

Association des Chambres de Commerce
et d'Industrie de la Méditerranée

Association of Mediterranean
Chambers of Commerce and Industry



ASCAME:

The Cypriot Economic and Business Guide

The official publication of the Association of Mediterranean Chambers of Commerce
and Industry and of the Cypriot Chambers of Commerce

G.E.O.C.

GLOBAL ECONOMIC ORGANIZATION



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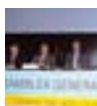
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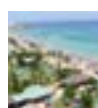
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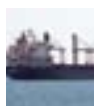
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EDITORIAL

*Mr Jilani BENM'BAREK,
President of ASCAME*

Forging a Mediterranean of Shared Peace And Prosperity

For centuries the countries of the Mediterranean have established and maintained close economic and commercial ties.

It was with a view to paying tribute to this important heritage that a group of pioneers, conscious of the important role of the Mediterranean region, decided to establish the Association of Mediterranean Chambers of Commerce in Barcelona on the 1st of October, 1982.

In doing so, the Mediterranean chambers of commerce took the first steps towards forging closer cooperation between the region's businesses and institutions in order to boost economic and commercial relations.

The following objectives of the Association of Mediterranean Chambers of Commerce and Industry are worthy of mention:

- Improved communication between the business and public sectors.
- Bringing elected representatives and members of chambers of commerce into direct contact in order to achieve greater consensus on and understanding of the region's economic problems.
- Setting up and coordinating inter-sectorial and inter-regional partnerships in the countries of the Mediterranean.
- Widening the scope of exchanges in the fields of technology and know-how.
- Studying the means of developing certain sectors such as tourism bearing in mind that these should complement each other and that competition should be free and fair.

In order to achieve the goals it has set, the Association of Mediterranean Chambers of Commerce and Industry has taken a series of measures ranging from organizing and participating in special events to the training of professional of the chambers of commerce of the Southern Mediterranean countries by members of Northern Mediterranean countries.



The Association's undertakings do not exclude any sector of the economy. A case in point is the concept of franchising which has been able to develop and flourish as a result of forums organized in Barcelona and Marseilles, which are now in their fifth round. These forums have, in turn, led to rival forums being held in Morocco, Algeria and Tunisia.

The organization of the two Meditour Forums on tourism investment in the Mediterranean held in Tangiers in 2003 and in Anatolia in 2006 greatly benefited the tourism industry.

The fishing sector is expected to make rapid strides as a result of the ERMES project. Other examples are manifold.

The Association of Mediterranean Chambers of Commerce and Industry concerns itself with the environment and research as well as other issues. It was with environmental issues in mind that the Association took part in the European Union Project named "A Blue Mediterranean on the Horizon of 2020". As regards research, the Association is one of the organizers of the Euro-Mediterranean Convention on the transfer of technology. This convention brings together the world of academia and the business sector in order to bolster research by giving researchers the opportunity to see the fruits of their labour.

For a quarter of a century the Association of Mediterranean Chambers of Commerce and Industry has made its mark as a promoter of meetings and dialogue not only among chambers of commerce but also between businesses, public institutions and governments in order that the future of the Mediterranean region be seen in a different light and one in which the words peace, tolerance, dignity and shared prosperity will not be said lightly.

At its heart, the Association of Mediterranean Chambers of Commerce and Industry no longer dreams of a Mediterranean that is blue, peaceful, prosperous and fair – it firmly believes it can be achieved.

In a world that has become a global village we are striving to make our own modest contribution to ensuring the Mediterranean is a good place to live for the generations to come.

I ask your help in taking up this great challenge.

Jilani BENM'BAREK
President of the Association of Mediterranean Chambers of Commerce and Industry



ASCAME: The Association of Mediterranean Chambers of Commerce and Industry

Your Gateway to do Business in the Mediterranean

The Association of Chambers of Commerce and Industry of the Mediterranean or the ASCAME is an international organization of international reach and purpose, voluntary and with no aim to derive benefit from its activities. It unites the Chambers of Commerce and Industry as well as other similar institutions originating from the Mediterranean pool. Any Chamber of Commerce and Industry or institution established on the shore of the Mediterranean Sea linked to the purposes of the ASCAME may become members if apply with a written demand to the President of the Association. All the demands of membership should be first accepted by the Executive Committee and then ratified during an Ordinary General Assembly on simple majority. The status of member may be lost consequently to the decision of the General Assembly for instance for non payment of membership duties for three consecutive years. The members have also the voting status and may be elected to the Executive Committee as well as to the Board at the sole condition that the member belongs to a Chamber of Commerce and Industry of the Mediterranean area.

The ASCAME is the result of a fundamental agreement between the institutional actors to intensify and institutionalize the cooperation

between the Chambers of Commerce and Industry of the Mediterranean shore. The first initiative of its kind dates back to the first assembly of the Chambers of Commerce and Industry in 1982 held at the Chamber of Commerce and Industry of Barcelona at will of its president, M. Josep M. Figueras. Since then the association has kept growing in scale and depth. At present day more than 240 institutions are members of the ASCAME which correspond to the total number of countries boarding the Mediterranean, but the total potential of bodies that could become member overcome 500. It represents hence the most extensive association, in the region. It has obtained wide recognition among the most important international institutions such as the European Union. This is precisely due to the fact that the official purpose of the association corresponds to the aims set by the Barcelona process.

The Euro-Mediterranean Conference of Ministers of Foreign Affairs, held in Barcelona on 27-28 November 1995, marked the starting point of the Euro-Mediterranean Partnership (Barcelona Process), a wide framework of political, economic and social relations between the Member States of the European Union and partners of the Southern Mediterranean.





The latest EU enlargement, on 1st May 2004, has brought two Mediterranean Partners (Cyprus and Malta) into the European Union, while adding a total of 10 to the number of Member States. The Euro-Mediterranean Partnership thus comprises 35 members, 25 EU Member States and 10 Mediterranean Partners (Algeria, Egypt, Israel, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia and Turkey).

