistent manner. The Department of Co-operative Development will continue to be the supervisory agency for the co-operative sector. In an effort to improve its administrative capacity, the department will receive additional resources, including more staff and training facilities. The largest co-operative banks will be

given the opportunity to become full credit institutions with an EU "passport". Meanwhile the central bank will continue to supervise the commercial banking sector. It will be necessary to ensure that the supervision by different agencies of similar financial institutions, i.e. commercial banks and the newly transformed co-operative banks, is sufficiently co-ordinated and carried out in a uniform way.

The domestic securities and equities markets have developed rapidly in recent years. However, confidence in the domestic equities market was shaken after the 1999 speculative bubble in domestic share prices and the inevitable painful correction. This experience provided an important lesson on the importance of capital market regulation. Parliament has recently passed legislation strengthening the Securities and Exchange Commission (SEC), and increasing the penalties for companies who do not comply with stock market regulations.

Cyprus has an extensive offshore sector covering a wide range of activities, including 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, preferential tax arrangements enjoyed by the offshore sector have introduced distortions in the allocation of resources in the economy. The authorities have announced their intention to introduce a major tax reform which would eliminate the preferential treatment.

The offshore financial system is the subject of close international scrutiny as a potential location for money-laundering activities. In recent years, the authorities have made strenuous efforts to counter this reputation. In 1996, a comprehensive anti-money laundering law was put in place. In 1999, the law was further amended to improve customer identification procedures. The authorities have also developed an information reporting system, which has improved the detection of suspicious transactions. A recent (July 2001) IMF assessment of the supervision of the offshore financial sector in Cyprus indicated that supervision was generally effective and thorough.

The capacity to cope with competitive pressures and market forces within the union

The ability to fulfil this criterion depends on the existence of market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. 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 before 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. These are essential requirements for confronting the competitive pressures and market forces within the European Union.

Cyprus has a strong human capital endowment. Over the last 12 years, the tertiary education sector has been strengthened. In 1990, the University of Cyprus was established, and in subsequent years, its activities and facilities have been expanded. The authorities intend to establish a second university in the southern part of the island. Several private sector tertiary institutions have also recently been established. Since the establishment of the university, the proportion of employed persons who have received tertiary education rose from just under 20% to over 28%.

Throughout the 1990s, employment increased by around 1.5% a year. However, domestic labour supply has grown more slowly, and the economy has become increasingly dependent upon temporary foreign labour. In particular, labour force participation among women is low compared to the European Union. Labour productivity increased rapidly. Between 1990 and 1999, GDP per employed person grew by over 20%. Most wages are influenced by the annual cost-of-living adjustment mechanism, which limits the extent to which wage differentials can adjust in response to market incentives.

A continuation of rapid economic growth would require that Cyprus maintain its recent impressive rate of employment growth. In the short term, this can only be achieved by either increasing labour force participation, particularly amongst women, or becoming increasingly dependent upon temporary foreign labour. In the summer of 2001, the Cypriot authorities and the Commission services agreed a Joint Assessment of Employment Priorities. The Assessment identifies measures that will mobilise additional domestic labour supply and raise skill levels in the labour force. These measures include a more active role for the public employment service, completion of reforms in education and training, and measures to improve women's access to the labour market.

Physical capital, including infrastructure, is well developed. A comprehensive system of motorways links all the major cities. The telecommunications system is technologically advanced, while internet services have grown rapidly in the last five years. The authorities have launched major projects to upgrade the two international airports at Paphos and Larnaca through a public-private partnership. Gross fixed capital formation accounts for a moderate 18% of GDP. In the past, capital account restrictions have limited foreign investment flows.

Cyprus has started to provide vital infrastructure investments to expand water supply. Cyprus is suffering from a long-term decline in rainfall levels. Furthermore, the quantity of water stored in dams and reservoirs has diminished by around 35%. At the same time, the demand for water has increased. Until this year, the Cypriot water supply system has been unable to satisfy household demand, and the authorities have been forced to ration supplies. To tackle the structural water shortage, two desalination plants have been constructed and a third plant is planned. At present, the two plants with a potential annual production capacity of 92,000 m³ can produce around 70% of domestic household water demand. When the third plant becomes fully operational, desalination capacity will be sufficient to meet all domestic household demand. Rationing to the household sector has now stopped, but the supplies available to the agricultural sector continue to be subject to rationing. Water-pricing policy needs to be adjusted to more accurately reflect production costs.

The agricultural sector needs to be restructured extensively. Although agriculture still makes a significant contribution to economic activity, 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 water available in the southern part of the island. Moreover, the sector enjoys high levels of tariff protection and significant water-related subsidies. Although the sector suffers from periodic rationing of water supply, the prices paid by the agricultural sector are extremely low. At present, farmers pay between CYP0.08-0.10 per cubic metre, while domestic residents pay around CYP 0.33. Production costs for desalinated water are CYP0.50 and CYP 0.18 for “run-off” water.

In the past, Government policy and legislation provided a sheltered environment for the growth and development of the private sector. The Cypriot authorities adopted a protectionist and interventionist approach to industrial policy, which has favoured domestic producers at the expense of foreign competitors. The government is now committed to the liberalisation of key sectors of the economy, including the air transport sector, the electricity sector, telecommunications and postal services.

Cyprus has a strong entrepreneurial culture, demonstrated by the large number of small and medium sized enterprises. They are mostly found within the services sector, particularly within the tourism industry.

Cyprus is a highly open economy. Trade openness (total exports plus imports as a percentage of GDP) stood at 97% of GDP in 2000. Moreover, international trade is highly integrated with the European Union. At present, the EU accounts for 48% of Cypriot exports and 56% of imports. However, these trade data understate 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.

Export receipts are heavily concentrated in a small number of sectors. The economy has become increasingly dependent upon tourist revenues and financial services, while many traditional sources of export earnings, particularly within the manufacturing sector, have suffered from long term decline. The authorities are keenly aware of the problem, and have tried hard to encourage alternative sources of export earnings. Most recently, the authorities have introduced an initiative called the New Industrial Policy, which aims to reverse the declining contribution of the agricultural and manufacturing sectors. This new instrument also provides support for manufacturing restructuring, increasing FDI in the high-tech sector and improving industrial research and innovation. However, Cyprus has a powerful comparative or competitive advantage in the tourism sector and financial services which has tended to overwhelm all government initiatives designed to diversify the economy.

3.4. General evaluation²¹

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

The macroeconomic situation has continued to be robust with high GDP growth, low inflation and unemployment. The fiscal consolidation plan introduced in 1999 is successfully addressing

²¹ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

some important structural deficiencies in public finances. Progress has been made in structural reforms, notably within the financial sector, the environment, and healthcare. Both the financial sector and the capital account took major steps towards greater liberalisation.

However, the current account deficit increased significantly. The welcome liberalisation of the financial sector and the capital account pose new challenges to the economy. Cypriot authorities should ensure a proper and uniform supervision of the financial sector, including the co-operative banking sector. In cases where prices are regulated, a more market-based approach should be adopted. Cyprus must continue to prepare its private sector to operate in the single market environment that integration in the EU implies, by opening key sectors to foreign competition.

4. Ability to assume the obligations of membership

Introduction

This section aims to update the Commission's 2000 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 2000 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 is structured to follow the list of twenty-nine negotiating chapters, and incorporates an assessment of Cyprus' administrative capacity to implement the *acquis* in its various aspects.

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 effectively incorporating Community legislation into national legislation, 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.

The European Council in Santa Maria da Feira and in Gothenburg in June 2000 and June 2001 respectively recalled the vital importance of the applicant countries' capacity to implement and enforce the *acquis*, and added that this required important efforts by the applicants in strengthening and reforming their administrative and judicial structures. Building on the assessment of Cyprus' administrative capacity provided in the 2000 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 2000 Regular Report, the Commission concluded that:

“Since the last 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.”

4.1. The chapters of the *acquis*

As indicated, the review of Cyprus' ability to assume the obligations of membership that is 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, including sectoral policies, economic and fiscal affairs, regional policy, 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 some further progress in the field of free movement of goods, mainly in the area of sector specific legislation.

In the area of **horizontal and procedural measures**, on the basis of an agreement with the British Standard Institute of February 2001 over 80 % of all European standards (almost 8,000 EN standards, of which 5, 600 CEN standards and 2, 350 CENELEC standards) have been adopted as Cypriot standards. However, the Framework Law on the New and Global Approach principles has not yet been adopted. Nor can any significant progress be reported on the transposition of the *acquis* relating to the notification procedure, market surveillance and safety checks at external borders.

As regards **sector specific legislation**, no progress can be reported in areas covered by *New Approach Directives* because of the lack of framework legislation.

Concerning sectors covered by *Old Approach Directives*, new legislation on foodstuffs was passed in 2001, including regulations on colouring matters in foodstuffs, sweeteners in foodstuffs, food hygiene and the official control of foodstuffs (see also chapter 7 – *Agriculture*). On chemicals, legislation aligning with the *acquis* on drug precursors was adopted in March 2001. Since the last Regular Report progress was made in the implementation of the *acquis* on pharmaceuticals, cosmetics, textiles, legal metrology and pre-packaging. The Law on Medicinal Products for Human Use (Quality, Supply and Pricing Control) was approved in April 2001, accompanied by five regulations on good manufacturing practices, on colouring matters, on procedure and content of examinations for wholesalers licenses and on fees. Similarly, four regulations complement the Law on Veterinary Medicinal Products (Control of quality, Registration, Supply, Administration and Use) of July 2001. The Cosmetics Law, adopted at the same date, is accompanied by regulations dealing with methods of analysis and sampling. In the textile sector, the Trade Description Law and the Textile Products Regulations were enacted in July 2001. In the area of metrology, further progress has been made with the alignment with the *acquis* through the adoption of a set of regulations. They refer to weight and measures, packaged commodities, alcohol-meters and alcohol, alcoholmetric tables on weights, tyre pressure gauges for motor vehicles, measuring of standard hectolitre, calibration of tanks of vessels and to gas volume meters.

There have been no developments regarding the transposition of the *acquis* on firearms and cultural goods.

As regards the development of Cyprus' administrative capacity for the implementation of horizontal and procedural measures and sector specific legislation, improvement can be recorded. In view of its future responsibility in market surveillance (covered by the New Approach), the Department of Labour Inspection was further enhanced with the appointment of a Director and three Senior Labour Inspectors. In the field of foodstuffs, training programmes for Health Inspectors have been implemented, six additional Health Inspectors have been approved and several activities have taken place to ensure effective implementation of EC legislation. The Type Approval Authority for Motor Vehicles is in the process of being established. Cyprus' Organisation for Standardisation and Accreditation (CYS) continued to function well and is an affiliated member of CEN/CENELEC and a full member of ETSI.

On the basis of a ministerial decision of August 2000, a private organisation that will be responsible for all certification activities is being established. The existing Drugs Council is now assisted by an Advisory Drugs Price Committee, and a Cosmetics Council is in the process of being set up. As regards products for veterinary use the competent authorities for implementation are the Ministry of Agriculture, Natural Resources and Environment and the State General Laboratory. On information exchange, the Ministry of Commerce, Industry and Tourism has been designated as the authority responsible, and the Ministry of Interior as well as the Department of Antiquities are assigned for the implementation of the relevant *acquis* in the field of firearms and the return of unlawfully removed cultural goods.

Concerning the **non-harmonised sector**, 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 by the end of 2001.

As regards **public procurement**, no legislative or administrative progress can be reported.

Overall assessment

On the whole, the establishment of the general framework for the Old Approach is at an advanced stage, whereas transposition of the New Approach and alignment in the public procurement sector are still outstanding.

The Cypriot authorities continue the transposition of directives on industrial products. However, further serious efforts will be needed to transpose and implement the *acquis* as far as possible prior to accession.

Concerning horizontal and procedural measures, the government has adopted all currently existing EN standards. Regarding restructuring in the areas of standardisation, accreditation, notification procedure and certification, CYS is still in charge of the former three, but the private organisation for certification activity should be established and become operational soon.

Cyprus is encouraged to finalise the adoption of the framework law on the principles of the New and Global Approach Directives so that regulations providing for the transposition of the New Approach Directives for product groups can be issued as well.

As regards sector specific legislation, the foodstuffs *acquis* has been partially transposed, whilst in particular the *acquis* concerning labelling and food for particular nutritional uses needs to be enacted. Administrative capacity has been strengthened, but the efforts would need to be intensified. In the chemical sector the legal framework on fertilisers and drug precursors is now largely in line with the *acquis* and the administrative capacity in place, but the legislation on dangerous substances and detergents remains to be adopted. With regards to the pharmaceutical sector, new harmonised legislation concerning products for human and veterinary use has been adopted. For the cosmetics, textiles and legal metrology sectors transposition of the *acquis* has been completed.

Regarding pre-packaging, the work on alignment with the *acquis* should continue.

With respect to the free movement of goods within the Community, the legislation providing for a general import licensing system and a compulsory origin marking of imported products is contrary to Art. 28 EC. Therefore, this legislation should be repealed, as far as Community products are concerned, 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 EC on non-harmonised areas and the implementation of the principle of mutual recognition whose practical implications must be urgently addressed.

As regards safety checks on products at external borders, Cyprus still needs to establish appropriate customs and market surveillance infrastructure as well as effective administrative 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 extending coverage to local authorities, bodies governed by public law, utilities sector and concessions, as well as achieving compliance with EC review procedures, still need to be enacted.

In order to develop administrative capacity, the personnel of the competent Treasury Department of the Ministry of Finance should be increased.

Chapter 2: Free movement of persons

Since the last Regular Report, progress in this area has been limited.

In the area of **mutual recognition of professional qualifications, citizens' rights, and free movement of workers**, no legislative developments can be reported, although preparatory work with regard to legal approximation has been undertaken.

Concerning co-ordination of social security systems, in April 2001 the House of Representatives approved a new law, which provides for the introduction of a new national health insurance scheme. The Scheme provides for universal coverage and its financing will be based on contributions from the social partners. It is proposed that the government contribution shall cover approximately 50 % of the scheme's total budget, and the remaining 50% be shared

equally between employers and employees. The implementation of the General Health Insurance Scheme will take place after the approval by the House of Representatives of the implementing regulations to be issued under the new Law.

Overall assessment

Cyprus has already undertaken a number of measures to abolish existing discrepancies between its legislation and the *acquis* in this area. Important legislative work, including the adoption of framework legislation, still remains to be done for the *acquis* to be implemented by the time of accession.

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 yet. The preparation of the transposition of the General System Directives should be accelerated. The legislation needs to ensure the distinction between academic and professional recognition and include simpler procedures for the provision of services. No provisions contrary to Community law, especially as regards nationality, residence or language requirements may subsist by accession.

With respect to professional qualifications obtained before harmonisation, Cyprus will need to introduce measures to ensure that all its professionals can, as from accession, meet the requirements laid down by the *acquis*.

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

As regards citizens' 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, preparatory work has taken place, but further efforts will be required in order to ensure complete alignment by accession.

In the area of co-ordination of social security systems, Cyprus applies bilateral social security agreements which normally rely on the same principles as the Community rules in this field.

The Department of Social Insurance, which it is intended should be the competent body for implementation of the EC regulations, has gained experience in co-ordinating social security schemes through the implementation of bilateral agreements and started to train its staff on EC-specific issues.

A detailed human resources needs analysis has been carried out by the Ministry of Labour and Social Insurance regarding the implementation of the *acquis* in the areas of mutual recognition of professional qualifications, free movement of workers (EURES) and co-ordination of social security schemes. The conclusions of the analysis should be taken into account when deciding how to strengthen the public administration in these areas.

Chapter 3: Freedom to provide services

Since last year's Regular Report, Cyprus has made good 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) no significant legislative and administrative development took place.

Alignment with the *acquis* in the area of *self-employed commercial agents* was achieved through the entry into force of the Commercial Agents Law along with the related regulation, in November 2000.

In the field of **financial services**, with regard to the *banking sector*, a Deposit Guarantee Scheme for commercial banks became operational in September 2000. Membership of the scheme is compulsory for all banks. They are required to make contributions in proportion to their deposit base. Foreign banks, which are members of an equivalent scheme, may be exempted.

A similar Deposit Guarantee Scheme applies to deposits in Cypriot pounds held by Co-operative Credit and Savings Societies.

As regards this particular sector, a high-level working group was set up in June 2001 in order to prepare the measures required to align this sector with the *acquis*. It is worth noting that 6 new officers were recruited on a temporary basis as from April 2001, to help with the alignment process as well as with the actual exercise of the functions of the Department in charge of these institutions. The number of inspections (both onsite and offsite) increased significantly during 2000.

In the *insurance sector* no particular legislative developments have taken place during the period under review.

The computerisation of the Insurance Companies Control Service (ICCS) of the Ministry of Finance and an appropriate training of members of staff in using the developed system facilities has been started in late 2000. New posts have been awarded to the ICCS in June 2001 so that the additional recruitment of 11 staff members is expected for 2002.

With regard to *investment services and securities markets* a law approved by the House of Representatives in April 2001 extended the supervisory powers and independence of the Securities and Stock Exchange Commission so as to ensure greater effectiveness. In parallel, the Parliament enacted the Undertakings for Collective Investment in Transferable Securities and other Related Matters Act, with the aiming of transposing the UCITS-Directive into Cypriot law.

The Securities and Exchange Commission has recruited additional staff to ensure compliance with the requirements of the securities and stock exchange laws.

Concerning the **protection of personal data and the free movement of such data** as well as concerning the **Information Society regulations**, no legislative development can be reported.

Overall assessment

Cyprus' alignment process is overall satisfactory, although further legislative alignment is still needed.

In the field of the right of establishment and freedom to provide services, as from January 2000, natural or legal persons from EU member states may freely set up companies in Cyprus or acquire up to 100 % of existing companies. However, the administrative approach to EU investors seems to be less open minded. There remain a few sectors (tertiary education, public utilities, radio and television stations, publication of newspapers and magazines) which are governed by specific restrictive legislation, such as the requirement of Cyprus nationality or permanent residence.

Concerning *self-employed commercial agents*, as a result of the legislation adopted in 2000, Cyprus has aligned with the *acquis*.

The Central Bank as the regulator of the banking industry has issued rules and is implementing policies and practices which are similar to the Recommendations of the Basle Committee of Banking supervision and broadly in line with EC directives. The Banking Law empowers the Central Bank to exchange information with foreign as well as with national supervisory authorities. The Law contains extensive enforcement powers and penalties, which include the power to revoke a licence. The supervisory process includes both on-site examination and off-site monitoring. Upon accession the authorisation requirement with respect to the “economic need criterion” which the Central Bank may presently apply should be waived and the exchange of information with non-banking supervisory authorities and the notion of large exposure should be streamlined. Due care should also be given to the timely implementation of the agreed profound restructuring of the Co-operative Credit and Saving Societies sector. Furthermore, it will be important to make sure that branches of Cypriot banks which may set up in other EU countries are providing their customers with the same level of deposit guarantee as offered in Cyprus.

As regards the *insurance sector*, some basic features of the EC supervisory system are covered by the current legislation. Cyprus should finalise the transposition of the Non-Life and Life Insurances Directives and complete its reform of the legal bases for insurance supervision; it should provide adequate staffing for its supervisory bodies. In addition, further alignment is needed as regards accounting rules.