The Barcelona Process is a unique and ambitious initiative, which laid the foundations of a new regional relationship and which represents a turning point in Euro-Mediterranean relations. In the Barcelona Declaration, the Euro-Mediterranean partners established the three main objectives of the Partnership:

1. The definition of a common area of peace and stability through the reinforcement of political and security dialogue (Political and Security Chapter).
2. The construction of a zone of shared prosperity through an economic and financial partnership and the gradual establishment of a free-trade area (Economic and Financial Chapter).
3. The rapprochement between peoples through a social, cultural and human partnership aimed at encouraging understanding between cultures and exchanges between civil societies (Social, Cultural and Human Chapter).

The Euro-Mediterranean Partnership comprises two complementary dimensions:

The bilateral dimension: The European Union carries out a number of activities bilaterally with each country. The most important are the Euro-Mediterranean Association Agreements that the Union negotiates with the Mediterranean Partners individually. They reflect the general principles governing the new Euro-Mediterranean relationship, although they each contain characteristics specific to the relations between the EU and each Mediterranean Partner.

The regional dimension: Regional dialogue represents one of the most innovative aspects of the Partnership, covering at the same time the political, economic and cultural fields (regional co-operation). Regional co-operation has a considerable strategic impact as it deals with problems that are common to many Mediterranean Partners while it emphasizes the national complementarities.

The multilateral dimension supports and complements the bilateral actions and dialogue taking place under the Association Agreements.

The existing MEDA program, funded and managed by the European Commission, is the main financial instrument for the Euro-Mediterranean Partnership. From 1995 to 2003, MEDA committed 5 458 million euros in co-operation programs, projects and other supporting activities, the regional activities comprising around 15% of this budget. The other important source of funding is the European Investment Bank that has lent 14 billion euros for developing activities in the Euro-Mediterranean Partners since 1974 (at least 3.7 billion only in 2002-2003).





The beneficiaries of support measures may include not only the Euro-Mediterranean partners but also local authorities, regional organizations, public agencies, local or traditional communities, organizations supporting business, private operators, cooperatives, mutual societies, associations, foundations and non-governmental organizations. The strategy is to establish the Euro-Mediterranean area as a common space of peace, stability and prosperity by fostering supranational cooperation and dialogue. A sustainable economical association has to be developed with regard to the most valuable assets in the region which are culture and the human resource. Understandably the ASCAME is in close relationship with the MEDA program and is widely supported by a whole range of European Union projects.

The ASCAME presents some very specific features if compared with similar organizations which definitely explains its dynamic development and firm striking root in the region. Mostly thanks to the rewarding collaboration and support of the European Commission, the reports and studies presented at the General Assemblies of the ASCAME have an unquestionable interest and shed light on the core issues of regional importance such as infrastructure, communications, tourism industrial and commercial cooperation and education. The sole studies being not enough ASCAME helps to apply the strategies of cooperation and coordination aimed at the comprehensive social and economic development of this supranational geographical area which is the Mediterranean.

ASCAME's headquarters are located at the Chamber of Commerce and Industry of Barcelona in Spain at Casa Llotja del Mar – Paseo de Isabelle II – with possibility to be transferred in any place member of the organization after decision by an Ordinary General Assembly. The ASCAME possesses its own legal identity in the frame of Spanish legal statute regulating the right of association.

The current dynamics could not have been achieved without the enthusiasm of all of the associated institutions and especially of some individuals who have greatly contributed to fill this mission with a concrete sense. If it is not surprising that the chambers of commerce usually represent the driving international force of a country's economy, the less usual fact is their association in recognition of the interest of adding up the synergies while working closely together at related issues. However it must be underlined that the growing interdependence of the economies at a global level but more importantly in regional subsystems compels the interactions between influential institutions of authority such as the chambers of commerce and industry.

As already mentioned the establishment of the ASCAME on the first of October 1982 fits in a more global move towards cooperation between the national organizations of commerce. Its main objective is to sustain and further a constant link between its members so as to engage for instance in common research activities or actions. The primary motivation behind these activities being always the pursuit of commercial technical and industrial development the ASCAME acts therefore as a powerful tool of harmonization in



the region. Originally the considerations leading to the establishment of the ASCAME have been the following. First of all, from the historical point of view the Mediterranean countries have a common cultural pool as well as a long track of commercial and economic relationships. At the same time the potential of economic development in this area is well known offering a rich reserve of primary resources, a high level of cultural development and a dynamic tourism industry. However the cohesion and the growth in the area have slowed down at the down of the 20th century. It is the goal and the ambition of the Mediterranean countries to win back their prestige and their geoeconomical situation by working closely together. Any objective is virtually at reach through constant common effort and cooperation especially between the Chambers of Commerce and Industry of the member countries.

To resume the rationale behind the establishment of the ASCAME is not only to further interregional cooperation but also to assemble a unique blend of expertise and synergies provided by the chambers of commerce and industry so as to become a valuable partner and advisor to the governments. Indeed the chambers of commerce and industry represent the most proficient institutions in questions relative to the specific features and issues of the economies of the member countries. The interregional perspective adopted by ASCAME adds a supplementary strategic edge to the questions treated by the Working Commissions. In other words, ASCAME is a privileged observatory of economical and commercial activities within the Euro-Mediterranean Area.