In the field of *investment services and securities markets*, in order to align Cypriot law with the *acquis*, there is still a need for certain amendments to the Securities and Stock Exchange Laws, e.g., to ensure that the Securities and Exchange Commission is able to exchange information and co-operate with other competent authorities. In particular, Cypriot authorities are encouraged to immediately transpose the two key Directives in this area: the investment services and the capital adequacy Directive, both of which are due to be transposed in autumn 2001. Furthermore, harmonisation is needed with regard to investor compensation and prospectuses.

The Council of the Stock Exchange and the Securities and Exchange Commission (SEC) are the relevant competent authorities for the implementation and supervision of the Stock Exchange Laws and Regulations. Given that their powers and human resources have been extended it is likely that the implementation record will make progress.

The overall standard of supervision in the *financial service sector* in Cyprus appears to be satisfactory. Cyprus is encouraged to continue the effective implementation of the *acquis* in particular as regards the establishment of the necessary administrative and regulatory infrastructure to ensure an efficient and well-supervised financial sector.

In the field of the protection of personal data and the free movement of such data, Cyprus should introduce legislation to be fully in line with the *acquis* and, on the basis of a bill yet to be adopted in Parliament, establish a fully independent national supervisory authority for data protection.

In the field of Information Society Services, regulations still need to be introduced on the provision of information, in the field of technical standards and regulations, on the legal protection of services, and on conditional access to information society services respectively. Furthermore, the e-commerce Directive needs to be transposed. The Cyprus Organisation for Standards and Control of Quality is the competent authority for provision of information on technical standards.

Chapter 4: Free movement of capital

Since the last Regular Report, Cyprus has continued to make progress through liberalisation measures in the area of capital movements, and significant measures to combat money laundering have been taken both on the legislative and administrative level.

In the area of **capital movement**, steady progress was made in liberalisation. Medium and long-term borrowing in foreign currencies by residents from banks in Cyprus or abroad was liberalised as from the beginning of 2001, simultaneously with the abolition of blocked accounts. In December 2000 the Central Bank of Cyprus authorized domestic banks to grant loans and credits of any size in Cypriot pounds to non-residents to finance their activities in Cyprus. Previously, loans and credits over 2000 Cypriot pounds (CY£) - approx. €3,500 - per person were referred to the Central Bank of Cyprus for authorization.

In the second half of 2000 the Central Bank abolished the requirement for prior approval of the Central Bank for the acquisition of over 5 % of the share capital of Cypriot companies, other than banks, listed on the Stock Exchange by a natural or legal person from a third country. However, the Central Bank maintained the ceiling of 49 % on the participation of person from third countries in the share capital of such companies.

Following a legislative amendment of May 2001, a natural or legal person from an EU member state can buy shares in a radio or television station up to 25 % (5 % for a person from a third country, subject to approval by the Council of Ministers). A limit of 49 % was set on the aggregate participation of persons from EU member states in the share capital of each such company. Furthermore, the law provides for the complete abolition of restrictions on natural or legal persons from EU member states regarding radio and television stations with effect from the date of accession.

In May 2001 the Central Bank of Cyprus issued an order under the Exchange Control Law, by which restrictions on the export of certificates of title to any securities were lifted. By the same order, the amount of Cypriot banknotes that may be exported by resident travelers was increased from €175 to €1,750 (CY£ 100 to 1000).

In July 2001, the ceiling on investments abroad by investment companies listed on the Cyprus stock exchange was raised to €35 million (CY£ 20m). At the same time the percentage limit on investments abroad increased from 25% of each company's investment portfolio to 50% of its capital and reserves (net worth). Thus public investment companies may invest up to 50% of

their capital and reserves (net worth) or €35 million (CY£ 20m) in foreign stock exchanges depending on which amount is smaller.

Due to a liberalization measure adopted by the Central Bank of Cyprus in July 2001, every resident family is allowed to freely transfer up to €175,000 (CY£ 100,000) abroad in order to acquire a secondary residence outside Cyprus. Previously, investments in real estate abroad were subject to prior approval of the Central Bank.

Concerning **cross border credit transfers**, on the basis of the amendment to the Banking Law adopted in June 2000, in November 2000 the Central Bank issued instructions according to which it can take mandatory instructions including matters covered by the cross-border credit transfers directive. These instructions took effect in April 2001. A committee has been established under the auspices of the Central Bank to investigate complaints and take appropriate action for the settlement of disputes.

As regards **prevention of the use of the financial system for the purpose of money laundering**, an amendment of November 2000 implements the EU Joint Action of 3 December 1998 on money laundering, the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds from crime.

In November, 2000 the Central Bank of Cyprus issued a Guidance Note under the Prevention and Suppression of Money Laundering Activities Law of 1996 by virtue of which banks are prohibited from accepting cash deposits in foreign currency notes in excess of US\$100.000 or other foreign currency equivalent from any person or group of connected persons without the prior written approval of the CBC. By virtue of second Guidance Note issued in July 2001 banks must not accept cash deposits in foreign currency notes without the CBC's prior approval even for amounts below the threshold limit of US\$100.000 if the aggregate amount of cash deposits effected by the same customer or group of connected customers will exceed US\$100.000 in a calendar year. According to a third Guidance Note of 17 September 2001, banks have to apply a stricter identification procedure for corporate customers, trusts and nominees of third parties. Hence, banks are no longer allowed to open accounts without directly establishing the identity of the beneficial owners of the company, or the private parties involved, namely the trustee(s), settlor(s) and beneficiaries.

A decision of the Council of Ministers of March 2001 designates the supervisory authorities for lawyers and accountants. There is now a realisation that MOKAS, the unit in charge of combating money laundering, needs to work with these professionals to ensure that action is taken preventively against money laundering. Also last year, MOKAS members participated in numerous seminars organized by Interpol and the Egmont Group (International Group of Financial Intelligence).

Overall assessment

Cyprus is steadily liberalising the movement of capital. It has already implemented a number of liberalisation measures, *inter alia*, in the fields of direct investment, personal capital movements and portfolio transactions.

However, the efforts in aligning with the *acquis* in the field of capital movements must continue to ensure a proper functioning of the markets from the date of accession. A timely and orderly removal of remaining restrictions for capital movements is essential to avoid the risk of sudden

disruptions in the financial markets upon accession. This point refers to, portfolio transactions, financial credits and the opening of deposits abroad. The abolition of the statutory limit in interest rates and their determination as of January 2001 by the Central Bank should facilitate the process of liberalisation.

Concerning cross border credit transfer Cypriot legislation has been aligned with the relevant Directive through the amendments to the banking law of June 2000 and the instructions of the Central Bank of November 2000 thereunder. The mechanism to settle disputes foreseen in Art. 10 of the Directive has also been established.

The legislation to prevent the use of the financial system for the purpose of money laundering appears to be in line with the *acquis*. With the amendment of November 2000, Cyprus abandoned the “list approach”. Assets can now be searched for, seized and confiscated if they are proceedings from a crime which carries potential sentence of a year or more. This widens the scope of application of the law by accepting a larger definition of the predicate offences. Cyprus has further tightened its implementing measures relating to the identification of account holders and reporting of transactions in accordance with the recommendations of various international fora. In general, it should continue to follow the broad range of the recommendations of the Financial Action Task Force.

The number of measures taken by MOKAS has increased steadily since it started to operate in January 1997. 462 cases have been reported to MOKAS up to April 2001, both from domestic and foreign sources. It has obtained 43 freezing orders and 273 court disclosure orders. There were five convictions between July 1998 and January 2001 while four cases are pending 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. Out of the above 462 cases dealt with by the unit, 95 cases represent requests for legal assistance by foreign authorities through formal rogatory letters, 128 cases represent requests for information by foreign Financial Intelligence Units and 10 cases represent requests for information by drug liaison officers posted in Cyprus.

Chapter 5: Company law

Since last year’s regular report, Cyprus has made further progress in the areas of company law and the protection of intellectual and industrial property rights.

Regarding **company law** as such, the First Company Law Directive on registration of companies was aligned through an amendment to the Cyprus Companies Law that entered into force in November 2000. Another amendment, that came into force in October 2001, incorporates provisions of the Second Council Directive on the restriction of the acquisition of own shares by a public limited company.

As regards the Eighth Company Law Directive on the approval of persons responsible for carrying out the statutory audits of *accounting* documents, the Cyprus Companies (Amending) Law of 2001 came into force as from May 2001.

The Company Law Regulations were amended by Parliament in December 2000 to enable the introduction of new legal forms.

Concerning *administrative capacity*, the Department of the Registrar of Companies and Official Receiver started to transfer company data from the files to a newly established

computerised system. The Company Section of the Department has been strengthened with 10 temporary clerical staff as from August 2000. In addition, four persons have been added to the permanent technical staff, as examiners on companies.

In the field of **industrial and intellectual property rights** an amendment to the Trademarks Law, aiming to comply with the First Council Directive on trademarks, entered into force in December 2000. The definitions of a trademark and the exclusive rights of the proprietor of the trademark have been brought into line with the *acquis*.

An amendment to the Patent Law and implementing regulations entered into force in November 2000, concerning the creation of a supplementary protection certificate for plant products similar to the one provided for in the relevant Council Regulation.

To enhance *administrative capacity*, in September 2000 the Department of the Registrar of Companies and Official Receiver launched a two-year co-operation programme for the computerisation of the Patent Registry with the assistance of the European Patent Office. Adequate funding has been included in the 2001 Budget and eight permanent specialised officers had been added to the staff by March 2001.

As regards the **Regulation replacing the Brussels convention** on jurisdiction and enforcement of judgements in civil and commercial matters and the **Rome convention** on the law applicable to contractual obligations, preparatory work for swift implementation has started.

Overall assessment

Cyprus has already to a large extent achieved 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. Although some preparatory work has started, the Second Directive on co-ordinating safeguards, the Third Directive on mergers, the Sixth Directive concerning the division of public limited liability companies, as well as the Eleventh Directive concerning disclosure requirements still need to be fully aligned.

Cypriot legislation is already to a large extent in line with the *acquis* on accounting law.

Concerning administrative capacity, the computerisation of the Office needs to be finalised, and training as well as further additional staffing need proper attention.

In the field of industrial and intellectual property rights (IPR), Cyprus' trademark and patent law is now far advanced. Only the implementation of the Directive on legal protection of biotechnological inventions and the Designs Directive is outstanding. Some additional adjustments of trade mark legislation will be necessary upon accession. It is imperative not to postpone the implementation of the copyright *acquis* any longer. Substantial legislative changes are necessary to align it with the Directives on legal protection of design and databases as well as on certain aspects of Copyright and Neighbouring Rights in the Information Society and the Resale Directive.

Further efforts are required to strengthen law enforcement capacity especially as regards border controls and combating piracy and counterfeiting. Particular attention should be given to the effectiveness of the administrative and judicial bodies involved in enforcement, such as the customs services, the police and the judiciary, in particular by improving co-ordination among

them. Targeted training necessary both for copyright officials and for enforcement officials, including judges and prosecutors, should continue. Concerning the Regulation replacing the Brussels convention on jurisdiction and enforcement of judgements in civil and commercial matters and the Rome convention on the law applicable to contractual obligations, the government is in close contact with the judiciary for the designation of the relevant courts which will have to deal with applications and appeals. Cyprus seems to be in the position to apply this part of the *acquis* effectively upon accession (see also *Chapter 24 - Co-operation in the fields of justice and home affairs*).

Chapter 6: Competition policy

During the period covered by this regular report, Cyprus has made some progress both in the field of anti-trust and in the state aid sector.

In the field of **anti-trust** policy the Council of Ministers adopted block exemptions on vertical agreements and concerted practices in December 2000.

In November 2000, an amendment to the Protection of Competition Law entered into force. It strengthened the investigative and sanction powers of the Commission for the Protection of Competition (CPC). According to the new law, the President will be a full-time post, whereas the five CPC-members (appointed at the end of 2000) will have full-time occupations outside their position with the Commission. The CPC's enforcement record for 2000 consists of 19 decisions (2 on horizontal agreements, 7 on abuse cases and 10 on mergers). In March 2001, Parliament approved new staff for the CPC.

On **state aid**, the new Public Aid Control law entered into force in April 2001 and was slightly amended in July 2001. It incorporates into Cypriot law rules equivalent to those of Article 87 EC. Authorities that grant public aid must notify the Commissioner of all existing public aid schemes and ad hoc measures, within six months. However, the law currently excludes control over the most important State aid scheme in Cyprus, i.e. fiscal aid to international business enterprises. In April 2001, Parliament adopted three important regulations covering public aid to small and medium-sized enterprises, research and development, and professional training. Further regulations and orders of July 2001 concern procedural issues as well as substantial rules on aid for rescuing and restructuring firms in difficulty, aid for environmental protection purposes, and aid in the form of guarantees.

A Commissioner for Public Aid was appointed in May 2001. Three qualified officials and two support staff are attached to his office. A temporary Working Group for State aid headed by the Commissioner has been set up in the Ministry of Finance. It prepared an initial list of existing aid measures. Up to the end of September 2001, the Commissioner issued eleven decisions, five of which were already published in the official Gazette. Training for Cypriot officials in the various aspects of the *acquis* concerning state aid is ongoing since April 2001.

Overall assessment

Overall, Cyprus has seriously started to align with the *acquis* on competition policy, but further legislative and administrative efforts are still needed.

Although Cyprus has already achieved good alignment with the EC's anti-trust legislation through its Protection of Competition Law of 1989 as amended, further alignment is still necessary. In particular, the Community's new policy on horizontal co-operation agreements (block exemption regulations of November 2000 on specialisation agreements and research

and development agreements) needs to be taken into account. The infrastructure, staff, and especially the weak enforcement record of the CPC need to be improved considerably. Presently, the CPC relies on 4 investigators and 3 support staff. The objective is to reach 20 employees in a year's time. Due to current lack of qualified staff, the CPC is not yet in a position to conduct investigations on its own initiative. The CPC should become more proactive and adopt a more deterrent sanctioning policy.

Cyprus has moved forward in state aid, but several thorny issues remain. This includes the necessity to align the existing aid schemes and legislation under which authorities at various levels grant aid well before accession with the *acquis*. The specific tax privileges for the offshore sector should be addressed as a matter of priority in the coming tax package reform that must pave the way for the enforcement of state aid rules.

The powers of the newly appointed Commissioner for Public Aid appear to be weak. In the case of illegal aid and of irregularities in the implementation of aid authorised by the Commissioner, the powers of the Commissioner are limited to submitting a report to the President of the Republic and publishing a summary of that report. The Commissioner does not have the power to order the recovery of aid. Staff reinforcement is necessary.

Cyprus is encouraged to accelerate its efforts with a view to drawing up a regional aid map that would fix the maximum aid intensities in the areas eligible to receive regional aid.

Chapter 7: Agriculture

In 2000, the contribution of agriculture was 3.8% of gross value added and 9.2% of employment, compared with 4.2% and 9.5% respectively the previous year. The output of the agricultural sector declined by 4.9% in real terms in 2000 following an increase of 7.5% in 1999.

The 2001 State agricultural budget was € 119.875 million (68.5 million Cyprus pounds) compared with €80.5 million (46 million Cyprus Pounds) the year before and included various types of direct and indirect subsidies for farmers.

EC imports of agricultural products from Cyprus (raw plus industrial products of agricultural origin) exhibited a marginal decline in 2000 and amounted to €6.6 million compared to €108.5 million in 1999, whereas EC exports to Cyprus showed a substantial increase, from €260.8 million in 1999 to €330.5 million in 2000²². The resulting trade surplus for the Community increased from €52.3 million in 1999 to €233.9 million in 2000. Over the past three years, the most important product groups in terms of EC imports from Cyprus have been new potatoes (37%) and fruit and nuts (33%). EC exports to Cyprus are spread over a wider range of products, the most important of which are barley (8%) and sugar (7%).

Horizontal issues

No progress can be reported as regards the implementation of measures related to the *European Agricultural Guidance and Guarantee Fund (EAGGF)* and as concerns *quality policy*.

²² Uruguay Round definition of agricultural products, figures taken from EUROSTAT COMEXT (see U.E. 12/15: Commerce des Produits Agricoles 1988-2000, 1 Partie D.G. AGRI/A.2 Analyses quantitatives, prévisions, statistiques, études, 2001, p. 10-57 et 86-89).

Concerning an *integrated administration and control system* (IACS), the Department of Agriculture has undertaken preparatory work aimed at identifying the user requirements and technical specifications for a state-of-the-art IACS software.

Common market organisations

Progress has been achieved in the sector of fruit and vegetables and in the sector of poultry and eggs.

New harmonised legislation on the quality and marketing standards for 33 *fresh fruit and vegetables* for exports was enacted by House of Representatives in November 2000. New legislation on the “Production, Grading, Labelling and Marketing Standards” of eggs entered into force in August 2001.

The Department of Agriculture developed a software programme to project chick adequacy over the following five-month period. Since January 2001, monthly data on chick production has been forwarded to EUROSTAT. An interim in-house computer application has been developed to set up registers of eligible farmers and training of staff has been carried out.

In August 2001, the Department of Agriculture started the recruitment of 21 additional permanent officers.

Rural development and forestry

The Department of Agriculture is continuing to align its procedures for authorisation, internal audit and execution of payments with those of the *acquis*. The project for the support of young farmers has been harmonised further and reinforced.

Veterinary and phytosanitary issues, including food safety

The veterinary medicinal products Law (control of quality, registration, supply, administration and use), accompanied by four Regulations, was enacted in July 2001. In the field of animal nutrition, in March 2001 the House of Representatives approved an amendment to the basic Feeding-stuffs Law of 1993 and the necessary implementing regulations concerning the registration and approval of establishments and intermediaries.

The animal identification and registration system has been set up and bovine animals already identified and registered in the data bank. Five new veterinarians have been recruited and nine additional posts have been approved. Temporary technical staff has also been employed for the application of animal identification and registration as well as for disease campaigns, lab tests and BSE surveillance. As regards establishments, Cyprus continued to give financial incentives to upgrade to EC standards. The number of slaughterhouses has already been reduced from 69 to 50.

In the context of the Geographical BSE Risk Assessment, Cyprus has been classified in group III.

The Pesticides Authorisation Board decided that only those active substances that are already authorised in at least one Member State will be authorised in Cyprus from now on, and that those substances that are withdrawn in the EU as a result of the Community review will also be

prohibited in Cyprus. The construction of a border inspection post at Larnaca airport has started and progress has been made on the development of the border inspection post at Limassol port. A decision to merge the different departments involved in phytosanitary inspections has been taken.

In April 2001 Cyprus produced a Food Safety Strategy, which outlines the systems for co-ordination between the various official bodies involved, their competencies, organisation and staffing (*see also Chapter 1 – free movement of goods*).

Overall assessment

Although Cyprus' ongoing preparations for the Common Agricultural Policy are satisfactory, substantial elements and mechanisms of the agricultural *acquis* remain to be applied, in particular those 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, but the competencies are spread between the ministry of agriculture and various other bodies.

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*.

The procedure for the establishment of the IACS has been accelerated but some important steps have still to be taken with a view to implementation. The introduction of a direct payment system for cereals that was due in 2001 has been delayed. The application is envisaged to be based on the cadaster with the government controlling 100% of the plots declared by farmers. The implementation of this system would create an opportunity to identify the eligible land on the one hand (in view of creating the land parcel identification system) and on the other hand to allow farmers and the administration to gain experience with a direct payment scheme. Cyprus is encouraged to make progress in this regard.