The specific actions put forward by the ASCAME are as follows. The organization initiates programs, makes recommendations and influences policies so as to promote entrepreneurial culture and a common corporate spirit in the region. One of the objectives is to improve and to harmonize up to a common level the corporate communication tools so as to establish a solid and sustainable link within the region. It is commonly admitted that corporate communication abilities are a sine qua none condition for a flexible and reactive market and furthers therefore the flows of information as well as the synergies within a given economical region. From this point of view the implementation of an E-business project corresponds to the comparable ambition to make the vital information available directly to the concerned business and institutional actors. Moreover a special emphasize is put on the spread of sector specific information which is

managed by the organization of Sector Forums. These actions are directly dedicated at the support of Mediterranean businesses within one sector, sharing the same worries and interests. These conferences create a forum of debate encompassing all concerned groups or individuals an active space of dialogue and exchange of ideas and projects. After all ASCAME constitutes a group of dynamic and dedicated leaders of the business community which proactively participate in the elaboration of the pivotal role of the private sector in the economic activity. One suitable example of such a forum is the Meditour dedicated to support investment in the tourism industry in the Mediterranean region. Organized by the ASCAME with the special support of the Tangier Chamber of Commerce and Industry the objective of this forum was to promote a gathering of agents from the tourist industry, which will be particularly focused on the Mediterranean region. The forum was also designed to encourage the exchange of projects and experiences in order to facilitate agreements and foster international alliances across different sectors. These activities are all geared towards the objective of laying down the foundations of a truly Mediterranean brand, which will act as a main axis within the global tourist industry. The forum is conceived for tourist industry professionals and companies, in addition to public officials and tourist industry specialists and consultants. Participation in MEDITOUR is open to ASCAME member states and to companies from other regions (USA, Japan, Canada, Germany, UK, as well as countries from the Gulf area etc.).

And finally, taken as a whole, ASCAME's action is aimed at creating and reinforcing an independent strong brand specific to the Mediterranean and focused as much on its historical content as on its current dynamics and qualities. Generally speaking this work is to result in a powerful marketing tool for the specialties and products manufactured in the considered area.

The structure of the current organization has been shaped and adapted during the regular general assemblies of the organization staged in a different member country each time. However the first moves towards the establishment of the organization itself have not been without obstacle. Though the determination of the initial promoters has been firm the apparent diversity of cultures, religions, languages and levels of economical development has brought prejudice upon the initiative. On the other hand a comparable association of chambers





of commerce and industry between the northern and the southern shores of the sea has never existed before.

The first General Assembly has been prepared and promoted under the presidency of M. Josep M. Figueras (CCI of Barcelona), MM. Paul Fabre (CCI of Marseilles), Manolis Niadas (Le Piraeus), Antonio Pellizetti (Genoa), Mohammed El Abbassy (Tangier), Soubi Dib Joub (Lattakia), Mohamed Zerzeri (Tunisia) and Nikola Pavletic (Rijeka) there a first act of agreement has been signed.

According to the document of continuity every 18 months a General Assembly takes places assembling all the members of ASCAME.

Upon the initiative of the Executive Committee the prerogatives of the General Assembly are as follows:

- The determination of the policy, the strategy and the agenda of the ASCAME allowing meeting its objectives.
- The admission of new members or their exclusion from the Association
- The adoption of the budget
- The approval of the membership payments
- The approval of the elections to the Executive Committee
- The approval of the election of the President of the Association by the Executive Committee.

A General Assembly is per definition composed of all the members of the association. It defines during the meetings the general strategy and politics of the

association. The Assembly may meet as an Ordinary General or Extraordinary General Assembly.

The first General Assembly presided by M. Figueras was devoted to the questions divided in five fields: Transport and Communications, Energy and Primary resources, Commerce Technology and investment, Tourism and finally Environment. The status of the president of the Assembly has been determined as well as his main duties which are precisely to maintain a constant link between the members so as to promote and coordinate joint research activities and studies. The first General Assembly also determined the basic structure of the organization. It had been decreed that an Executive Committee composed of the Presidents of each chamber of commerce and industry would represent each member country and a permanent secretariat has been established. The number of Vice-president Chambers has been established at 4 in 1983.

Established n April 1983 the Executive Committee was first composed of the President of the ASCAME and another 16 members which are the CCI of Marseilles, Genoa, Rijeka, Tirana, Le Piraeus, Istanbul, Nicosia, Lattakia, Beirut, Cairo, Tripoli, Malta, Tunis, Alger, Tangier, Barcelona. This committee holds regular meetings directed by the President and concerning the nominations of the president or the vice-presidents, the approval of the different reports by the Commissions as well as it coordinates the future activities of the ASCAME and its exterior relations. The Executive Committee assembles upon convocation of the President or upon the demand of at least one third of the members. The agenda has



to be fixed at least one month before the meeting. Two meetings at least are to take place every year with one of them taking place at the same moment as the General Assembly. The decisions of the Executive Committee are taken at simple majority of the present voters.

The Board of the ASCAME is composed of eight Chambers of Commerce and Industry chosen between the members of the Executive Committee. It comprises a President, six Vice-presidents and a treasurer. The choice of its members is to reflect the natural equilibrium in its human and geographical dimension in the Mediterranean area. The Board acts on behalf of the Executive Committee in the current matters and establishes regular reports. The President of the ASCAME is elected by the Executive Committee which is to ask for the approval of the General Assembly. The President is acting as a representative of the General Assembly. In other words he is to embody the Association. He is to convoke the meetings of the Executive Committee as well as of the board and the General Assembly. The execution of the decisions taken during the General Assembly is also part of his duties. The function of the President is not a gainful occupation and its mandate last for two years. Mandates can only be renewed once.

As concerning the permanent secretariat it is in charge of the organization of the conferences and the assemblies of the executive and working bodies of the organization. The publication of a regular bulletin is also part of its responsibilities. The General Secretary is linked to the chamber where the headquarters currently are. This chamber supports

then all the charges of the General Secretary. It is in charge of the following functions:

- The control of the decisions taken by the General Assembly, the Executive Committee and the Board under the authority of the President.
- The archives of the ASCAME including the scripts of the Assemblies, the documents, the press articles etc
- The secretariat of the meetings of the General Assembly, the Executive Committee and the Board.
- The treasurer is a full member of the Board. He is nominated by the Executive Committee and his nomination has to be ratified by the General Assembly. Among his functions is the establishment of the budget, the continuous control of the accounts and the annual establishment of the financial report. His mandate is a one-time renewable two year function.

The Working Commissions and the Committees of experts have represented the central part of ASCAME since its foundation. Already at the first assembly five Working Commissions have been assembled. Their main themes are the "Transport and Communication" issue, "Tourism", "Industrial and Technological Cooperation" and finally the equally important "Relations with the EU". These four permanent Working Commissions select during their meetings before the General Assemblies the priority issues to be discussed, do the research and elaborate reports which are to be presented to the Executive Committee. These reports present precise strategies to be undertaken as well as the argumentation and criteria used in each specific situation.



INTERVIEW

*Mr Jilani BENM'BAREK,
President of the Association of
Mediterranean Chambers of Commerce and Industry*

The Association of Mediterranean Chambers of Commerce and Industry celebrates its 25th anniversary in 2007. What do you consider to be the Association's greatest achievements over the years?

Having been created on the 1st of October, 1982, the Association will celebrate its 25th anniversary in Barcelona in October, 2007. These celebrations will take place under the patronage of His Majesty King Juan Carlos I, who has always given his support to the Association as well as shown a keen interest in all matters related to the Mediterranean.

Among the Association's major achievements in this quarter of a century one can point out the following: the creation of two Franchising Forums held in Barcelona and Marseilles, the result of the initiatives of the Barcelona Chamber of Commerce and Industry and the Marseilles Chamber of Commerce. These Forums are now in their fifth round. The most important aspect of these two forums has been the fact that they were directly responsible for the development of the concept of franchising in the countries of the Southern Mediterranean. As a result, Morocco and Algeria have set up their National Franchising Federations. Tunisia, Lebanon and Egypt are committed to doing the same. Malta and Turkey are moving quickly in the same direction and Libya and Syria are showing great interest.

- The success of the two tourism events: 'MEDITOUR 2003' held in Tangiers,
 - Morocco and 'MEDITOUR 2006' held in Anatolia, Turkey.
 - The third MEDITOUR event will be held in Hammamet, Tunisia in 2008, and the fourth in Malaga, Spain in 2010.
 - Participation in the creation of a tourism observatory in Malaga instigated by the Malaga Chamber of Commerce.
 - Participation in the setting up of several specialized events such as a Transport
 - Logistics Trade Fair, an Environment Trade Fair, a Cosmetics Industry Trade Fair and a Fishing Trade Fair etc.
 - The signing of important conventions with organizations that have much in common with our own. In this vein a charter of cooperation and good will was signed in Barcelona on the 13th of March 2002 by five major organizations, these being the International Chamber of Commerce, The European Chamber of Commerce, AICCC, the Association of Mediterranean Chambers of Commerce and Industry and the Spanish Federation of Chambers of Commerce.
- This ceremony took place in the presence of His Majesty King Juan Carlos I as well as the then Head of the Spanish Government Jose Maria Aznar and Jordi Pujol, Chief of the Generalitat of Catalonia.
- The starting up of the Mediterranean Institute of International Commerce to be established in Tunisia and attended by students from all the Mediterranean region. This Institute will award higher education diplomas.

The Association's achievements are many. Perhaps its major achievement has been the fact that it has remained in existence while other organizations created at the same time have disappeared like shooting stars. This denotes the commitment of the Mediterranean business sector to making the region one of peace and prosperity.

What were the aspirations of the Association at the time of its creation, back in 1982? What are its present concerns and how are these different from those of 25 years ago?

In October 1982, the pioneers who took the initiative to set up the Association and who came from the Chambers of Commerce of Barcelona, Marseilles, Tunis, Istanbul, Tangiers and Cagliari, had great ambitions but never imagined the Association would grow to its present size. In fact, the Association was really set on its present path on the 6th of May 2001 following the adoption of new organizational statutes during an extraordinary general assembly held in Tunis. This assembly brought together more than two hundred delegates, representing the entire Mediterranean region. The new statutes, the result of more than a year's work opened the door to allow all Mediterranean chambers without distinction to be able to participate as full members in the development of business in the region and in forging closer links between those actively involved in the Mediterranean economy.

The countries of the Mediterranean have very different economic conditions. Nevertheless, they have numerous common interests and shared characteristics. What, in your opinion, are the major economic forces at play in Mediterranean countries?

It is true that while the countries of the Mediterranean have different economic conditions they at the same time share many common interests and characteristics due to their geographical location and shared past, as well as having certain products, particularly in the agricultural sector, in common, together with a jovial disposition of character. The principal power of the countries of the Mediterranean countries lies in the realization that in this world in which markets are becoming more globalized as each day passes it is in their own interest to work together and accept each other, despite any differences that might exist, particularly those between the North and the South, thus making their differences a force in itself. It is in this way that the Association contributes to bringing businesses together in the context of the Mediterranean through organizing economic forums and events, special partnership days and joint missions.

What are the Association's major current projects aimed at reinforcing economic cooperation among the countries of the Mediterranean?

My answers to your previous questions will already have given some idea of the Association's major projects. Without wishing to repeat myself, the sectors in which the establishment of regional ties are envisaged are:

- The training of professionals and technicians of the chambers of commerce of the Southern Mediterranean countries by their colleagues in Northern Mediterranean countries. This kind of training, within the Association itself, ensures a general training likely to be of interest to all the different sectors through the transfer of technology and know-how from the North to the South and among the Southern countries themselves.
- Cooperation in the tourism sector, the principal source of revenue in the Mediterranean region, at the same time freely accepting that competition exists and ensuring that the latter be loyal and transparent.
- Setting up a Mediterranean 'Common Market' in which goods and individuals are allowed to circulate freely and in which regional products are granted privileged status.
- Investment by the countries of the Northern Mediterranean in the countries of the Southern Mediterranean in attempt to counter some of the problems of immigration.