Legislation in the field of *quality policy* relating to designations still needs to be adopted. Harmonising legislation on the certification of geographical indications, of designations of origin and of other specific character is still under legal vetting. 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 already exists. A body of inspectors needs to be established too.

Though a register of all organic farmers has already been completed, Cyprus is encouraged to finish harmonising legislation on organic farming.

As regards **Common market organisations**, several areas in the field of arable crops need to be brought into line with the *acquis*. The envisaged system of direct hectare payments for *cereals* still requires adoption by the Council of Ministers. Though preparatory works have started, the procedure for the abolition of the monopoly of the Cyprus Grain Commission needs to be accelerated. Moreover, the reorganisation of the existing administrative infrastructure, in

order to create an intervention agency and intervention centres as well as management of export and import licenses and tenders for cereal export, has not taken place yet.

With regards to *fresh fruit and vegetables*, the enactment of the new legislation on the quality and marketing standards for 33 products intended for export is noted with satisfaction. As agricultural holdings are, in general, small and divided into many parcels and as Cyprus has no tradition as regards producers' organisations in this sector, it is invited to adopt new legislation for the setting up, recognition and operation of producer organisations without delay.

With regard to *bovine and pig meat* new legislation introducing a system of compulsory carcass classification and regulating certain aspects of price collection and reporting was completed early in 2001, and legal vetting is underway. In the *sheep and goat sector* most of the elements of the *acquis* are already applied. With regard to *eggs and poultry*, new legislation on production, grading, labelling and marketing standards has entered into force for edible eggs and it is expected to enter into force in October 2001 for poultry meat.

Concerning the *wine* industry, legislation is already partially harmonised and many implementing regulations are before the House of Representatives or under legal vetting. However further alignment with the *acquis* is needed, mainly as regards the rules of wine growing potential, market rules for wine and the protection of wine designations. In addition, the monopoly status of the Cyprus Vine Products Commission needs to be reformed. In connection with the abolition of the Cyprus *Olive Products* Marketing Board, the preparation of the olive oil registry is almost completed and verification as well as application of GIS for olive trees will follow. No progress was recorded in the direction of the abolition of the monopoly status of the Cyprus *Milk Industry* Organisation (CMIO), although the option of maintaining the CMIO as a semi-independent organisation with certain functions delegated to it by the Paying Agency will be examined.

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

As regards **Rural development and forestry**, Cyprus already has some experience in these areas, including agri-environmental measures. However, the control bodies necessary 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 payments with that of the *acquis*. The administrative capacity for the implementation of the rural development *acquis* needs to be further enhanced.

Concerning **veterinary and phytosanitary legislation including food safety**, with regard to *veterinary* issues, transposition of the *acquis* is partial, given that six framework bills aimed at covering all Community Veterinary Legislation (namely in the areas of importation and trade, animal health, hygiene of foods of animal origin, animal welfare, veterinary pharmaceutical products and animal genetic material) need still to be enacted. Cyprus will have to take the necessary measures to ensure that the procedure does not create a bottleneck for the

transposition process. Furthermore, the directive on fees for veterinary inspections has not been transposed yet.

The setting-up of an animal identification and registration system should be completed. In the field of animal disease control measures, Cyprus laboratories are capable of carrying out diagnosis for many notifiable diseases. Contingency plans, such as for foot and mouth disease and classical swine fever are considered to be satisfactory. On animal nutrition, the legislative package of March 2001 is harmonised to the *acquis* as it stood by the end of 2000 for enforcement in October 2001. There remains a need of upgrading food processing establishments.

As for *phytosanitary issues*, the border inspection posts will, *inter alia*, have to be equipped with laboratory facilities for initial on-the-spot examination of imported produce. The relevant surveillance of domestic production and the control of imports of **food** (both of plant and animal origin) are carried out mostly by the Veterinary Service and the Ministry of Health, although the State General Laboratory is also involved in carrying out laboratory examinations on food. Strengthening of personnel numbers 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 yet in Cyprus.

As regards administrative capacity, Cyprus has a good basis but the process of abolishing the state monopolies in this area must be accelerated in order to clear the way for the restructuring of the existing infrastructure. Cyprus should also take the necessary measures to implement IACS. Moreover, Cyprus still needs to make significant efforts to prepare for the implementation of the CAP mechanisms. While for eggs and poultry there is new legislation since August 2001, together with marketing standards for fruit and vegetables, for a number of sectors, the drafting of new legislation seems to be slow.

Chapter 8: Fisheries

Since the last Regular Report, Cyprus has made further progress, notably in the field of resource management, inspection and control, as well as that of State aid to the fisheries sector, while the administrative capacity has been strengthened.

Concerning **resource management, inspection and control**, Cyprus decided to implement its own satellite monitoring system to control vessels longer than 24 meters fishing in the high seas. For this purpose, an amount of approx. €190 000 (120 000 Cypriot pounds) has been earmarked in this year's budget. The recruitment of one officer and two technicians was approved, and the tendering process was initiated.

The Inspectorate Service of the Department of Fisheries and Marine Research has been strengthened since the last report, with the appointment of three new inspectors, increasing the manpower of this service from 11 to 14. The service has also scheduled a multi-purpose patrol vessel for acquisition.

As far as **structural actions** are concerned, Cyprus continued to pursue its policy for the reduction of the number of fishing vessels under its flag that operate in the high seas and to set

up a Fishing Vessels Register. The relevant software and hardware were acquired and installed early this year. A first data transmission test was sent to the Commission services in August 2001.

In the field of **market policy**, no concrete legislative developments can be reported.

Regarding **state aid**, the subsidy scheme for Cypriot trawlers fishing in international waters was abolished in January 2001.

Cyprus did not conclude any **international fisheries agreements** during the period covered by this report.

Overall assessment

Cyprus' alignment with the *acquis* in this area is quite advanced. However, progress is still needed with market policy, as well as with regard to the current and planned structure of the fishing fleet under the Cypriot flag.

Concerning market policy, the Common Market Organisation for fisheries is of limited importance for Cyprus, since it does not engage in fishing or importing of the main species covered by CMO. As 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.

The four inspectors from the four District Offices, under the supervision of the central administration in charge of the market, ensure *inter alia* the checking of landings and the collection of prices. They carry out one to two control visits per week at each site.

Cyprus will have to enforce the common market standards and implement the recognition conditions for producer organisations. Cyprus is encouraged to finalise the adoption of a new Law on the responsible authority for the recognition of these organisations.

Concerning resources, management, inspection and control, with the operation of the fishing licence system, Cyprus will be in a better position to assess the situation and review its policy on this matter. Administrative capacity in this field is in place in the Department of Fisheries and Marine Research, but equipment still needs to be improved.

As regards international fisheries agreements, Cyprus has initiated the procedure for ratifying specific UN and FAO agreements. Cyprus co-operates with the relevant International and Regional Fisheries Organisations for the sustainable exploitation of fishing resources. It is a signatory to the General Fisheries Commission for the Mediterranean Agreement.

Concerning structural measures, Cyprus' policy of reducing the number of fishing vessels under its flag that operate in distant waters should continue at a steady pace. The effectiveness 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* is being pursued. The legal framework was adopted in June 2000 and implementing regulations are under preparation.

Information and guarantees on measures envisaged to implement structural policy and to manage structural funds is lacking.

Concerning state aid, Cyprus has now aligned with the *acquis* by giving up the subsidy scheme for trawling in international waters.

The measures taken to prepare a national action plan for the development of aquaculture are positive steps.

Chapter 9: Transport policy

Since the last Regular Report Cyprus has made significant progress in nearly all sectors of transport policy.

As regards **Trans-European Transport Networks**, no legislative development can be reported.

As regards **land transport**, the House of Representatives adopted an amendment to the road law in July 2001 in order to achieve compliance with the *acquis* on market access and on combined transport. The amendments also foresee alignment for admission to the profession of road haulage operator and road passenger transport operator as from 2003.

The law to achieve gradual compliance on road user charges for heavy goods vehicles was enacted in March 2001. It will enter into force in 2003.

Concerning safety issues, a regulation concerning speed limitation devices took effect for all newly registered vehicles as from January 2001 and will enter into force in January 2002 for existing vehicles. A second regulation on maximum dimensions and weights and a third regulation on roadworthiness tests for motor vehicles and trailers came into force in March 2001. The House of Representatives adopted in June 2001 a new Law on driving licenses that will enter into force by 2003. Another amendment to the road law of July 2001 is aimed at aligning with the *acquis* on the use of safety belts.

The Department of Road Transport in the Ministry of Communications and Works has created a new unit with a number of new posts to deal with market access and other issues of the *acquis*. Roadworthiness tests on public vehicles are carried out by the Department itself whereas private vehicles will be checked by the private sector under the direct supervision of the Department.

In the field of **air transport** Cyprus has shown a clear willingness to accelerate harmonisation with the *acquis*, notably through its efforts to participate in the ongoing negotiations of the European Common Aviation Area agreement. Some regulations adopting the Eurocontrol standards for air traffic management equipment and systems entered into force in February 2001. In May 2001, the action plan on 'Development of Safety Oversight Capabilities' was launched. It covers the provision of consultancy services and technical assistance for the introduction of regulations, procedures and manuals, as well as on-the-job training of personnel, with a view to achieving alignment for aircraft maintenance standards and flight operations inspections.

To harmonise access to the groundhandling market, the accounts for the ground handling sections have been separated from those for other activities of the Department of Civil Aviation at Community airports since May 2001.

Concerning administrative capacity, the recruitment of five new professional staff for the Department of Civil Aviation and of one accountant was approved in the Supplementary Budget Law of March 2001.

In the field of **maritime transport**, two Ratification Laws were enacted in April 2001. They incorporate amendments to the SOLAS and MARPOL conventions respectively, so as to align with the relevant *acquis*. Furthermore, two Merchant Shipping Laws were adopted on that date, aimed at aligning with the *acquis* on port State control and on common rules and standards for ship inspection and survey organisations respectively.

To align practice as regards the transfer of ships from one register to another within the Community, the Council of Ministers adopted, in October 2000, the IMO Bulk Chemical Code and the IMO Bulk Gas Carrier Code.

Over the last year, Cyprus carried out over 40 inspections on over-age bulk carriers and deleted 18 of them from the Cyprus Register of Ships, as the owners were not willing to submit their ships to close scrutiny. A programme to study the “long distance strength” of 40 over-age bulk carriers was initiated at the beginning of the year; 10 individual studies are being prepared at the moment. In January and May 2001, two ships were deleted from the Cyprus Register of Ships on account of repeated detentions by foreign port State control authorities for serious deficiencies relating to the safety of the ship. Lastly, since the beginning of 2001, a classification society is no longer allowed to issue a passenger ship safety certificate unless an inspection of the ship is conducted by surveyors and any deficiencies and non-conformities found are satisfactorily dealt with.

With regard to the effective implementation of the International Safety Management (ISM) Code, Cyprus has recently punished shipping companies that fail to pay their crews, by withdrawing their safety management documents. Between July 2000 and May 2001, Cypriot authorities revoked the Documents of Compliance required by the ISM Code of 6 companies, managing 15 Cyprus flag vessels in total. The certification of 11 of these vessels has been restored after thorough joint verification of their Safety Management System by official surveyors and the respective classification societies involved and rectification of the non-conformities found.

According to year 2000 statistics under the Paris Memorandum of Understanding, the percentage of Cyprus flag vessels detained following port State control was 9.71 %, a decrease compared to 9.97% in 1999. This compares to an average for EU-flagged vessels of 3.9% in 2000.

The process of full computerisation of the Department of Maritime Safety (DMS) has started. Training on the *acquis* on maritime safety took place in September 2000. The Parliament approved the recruitment of 25 more staff for DMS in March 2001. From July 2000 until May 2001, 14 additional ship inspectors working in several ports world-wide have been appointed to monitor and to verify that the applicable safety standards are indeed implemented on Cyprus ships.

Overall assessment

Cyprus is well advanced in its harmonisation of the basic legislative and administrative framework with the *acquis*, but further efforts are still to be made.

Regarding horizontal issues, the overall responsibility for administering the Community guidelines in the field of Trans-European Transport Networks lies with the Ministry of Communications and Works; the Planning Bureau will be responsible for the financial aspects.

Regarding land transport, alignment has been achieved in the harmonisation of road-transport-related fiscal measures, admission to occupation, technical requirement for vehicles, collection of road transport statistics, co-operation between authorities and the road transport industry, maximum dimensions and weights, and speed limitation devices. Legislation still to be passed concerns recording equipment (tachographs), safety belts and minimum levels of driver training. Cyprus should also continue its efforts to transpose the *acquis* on transport of dangerous goods, and reinforce the relevant administrative capacity. The main responsibility for administering and enforcing the land transport *acquis* lies with the Ministry of Communications and Works.

The preparatory work to adopt a new law on air transport should continue to align the outstanding discrepancies with the *acquis* in this sector. Cyprus has made a clear move towards accelerating harmonisation, as shown by its willingness to join the European Common Aviation area project. Measures should be taken to ensure that licensing and safety oversight capacities are improved over the next months. The Department of Civil Aviation of the Ministry of Communication and Works is the competent authority. Its staff has been considerably strengthened recently. However, Cyprus is encouraged to set up an independent investigatory body for accidents and incidents as well.

Concerning maritime transport, Cyprus has aligned its legislation to a considerable extent. However, further transposition is needed with regard to the *acquis* on safety regimes for fishing vessels of at least 24 metres in length and for passenger ships. Furthermore, despite administrative practice to that effect, the *acquis* on mandatory surveys for the safe operation of regular ro-ro ferry and high-speed passenger craft services and on the registration of persons sailing on board of passenger ships operating to or from Community ports has still to be transposed.

Cyprus has improved its performance on safety controls. In line with the new law, Cyprus should monitor the performance of the classification societies acting on behalf of the Cyprus government. In this regard it is a promising sign that no transfer to other classification societies has been allowed since June 2000. There have been steady decreases in detention rates and in marine accidents (from 128 in 1997 to 72 in 2000). Stricter standards are being imposed on the registration of over-aged ships and a more severe policy is being applied to sub-standard ships. However, Cyprus' detention rates as result of state Port controls remain considerably above the average for EU-flagged vessels. The improvement of the safety record of the Cypriot fleet should continue through, *inter alia*, the appointment of additional inspectors working in ports abroad.

The improvement of the administrative capacity of the Department of Merchant Shipping is a step in the right direction and should be continued. The Ministry of Communications and

Works, the Department of Merchant Shipping, and, as regards the operation of ports, the Cyprus Ports Authority are the competent authorities in this area.

Chapter 10: Taxation

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

Concerning **indirect taxation**, in April 2001 Cyprus adopted an amendment to the Customs and Excise Duties Law according to which imports of small consignments of goods of a non-commercial character from third countries are exempted from taxes. By the same amendment, portable containers of fuel were exempted from the turnover tax and the excise duty on imports in international travel. Furthermore, the definition of tobacco products was aligned with the *acquis* by a Law adopted in May 2001.

No legislative progress can be reported in the field of **direct taxation** and **administrative co-operation and mutual assistance**.

As regards *administrative capacity*, the computerisation of the relevant services of the Ministry of Finance continued. The Value Added Tax (VAT) service has elaborated a detailed “business strategy” defining its priority activities over the next 3 years. In March 2001, the Parliament approved the recruitment of 48 new VAT officers, mainly in the field of VAT control.

Overall assessment

Overall, Cyprus has started to align its taxation legislation with the *acquis*, but substantial further efforts will be required.

While recognising the efforts that have been made in the past and the initiatives taken to further align the tax legislation of Cyprus, by way of the scheduled Tax Reform in particular, concern remains as to Cyprus’ ability to fully address the outstanding issues.

The main challenges in the field of indirect taxation relate to the level of taxation. Concerning VAT, the current standard rate of 10% will have to be increased to a minimum of 15 % upon accession. Part of such an increase in the rate level (3 %) is planned to enter into force by the end of 2001, whereas the remaining 2 % will be effected six months prior to accession. In order to compensate for the increase in the VAT rate by 3 %, Cyprus intends at the same time to abolish its current defense levy. The introduction of a special VAT scheme for farmers, who in principle are not subject to VAT at present, is scheduled to be initiated by mid-2002 and fully implemented upon accession. The VAT Act, which was adopted by the House of Representatives in June 2000 and will enter into force by the end of 2001, will align the VAT legislation further with the *acquis*. Concerning excise duties, further increases in the duty rates are required for most product categories. Furthermore, for imported products, a full replacement of the current import duties will have to be carried out. Moreover, the current protection of domestically produced goods will have to be eliminated, so as to ensure that excisable products are taxed equally, irrespective of origin. These issues, together with a broadening of the taxable scope, in particular as regards mineral oils and alcoholic beverages, are scheduled to be carried out in a three-step exercise during 2002. Further efforts are also 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 urgently so as to fully comply with the Code of Conduct for Business Taxation to the same extent as current Member States. 47 465 permits have been issued since 1976 in this field, and it is estimated that roughly half of the beneficiaries are still operating. There were 1 080 entities maintaining a physical presence in 2000, and the number of their employees amounted to 5 864. The economic branches most closely involved are trade, marketing, distribution, ship management and maritime operations. The volume of activity of the offshore companies, however, remains low. Although Cyprus stated that this problem would be tackled within the framework of the Tax Reform, currently under preparation, this will now not take place until the end of 2001, leaving little time for legislative adaptation and implementation of the required adjustments.

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 including 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 administration structures and control procedures.

As concerns administrative capacity, the VAT Service administers VAT, operating as a separate structure within the Department of Customs and Excise. Although the Cyprus tax administration is a modern institution, further efforts are needed to ensure it has enough capacity, including computerization, to implement, control and enforce the *acquis*. The increase in VAT staff is satisfactory.

Overall, although there are some plans to address the outstanding issues, the scope of the required changes means that Cyprus faces a considerable challenge with a short timetable.

Chapter 11: Economic and monetary union

A detailed assessment of Cyprus's 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 before accession, 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*.

As regards the **direct public sector financing by the Central bank and the independence of the Central Bank**, no legislative developments have been recorded in the reporting period.

Where the **prohibition of privileged access of the public authorities to financial institutions** is concerned, a law abolishing the interest rate ceiling came into force on 1 January 2001.

Overall assessment

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

Overall, Cyprus still has to implement substantial portions of the *acquis*, relating notably to the direct financing of the public sector and to the independence of the Central Bank.

According to present legislation, the Central Bank of Cyprus may still provide the government with funds through direct advances and purchases of government paper. The Central Bank is also permitted by law to purchase securities issued by public corporations. Cyprus is encouraged to finalise its preparations for the change of its legislation and its Constitution in order to provide for the statutory independence of the Central Bank and compatibility in all material respects with the EMU *acquis*.

The liberalisation of interest rates constitutes progress in the field of privileged access of the public sector to financial institutions, since the structure of interest rates is now differentiated according to risk, including higher rates for unsecured loans.

Concerning *administrative capacity* in the field of EMU, the departments responsible are the Ministry of Finance, the Central Bank of Cyprus and the Planning Bureau. The Central Bank of Cyprus has the overall responsibility for defining and conducting monetary policy.

Chapter 12: Statistics

Cyprus has made considerable progress over the past year due in particular to the implementation of the Law on Statistics of January 2000.