What do you see as the Association's role as regards and what measures can it take regarding the economic challenges facing its member countries?

The Association's role is more of a moral than a material one. The Association itself does not have the means to finance projects and programmes. The only finances currently at the Association's disposal are its member's annual fees. In terms of the moral support it can offer, the Association can play a major role by intervening on behalf of individual businesses in order to resolve disputes that could, potentially, lead to law suits through conciliation, mediation and arbitration.

The Association should furthermore constitute an information resource serving businesses and chambers of commerce alike.

To what extent do you believe that the liberalization of world business has so far favoured the Mediterranean countries' development? What steps should they take to benefit fully from this liberalization?

The effect of the liberalization of world business has only become apparent since China joined the WTO. There is, nevertheless, reason to believe that the 'Tsunami' that China could cause in the Mediterranean could have a positive effect for at least two reasons:

- several European countries whose businesses moved their production plants to China have changed their tune.
- the Mediterranean countries have reacted by relocating their goal posts to adapt themselves to the situation. A case in point is the textile industry which after suffering considerable losses in 2004 and 2005 has begun, since the end of 2006, to find its feet again.

Generally, the liberalization of world business will, in the long term, have a positive effect on the countries of the Mediterranean. The latter must carry out major reforms if they want to compete successfully.

What do you believe the Association should do to improve business relations in the Euro-Mediterranean Zone?

In 2010 the Euro-Mediterranean Free Exchange Zone will become a reality unless there are some nationalist-inspired surprises lying in wait. This concept of free exchange zone encompassing Europe and the countries of the Mediterranean has its origins in a shared desire to bolster commercial and economic relations in a general sense within an area encompassing eight hundred thousand consumers.

For this reason commercial relations cannot improve, develop and expand unless good will prevails on the part of all involved. There are serious potential dangers to be contended with if the agreements are only partially implemented, as would be the case, for example, if the free circulation of goods was permitted, but not the free circulation of individuals.

We place great hopes on this Euro-Mediterranean free trade zone in which all those involved should be engaged on the same path - the path to a win-win situation and shared prosperity.

Competitive advantages and specialization are the keys to accessing international markets. What way are the countries of the Mediterranean moving in this direction?

The countries of the Mediterranean enjoy several advantages. There are several aspects in this regard, notably:

- The quality of Mediterranean agricultural products such as olive oil, dates, fish, citrus fruits etc. These have proven beneficial effects on health and people often speak of the 'Mediterranean diet'.
- The fact that there are products which are specific to the Mediterranean such as cork.
- The proximity of the countries of the Southern Mediterranean to those of the North, a factor which reduces transportation costs and shipping delays.
- The availability of skilled Southern Mediterranean manpower, which is furthermore very competitive in terms of cost.
- The level of university education professionals have received, not only in Tunisia and Morocco, but throughout the Southern Mediterranean.

What projects and plans does the Association have for the future?

The Association is already involved in some major projects including:

- The European Union Commission Project 'A Blue Mediterranean on the Horizon of 2020'.
- The Euro-Mediterranean Free Exchange Zone envisaged for 2010.
- Follow up on the deliberations held in Barcelona from the business sector's standpoint.

The Association would like greater involvement in European Union projects in a limited consultational capacity or to meet specific requests in several domains such as tourism, information technology, renewable energy, new sources of energy, the environment, arbitration etc.

The Association is a valuable tool. One should know how to use it for the good of the Mediterranean region, not forgetting the African Continent which could one day make up the third side of the triangle.

*Mr Jilani BENM'BAREK,
President of ASCAME*



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SYRIA



EDITORIAL

His Excellency, Mr Tassos PAPADOPOULOS President of the Republic of Cyprus

First I would like to extend my congratulation to the Association of the Mediterranean Chambers of Commerce and Industry for its initiative to promote a campaign regarding the advantages of Mediterranean counties in the world economy and for giving me the opportunity to introduce this book.

Cyprus strategic position at the crossroad of three continents has been a major factor Shaping its history as well as its economy throughout the centuries. The island's location, in conjunction with its agricultural and mineral wealth, rendered it a transit trade centre in the region. In recent years, this strategic position together with the excellent political and economic relation with a large number of countries, a highly developed socioeconomic infrastructure, a wide range of high quality professional services and favorable economic and business environment, make Cyprus an ideal Center for business activities. The government's role focuses on the creation of favorable entrepreneurial climate, through the maintenance of conditions of macroeconomic stability, the upgrading of socio-economic and legal infrastructure and the pursuit of sustainable development. Unemployment level (5.5% in 2005) as well as inflation level (2.5% in 2005) remains low, while the fiscal deficit is lower than 3% of GDP.

The accession of Cyprus to the European Union, a natural and expected development in its story, strengthens further more its comparative advantages as business center. In order to become a member of the European Union, Cyprus had to harmonize its laws with the EU aquis, thus enforcing wide-ranging structural reforms covering the area of competition, the financial sector, the enterprise sector, opening new promising business opportunities. Cyprus is on track to adopt the Euro by 2008. As a member of the EU, it can play a key role as a bridge between the Balkan, Middle Eastern countries and Europe.

One of the primary objectives of the government's development policy is to foster the infusion of foreign investment in all economic sectors, with an emphasis on the field of high technology. To this respect, the government has liberalized the foreign direct investment policy for both EU and non EU nationals, administrative procedures have been simplified and bureaucratic intervention has been reduced. Foreign companies can benefit from the numerous incentives and low tax regime, by using Cyprus as a base for their investments. Strong encouragement is also given for research and technological development, both within and outside business. In this connection, the government has taken various initiatives such as the establishment and operation of four business incubators in Cyprus for fostering innovation, of a science and Technology Park which will host research centers of international repute and esteemed high tech enterprise and of a metrology Centre to serve the relevant needs of local industries, having as medium term objective the expansion of its activities on a regional basis. Of great importance is the agreement signed with the Harvard School of Public Health for a Joint International Initiative, on the Environment and Public Health, by which the Cyprus Research Institute for the environment and public health will be established in Cyprus.

In the tourism sector, the emphasis lies on tourist enriching projects in the areas of special interest tourism, health tourism, sport tourism, agrotourism etc. the vision is to establish Cyprus as a quality tourist destination, having a rich and diversified tourist product.

Initiatives of foreign investors in these areas are most welcome. Cyprus has already decided for the stronger involvement of the private sector in planning, designing, financing, building and operating and opening public infrastructure projects, through various forms of public-private partnerships? Such arrangements include the reconstruction of the two airports in Larnaca and Paphos and the Marinas. Incentives are also provided to investors for the reconstruction of numerous international-standard golf courses by the year 2010.

Cyprus, as a Mediterranean country and a member of the EU will work actively to increase the level of cooperation both between the governments of the Mediterranean countries and the EU as well as between the business community so that existing and new opportunities will be explored to the benefit of all.

H.E., Mr Tassos PAPADOPOULOS
President of the Republic of Cyprus



The Cypriot Economic and Business Guide

Cyprus is today the South-eastern outpost of the European Union, situated in the Eastern Mediterranean at the crossroads of three continents and close to the busy trade routes linking Western Europe with the Arab World and the Far East. Cyprus has established itself since the ancient times as a European business centre promoting trade and co-operation with the broader region. The geographical position of the country and the entrepreneurial spirit of Cypriots contributed significantly to this end. Throughout the centuries, the people of Cyprus exhibited co-operative attitudes towards overseas people and managed to establish their country as a hub of trade and sea communications. Cyprus reached high levels of growth in the recent decades as a result of its use by both local and overseas businesspeople as a base for activity or as a springboard for expansion in the broader East Mediterranean.

The country prides itself today as having developed into a major, modern and flexible business and services centre in the Mediterranean and South-east Europe and this is largely due to the co-operation between the public and the private sector. The fact that over 45,000 international business companies use Cyprus as a base for their operations more than evidences this and at the same time it is solid proof of the conducive business climate that exists in the country.

This role of Cyprus has now been reaffirmed to the highest possible degree following its accession to the European Union in the enlargement of 2004. E.U. membership has consolidated the position of Cyprus as the bridge linking Europe with the Middle East and North Africa and beyond. The great prospects of Cyprus in this direction are fully documented and the efforts of both the Government of Cyprus and of the Cyprus Chamber of Commerce and Industry aim at reinforcing this role of the country.

At the same time, Cyprus is working towards becoming the main axis in the triangle European Union, East European countries and the Middle East and is fastly moving towards the materialisation of this aim, with the Cyprus Chamber of Commerce and Industry contributing significantly to these efforts. The plans of Cyprus are facilitated by the excellent relations that Cyprus has with key countries in each area such as Russia in Eastern Europe and the Arab countries and Israel in the Middle East.

Overseas businesspeople are urged to consider all these very carefully and are invited to grasp the opportunities that are presented for their enterprises either by using Cyprus as a base for their business activities or as a gateway for expanding their relevant activities further.



The Cypriot Business Environment

1. The Advantages of Cyprus in Brief

A range of other important considerations make Cyprus an ideal place for investment and the conduct of business activity; namely

- It is the only member of the European Union in our part of the world and as already said it is strategically situated at the crossroads of three continents, serving as Europe's south-eastern outpost.
- It has already developed into a major business and services centre in the region, while its small size provides it with the necessary flexibility.
- It possesses a highly conducive tax system with a corporate tax rate of only 10%, the lowest in the European Union and one of the lowest internationally.
- It has signed double tax treaties with over 35 countries.
- It has a liberal foreign direct investment regime allowing up to 100% foreign participation in most sectors of the economy from both E.U. and non-E.U. nationals.
- It has bilateral investment agreements with 17 countries. ñ It is a democracy with a fully fledged market economy.
- It has simplified administrative procedures for acquiring the necessary permits.
- Set-up and operating costs are low.
- It possesses a highly qualified, well-educated and bilingual labour force (Cyprus ranks among the first countries in the world in terms of university degree holders in relation to the population) while Cypriots are renowned for their entrepreneurial spirit.
- There is freedom of movement of foreign currency, while its own currency (presently the Cyprus pound) is expected to be substituted by the Euro on 01/01/2008.
- There is a highly developed infrastructure with excellent telecommunications, ports, airports and road networks.
- It possesses a good organisational structure.
- It offers Freezones Bonded factories.
- It has modern and efficient legal, accounting, banking financial and insurance services.
- It has a European standard of living.
- There is an abundance of foreign schools.
- It has a pleasant climate and agreeable topography.
- It possesses political stability and commitment to the rule of law.





- It secures protection of real and intellectual property.
- It has one of the lowest crime rates in Europe.

Cyprus offers to entrepreneurs and investors a unique basket of advantages for the conduct of their business affairs worldwide

In addition to all the above advantages presented by Cyprus, business enterprises that set up their operations on the island are also eligible to benefit themselves of a wide range of grant and subsidy schemes that are fully in line with the state aid law of the European Union. These schemes include inter-alia the following:

- Creation of new high technology and innovative enterprises through business incubators.
- Establishment and operation of business incubators.
- Technological upgrading of the manufacturing sector in both urban and rural areas.
- Agrotourism activities.
- Encouragement of the improvement and development of the manufacturing and marketing of agricultural products.
- Energy conservation and encouragement of the use of renewable sources of energy.
- Environmental protection from industrial pollution.
- Provision of government guarantees for loans

to small and medium size enterprises of the manufacturing sector.