In the field of **statistical infrastructure** a Statistical Council has been set up, representing the government as well as bodies outside the government sector including the Trade Unions and academia. It is chaired by the Director-General of the Ministry of Finance. As regards administrative capacity, the Cypriot Statistical Office (CYSTAT) has strengthened its information technologies infrastructure through the acquisition of advanced equipment and software. It has introduced optical data entry and processing methods, starting from the 2001 population census. The ongoing computerisation of the Treasury Department and the Department of Customs and Excise will enhance the statistical production process in the areas of public deficit and debt as well as for external trade. The Budget of 2001 has been increased to €6.6 million, as compared to €4.3 million in 2000 and €3.6 million in 1999 and provides for 12 more posts for statistics officers, three of which were already filled in May 2001.

A fully harmonised business register of local units is being set up following the completion of a census of enterprises in the first half of 2001.

As regards **classifications**, the compilation of a fully harmonised monthly volume index of industrial production at the appropriate level of the NACE classification took place. Output prices (for manufacturing) both for the domestic and the non-domestic market have also been made available on a monthly basis.

As regards **demographic and social statistics**, a population census is carried out since October 2001 in line with EU standards and recommendations. In the field of **sectoral statistics** numerous harmonisation efforts were made. A labour cost survey is being carried out since last year according to EC legislation.

There are no statistics available at **regional level**.

In the area of **macro-economic statistics**, procedures for the compilation of public deficit and debt data were initiated. From the 3^d quarter of 2001 on, quarterly national accounts are available. Moreover, the Central Bank of Cyprus has completed the first stage of a reporting system for Foreign Direct Investment (FDI) statistics.

Harmonised consumer price indices are produced and reported monthly. In the area of **business statistics**, business surveys have been extended to cover more variables; additional short-term indicators such as volume index of industrial production have also been compiled. **Transport statistics** exist in the field of maritime transport and the motor vehicle register is in the process of being set up (*see Chapter 9-Transport policy*). The **external trade** statistics have been revised in January 2001 to include a special trade system for exports. In **agricultural statistics** livestock surveys have been harmonised whilst various crop registers are being set up.

Overall assessment

Overall, Cyprus is quite well advanced in the field of statistics, although some further efforts are needed to fully align practices with the *acquis*.

As regards statistical infrastructure, the new Statistics Law of 2000 provides an appropriate legal framework for the work of CYSTAT on official statistics within the context of the EU. Both the role and functions of CYSTAT have been redefined. There is strengthening of co-operation and co-ordination with other data producers, such as the Central Bank of Cyprus, the Ministry of Agriculture, Natural Resources and Environment and other organisations such as the Cyprus Tourism Organisation. They now use common classifications and methods and they adhere more strictly to the timetables for the transmission of data subject to confidentiality to EUROSTAT. Furthermore, it is to be welcomed that the Statistics Law provides for the immediate transposition of EC requirements in this area to the statistical system of Cyprus without further legal measures. The fundamental principles of impartiality and reliability of data as well as the transparency of statistics and confidentiality of personal data are safeguarded. CYSTAT is highly computerised in terms of terminals, personal computers, connection to the LAN and access to Internet.

As regards classifications, continuing efforts to use the NACE classifications are needed.

In the area of sectoral statistics, Cyprus has progressed. A good level of alignment exists in agricultural statistics. As regards demographic, social and regional statistics, several important new data collection systems are being developed. The methods in macro-economic statistics are improving. Business statistics, transport statistics, and external trade statistics seem to have improved also.

Chapter 13: Social policy and employment

Since the last Regular Report Cyprus has achieved considerable progress in the field of social policy and employment.

As regards **labour law**, legislation adopted by Parliament in March 2001 aims at transposing the Directives on the protection of employees in the event of the insolvency of their employer and the Directives on collective redundancies. A law of April 2001 sought alignment of Cypriot law with the Directive on the protection of young people at work.

Concerning **equal treatment of women and men**, regulations defining the powers of the inspectors were issued in November 2000 under the equal pay legislation. Furthermore, an amendment to the Social Insurance Legislation of April 2001 aims to bring Cypriot legislation in line with aspects of the *acquis* on equal treatment for men and women in matters of social security.

A special group of officials was set up (including representatives of the Ministry of Labour and Social Insurance, the Planning Bureau and the Law Office) to examine in detail the new structures of the Government with regard to equal treatment of men and women.

In the field of **health and safety**, to bring legislation on the protection of chemical agents at work in line with the *acquis*, a regulation was issued in June 2001. Two other regulations of April 2001 transposed the *acquis* on biological and carcinogenic agents. Finally, the health standards for workers who manually handle loads would seem to have been incorporated by a regulation of June 2001.

The administrative capacity of the recently established Department of Labour Inspection was further enhanced by the appointment of a Director and three Senior Labour Inspectors, one in charge of each of the three sections of the Department, namely the Section on Conditions at Work, the Section on Industrial Pollution Control and the Section on Field Operations.

In the field of **public health**, Cyprus has further brought its legislation in line with the *acquis* on labelling of tobacco products and on maximum tar yields, as of January 2001. A new laboratory for measuring the tar yield of cigarettes was created at the General State Laboratory of the Ministry of Health. A number of health prevention programmes have been developed and implemented such as school education, anti-smoking campaigns, screening for cancer prevention, promotion of health nutrition and combating drugs and cardiovascular diseases.

Whereas in the field of **social dialogue** no developments can be reported, the process of **employment** policy review in Cyprus has been launched and a joint assessment paper on employment policy has been agreed between the Commission and Cyprus. This will form the basis for joint employment monitoring in the pre-accession period. Overall labour market performance in Cyprus remains strong, with both the employment and unemployment rates

comparing favourably with the EU average. The overall unemployment rate was still declining and reached 5% in 2000.

As regards **social protection**, new legislation for a National Health Insurance Scheme (NHIS) was adopted by Parliament in April 2001. It provides for universal coverage and its financing will be based on contributions by the social partners. It also aims to introduce checks and balances that will lead to cost containment and improve the quality of services provided.

No further legislative progress can be reported in the field of **anti-discrimination**. However, in July 2001 the Council of Ministers appointed an interministerial committee, with a mandate to study the Second Report on Cyprus (2000) of the European Commission against Racism and Intolerance and to submit to the Council suggestions towards concrete measures and further action to be taken on combating racism, xenophobia, discrimination and intolerance in specific areas of concern.

Overall assessment

Although Cyprus is advanced in this area, some parts of the *acquis* have not yet been fully transposed.

In the area of labour law, the Directives on working time, part time work, fixed-term work, posting of workers, and European Works Councils still need to be transposed. Cyprus is encouraged to set up the independent guarantee institution foreseen in the *acquis* on protection of workers in case of insolvency of the employer.

Concerning equal treatment for women and men, parts of the *acquis* remain to be transposed. Legislation has been under preparation and/or consideration for a considerable period of time. Gender mainstreaming was incorporated for the first time in the 1999-2003 National Development Plan. The National Machinery for Women Rights advises the Council of Ministers on policies, promotes women's rights and subsidises women's organisations. A large number of NGOs are represented. In addition, each ministry has an official responsible for the promotion of women's rights, but there are no regional or local bodies dealing with the promotion of equality of women. Cyprus also recognises that the implementation and enforcement machinery needs to be strengthened.

In the field of health and safety at work, several regulations covering all fields of the *acquis* are outstanding. The labour inspectorate team is small but consists of qualified professionals. The high number of court cases (51 for 1998) indicates good enforcement of the present legislation. In general, training and staff recruitment should continue.

As regards public health, minor changes in the definition of tobacco products and the establishment of a public health laboratory are necessary. When harmonising tobacco legislation, Cyprus should take into account the latest *acquis* in this field.

Regarding epidemiological surveillance and the control of communicable diseases, a notification system for communicable disease exists under the Quarantine Law of 1935 and its amendments. As this law is considered inadequate Cyprus is encouraged to introduce new legislation, aligned with the principles of the Community network for epidemiological surveillance and the control of communicable diseases by 2003. In this respect, a national

structure for surveillance and control of communicable diseases should be developed which would allow Cyprus to participate in the relevant Community network.

There are some deficiencies regarding health status monitoring. The computerisation of the public health services is underway, while the actual establishment of a Health Information system should begin by the end of June 2002. In this respect, Cyprus should continue its efforts to develop a health monitoring and information system in order to obtain health data and indicators comparable to the EC system.

Concerning social dialogue, Cyprus has a long-standing tradition in this area. Workers' and employers' organisations are strong and play an active role in particular in various existing tripartite bodies. Nevertheless, the effectiveness of the tripartite process could be further improved, especially considering the very small number of agreements reached in recent years. Autonomous social dialogue, sectoral social dialogue and collective agreements could be reinforced in order to prepare the social partners in Cyprus for the role they will be called upon to play in the sectoral social dialogue at EU level. At company level, forms of workers' consultation and information should be promoted along the lines of the Community *acquis* and practice.

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 security the newly adopted National Health Insurance Scheme (NHIS) opens the way for major health reforms in Cyprus. Among others, the health monitoring system has to be put in place, and surveillance for communicable diseases needs to be upgraded.

The combat against exclusion, as laid down in article 136 of the Treaty establishing the European Community, is part of the objectives of EU social policy. As decided at the Lisbon and Nice European Councils, policies to combat social exclusion combine commonly agreed objectives at the EU level, and national action plans. The Gothenburg European Council in June 2001 invited candidate countries to translate the Union's objectives of promoting social inclusion into their national policies.

In relation to the European Social Funds (ESF), the Planning Bureau will be the single Managing Authority for the Community Support Framework or the Single Programming Document, according to the Structural Funds Regulations. The Ministry of Labour and Insurance will be the authority responsible for the ESF and, for the time being, staff have been trained in this field. A Special Preparatory Programme (SPP) project for Structural Funds is under preparation, which aims to review the envisaged Structural Funds implementation system. Following the implementation of the SPP the necessary structures will have to be set up Cyprus is encouraged to recruit additional staff in the Ministry of Labour and Social Insurance in 2002 for the creation of a specific ESF section.

In its analytical approach to policy development, the Ministry of Labour has already adopted the four-pillar structure of the European Employment Guidelines, and work has commenced on the preparation of a National Employment Action Plan in line with the annual procedures in the Member States.

Efforts are needed to ensure alignment with the *acquis* on anti-discrimination based on Art. 13 EC.

Chapter 14: Energy

Cyprus has made some progress in the energy sector although a number of measures still need to be adopted.

In the fields of **security of supply, competitiveness and the internal energy market**, no legislative development can be reported.

As regards **energy efficiency**, in June 2001 the House of Representatives enacted legislation for the labelling of household appliances.

In May 2001 an Institute of Energy was established. It supports the promotion of measures for the rational use of energy, renewable energy sources and fossil fuels. The Government has introduced a grant scheme for investments in energy conservation and for the substitution of electrical energy or conventional fuels with renewable energy sources to run until 1 January 2003. The Ministry of Commerce, Industry and Tourism has been designated as the enforcement agency concerning the labelling of household appliances. The human resources of the Energy Section of the Ministry of Commerce, Industry and Tourism have been increased.

Overall assessment

Overall, the adoption of the *acquis* until now is satisfactory but further sustained efforts are required

With regard to the security of supply, due to the heavy dependency of Cyprus on imported oil, the issue of building up the required 90 days of oil stocks in accordance with the *acquis* 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. Cyprus has taken some initial steps towards the progressive building up of its oil stocks and storage capacity.

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 should strengthen its efforts to comply with the *acquis* in the electricity sector. It should also consider how to eliminate remaining price distortions.

Although possibilities for the future development of a *gas* sector continue to be studied, 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 can also 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 improve efficiency, to achieve alignment with the *acquis* in this field and to strengthen the relevant institutions.

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 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 Regulatory mechanism as required by the internal energy market *acquis* has as yet been established in Cyprus.

Whereas Cyprus does not generate electricity from nuclear power sources, the Council Report on Nuclear Safety in the Context of Enlargement (June 2001) contains recommendations with regard to other nuclear activities of relevance to Cyprus (that is the management and disposal of institutional radioactive waste, i.e. mainly sealed sources from industrial and medical applications).

The Report emphasises that its general observations and recommendations are relevant, in particular with regard to the need for Cyprus to ensure that the appropriate regulatory oversight is established according to good practices within the EU.

Cyprus will need to ensure compliance with Euratom requirements and procedures. In this respect, continued attention should be given to preparing the implementation of Euratom Safeguards, in particular regarding the reporting of nuclear material flows and inventories directly by the persons or structures operating nuclear installations or storing nuclear material. It should be noted that Cyprus has concluded a Full Scope Safeguards Agreement with the IAEA. An additional Protocol to this Agreement has been signed in July 1999.

Chapter 15: Industrial policy²³

Since the last regular report, Cyprus has made some further progress in implementation, and as during the previous year, mainly concentrated its efforts on investment promotion.

In the implementation of **industrial strategy**, Cyprus last year started to implement 12 support schemes included in the “New Industrial Policy” adopted in 1999 to improve the competitiveness of Cypriot industry. Ten of these schemes concern traditional industries, the remaining two the diffusion of information technologies.

In the field of **privatisation and restructuring**, no further legislative development can be reported. The government has decided to enhance the *administrative capacity* of the Ministry of Commerce, Industry and Tourism for the effective implementation of the *acquis*.

²³ Developments concerning Industrial policy should be seen in relation to the overall enterprise policy, including the SME policy (see chapter 16 - *Small and medium-sized enterprises*).

Overall assessment

The industrial policy of Cyprus is substantially 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 holds equity 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. In this framework, the New Industrial Policy contains incentives and schemes in twelve areas. These areas are: high technology (business incubators and R&D); one-stop shop for foreign investors; mergers, acquisitions and subcontracting; laboratories for quality improvement; access to finance (guarantees for loans to SMEs); development of specialized software; energy conservation; tax incentives; incentives to internationalisation; development of the Larnaca Free Zone and grants for manufacturing industries. 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. It should be noted that an important element of any industrial policy is the control of state aid and the compatibility of support schemes with EC rules, including the current rules of state aid of the ECSC Treaty, which will have to be examined (*see chapter 6 – Competition policy*).

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 enterprises²⁴

As regards **SME policy** and **business environment** Cyprus continued to make progress with implementation during last year.

The Government has signed contracts with the private sector for the creation of two business incubators. A new scheme has been put into effect by the Central Bank of Cyprus for financing SMEs at favourable interest rates.

²⁴ Developments concerning SME policy should be seen in relation to the overall enterprise policy, including Industrial policy (*see chapter 15 - Industrial policy*).

A decision by the Council of Ministers of 16 June 2001 brought the **SME definition** in line with the *acquis*. In August 2001, the government drew up a catalogue of contact points in the Ministries for information on Internal Market issues.

Overall assessment

As regards SME policy Cyprus is broadly in line with the principles and objectives of EU enterprise policy. In the Strategic Development Plan for Cyprus (1999-2003) there is a specific chapter on SMEs, which adopts the guidelines set out by the EU in the Third multi-annual programme for SMEs. Its objective is the creation of a simplified legal and institutional framework for SMEs, the improvement of the financial environment and the enhancement of the competitiveness of SMEs through their internationalisation and their access to the information society. A special scheme for start-up loans was introduced, but no agreement with the banks was reached for a government guarantee scheme for loans and interest rate subsidies. A new scheme was put into effect by Central Bank of Cyprus for financing SMEs at favourable interest rates.

Policy to favour entrepreneurship is based on the co-ordination between the objectives of educational, economic and employment policies, as well as on close co-operation with all the actors concerned, especially the business community. Further improvements in the administrative simplification for enterprises are still needed.

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 Employers and Trade Associations or Chambers of Commerce. Private sector institutions participate in both the formulation and the monitoring of the implementation of the policy. An Institute of Technology exists as well as a Centre for SMEs, which was set up within the Cyprus Development Bank.

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.

The association with the Fifth Framework Programme continues to function well. Within the framework of the Industrial Policy for the development of high technology industry in Cyprus, the government has signed contracts with the private sector for the creation of two business incubators.

The budget for national research programmes increased from €437 500 (CY £ 250 000) in 1998 to €1,75 million (CY £ 1 million) in 2001. The Research Promotion Foundation is actively involved in the co-ordination and encouragement of the participation of Cyprus' institutions in the 5th Framework Programme. Since January 2001 it has had an appointed liaison officer in Brussels in order to be kept informed of all new developments and to foster co-operation with the Commission and other liaison officers of Member States. One of the priorities of the Foundation is the improvement of links between academia and research institutions with the industry and SMEs.

The Planning Bureau continues to play a pivotal role in the promotion of scientific and technological co-operation with foreign research institutes.

Since May 2001 Cyprus has participated as an observer in the CREST Committee (*Comité pour la Recherche Scientifique et Technique*).

Overall assessment

In Cyprus, co-operation in the field of science and technology is well established and participation in the Fifth Framework Programme should enable Cyprus' authorities to become more familiar with Community rules and proceedings. Further reinforcement of research-related administrative capacity and infrastructure is necessary to enhance successful association. For a further development of the sector and for an effective integration of Cyprus into the European Research Area, it is important to significantly increase the gross domestic expenditure on research and technological development. 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 should be promoted.

With the increase of the human resources available to the Research Promotion Foundation, this body now seems to be adequately staffed. 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 Science and Research.

Chapter 18: Education and training

Cyprus made significant progress in the last year in the field of education and training.

It has started to participate in the second phase of the **Community programmes** Socrates, Leonardo da Vinci and Youth (*see section A.b - Relations between the European Union and Cyprus*).

In November 2000, the Parliament adopted the Education Degree, General Minimum Education and Curriculum Act. It addresses – together with the National Education Act - the requirements of the **Directive concerning education of children of migrant workers**, by regulating the conditions for learning the mother tongue as well as the acquaintance with the culture of origin of children of migrant workers. In this context funds were provided through the 2000 Budget enabling the training of trainers, the training of teachers and the provision of technical assistance.

Cyprus has made progress in **reforming its education and training system**. The amendments of November 2000 to the Vocational Education and Training Act introduce a legal framework for licensing vocational training institutions as well as for the de-centralisation of administration to regional, municipal and school level. The National Agency for Vocational Education and Training is responsible for the monitoring of standards in these areas. However, there are financial and human resource capacity constraints, which impede the implementation of this Act and the adequate functioning of the Agency.

The Council of Ministers decided to establish the University of Applied Sciences and Arts (7 February 2001) and the Cyprus Open University (30 June 2001).

Overall assessment

Participation in the relevant Community programmes is satisfactory and the established national agencies are functioning. The Directive concerning the education of children of migrant workers now seems to be fully transposed. Its implementation has to be ensured.

Reforms of the education and training system have made a big step forward with the establishment of two universities. The Open University will develop e-learning on an initial level.

As far as continuing vocational training is concerned the training infrastructure is relatively good, but the necessary legal basis, which provides incentives for employers to ensure continued training for employees, needs to be further strengthened. In response to the Commission's memorandum on lifelong learning, Cyprus' government has approved a reform proposal for secondary vocational education and training. It has set up a consultation process but an overall coherent continuing training policy is still missing. It will be important that the key players at national level are brought together to ensure an increased effort towards the development of a comprehensive approach to lifelong learning, incorporating initial education, continuing and labour market training.

The Ministry of Labour and Social Insurance has commissioned a study to review the apprenticeship scheme. A committee has started work to define the framework for the creation of a Technical University. Despite recent progress, there is a need to further strengthen the administrative capacity of the Ministry of Education and Science, to further decentralise the educational system to the regions and municipalities, as well as to develop a framework for dialogue with social partners. The co-operation between the Ministry of Labour and Social Insurance and the Ministry for Education and Science still needs to be improved.

Chapter 19: Telecommunications and information technologies

Since the last regular report good progress has been made concerning the improvement of the telecommunications infrastructure, the quality of services and the introduction of tariffs reforms. Little progress has however been made regarding liberalisation.

As regards the **liberalisation of the telecommunications market**, there have been no further developments. However, in order to prepare for future competition, a new numbering plan has been elaborated by the network operator CYTA with effect from November 2001.

As for the **regulatory framework**, in April 2001 the Parliament adopted the Law on the creation of the office of the Commissioner for Telecommunications and Postal Regulation. The Commissioner has not yet been appointed, but the budget for his office is under preparation. The functions related to radio-communications will continue to be exercised by the Directorate of Telecommunications of the Ministry of Communications and Works.

A study on the elaboration of a new numbering plan has been submitted to the Ministry of Communications and Works by CYTA. Another study is currently prepared for this Directorate, which covers issues of pricing for the frequency spectrum as well as criteria and procedures for licensing of an additional GSM operator and the Third Generation Mobile Telephony operators.

The House of Representatives approved the new tariff-rebalancing package in November 2000. The scheme will be carried out in three steps up to December 2001, gradually reducing tariffs on international and long-distance calls over the fixed network, mobile telephony and ISDN, while prices for local calls will increase.

Although preparations have advanced, no legislative development has been recorded in the **postal services** since the last regular report. However, the domestic mail system was assessed commencing November 2000 by external monitors, with the aim of improving its quality. Upon a recommendation by a German expert, Cyprus Post has re-organised the sorting centre as from April 2001. The universal service has been expanded to cover house-to-house delivery to 15 more communities, extending the service to 148 in total. In January 2001, the Government decided to change the legal status of the Postal Services according to a model applied in EU Member States.

The *administrative capacity* of the Directorate of Telecommunications is being enhanced with two additional posts. The staff of the Directorate attended several workshops on telecommunications regulation and spectrum management, and new frequency monitoring equipment was acquired in November 2000.

On the initiative of the Government, all schools have been connected to the Internet since last year.

Overall assessment

Whereas infrastructure and services are well advanced in Cyprus, efforts to gradually open the telecommunications and postal markets need to be maintained. In particular, Cyprus should liberalise the mobile telephony market.

In the field of telecommunications, although the current moves towards cost-orientation of tariffs are encouraging, the preparation and the adoption of legislation and secondary regulatory instruments to transpose essential parts of the *acquis* is not progressing according to the plan. The administrative procedures, and the requirement that even very detailed regulations have to be passed through Parliament, make it difficult to adapt the legal framework to the rapidly changing telecommunications technologies and markets and to promote the development of the Information Society in Cyprus.

The public network operator (CYTA) is to be transformed into a joint stock company at the end of 2001. Compared to the telecommunications sector, Internet use has developed only slowly, with a current penetration rate of about 15 %, far below the EU average (about 36 %), and a market still dominated by CYTANET.

As for the postal market, there is neither a licensing regime nor a legal provision for a Universal Service Provider. However, in practice, the Department of Postal Services offers universal service to nearly the whole population. The remaining 48 communities with more than 200 inhabitants are to be included in the service soon. Cyprus Post, as a member of the European association of public postal operators (USPs)-PostEurop, participates in regular cross-border assessment of the postal service and has started to monitor its domestic mail system as well.

As the appointment of the Commissioner for Telecommunications and Postal Regulations is delayed since May 2001 the new Regulatory Authority is still not operational. It is essential to ensure that the authority has sufficient staff to carry out the tasks of drafting regulations and ensuring market surveillance.

Despite the recent reinforcement of administrative capacity it seems that the human resources in the Directorate of Telecommunications still need to be increased in order to cope with the tasks of the Directorate.

Chapter 20: Culture and audio-visual policy

There have been no significant legislative developments in this area since the last regular report. Cyprus has continued to develop its administrative capacity to implement the Radio and Television Stations Law.

Developments in the field of **audio-visual policy** have been entirely administrative. The Cyprus Radio and Television Authority (CRTA), established in 1998, has significantly raised its profile among the public and broadcasters during the period covered by this report. It began to monitor and intervene on questions relating to human rights, the right to privacy, the protection of minors and it promoted and called for a public response, which itself brought an increase in complaints against television and radio broadcasters. In figures released in February 2001 the CRTA announced that it had considered 212 possible violations over the last year. Of the 160 cases examined, 104 resulted in penalties ranging from €350 (C£ 200) to €7000 (C£ 4000). A new Director of the CRTA was appointed on 1 July 2001.

In the field of **culture** no particular developments are to be reported.

Overall assessment

Overall, Cyprus' legislation in this field is largely aligned with the *acquis*.

As regards audio-visual policy the Cyprus Radio and Television Stations Law is already largely in line with the *acquis*. The government has announced that the list identifying events of major importance, to which viewing access should be ensured shall be approved soon. However, further clarification is still needed as regards, in particular, certain definitions and the right to reply. The CRTA seems to implement the law effectively.

Cyprus has ratified the Council of Europe Convention on Transfrontier Television and its Protocol.

The Cultural Services of the Ministry of Education and Culture are responsible for formulating and implementing the national cultural policy in the field of Letters and Arts. The Department of Antiquities of the Ministry of Communications and Works is in charge of the discovery, maintenance and protection of the cultural heritage of the Republic of Cyprus. The preservation and rehabilitation of buildings of cultural importance is assigned to the Town and Country Planning of the Ministry of Interior.

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

Over the reporting period Cyprus has made further progress in preparing for the implementation of structural policies.

Regarding **territorial organisation**, the Council of Ministers took a decision in December 2000 establishing two programming regions. In August 2001, Cyprus has submitted to EUROSTAT a proposal for provisional definition of regions corresponding to NUTS Levels 2, 3 and 4; this has not been agreed upon by the Commission.

While the **legislative framework** has not changed, the **institutional structures** have been strengthened. In December 2000, the Council of Ministers decided to set up Regional Councils in each programming region. They will have a substantial role in the formulation of regional development strategy. Elected representatives of local authorities and elected representatives of other organizations will participate in the Regional Councils.

In the field of **financial management and control**, the implementation of the new computerised financial information and management accounting system (FIMAS) commenced in September 2000 and is expected to be fully operational in 24 months. FIMAS will make possible the continuous monitoring of progress of implementation of all programmes/projects included in the budget. This analysis will enable constant follow-up of progress achieved and will constitute the basis for any appropriate corrective action in case of material budget variances. Furthermore, an Internal Audit Manual is being developed, to provide guidelines and support for internal auditors in carrying out their work. It has also been decided to concentrate the management of the pre-accession aid in the hands of the Accountant-General (as National Authorizing Officer) and the Permanent Secretary of the Planning Bureau (as National Aid Coordinator).

As regards **statistics**, no particular developments for the management of Structural Funds are to be reported since the latest Regular Report. No regional statistics have been provided in support of the proposed similar to NUTS classification.

Overall assessment

Cyprus can be considered well on the way to having the full capacity to implement structural policies. However, efforts still need to be speeded up, in particular as regards the establishment of a territorial organisation which allows for the effective implementation of Structural Funds and the setting up of the required monitoring and evaluation system. Other actions that are required include: the preparation of a coherent development plan aiming at producing a Single programming Document as required by the Structural Funds regulation, the definition of the implementation structures of the final plan, and the definition of the paying authorities.

Although less urgent, issues such as the strengthening of administrative capacity (especially in terms of recruitment and training), the alignment with the specific financial management and control procedures for future Structural Funds and Cohesion Funds, and the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline) also need attention.

As regards territorial organisation, Cyprus' administration relies on the division of the island into six districts and 33 self-governing municipalities, as well as 576 Community Councils. Concerning the legislative framework, no further legislative initiatives appear necessary in order to implement the EC structural policy *acquis*.

The institutional structures are envisaged to be in place upon accession. The co-ordination of government's policies for regional development is performed by the Planning Bureau. Once an agreement is reached on similar to NUTS classification the planned Regional Councils can help in implementing a coherent regional policy, but the decision regarding their final composition needs still to be taken.

On Structural Funds, the responsibilities have been shared out. The Planning Bureau will be the single Managing Authority for the Community Support Framework or the Single Programming Document and the lead authority for the European Regional Development Fund (ERDF) and the Cohesion Fund. The Ministry of Agriculture, Natural Resources and Environment will be the lead authority for the European Agricultural Guidance and Guarantee Fund (EAGGF)-Guidance Section and the Financial Instrument for Fisheries Guidance (FIFG). Finally, the Ministry of Labour and Social Insurance will be the lead authority for the European Social Fund (ESF). Payment agencies are to be designated in 2002. As regards preparation of programming, the partnership principle, monitoring and evaluation, no particular developments can be reported. Cyprus has prepared a special Programme for the Preparation of EU Structural Policy (SPP), which is about to be launched. Its main aim is the enhancement of the administrative capacity to manage the Structural Funds and regional planning. The Planning Bureau (comprising a staff of 57) is the national planning and co-ordination authority, and is also responsible for medium and long term macroeconomic planning. A unit has been set-up within the Planning Bureau, currently consisting of three officers responsible for the co-ordination of all preparatory activities in relation to Structural Funds. The administrative capacity seems to be sufficient, although further efforts are needed in terms of recruitment and training.

In general, the necessary structures and operational arrangements to implement the ESF effectively, are already in place. However, adjustments and further strengthening is necessary in order to improve both administrative capacity and the mechanism for co-ordination of ESF interventions in the context of the European Employment Strategy and the Inclusion Process.

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 corresponds to a large extent to the pluri-annual commitment requirement of the Structural Funds. However, a coherent development plan as required by the Structural Funds regulation has to be prepared and the implementation structures for the final plan have to be defined. Support provided within the framework of SPP should help to improve further this situation. Further efforts are required at the level of the technical preparation of projects eligible for Structural and Cohesion Funds assistance (project pipeline).

Concerning monitoring and evaluation, although Cyprus has already been implementing an ex-post assessment of the development projects, the system is not at the level required by the Structural Funds regulations, in particular for ex-ante evaluation and for the collection and

processing of the relevant statistical information and indicators, in particular at regional and local levels.

In the field of financial management and control, 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 and implementation of development expenditure. Final *ex ante* control of payment vouchers has been moved from the Internal Audit Directorate to the Accounting and Financial Services Directorate.

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. In an effort to strengthen the functional independence of the Internal Audit Directorate the Government will set up an Internal Audit Board. The institutional, legal and administrative framework for the financial control of structural assistance is already to a large extent in place but further efforts are needed. Cyprus will still have to make some efforts to meet the specific financial management and control provisions of the Structural Funds regulations.

As to regional statistics, further efforts are necessary to bring them up to the level required for regional policy planning and programming, in particular ex-ante evaluation. Cyprus still needs to improve the system for the collection and processing of relevant statistical information for the purposes of ex-ante evaluation.

Chapter 22: Environment

Since the last Regular Report, Cyprus has made good progress in aligning with the *acquis* mainly in the fields of horizontal legislation, water quality and ozone depleting substances.

Cyprus has begun to **integrate the environment into other policies**. In agriculture, measures have concentrated on the appropriate use of fertilisers and pesticides, the assignment of a feasibility study for the installation of an incinerator for animal carcasses, the relocation of animal husbandry units and the setting up of the legal framework for the promotion of organic cultivation. In energy, Cyprus encourages the development of renewable energy sources (primarily solar and wind) and promotes energy efficiency measures in all sectors. The erection of a wind turbine by the Electricity Authority of Cyprus demonstrates the practical outcome of these measures. Furthermore, through a wide range of fiscal measures, industrial policy assists the predominantly small polluting units in adopting more environmentally friendly approaches. Finally, “sustainable development” approaches are being applied to the transport and tourism sectors.

Regarding **horizontal legislation**, the Law on Environmental Impact Assessment (EIA) entered into force in April 2001. It aligns Cypriot law with the EIA Directive. The new law goes beyond the minimum requirements of the Directive regarding the exception of defence projects, the thresholds and categories of Annex I projects, transparency (the Cyprus Federation of Environmental Organisations is a member of the EIA assessment committee) and the role of the environmental authority (Environment Service).

In the field of **air quality**, the operating conditions for volatile organic compound (VOC) emissions from the storage of petrol were issued in March 2001 under the Air Pollution Control

Law. They oblige terminals to install the necessary equipment by January 2003. Furthermore, a new comprehensive report on air quality assessment in Nicosia was completed and disseminated at the end of 2000.

In the field of **waste management**, no specific waste legislation was adopted in the period covered by this report. The Law on Environmental Impact Assessment of April 2001 transposed the provisions of the Decisions on the list of waste and hazardous waste.

With respect to **water quality** the Parliament enacted the Quality of Water Intended for Human Consumption Law in May 2001, transposing the requirements of the Drinking Water Directive. A strict monitoring programme for water supply will ensure the proper implementation of the act. Concerning the discharge of dangerous substances into the water (dealt with by the water Directive of 1976 and its six "daughter" directives) an Order based on the Water Pollution Control Law was issued in January 2001. It adopted the remaining ambient water quality values and the measurement methods under the directives.

Construction works for the central sewage and waste treatment plants in Larnaca, Paphos, Ayia Napa – Paralimni and a number of rural centres are under way. Work has also begun on the design of the Greater Nicosia central sewage system.

In the field of **nature protection**, in March 2001 the House of Representatives adopted a law for the ratification of the UN Convention on Wetlands of International Importance especially as Waterfowl Habitats. A bill providing for the ratification of the Convention for the Protection of Migratory Species of Wild Animals was approved in July 2001. As regards the trade in endangered species, an amendment to the Animals (Scientific Experiments) Law was enacted in July 2000, taking into account the stricter protection requirements for species covered by the Convention on International Trade in Endangered Species.

As regards the EC Birds and Habitat directives, the technical data sheets on the habitats and species for which adaptation of the technical annexes is proposed have been provided to the Commission. The government has not yet made its final decision on the protection measures to be taken to safeguard the Akamas Peninsula.

With regard to **industrial pollution control and risk management**, an environmental impact study for the installation of Flue Gas Desulphurisation (FGD) at the Vasilikos power station was completed in February 2001. It will be used by the Cypriot authorities to decide how to complete the plant in compliance with the Large Combustion Plants (LCP) Directive.

In the field of **chemicals and genetically modified organisms**, the House of Representatives passed a law in March 2001 providing for the ratification of the Copenhagen, Vienna and Montreal II amendments to the Montreal Protocol. The law assigns the Minister of Agriculture, Natural Resources and the Environment as the competent authority to issue regulations on Ozone Depleting Substances permits and to issue licenses.

As regards **noise from vehicles and machinery**, no legislative development can be reported.

As regards **radiation protection**, a number of training activities were organised. Safety equipment was upgraded; the preparation of an inventory of all radiation sources was initiated.

Cyprus has also strengthened its *administrative capacity*. The Environment Service of the Ministry of Agriculture, Natural Resources and Environment was allocated additional staff in spring 2001. Furthermore, the public administration frequently takes advantage of the possibility of purchasing private services. Thus eleven implementation programmes are already under way (covering CO₂ strategy, ozone substances strategy, waste management strategy, environmental information, IPPC and chemical substances, habitats, EMAS, PCBs, nitrate pollution, and design of the Paphos landfill) and another five are about to commence (packaging, hazardous waste, batteries, landfills assessment, and waste water systems design).

Overall assessment

Cyprus' alignment with the *acquis* as well as strengthening administrative capacity are at an advanced stage due to the national Programme for the Adoption of the Environmental Acquis. With transposition now well underway, attention will need to be paid to implementation and enforcement issues in the coming period.

Concerning horizontal legislation, efforts are still needed to achieve alignment with the *acquis* as regards policies and measures intended to reduce greenhouse gas emissions and related reporting requirements. In nature protection preparations to implement the birds and habitat directives should continue although in relation to the latter, Cyprus is already party to the Bern Convention on the protection of habitats. The government has not yet made its final decision designating the sites to be covered by NATURA 2000. This issue will need to be further monitored. Regarding water quality, Cyprus has made significant progress in transposition of the *acquis* and has provided the Commission with detailed implementation programmes. The necessary administrative and technical infrastructure is being developed. With regard to air quality, transposition has continued in line with the commitments given by Cyprus. Concerning VOC emissions from the storage of petrol the programme for the compliance of existing service stations is on track.

Parts of the *acquis* in the field of industrial pollution control and risk management still need to be transposed. The efforts to clarify the application of the *acquis* on large combustion plants in Cyprus should continue following the receipt of the impact study on the Vasilikos plant in mid-June 2001 and in the light of the forthcoming revision to the LCP Directive. 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.

As regards noise from vehicles and machinery Cyprus still needs to transpose the *acquis* on household appliances as well as on equipment for use outdoors.

In the field of waste management, Cyprus rates of recycling are limited, partly because relevant legislation has not been enacted. The recently launched Household Recycling Partnership programme is a step into the right direction. Further alignment is needed regarding, *inter alia*, hazardous waste, supervision and control of shipment of such waste, packing and packaging waste as well as batteries and accumulators containing dangerous substances. The pending legislative bills covering these areas should be adopted soon.

In the field of chemicals and genetically modified organisms, progress has been achieved to reduce the emission of ozone depleting substances. A Law on the Control of GMO's still has to be adopted. Attention should be given to ensure the proper implementation of the said legislation by the Veterinary Services of the Ministry of Agriculture, Natural Resources and Environment.

Cyprus should continue to integrate environmental protection requirements into the definition and implementation of all other sectoral policies with a view to promoting sustainable development.

Considerable investments need to be secured, also in the medium-term, to ensure implementation of the environmental *acquis*.

As regards *administrative capacity*, at the national level, the small size of the country poses particular problems in meeting the demands of the accession process. Competence for the main requirements of the *acquis* has been clearly identified but the administrative system is fragmented at national level where most regulatory activity occurs. These administrative structures inhibit integration of permit, issuing and inspection functions. Either the restructuring of powers or the adoption of an adequate formal integration mechanism should be considered as solutions. Despite the recent strengthening staff resources remain weak, and this issue should be followed closely.

Chapter 23: Consumers and health protection

Since the last regular report, Cyprus has made progress in consumer protection.

In the field of **safety related measures**, no legislative developments can be reported.

With regard to **non-safety related measures**, a law enacted in March 2001 aligned legislation with the EC Directives on Consumer Credit. The Indication of the Prices of Products Offered to Consumers Law came into force as from March 2001. A law aiming at transposing the *acquis* on timesharing and certain provisions of the Directive on injunctions entered into force in July 2001. Concerning a **functioning market surveillance mechanism**, no further measures have been adopted.

According to a decision of the Minister of Finance in June 2001, the Competition and Consumer Protection Division of the Ministry of Commerce, Industry and Tourism will be re-enforced with 10 additional officers, out of a total of 32 new officers to be distributed among the various Divisions of the Ministry.

Eight additional posts were approved by the House of Representatives in March 2001 for the Department of Veterinary Services of the Ministry of Agriculture, Natural Resources and Environment.