- Strengthening of the laboratory infrastructure.
- Products' laboratory testing abroad.
- HACCP system for foodstuffs and beverages.
- Studies and specialised software development (adoption of standards, specialised software, foreign market penetration, consultancy services for industry, Internet utilisation).
- Participation of entrepreneurs / manufacturers of Cypriot products and services in trade fairs abroad and in Cyprus.
- Participation of entrepreneurs / manufacturers of Cypriot products and services in trade missions abroad.
- Exploration of export potential of industrial and services sector enterprises in foreign markets.
- Strengthening of female entrepreneurship.
- Strengthening of youth entrepreneurship.
- Revitalisation of the Nicosia green line.
- Various support schemes of the Research Promotion Foundation.
- Various training, consultancy, infrastructure building and employment schemes of the Human Resources Development Authority.



2. *Setting up a Business in Cyprus*

Setting up a business in Cyprus has never been easier. The government has created a business friendly environment to encourage investment from abroad whether in ordinary businesses trading in Cyprus or offshore companies, restricted from trading directly in the Cyprus market but able to take advantage of Cyprus's favourable tax regime.

Business people who wish to operate in Cyprus have the option of creating one of the following company types: limited liable company; a general or limited partnership; or a branch of an overseas company.

Legal types of enterprise include: holding and investment companies, employment companies, finance companies, trading and re-invoicing companies, construction and engineering companies, service and consultancy companies, real estate companies, international companies limited by guarantee, international partnerships, international branches, printing and publishing companies, royalty companies.

The most commonly used amongst the above are: trading and re-invoicing companies and international branches.

Such companies may be operated by setting up an office either in Cyprus or elsewhere for the re-invoicing of materials, goods and services from any country to any destination. Trading and re-invoicing companies may also be used for depot and transit trade activities with the use of a bonded warehouse. As a legal entity, a branch is no different from

its founding company. An international branch registered in Cyprus enjoys all the advantages extended to all international companies. In addition, however, in cases where the management and control of the business of the international branch is not in Cyprus, the profits are exempted from all taxes. If the management and control of the international branch is in Cyprus, then the profits of the branch are subject to the tax rate applicable to all offshore companies, which is 4.25 per cent.

The Investment Framework

In the framework of its aim to attract foreign investments and ensure economic prosperity in the country the Cyprus Government has liberalised the Foreign Direct Investment (FDI) policy for both E.U. and non-E.U. nationals. Administrative procedures have been simplified, bureaucratic intervention has been reduced and no limitations apply in most sectors of the economy concerning the minimum level of investment and the foreigners' participation percentage. Consequently, foreign companies now have the opportunity of investing and establishing business in Cyprus on equal terms with local investors. Virtually no distinction is made between foreign and Cypriot companies.

Overseas investors have the opportunity of participating in most sectors of the economy with an equity participation of up to 100% in any Cypriot enterprise without a minimum level of capital investment. Foreigners considering of registering companies, acquiring shares of existing companies

or setting-up business activities in Cyprus, no longer need approval from the Central Bank of Cyprus.

As from 1 October 2004, overseas investors can register a company directly with the Registrar of Companies. Initially an application for the approval of the name of the company is submitted (this can also be done online) and once the name is approved, the relevant documents for the company's registration (Memorandum of Understanding, Articles of Association, etc.) are submitted through a lawyer. In the case of a partnership registration, the involvement of a lawyer is not mandatory. Registration is completed within one month under normal procedure and within one week under the accelerated procedure with a small additional fee. Shares or participation must be registered under the investor's name at the Registrar of Companies according to the respective Company or Partnership Law.

Moreover, overseas investors can obtain any licence, if needed, from the appropriate authority according to the nature of the investment.

Two extremely important developments that took place in 2006, concern the possibility for the re-domiciliation of foreign companies and the registration of a European Company (SE) in Cyprus. Pursuant to the provisions of the law regarding re-domiciliation, a foreign company may be registered in Cyprus as a continuing company in accordance with the provisions of the Companies Law Cap. 113. An SE is considered to be a legal person duly incorporated according to the laws of Cyprus having the same liabilities and powers that every company registered in Cyprus has. Overseas entrepreneurs can register or transfer their companies to Cyprus, availing themselves in this way of the favourable tax regime of the country that includes a corporate tax rate of only 10%, the lowest in the European Union. Trading of shares by foreigners on the Cyprus Stock Exchange (CSE) is as easy as on any modern stock market.

Foreign investors are subject to the same rules and regulations of the CSE as Cypriots or other E.U. nationals, regarding capital distribution. Provided that the investment is in line with the CSE's laws and procedures, overseas investors may invest without any restrictions (in the same manner as Cypriot investors can) except for specific sectors, such as the banking sector.

As far as the banking sector is concerned, no person, either resident or non-resident, may own directly or

indirectly 10% or more of a banking corporation's share capital or voting stock without the Central Bank's approval. Banking corporations are also required to obtain the Central Bank's approval before registering more than 50% of their share capital in the name of non-residents.

The acquisition of real estate is also largely liberalised particularly for E.U. nationals and E.U. registered enterprises. In fact, no restrictions are imposed on E.U. nationals and E.U. registered enterprises in relation to the acquisition of primary residence and Foreign Direct Investment, or the acquisition of real estate by E.U. real estate agents and land developers. The acquisition of residence for secondary use is for the time being prohibited without prior authorisation by the Council of Ministers, to E.U. nationals not permanently residing in Cyprus and E.U. registered companies not having their registered office, central administration or principal place of business in Cyprus. This prohibition is for a period of 5 years from the date of accession of Cyprus to the European Union (01/05/2004).