Overall assessment

Overall, the situation is already satisfactory as legislative transposition is at an advanced stage and administrative capacity has been strengthened considerably.

Concerning injunctions, a framework legislation to transpose the relevant EC Directive has still to be introduced, although certain provisions have already been included in amending or new legislation.

As regards enforcement and market surveillance, the capacity of the Competition and Consumer Protection Division in the Ministry of Commerce, Industry and Tourism should be enhanced as planned by the Government. The existing and newly recruited staff will need to be trained, in particular with respect to the implementation of the new areas of consumer protection. An assessment of the future needs of the Division has led to identify some priority fields for funding in 2001, such as advertising, package travel, general product safety, distance selling, consumer credit, timesharing, and unfair contract terms.

Efficient activities are led by the Cyprus Consumers Association, which provides a complaint and advice service and runs a number of educational activities for adults and children. The association is also very active in promoting consumer interest in public life, taking active part in the harmonisation process in Cyprus as regards consumer legislation and co-operating with governmental services.

Chapter 24: Co-operation in the field of justice and home affairs

Since the last Regular Report, Cyprus has made progress especially in the fields of border control migration and the fight against corruption and fraud.

In the field of **data protection**, although governmental preparations for a bill ratifying the European Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data of 1981 have been finalised, no legislative developments can be reported.

As regards **visa policy** Cyprus has gradually abolished the practice of issuing visas at the borders. In 2001, it has only been operating for nationals with whose countries Cyprus had bilateral agreements to this effect (i.e. Bulgaria, Lebanon, Syria and Israel) or in exceptional cases for humanitarian reasons.

Concerning **border control**, Cyprus has continued its efforts to upgrade border control equipment and to improve training of personnel to prevent illegal immigration. The construction plans of Larnaca and Paphos airports, which will both serve as **Schengen** airports, have been modified to include the separation of intra- and extra-Schengen passenger flows. Forgery detection equipment was installed in summer 2001. The purchase of coastal radar, computer equipment for the first phase of the National Schengen Information System (NSIS), two patrol boats and three helicopters has been decided upon and is scheduled for 2001 and 2002. Furthermore, in May 2001, Cyprus adopted a "Schengen Action Plan".

Legislative harmonisation in the field of **migration** has intensified. An amendment to the „Aliens and Immigration Law“ relating to marriages of convenience came into force in March 2001. Furthermore, the Council of Ministers adopted a large number of decisions in view of EU measures in the field. The decisions of December 2000 concerned unaccompanied minors from third countries, the exchange of information in the area of asylum and immigration, joint principles for the exchange of data in the Centre for Information, Discussion and Exchange on the Crossing of Frontiers and Immigration (CIREFI), transit for the purpose of expulsion, checks on and expulsion of third country nationals residing or working without authorisation,

means of combating illegal immigration and illegal employment, and clauses to be inserted in future agreements combining matters of EU and Member-State competence. In January and February 2001, the Council of Ministers also took decisions as regards forgery detection equipment at ports of entry, a specimen bilateral readmission agreement and the principles for the drafting of protocols on the implementation or readmission agreements. In June 2001, it issued a decision to align with the *acquis* as regards concerted action and co-operation in carrying out expulsion measures. Furthermore, in July 2001 Parliament enacted a regulation on the concept of family reunification.

As regards **asylum** no legislative progress can be reported. Neither the discussed amendment to the law of asylum substituting the Ministry of Interior by a Law Officer as the appellate authority nor the implementation regulations have been adopted so far. However, administrative capacity has been strengthened; the Refugee Authority was set up in October 2000. The three desk officers who are officials of the Ministries of Foreign Affairs, Interior and Justice and Public Order were sent to the UNHCR for training.

Regarding **police co-operation and the fight against organised crime**, Cyprus was among the signatories of the UN Convention against Transnational Organised Crime, adopted at the UN Conference in Palermo in December 2000. It also signed the Convention's two Protocols covering combating the trafficking in women and children and the smuggling of immigrants.

In January 2001, Cyprus ratified the International Convention against Terrorist Bombings of 1997. The International Convention for the Suppression of the Financing of Terrorism was signed by Cyprus in March 2001. National legislation for the protection of witnesses was approved by the House of Representatives in June 2001. The law aligns with the *acquis* on the protection of witnesses and of individuals who co-operate in the fight against international organised crime.

In November 2000 the Council of Ministers designated the Focal Points and the relevant Committees for combating organised crime for the implementation of the Pre-Accession Pact on Organised Crime. It also decided, in March 2001, to second a police officer to the Embassy of the Republic of Cyprus at The Hague, the Netherlands, to act as a liaison officer with Europol.

With a view to the **fight against fraud and corruption**, Cyprus has continued its efforts towards signature of the 1997 OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transaction. Due to factors external to Cyprus, these efforts have so far been unsuccessful. Furthermore, any attempts towards the improper influencing of authorities or persons with regard to any appointments, transfers, promotions or exercise of disciplinary control in the broad public sector have now been criminalized by law.

Concerning **drugs**, the Drugs and Psychotropic Substances Law 29/1977 was amended in March 2001 to meet EC requirements on the manufacture and placing on the market of certain substances (precursors) used in the illicit manufacture of narcotic drugs and psychotropic substances.

The Anti-Drug Council and Fund provided for in a law enacted in July 2000 is responsible for the preparation and implementation of a National Drugs Strategy and for co-ordinating public and private initiatives in the field of drug demand reduction and drug supply reduction. The

fourteen members of the Anti-Drugs Council were appointed by the Council of Ministers in February 2001 and the Council started having regular meetings. With a view to Cyprus' participation in Reitox (European 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 continuing. To enhance their co-operation in the fight against drugs the Cypriot police and the Customs and Excise Department have signed a Memorandum of Understanding in August 2001.

Regarding **money laundering**, Cyprus amended its existing law in November 2000, and has enhanced its administrative capacity (*for more detail see Chapter 4 - Free movement of capital*).

In the field of **customs co-operation**, the EC and Cyprus have signed a Protocol on Mutual Administrative Assistance in July 2001. Since September 2001 Cypriot police implements the *acquis* on the refining of targeting criteria, selection methods and collection of customs and police information. In as far as the reinforcement of the operational capacity of the Customs Department is concerned, reorganisation has taken place, while personnel training was intensified since the second half of 2000. New equipment was also acquired and is in use since the end of 2000. The computerisation of the Customs and Excise Department has been initiated in 2001.

As regards **judicial co-operation in criminal and civil matters**, Cyprus adopted implementing legislation for the Convention on Mutual Assistance in Criminal Matters on 22 February 2001. On 1 June 2001 Cyprus deposited the instrument of ratification of the Additional Protocol to the Convention on the Transfer of Sentenced persons.

Overall assessment

Overall, Cyprus has already achieved a good record of alignment with the *acquis*. However, further efforts are needed to ensure full transposition of the *acquis* in the various fields of justice and home affairs.

In the field of data protection, Cyprus still needs to establish a comprehensive framework for the protection of individuals with regard to automatic processing of personal data. It is encouraged to align its legislation soon.

As regards visa policy, Cyprus has over the years achieved substantial alignment with the EU policy. However, eight countries on the EU list are still exempted from the visa requirement in Cyprus. The practice of issuing visas at the border is gradually being abolished. With regard to visas issued at the border for seamen in transit, the legal basis of this practice – the Merchant Shipping Agreements with six third countries – need to be renegotiated soon. Cyprus is continuing its efforts to prepare for the issuing of a uniform visa and its preparations to participate in the Schengen Information System.

Concerning border control, Cyprus has improved the infrastructure and installed the necessary equipment for the detection of forged documents. Meanwhile the architectural plans for the future Schengen-airports have been changed as well. The establishment of the Schengen

Information System should be further speeded up, and the technical capacities to control the maritime border by radar systems need to be enhanced.

As far as migration is concerned, 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 non-renewable work permits, the implementation of the legislation on combating illegal migration should be further continued. The decisions of the Council of Ministers of December 2000 on checks on and expulsion of third country nationals residing or working without authorisation as well as the new legislation on marriages of convenience are steps in the right direction.

The recent readmission agreement with Lebanon (a similar one is pending with Syria) foresees the repatriation of illegal immigrants to Lebanon if it is proven that their port of departure was in Lebanon. The implementation of this agreement should be scrutinised closely to ensure that it conforms to the principle of non-refoulement, bearing in mind that Lebanon (and Syria) has not ratified the Geneva Convention.

In the field of asylum a fair, effective and efficient set of procedures is still not in place. Cyprus urgently needs to build up capacities to deal with more than 400 applications in 2001 alone. Cyprus must take the necessary steps to ensure, in line with the *acquis*, that at least an appeal against the decisions of the Refugee Authority must be examined by an independent law officer. Lastly, the scope of applications regarded as manifestly ill-founded seems to be rather broad. To sum up, the alignment of the asylum law with European standards should be continued, including the adoption of implementing regulations.

Regarding police co-operation and the fight against organised crime, Cyprus has already ratified the major international conventions. The Cyprus police co-operates 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. Cypriot police forces have also 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.

A legislative framework is already in place with a view to fighting fraud and corruption (Criminal Code, Prevention of Corruption Law, Customs and Excise Law). Cyprus needs to align these provisions with the *acquis* on the protection of the financial interests of the EC, and in particular with the relevant 1995 Convention and its Protocols.

Officers and members of the Cypriot police forces are regularly trained in the Cyprus Police Academy and in the United Kingdom, the USA and Greece. The Police Academy courses are constantly upgraded in co-operation with European Police Academies and Universities. They include courses on combating organised crime, economic crime and computer crime.

As regards 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 (DCI) Headquarters. Enforcement and

co-ordination of antifraud work is carried out, *inter alia*, by the Unit for Combating Money Laundering at the Law Office of the Republic which has been recently strengthened.

Concerning drugs Cyprus adopted national legislation following its ratification of the UN Vienna Convention on narcotic drugs and psychotropic substances in 1990.

The Police and the Customs and Excise Department runs a special unit that co-operates with various foreign institutions and government organisations through drug liaison officers. The operation of the Anti-Drug Council and Fund will help to implement the National Drugs Strategy. Cyprus preparations for participation in the European information network on drugs and addiction (Reitox) of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) should continue.

Regarding money laundering, the “Unit for Combating Money Laundering” (MOKAS) increasingly uses its investigative powers so that its the record in obtaining freezing orders and disclosure court orders is improving (*for more detail see chapter 4, on free movement of capital*).

In the field of customs co-operation the Department of Customs and Excise works in close co-operation with the Customs Administrations of other countries, including those of the EU Member States. Cyprus should complete the signing of the Protocol between the EC and Cyprus on Mutual Administrative Assistance and complete the computerisation of the Customs Information System.

As regards judicial co-operation in criminal and civil matters, Cyprus is already party to the most of the relevant conventions. It has ratified the European Convention on the transfer of sentenced persons, and the Hague Conventions on Civil Procedure and on International Access to Justice. Upon accession it will have to make sure that its reservation pursuant to Article 13 of the European Convention of 1977 on the Suppression of Terrorism, according to which it reserves the right to refuse extradition in respect of any terrorist offence which it considers to be a political offence, does not apply to extradition between EU Member States.

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 request. Other authorities involved in international judicial co-operation include the Judicial Service and the police. A Unit for International Legal Co-operation is in charge of improving and accelerating international co-operation.

Cyprus is a party to all human rights instruments under the Justice and Home Affairs *acquis*, with the exception of the European Convention for the Protection of Individuals with regard to Automatic Processing of Personal Data of 1981, which remains to be ratified. These instruments take precedence over national legislation (Art. 169 § 3 of the Constitution).

Chapter 25: Customs union

Cyprus achieved significant progress in the fields of customs value, temporary importation, duty relief, the Common Customs Tariff, precursors and the computerisation of the customs administration during the period covered by this report.

With respect to the **EC Customs Code and its implementing provisions**, the Customs and Excise (Amendment) Law of 2001 and the Customs and Excise (Rate of Exchange Conversion of Foreign Currency) Regulations of 2001 entered into force in April 2001. They align the exchange rate used for customs matters with the *acquis*. The law also contains provisions about destruction and abandonment of goods. As regards customs procedures with economic impact, a departmental circular covering operations permissible in customs warehouses in line with EC requirements was sent to staff in May 2001. Furthermore, two regulations took effect in April 2001, one incorporating the provisions of the EC Customs Code for goods temporarily imported for display or use for exhibitions, fairs, meetings or similar events, and the second allowing temporary importation of professional equipment.

As regards the **customs acquis**, the above mentioned amendment to the Customs Law of April 2001 also covers duty relief. The relevant implementation order (covering 11 out of 29 relief cases) was adopted by the Council of Ministers on the same date. Another amendment to the law and subsidiary legislation in March 2001 concerns the monitoring of precursor chemicals. The Protocol on Mutual Administrative Assistance in Customs Matters (Mutual Assistance and Co-operation) between the EU and Cyprus was approved by the Council of Ministers in December 2000.

Concerning **administrative and operational capacity**, the Reform and Modernisation Programme of the Department of Customs and Excise came into force in May 2001; it consists of a business change management plan drawn up through the process of “gap-and-needs-analysis” for the period 2000-2002. A national risk assessment document is in place in order to assist in proper analysis of the risk involved in all areas where customs control is exercised. Finally, Cyprus decided to adopt an updated version of the Danish Customs Administration's IT system.

The Department of Customs and Excise also underwent a number of significant organisational changes. The process of recruiting new staff to fill more than 80 departmental vacancies (almost 20% of total manpower) continued. 15 new customs officers started working in May 2001.

Overall assessment

Overall, Cyprus has already reached a considerable level in the transposition of customs union *acquis*. However, alignment with the EC customs code and its implementing provisions is still needed with regard to some areas of temporary importation and customs procedures with economic impact. Outside the Code, legislation is still needed as regards cultural goods, some areas of duty relief and counterfeit and pirated goods, although legal vetting has been completed with regard to the latter.

Cyprus also needs to speed up its preparations as regards administrative capacity in order to be able to fully implement the *acquis* by the time of accession. A timely implementation of the modernisation programme is necessary. In this respect, it must be emphasised that flawlessly functioning EC-compatible IT systems should be put in place at least one year before accession to the EU in order to guarantee interconnectivity with the EC customs computerised systems.

Chapter 26: External relations

During the period covered by this report, Cyprus has continued harmonising with the *acquis* in this chapter.

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 2000, Cyprus' applied tariffs averaged 9.9 % (EC 6.3 %²⁵) on all products, 4.1 % (EC 3.6 %) on industrial products, 133/4 % (EC 16.2 %) on agricultural products and 10.2 % (EC 12.4 %) on fishery products.

With regard to the **Common Commercial Policy**, Cyprus has continued to co-ordinate positions and policies within the WTO with those of the EU, in particular with regards to the preparation of the new round. Cyprus submitted in April 2001 a notification to the WTO relating to the Agreement on Trade in Textiles and Clothing (ATC). Thereby it included those products to the third stage of integration under the ATC which have been already integrated by the EC.

No **bi-lateral agreements** on trade have been concluded with third countries.

In the **field of development policy and humanitarian aid** the co-operation with international non-governmental organisations has been continued. In the last year Cyprus granted €539,000 as bilateral aid mainly to the Russian Federation, several countries of Central and Eastern Europe, South Africa and the Palestinian Autonomous Authority.

Overall assessment

Cyprus is advanced in aligning with the Common Commercial Policy *acquis*, yet further progress needs to be achieved.

As member of the WTO Cyprus has been supportive of EU policies and positions within the WTO framework. In view of the new round of negotiations, co-operation should continue and be strengthened to ensure Cyprus' support for shared EU objectives. Concerning textiles, Cyprus has used the third stage of integration under the WTO Agreement on Trade in Textiles and Clothing to align with the *acquis*. Further co-ordination is needed to ensure the alignment of Cyprus' GATS commitments with the EC's commitments and most-favoured nation exemptions. By the time of accession Cyprus will need to have joined the WTO plurilateral agreements on Civil Aircraft and Government Procurement.

As regards export credits, the Cypriot system has made progress in aligning to the OECD Arrangement. In the area of medium and long term export credits, further efforts are necessary to align with the *acquis*.

²⁵ WTO bound tariffs after full implementation of all concessions including – where possible – estimated ad valorem equivalents of specific and compound tariffs.”

Cyprus is in the process of preparing legislation for the control of export and transit of dual-use goods in order to comply with the new EC Regulation in this area. It is a member of the Nuclear Suppliers Group and of the Australian Group.

Cyprus has not concluded any preferential trade agreement with third countries that would have to be re-negotiated or renounced prior to accession.

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 addressed under *chapter 25 – Customs union*. The existing Unit dealing with import licensing should be strengthened and restructured, in order to handle efficiently the expected volume of work. Training of personnel should be envisaged.

Concerning **development and humanitarian aid**, responsibility rests with the Ministry of Foreign Affairs. The Planning Bureau is the competent authority for administering technical assistance and development policy. Although no difficulties in the participation in the various policy making and management bodies at different EU levels are expected, preparations should be made to ensure that administrative infrastructure for development co-operation in the EU framework is in place upon accession. For the purpose of the Cyprus' future financial contribution to the European Development Fund, the Cyprus' management of its national budget organisation and management of flow of funds to the EC budget is addressed under *Chapter 29 – Financial and budgetary provisions*.

Chapter 27: Common foreign and security policy

Since the last Regular Report, Cyprus has continued to orient its foreign and security policy towards that of the Union. It participated in the multilateral **political dialogue** within the framework of the Common Foreign and Security Policy (CFSP) including regular meetings of Political Directors, European Correspondents and at the Working Group level.

Cyprus continued to show its keen interest in the developments of the European Security and Defence Policy (ESDP) as part of the CFSP and has actively participated in all the meetings in EU + 15 format (ie non-European NATO members and candidates for EU accession), at both ministerial and expert level. At the Capabilities Commitment Conference, held in Brussels in November 2000, the Minister of Defence of the Republic of Cyprus announced Cyprus's contribution, which includes services, infrastructure and support means.

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. Since October 2000, it has associated itself with 8 EU common positions, including 3 on the Federal Republic of Yugoslavia. In addition, Cyprus has continued its co-operation with the European Union in international fora such as the United Nations and the OSCE.

Cyprus participated in the meeting of the EU and candidate countries on arms export policies and control in Warsaw in January 2001 and hosted a follow-up meeting in Nicosia in June 2001.

Cyprus has strengthened bilateral relations with a number of other candidate countries and with Russia and China. It has maintained good and constructive relations with all neighbouring countries in the Middle East. No significant changes in bilateral Cypriot-Turkish relations can be reported.

Cyprus continues to comply with **mandatory sanctions** of the United Nations Security Council and the autonomous measures of the European Union. 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.

Overall assessment

The policy pursued by Cyprus is generally in conformity with the CFSP.

Cyprus applies the mandatory sanctions of the United Nations Security Council and the autonomous measures of the European Union. Cyprus maintains good and constructive relations with all neighbouring countries in the Middle East. These relationships have allowed Cyprus to contribute to the peace efforts in the area, by facilitating meetings in Cyprus between Israelis and Palestinians and other parties and maintaining avenues of communication. Cyprus is an active proponent of regional co-operation in the Eastern Mediterranean and strives to contribute to regional stability in the framework of the Euro-Mediterranean partnership.

At the Ministry of Foreign Affairs (MFA) 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. The MFA is connected to the Associated Correspondents' Network information system through which the EU communicates within the Common Foreign and Security Policy with the associated partners.

Chapter 28: Financial control

Since the last Regular Report Cyprus has made further progress with the structural modernization of its financial control system.

Cyprus has started reviewing its **Public Internal Financial Control** (PIFC) system. Following discussions with the Commission, Cyprus has agreed to re-organise the Office of the Accountant-General to ensure functional independence of the Internal Audit Directorate (IAD) as central Audit Body on government level. The IAD will be placed directly under the authority of a newly established Internal Audit Board chaired by the Minister of Finance. An Internal Audit Manual, an Internal Audit Charter and a Strategic Audit Plan are currently being developed.

The implementation of the new computerised financial information and management accounting system commenced in September 2000. In March 2001, a team of fifteen government officials headed by the Accountant General of the Republic was trained in Brussels.

In the field of **external audit**, no developments can be noted apart from a working visit by the Cyprus Audit Office in April 2001 to the European Court of Auditors.

As regards **control of structural action expenditure**, in August 2001 the Council of Ministers decided that the Accountant General and the Permanent Secretary of the Planning Bureau will be acting as National Authorising Officer (NAO) and National Aid Co-ordinator (NAC) for receiving EC funds. Some progress has been made in developing an Operational Manual for the National Fund as well as a preliminary audit- trail tool.

With regard to the **protection of EC financial interests**, no significant new developments can be reported. However, OLAF has established regular contacts with the Law Office of the Republic.

Overall assessment

Cyprus' financial control system is already close to European standards. Efforts are still needed in the areas of implementation of risk analysis methods, internal control of revenues and the proper management of pre-accession funding and structural funds.

With regard to Public Internal Financial Control, Cyprus should continue its ongoing review process. The revised PIFC system should be able to cope with the criteria and conditions for the application of the Extended Decentralised Implementation System (EDIS), as laid down in the pre-accession strategy.

The independent Audit Office, headed by the Auditor General, is responsible for the external audit. It employs about 100 auditors and 10 administrative staff. Its audit work covers the usual types of audits (financial, technical, performance) based on International Standards (INTOSAI/EUROSAI).

In the field of structural action expenditure, Cyprus undertook the first steps towards the establishment of the necessary structures with the designation of the National Authorising Officer and the National Aid Co-ordinator and the development of an Operational Manual for the National Fund.

Regarding the protection of EC financial interests, Cyprus has put in place legislation and the necessary administrative structures. Cyprus should officially designate, in consultation with OLAF, the institution that will co-ordinate investigations into cases of fraud and irregularities affecting the Communities' financial interests and act as a single contact point in relations with OLAF.

Preparations for fully decentralised implementation of pre-accession aid and later the Structural Funds have reached an advanced stage.

Chapter 29: Financial and budgetary provisions

During the period covered by this report, some progress was made in the area of financial and budgetary provisions.

In the field of the **national budget and EC co-financed measures**, there are no particular developments to point out in the period covered by this Regular Report.

Concerning the area of **own resources and administrative infrastructures**, and in particular the estimate of 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), progress was made in the adoption of the Classification of Individual Consumption by Purpose (COICOP). The technical committee chaired by the Statistical Service and involving representatives from relevant government departments (VAT Service, Planning Bureau, Ministry of Finance) continued its study on the calculation of VAT own resources taking into consideration the new developments in this area as well as improved data and assistance from EUROSTAT. However, the provision of GNP data in accordance with EC methodology has not yet been achieved in the last year. Regarding the other classifications used in the European System of Accounts (ESA 95), significant work has been carried out, including breakdown by institutional sector.

As regards control measures, the Department of Customs and Excise continued its participation in the Customs 2000 EU Programme in the fields of the fight against fraud, customs debt and the issue of a database system on tariffs. In addition, 15 customs officers were recruited, whilst 48 new VAT officers are to be recruited by the end of the year, mainly in the area of VAT control.

Overall assessment

Cyprus' financial and budgetary provisions are generally satisfactory. The implementation of pre-accession aid should give a clearer picture of the management methods employed and pinpoint any improvements that need to be made, and the extent to which Cypriot legislation, structures and policies conform with the *acquis*.

As regards the national budget and EC co-financed measures, as from the year 2000 the three budgets of the central government have been merged into a single 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. It appears that the current legislation should allow for the establishment of rules and procedures in line with the standards usually practised in the EU. Every possible step must be taken to guarantee the sound financial management of Community budget resources, and budgetary principles and rules must be brought fully into line with the standards generally applicable in the Community. Traditional own resources fall under the responsibility of the Customs and Excise Department of the Ministry of Finance. The Treasury (through its Internal Audit Directorate) is responsible for conducting all checks and enquiries concerning the establishment and the provision of Traditional Own Resources.

The VAT Service (within the Department of Customs and Excise), a fairly well organised and computerised structure, is responsible for the collection of VAT in Cyprus. The system for administering VAT is based on a central administration with local control. As regards GNP, Cyprus is continuing its work on the implementation of the European System of Accounts (ESA 95). No difficulties are foreseen in the development of a reliable, accurate and transparent GNP and VAT calculation.

The Directorate of Budget and Fiscal Control of the Ministry of Finance will ensure the co-ordination of the proper collection, monitoring and payment of funds to and from the EC

budget. The Directorate is continuing its efforts to enhance its capacity through the continuous training of its staff and the upgrading of its technological infrastructure (equipment and software).

With regard to the control of future EC Own Resources, Cyprus should continue its efforts to set up effective instruments to combat VAT and customs duty fraud so that the protection of the financial interests of the EC can be assured. In addition to the need for central co-ordination for the proper collection, monitoring and payment and control of funds to and from the EC budget, administrative capacity should be strengthened in the context of the relevant policy areas described elsewhere in this Report, such as Financial Control, Customs, Taxation, Regional policy and Agriculture.

4.2. General evaluation²⁶

During the period covered by this Regular Report, Cyprus has achieved substantive progress in different areas of the *acquis* and has continued at steady pace with further legislative alignment as well as with the setting up and upgrading of the necessary administrative institutions. The alignment process has gradually accelerated. However, there remain still a considerable number of laws to be adopted.

Over the last year, there has been progress in important areas of the internal market. Concerning *free movement of goods*, the adoption of EN standards has been accelerated and new legislation was passed as regards sector specific legislation. However, continuing serious efforts are required to transpose and implement the *acquis*, in particular as regards the framework law on the new and global approach principles and subsequent regulations for the transposition of the New Approach Directives. Furthermore, an overall strategy for better co-ordination of the authorities responsible for market surveillance should be developed. Although Cyprus has undertaken certain measures to abolish inconsistencies with the *acquis* in the area of *free movement of persons* in particular as regards the co-ordination of social security systems, important legislative work remains to be done before accession. Concerning *financial services* good legislative progress can be reported, and the overall standard of supervision appears to be satisfactory. Particular importance should be given to the restructuring of the co-operative and saving societies sector. The liberalisation of *capital movements* has continued and should be maintained to ensure a proper functioning of the markets upon accession. Significant measures to combat money laundering have been undertaken e.g. with the inclusion of lawyers and accountants within the scope of application of the relevant legislation. Cyprus has also tightened its measures relating to the identification of account holders and reporting of transactions in accordance with the recommendations of various international fora. The harmonisation process should be accelerated with regard to *intellectual and industrial property rights*. The effective application and enforcement of state aid rules, including the alignment of existing aid schemes as regards in particular the tax regime for the off-shore sector, should be ensured.

Partial progress has been made in the field of *agriculture* but substantial elements and mechanisms of the *acquis* remain to be applied as regards in particular the Common Market Organisations and the veterinary and phytosanitary sectors.

²⁶ See "Making a success of enlargement: Strategy Paper and Report of the European Commission on the progress towards accession by each of the candidate countries", COM (2001) 700.

In the field of *fisheries* the reinforcement of the administrative capacity has continued. Additional progress is needed with regard to the current and planned structure of the fishing fleet under Cypriot flag. Significant progress has been made in nearly all sectors of *transport policy* particularly as regards maritime transport where safety controls have been improved. The performance of the classification societies should be monitored.

While recognising the efforts made and the initiatives taken to further align the *tax legislation* with the *acquis* by way of e.g. the scheduled tax reform, concerns remain on the harmonisation of the level of indirect taxation and the special regime of direct taxation for off-shore companies.

Concerning *telecommunications*, there is a considerable delay in the adoption of legislation and the preparation of secondary regulatory instruments to transpose key parts of the *acquis*.

On *environment*, good progress can be reported. Cyprus has continued with harmonisation measures both as regards legislative alignment as well as strengthening administrative capacity. Particular attention should now be paid to proper implementation and enforcement.

In the area of *justice and home affairs* progress has been made in particular in the fields of border control, migration and in the fight against corruption and fraud. On asylum, although the administrative capacity has been strengthened with the setting up of a refugee authority, no legislative progress can be reported. In the light of increasing numbers of application alignment should be accelerated as regards in particular the criteria for applications and the setting up of an independent appeal authority.

Cyprus has achieved considerable progress in the field of *customs*, leaving only some areas where further alignment is necessary, in particular as regards temporary importation, customs procedures with an economic impact and cultural goods.

As regards *financial control*, Cyprus' financial control system is sound and consistent with European standards; efforts should be undertaken as to the internal control of revenues and the proper management of pre-accession funding and structural funds.

Over the last year, Cyprus has continued sustained efforts to further strengthen its *administrative capacity*. Training programmes have been organised in different sectors, such as co-ordination of social security systems, maritime safety, and justice and home affairs. Furthermore, additional staff has been recruited in key areas such as financial services, company law, veterinary and phytosanitary issues, fisheries, transport, taxation, social policy and employment, telecommunications, environment and justice and home affairs. This allowed Cyprus to reinforce market surveillance systems in the field of free movement of goods, to improve the due supervision of financial services, to upgrade the inspection arrangements in the veterinary and phytosanitary field and to strengthen its labour inspectorates.

New administrative structures have been set up in order to efficiently apply the *acquis*. Among these are an authority to settle disputes as foreseen in the credit border transfer Directive, a state aid monitoring authority, a new unit within the Department of Road Transport to deal with market access, a Statistical Council, a special group of officials to examine in detail the new structures of the government with regard to equal treatment of men and women, and finally a refugees authority. In other cases, the powers of the existing enforcement bodies have been increased, such as in the case of the Securities and Stock Exchange Commission, the Unit for Combating Money Laundering (MOKAS) and the Commission for the Protection of

Competition. Finally, there are plans to set up a new body on pharmaceuticals (Drugs Price Control Committee). In the field of customs, Cyprus has recently started to introduce an updated version of the IT system so as to allow for the exchange of computerised data with the Community.

In future, it is advisable to reinforce the administrative infrastructure for standardisation and certification to enhance the free movement of goods. Further efforts should also be made to strengthen enforcement capacity in the field of intellectual property rights, especially as regards border controls and fight against piracy and counterfeiting. Although progress has been made both in the fields of anti-trust and state aid, the infrastructure, staff, and the rather weak enforcement record of the anti-trust legislation should be improved. As regards taxation, Cyprus should develop IT systems, so as to allow exchange of electronic data with the Community and its Member States. Following the expected nomination of the Independent Regulator in the telecommunications sector his newly established authority should start working soon. An upgrading of the border management in the field of justice and home affairs is imperative. Further efforts are also required in establishing the necessary administrative capacity to ensure the sound, efficient and controllable management of EC funds.

Overall, the administrative capacity of Cyprus is already largely in place to implement the different aspects of the *acquis*.

Over the last year Cyprus has met the short-term priorities of its Accession Partnership with regard to free movement of capital, environment and financial control. In most other areas the priorities were partially fulfilled. Cyprus has continued to make progress in addressing the medium-term Accession Partnership priorities, and has partially fulfilled a number of them, such as justice and home affairs, regional policy and co-ordination of structural instruments and issues relating to the internal market.

C. Conclusion²⁷

Cyprus continues to fulfil the Copenhagen political criteria. Further efforts have been made to prepare the administration for operation within the EU, and the authorities' record on democratic and human rights remains generally good.

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

The macroeconomic situation has continued to be robust with high GDP growth, low inflation and unemployment. The fiscal consolidation plan introduced in 1999 is successfully addressing some important structural deficiencies in public finances. Progress has been made in structural reforms, notably within the financial sector, the environment, and healthcare. Both the financial sector and the capital account took major steps towards greater liberalisation.

However, the current account deficit increased significantly. The welcome liberalisation of the financial sector and the capital account pose new challenges to the economy. Cypriot authorities should ensure a proper and uniform supervision of the financial sector, including the co-operative banking sector. In cases where prices are regulated, a more market-based approach should be adopted. Cyprus must continue to prepare its private sector to operate in the single market environment that integration in the EU implies, by opening key sectors to foreign competition.

During the period covered by this Regular Report, Cyprus has achieved substantive progress in different areas of the *acquis* and has continued at steady pace with further legislative alignment as well as with the setting up and upgrading of the necessary administrative institutions. The alignment process has gradually accelerated. However, there remain still a considerable number of laws to be adopted.

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D. Accession Partnership and National Programmes 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 italics²⁸.

Short-term priorities (2000)

Political criteria: The Cypriot government participated in the fifth round of the proximity talks in November 2000 and **therefore continued to maximise its efforts to support a settlement** under the auspices of the UN. In the period under consideration no further rounds took place following the withdrawal of the Turkish Cypriot Community from the talks.

Economic criteria: Measures were taken to *correct the widening of the fiscal and account deficit* so that the fiscal deficit narrowed significantly. With the abolition of the nine-percent interest ceiling in January 2001 Cyprus has *strengthened the effectiveness of monetary policy*. A third round of *capital account liberalisation* was completed at the same time. As regards the *co-operative and saving societies*, Cyprus presented a convincing reform plan that will enable it to restructure the sector in accordance with the *acquis and international accounting standards*. **Therefore these priorities have been met.**

Internal Market

- *Public procurement*: Harmonisation of the law with regard to publication, time limits and review bodies has not taken place. Laws extending coverage to local authorities and bodies governed by public law still need to be enacted.
- *Industrial and intellectual property rights*: Cyprus's *trademark* and *patent* law is now in line with the *acquis*. However, legislative changes are necessary in the areas of *copyright*

²⁸ For the detailed text on the short and medium priorities established in the Accession Partnership please refer to Council Decision 2000/258/EC (OJ L 78, 29.03.2000).

and legal protection of design and databases. Further efforts are required to strengthen capacity to enforce legislation as regards *border controls* and combating piracy and counterfeiting.

- *Free movement of goods*: Cyprus aligned its legislation in the field of motor vehicles already in February 2000. As regards sector specific legislation most of the *foodstuff* legislation has been adopted although the parts concerning materials and articles in contact with foodstuff and labelling still need to be transposed; in the *pharmaceutical sector*, new harmonised legislation concerning products for human use has been adopted; in the *cosmetics sector*, new harmonised legislation has been enacted. The administrative capacity has been strengthened in all these sectors by way of appointing competent authorities for the implementation of the new legislation, although further efforts are required. The government of Cyprus has adopted most *EN standards*. The transposition of the new approach Directives via a framework law has not yet been completed.
- *Free movement of capitals*: Cyprus is steadily *liberalising the movement of capital*. In the area of capital movements, medium and long term borrowing in foreign currencies was liberalised as from beginning 2001. As regards the introduction of *market interest rates*, a law abolishing the interest rate ceiling has come into force on 1st January 2001.
- *Competition*: Although Cyprus has already achieved good alignment with the EC's *anti-trust* legislation through its Protection of Competition Law of 1989, further alignment is necessary. In particular, the Community's new policy on horizontal co-operation agreements needs to be taken account of. The powers of the competition authorities have been strengthened but the enforcement record remains weak.
- *Telecommunications*: As regards the regulatory framework, the Law on the creation of a *National Regulatory Authority* has been adopted in April 2001. Although some steps have been taken towards cost-orientation of tariff in the telecommunications, there is a considerable *delay in the adoption of legislation* and the preparation of secondary regulatory instruments to transpose essential elements of the *acquis*.
- *Taxation*: Concerning the *alignment of VAT*, the VAT Act 2000, which introduces additional measures to align with the *acquis*, will enter into force by the end of 2001. A special VAT scheme for farmers is scheduled by mid 2002. The special regime for *offshore companies* needs to be addressed urgently so as to fully comply with the Code of Conduct for Business Taxation. As regards *excise duties*, further increase in the duty rates is required for most product categories. The current import duty has to be replaced and the protection of domestically produced goods has to be eliminated.
- *Customs*: Cyprus has adopted a pre-accession strategy for the harmonisation of its customs legislation and accelerated its computerisation process.

Overall, the priorities related to the Internal Market have been partially met.

Agriculture

- Although there has been some progress in *preparing Cyprus's agriculture for the Common Agricultural Policy*, substantial elements remain to be applied, particularly related to Common Market Organisations (mostly wine, olives and milk). The establishment

of an integrated administration and control system (IACS) has been accelerated but some steps need still to be made, being a first priority the set up of a Paying Agency to handle the agriculture expenditure. As regards rural *development and forestry*, the necessary control bodies for the environmental scheme will have to be put in place, and a code of good agricultural practice needs to be established. Concerning *veterinary and phytosanitary* legislation, transposition of the *acquis* is still partial. The upgrading of inspection arrangements, in particular at future external borders, has been continued. **Therefore this priority has continued to be partially met.**

Fisheries

- The restructuring of the *fishing fleet* under the Cypriot flag is ongoing. As regards *inspection and control measures*, according to the Fisheries Regulation, a ceiling to the number of licences that can be issued for fishing within territorial waters exists. The establishment of a *Fishing Vessel Register* is being pursued. **Therefore this priority has continued to be met.**

Environment

- The *Law on Environmental Impact Assessment* entered into force in April 2001. Cyprus completed a national Programme for the Adoption of the environmental *acquis* in September 2000. Alignment in the field of *water quality* is expected soon, after the introduction of the necessary amendments to the Water Pollution Control Law. As regards *waste management*, the strategy has been adopted with some relevant legislation on recycling being prepared. Further alignment is required on hazardous and dangerous waste. With regard to *air quality*, alignment with the *acquis* continues on volatile organic compounds; however a decision has to be taken on how to upgrade the oil refinery of Larnaca. **In the September 2000 programme, mentioned above, Cyprus indicates its financing investments based on estimation of costs of alignment.** There is however no indication or planning that indicates how these costs are to be met.

Therefore this priority has been substantially met.

Employment and social affairs

- Social dialogue is a long standing practice and in addition to the various existing tripartite bodies, bipartite social dialogue continues to develop in non formalised ways. *Capacity-building efforts of social partners* should be further supported. The *administrative capacity* in the fields of labour law, equal opportunities and co-ordination of social security was reinforced by the definition of powers of the inspectors under the Equal Pay Law in November 2000 and an amendment to the Social Insurance Act in April 2001. The *enforcement structure in the fields of health and safety at work*, especially the Labour Inspectorate, has been strengthened. **Therefore this priority has continued to be partially met.**

Transport

- Concerning *maritime transport*, Cyprus has aligned its legislation to a considerable extent. Cyprus has significantly improved its performance on safety controls and there have been remarkable decreases in detention rates in foreign ports and in marine accidents. An action

plan on Merchant Shipping, including monitoring of classification societies is implemented. **Therefore progress beyond the targeted level has been achieved.**

Justice and Home Affairs

- As regards *asylum*, secondary regulations under the Asylum Law of 2000 are still pending. Further efforts are needed to ensure the regular and complete reporting of the *offshore banking sector*. Concerning *border control*, Cyprus has improved the infrastructure and installed the necessary equipment for the detection of forged documents. Preparations of the administrative structures for joining the Schengen Information System should be pursued and the technical capacities to control the maritime border need to be enhanced. Cyprus has continued its efforts to accede to the *OECD Convention on Bribery*; the European Convention on *Mutual Assistance in Penal Matters* entered into force in May 2000. As regards *money laundering*, Cyprus amended its existing law in November 2000, and enhanced its administrative capacity. **Therefore this priority has continued to be partially met.**

Reinforcement of administrative and judicial capacity including capacity to manage and control EU funds

- Cyprus has started reviewing its *Public Internal Financial Control* system. An Internal Audit Board has been established; and an *Internal Audit Manual*, an *Internal Audit Charter* and a *Strategic Audit Plan* are being developed. And at present the internal and external control systems in Cyprus are largely compatible with internationally accepted standards following the adjustments made during 2001. Nevertheless Cyprus should continue this review process and take all the necessary steps to ensure that *risk analysis* methods are implemented as soon as possible. As regards GNP, Cyprus continues to work on the implementation of the European System of Accounts (ESA 95) on the basis of the experience obtained from the participation in EUROSTAT projects for candidate countries. **Therefore this priority has been met.**

Medium-term priorities

Economic criteria

- The government is committed to the *liberalisation of utilities*, such as air transport sector, the electricity sector, telecommunications and postal services where the first steps have been taken. During the last year Cyprus has made progress in resolving the *structural policy* challenge, most notably within the *financial sector*. It also *liberalised further capital account operations*, whereas restrictions in *foreign participation in financial services, oil refining, tourism and trading* remained. Generally, conditions for the *creation and development of small and medium sized enterprises* have been improved and the definition of SME's has been brought in line with the *acquis*. The *restructuring of textile sector* should continue. An *annual fiscal surveillance procedure aimed at bringing the reporting, monitoring and control of public finances, specially fiscal positions, in line with EU procedures*, still needs to be developed. **Therefore these priorities have been partially met.**

Internal Market

- *Public procurement*: According to the law, the preferential treatment clause in favour of local production will be eliminated by end of 2002.
- *Company law*: The *Second, Third, Sixth, and Eleventh Directives* need still to be transposed. Concerning *accounting law*, Cyprus legislation is already in line with the *acquis*.
- *Data protection*: A draft bill is pending in Parliament as regards the protection of *personal data* and the establishment of an independent supervisory authority.
- *Free movement of goods*: Draft legislation on *legal metrology* is expected to be enacted by 2002. Different Ministries are carrying out *market surveillance* for machinery, lifts, construction products, gas appliances, electrical equipment, medical devices and personal protective equipment, but Cypriot authorities still should develop an overall strategy to improve co-ordination. The transposition of *new approach directives* has not yet been completed.
- *Free movement of capital*: Cyprus has not yet abolished all remaining restrictions and authorisation procedures but complied with its timetable to do so until accession.
- *Free movement of persons*: Concerning the mutual *recognition of diplomas*, a number of professions are already regulated in Cyprus, but not all. The transposition of the General System Directives has not yet taken place.
- *Competition Policy*: Cyprus has reinforced its Commission for the Protection of Competition and has started to review all state aids. The specific tax privileges for the offshore sector should be addressed in the coming tax package reform that must pave the way for the enforcement of state aid rules.
- *Telecommunications*: Although some steps have been taken towards cost-orientation of tariff in the telecommunications, there is a considerable *delay in the adoption of legislation* and the preparation of secondary regulatory instruments to transpose essential elements of the *acquis*. Whereas the independent regulatory authority was established by law in 2001 the appointment of the regulator has not yet taken place.
- *Taxation*: As reported for the short-term priorities Cyprus has to address the alignment of the VAT system and to increase the excise duty rates to EU minimum levels in the course of the coming tax reform.
- *Consumer protection*: Cyprus continued alignment with the *acquis* and strengthened enforcement authorities. There are only two remaining areas of divergence in the field of *non-safety related* measures: the law on unfair contracts raises some problems in particular concerning the power of consumer associations to take actions before courts; a bill on timesharing aligning with the relevant *acquis* still needs to be adopted. Concerning a functioning *market surveillance mechanism* no further measures have been adopted.
- *Customs*: Although Cyprus amended its Customs Code in April 2001, provision still needs to be made for *customs procedures with economic impact and for simplified procedures*. However, that *administrative and operational capacity* was strengthened by

the implementation of the Reform and Modernisation Programme of May 2001 permitting a continuing *fight against fraud and corruption*.

Overall, the priorities related to the Internal Market have been partially met.

Agriculture

- As reported for the short-term criteria this priority has continued to be partially met.

Environment

- Cyprus continues the *harmonisation measures* in terms of transposition of legislation as well as strengthening administrative capacity due to the national Programme for the Adoption of the environmental *acquis* finalised in September 2000. As regards *waste management*, the strategy has been adopted with some relevant legislation on recycling being prepared. Further alignment is required on hazardous and dangerous waste. Cyprus has begun to *integrate environment into other policies* (mainly agriculture and energy). **Therefore this priority has been met.**

Energy

- With regard to the security of supply, the issue of *oil stocks* (storage capacity needs to be developed) should be addressed as soon as possible. Cyprus has undertaken to implement the *Electricity Directive* by the date of accession. The monopoly of the Electricity Authority should be altered to align with the *acquis*. Further efforts are required to improve *energy efficiency*. **Therefore this priority has been met to a limited extent.**

Employment and social affairs

- Although Cyprus has achieved good progress, some parts of the *acquis* have not yet been fully transposed. In the area of *labour law*, the Directives on working time, part time work and posting of workers still need to be transposed. Concerning *equality of treatment*, the legal framework is largely in place, except EC Directives on parental leave and equal treatment in employment and vocational training. No legislation to prevent *discrimination* on the grounds of race or ethnic origin has been prepared until now. Several regulations are still outstanding in the field of *health and safety*, and *social security*. A National Plan for *Employment* according to the EC Employment Guidelines has been prepared. A Joint Assessment of Employment Policy Priorities is ready for signature. **Therefore this priority has continued to be partially met.**

Economic and social cohesion

- As regards the territorial organisation, the provisional NUTS classification necessary to determine EU regional policy targets has been adopted in due time. Concerning the preparation of programming, the partnership principle, monitoring and evaluation, and statistics, Cyprus is about to prepare a special Programme for the Preparation of EU Structural Funds policy. **Therefore this priority has been met.**

Transport

- Alignment has been achieved in the harmonisation of *road-transport* related fiscal measures, admission to occupation, technical requirement for vehicles, collection of statistics, co-operation between authorities and road transport industry, maximum dimensions and weights and speed limitation devices. However, Cyprus should also continue its efforts to transpose the *acquis* on transport of dangerous goods. Maritime transport legislation has been harmonised to a considerable extent. The preparatory work to adopt a new law on *air transport* should continue to overcome the outstanding discrepancies with the *acquis* in this sector. Therefore this **priority has continued to be partially met.**

Justice and Home Affairs

- *Law enforcement bodies and the judiciary* have been *upgraded* both in personnel and equipment and Cyprus has progressively aligned with the EU *visa legislation* by largely abolishing the practice of issuing visas at the border. Cyprus also made efforts to ensure the *effective application of international instruments on judicial co-operation*. **Therefore this priority has been substantially met.**
- Reinforcement of administration and judicial capacity including capacity to manage and control EU funds: As reported for the short-term criteria this priority has continued to be met.

2. National Programme for the Adoption of the Acquis

In August 2000, Cyprus submitted its First National Programme for the Adoption of the Acquis to the Commission. It covers political and economic criteria, while the focus lies clearly on the chapters of the *acquis* that are presented in line with the negotiation chapters. In the *acquis* area, Cyprus gives a description of the progress and degree of compatibility with European standards, the implementation structures, budgetary aspects and timing.

The NPAA is a detailed and well-structured document. Its scope covers the priorities mentioned in the Accession Partnerships with some minor exceptions (as in taxation). In general, precise and realistic timetables enumerate the dates foreseen for adoption of laws, relevant administrative infrastructure, Celex reference and budget. In some cases, the Commission felt that the timetables could have included also intermediate steps in the legislation process or shorter deadlines. Concerning links to provision of budgetary resources, the NPAA generally gives a clear picture of those already allocated and those foreseen in the future. Sometimes the figures presented could have been more detailed as to the concrete share among different branches of administration concerned.

Cyprus presented a full second NPPA in August 2001 which is currently being assessed by the Commission.

Annexes

***Human Rights Conventions ratified by the Candidate Countries,
30 September 2001***

<i>Adherence to following conventions and protocols</i>	BG	CY	CZ	EE	HU	LV	LT	MT	PL	RO	SK	SI	TK
ECHR (European Convention on Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom movement et al.)	X	X	X	X	X	X	X	O	X	X	X	X	O
Protocol 6 (death penalty)	X	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 7 (ne bis in idem)	X	X	X	X	X	X	X	O	O	X	X	X	O
European Convention for the Prevention of Torture	X	X	X	X	X	X	X	X	X	X	X	X	X
European Social Charter	O	X	X	O	X	O	O	X	X	O	X	O	X
Revised European Social Charter	X	X	O	X	O	O	X	O	O	X	O	X	O
Framework Convention for National Minorities	X	X	X	X	X	O	X	X	X	X	X	X	O
ICCPR (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 the ICCPR (death penalty)	X	X	O	O	X	O	O	X	O	X	X	X	O
ICESCR (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	O
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X
Optional Protocol to the CEDAW	O	O	X	O	X	O	O	O	O	O	X	O	O
CRC (Convention on the Rights 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= Slovak Republic; SI=Slovenia; T=Turkey

Statistical data²⁹

	1996	1997	1998	1999	2000
Basic data	in 1000				
Population (average)	738,4	743,5	748,8	753,2	757,0
	in km²				
Total area	9.251	9.251	9.251	9.251	9.251

National accounts	Mio Cyprus Pound				
Gross domestic product at current prices	4.161	4.371	4.695	5.009	5.458
	1000 Mio ECU/euro				
Gross domestic product at current prices	7,0	7,5	8,1	8,7	9,5
	ECU/euro				
Gross domestic product per capita ³⁰ at current prices	10.800	11.500	12.300	13.000	14.200
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	1,9	2,5	5,0	4,5	4,8
	in Purchasing Power Standards				
Gross domestic product per capita at current prices	14.700	15.400	16.300	17.500	18.500
Structure of production	in % of Total Gross Value Added				
- Agriculture	4,8	4,3	4,4	4,2	3,8
- Industry (excluding construction)	14,7	14,2	13,8	13,1	12,8
- Construction	8,9	8,4	8,0	7,7	7,1
- Services	71,6	73,1	73,8	75,0	76,3
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	83,0	84,8	86,8	83,6	84,3
- household and NPISH	:	:	:	:	:
- general government	:	:	:	:	:
- Gross capital formation	22,3	19,8	20,8	19,4	18,7
- Stock variation	:	:	:	:	:
- Exports of goods and services	46,9	47,1	43,5	44,6	46,1
- Imports of goods and services	53,1	52,0	51,1	47,8	50,3

Inflation rate	% change over the previous year				
Consumer price index ³¹	3,0	3,3	2,3	1,1	4,9

Balance of payments	in Mio ECU				
-Current account	-370	-299	-538	-204	-495
-Trade balance	-1.753	-1.833	-2.163	-2.166	-2.826
<i>Exports of goods</i>	1.118	1.102	950	938	1.031
<i>Imports of goods</i>	2.871	2.935	3.113	3.105	3.857
-Net services	1.374	1.520	1.625	1.917	2.213
-Net income	-18	-10	-26	-36	-18
-Net current transfers	27	23	26	82	136
<i>-of which: government transfers</i>	14	16	23	82	139
- FDI (net) inflows	44	67	61	114	174

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-3,3	-5,2	-3,7	-4,0	-3,2
General government debt	:	:	61,9	62,7	63,0

²⁹ Data provided refer to the Government controlled area only, with the exception of data on total area, population and the various demographic indicators which refer to the whole of Cyprus. Indicators expressed in per capita were calculated on the basis of the mid-year population in the Government controlled area: 1996: 648,1; 1997: 654,5; 1998: 660,4; 1999: 664,8 and 2000: 669,1.

³⁰ Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

³¹ Changes in Methodology: PROXY HICP since 1998 (see methodological notes).

Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	120,9	147,2	136,4	160,9	174,3
	as % of exports				
Gross foreign debt of the whole economy	258,3	312,9	312,8	360,7	377,9
Monetary aggregates	1000 Mio ECU /euro				
- M1	1,1	1,2	1,3	1,8	1,9
- M2	7,1	7,9	8,6	10,0	10,8
- M3	:	:	:	:	:
Total credit	8,4	9,5	10,6	11,9	13,6
Average short-term interest rates	% per annum				
- Day-to-day money rate	6,9	4,7	4,8	5,2	6,0
- Lending rate	:	:	:	:	:
- Deposit rate	:	:	:	:	:
ECU/EUR exchange rates	(1ECU/euro=..Cyprus Pound)				
- Average of period	0,592	0,583	0,577	0,579	0,574
- End of period	0,589	0,580	0,582	0,577	0,574
	1995=100				
- Effective exchange rate index	102,0	102,8	108,3	106,0	102,1
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	1.362	1.385	1.299	1.959	2.009
-Reserve assets (excluding gold)	1.233	1.263	1.184	1.829	1.873

External trade	Mio ECU/euro				
Trade balance	-2.089	-2.167	-2.354	-2.443	-3.010
Exports	386	377	383	372	420
Imports	2.475	2.544	2.737	2.815	3.430
	previous year=100				
Terms of trade	:	:	:	:	:
	as % of total				
Exports with EU-15	55,7	47,7	50,7	50,7	47,7
Imports with EU-15	57,3	56,3	61,9	57,3	55,9

Demography	per 1000 of population				
Natural growth rate	7,2	6,3	5,2	5,2	3,5
Net migration rate (including corrections)	-0,3	0,7	2	-0,8	0,9
	per 1000 live-births				
Infant mortality rate	8,3	8	7,0	6,0	5,6
Life expectancy:	at birth				
Males:	:	75,0	:	75,3	:
Females:	:	80,0	:	80,4	:

Labour market (ILO methodology)	% of labour force				
Economic activity rate	62,0	61,3	61,2	61,5	62,0 P
Unemployment rate, total	3,1	3,4	3,4	3,6	3,4 P
Unemployment rate, males	2,3	2,7	2,9	2,9	2,7 P
Unemployment rate, females	4,3	4,5	4,2	4,8	4,7 P
Unemployment rate of persons < 25 years	2,7	3,2	3,0	3,5	3,0 P
Unemployment rate of persons >= 25 years	3,1	3,5	3,4	3,6	3,5 P
	as % of all unemployed				
Long-term unemployment rate	7,5	7,9	8,0	8,4	9,7 P
Average employment by NACE branches	in % of total				
- Agriculture and forestry	10,5	9,5	9,6	9,5	9,2 P
- Industry (excluding construction)	15,6	15,1	14,5	13,6	12,8 P
- Construction	8,9	8,8	8,4	8,3	8,2 P
- Services	65	66,6	67,5	68,6	69,8 P

Infrastructure	in km per 1000 km²				
Railway network	0	0	0	0	0
	km				
Length of motorways	194	199	204	216	240

Industry and agriculture	previous year=100				
Industrial production volume indices	96,6	99,8	102,6	102,1	104,5
Gross agricultural production volume indices	99,6	88,3	109,4	107,4	93

Standard of living	per 1000 inhabitants				
Number of cars	350	359	377	387	400
Main telephone lines	565,3	589,8	612,8	637,9	657,7
Number of subscriptions to cellular mobile services	109,2	140,5	176,3	228,1	326,3
Number of Internet subscriptions	10,2	24,6	44,4	55,4	89,1

P=provisional figures

Methodological Notes

Inflation rate

As part of the preparations for the common currency the EU Member States (MSs) have designed a new *consumer price index* in order to comply with the obligations of the EU Treaty. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonized Index of Consumer Prices (HICP). A similar exercise has been started with Candidate Countries (CC). In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. Since January 1999 CCs report monthly to Eurostat so-called proxy HICPs that are based on national CPIs but adapted to the HICP coverage. They are not yet fully compliant with the HICPs of the MSs. In the table, the proxy HICPs are back-calculated to 1996 (rates from 1997).

Finance

Public finance: The government deficit and debt statistics of the Candidate Countries are provisional, in the sense that they do not yet fully comply with EU methodological requirements. Broadly speaking, the general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value. The series for Cyprus are presently available from 1998 only; the 1996-97 data are an approximation derived from the IMF's GFS methodology.

Gross foreign debt is of the whole economy, covering both short- and long-term, but excluding equity investment and money market instruments. The source for stock of outstanding debt is OECD, while the source of GDP is Eurostat. For the ratio of gross foreign debt to exports, the national accounts definition of exports of goods and services is used (source: Eurostat). The data for 2000 are Eurostat estimates, based on joint OECD/IMF/BIS/World Bank series.

Monetary aggregates are end-year stock data, as reported to Eurostat. Generally, M1 means notes and coin in circulation plus bank sight deposits. M2 means M1 plus savings deposits plus other short-term claims on banks. M3 means M2 plus certain placements in a less liquid or longer-term form. Not all countries produce an M3 series. Total credit means loans by resident monetary financial institutions (MFIs) to non-MFI residents.

Interest rates: Annual average rates based on monthly series reported to Eurostat. Lending rates refer to bank lending to enterprises for over 1 year. Deposit rates refer to bank deposits with an agreed maturity of up to one year. Day-to-day money rates are overnight interbank rates.

Exchange rates:

ECU exchange rates are those that were officially notified to DG ECFIN until 1 January 1999, when the ECU was replaced by the euro. Euro exchange rates are reference rates of the European Central Bank. The effective exchange rate index (nominal), as reported to Eurostat, is weighted by major trading partners.

Reserve assets are end-year stock data, as reported to Eurostat. They are defined as the sum of central bank holdings of gold, foreign exchange, SDRs, reserve position in the IMF, and other claims on non-residents. Gold is valued at end-year market price.

External trade

Imports and exports (current prices). The data are 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 EU-15. Data declared by the Republic of Cyprus.

Demography

Net migration rate. Crude rate of net migration for year X, is:

{population as at 31 December (X) - population as at 1 January (X) + Deaths (X) - Births (X)} / 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 cooperatives or contributing family workers. Members of armed forces and women on child-care leave are included.

The unemployed: all persons aged 15+ registered as unemployed at the District Labour Offices, who concurrently meet all three conditions of the ILO definition for being classified as the unemployed:

Have no work,

are actively seeking a job,

and 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 all private saloon cars, taxis and hired passenger cars, learner's vehicles and invalid carriages, provided that they have less than ten seats. This category does not 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 to all internet access service providers in Cyprus.

Sources

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

National accounts, inflation rate, balance of payment, public finance, finance: Eurostat.