As regards non - E.U. nationals, legal entities registered in non - E.U. member-states and legal entities registered in Cyprus with shared capital controlled by non-E.U. nationals, real estate may be acquired subject to the approval of the Council of Ministers. In case the real estate concerned exceeds 2 donums, approval may be granted only for the purposes of primary or secondary residence not exceeding an area of 3 donums, professional or commercial premises and industrial sectors deemed beneficial for the Cypriot economy.

As of the date of Cyprus' accession to the E.U. on 1 May 2004, the Exchange Control Law has been abolished and hence, residents and non-residents may hold and manage assets and liabilities in any foreign currency and in any foreign country, including freely convertible and transferable balances with banks on the island.

The liberalisation of the FDI policy does not confer right to the third countries (i.e. non-E.U.) companies' foreign shareholders, principals / directors or employees' representatives to secure residence and/or work permits. Residence or work permits are handled by the Ministry of Interior and the Ministry of Labour and Social Insurance. In the case of international business companies, arrangements have been made whereby the Ministry of Interior may issue and renew the temporary residence –



employment permits of expatriate executives. Apart from a preference to the nationals of countries under accession to the E.U. (i.e. Bulgaria and Romania), no other distinction is made between nationalities on granting working and residence permits. The decision lies upon the availability of E.U. nationals for the specific job, on scientific and academic qualifications and on the probability of the investment to be made by the applicant. However, labour legislation applies equally to E.U. nationals and foreign employees.

The liberalisation of the FDI policy does not prejudice the stance of other governmental departments, organisations or authorities regarding the issue of any other permits or consents which may be required under separate laws or regulations.

Examples of such regulations include:

- Private tertiary education institutions can be founded and operated only by E.U. nationals.
- Regulations of fishing boat licences provide for 51% participation by E.U. nationals and 50% of the management staff originating from the European Union.
- Based on the registration framework of certain medical professions, only Cypriots or other E.U. nationals are allowed to exercise their profession in Cyprus. Such professions include but are not limited to: Dentists, Dental Technicians, Psychologists, Opticians, Chemists, Dieticians, Physiotherapists and Psychiatrists.
- Non-E.U. nationals can obtain up to 5% of the

total share capital of broadcasting corporations (television and radio stations)

Since Cyprus' accession to the E.U., the European Union's legislation framework regarding labour relations has been adopted. Hence the rights of workers in Cyprus are adequately protected in a wide range of areas including health and safety, equal treatment, maternity, working time, posting of workers, transfer of enterprises etc.

The Cyprus labour market has a tradition of social dialogue and a well-developed institution of free collective bargaining. Collective agreements regulate employment conditions such as remuneration, working hours, health and safety, annual holidays and provident funds.

Labour costs are lower than the E.U. average as well as social insurance employers' contributions. Employers must contribute 6,3%, employees an additional 6,3% and the Government 4% summing up the total social insurance contribution to 16,6% of the gross salary. In the case of self-employed individuals, 11,6% is contributed by the self-employed and 4% by the Government, summing up to a total contribution of 15.6%. The participation to the social insurance scheme is mandatory for all employees. The scheme provides for several benefits, such as the maternity allowance, sickness allowance, unemployment allowance, pension, widow's pension, orphan's allowance, allowances for industrial accidents and occupational diseases. Other employer contributions include 1,2% to the Redundancy Fund, 0,5% to the Human Resources

Development Fund and 2% to the Social Cohesion Fund excluding shipping / ship management companies in relation to the emoluments of their foreign employees.

In addition, legislation provides for minimum wages in six service occupations (sales staff, clerical workers, auxiliary healthcare staff and auxiliary staff in nursery schools, crèches and schools).

Foreign Investments In Cyprus

One of the primary objectives of the Government's development policy is to foster the infusion of foreign investment in all economic sectors, emphasising the field of high technology.

In order to attract foreign investments and enhance economic prosperity in Cyprus, the government has liberalised the Foreign Direct Investment (FDI) policy for both EU and non-EU nationals. Administrative procedures have been simplified and no limitations apply in most sectors of the economy, as per the minimum level of investment and the foreigners' participation percentage. Moreover, bureaucratic intervention has been reduced, fostering investment opportunities by non-residents.

Consequently, foreign companies now have the opportunity of investing and establishing business in Cyprus on equal terms with local investors; no distinction is being made between foreign and Cypriot companies.

Among the significant advantages that Cyprus has to offer as an international business centre are: membership of the European Union; strategic location at the crossroads of three continents, serving as Europe's Middle Eastern outpost; favourable tax regime including 10 per cent corporation tax; liberal Foreign Direct Investment regime; simplified administrative procedures for acquiring necessary permits; bilateral investment agreements with 17 countries; low set up and operating costs; highly qualified, well-educated and multilingual labour force; double tax treaties with 40 countries; freedom of movement of foreign currency; availability of Free zone Area; efficient legal, accounting and banking services; European standard of living; pleasant climate and agreeable topography; excellent telecommunications; democratic country with a free market economy; political stability and a low crime rate - in fact one of the lowest in Europe.

Further information regarding foreign investments in Cyprus is available from the Foreign Investors Service Centre (6 Andrea Araouzou Street, 1421 Nicosia, Cyprus – Tel.: +357 22 867239 / 867143, Fax: +357 22 375541, e-mail: ids@mcit.gov.cy) which is a one stop shop designed to make investing in Cyprus' vibrant economy quick and efficient.

Under the Exchange Control Law the Central Bank is responsible for issuing permits to non-residents wishing to acquire equity in legal entities registered in Cyprus. In order to enhance the role of the Central Bank, the government has assigned to it the responsibility of promoting and coordinating most matters concerning direct investment, offshore activities and shipping business.

The Central Bank co-operates closely with government departments and private parties with a view to improving facilities, incentives, requirements and procedures so that Cyprus will become an even more attractive centre for the conduct of international business affairs.

Non-residents wishing to acquire any share or participation in a Cypriot legal entity should apply through an appropriate professional practising in Cyprus. The professional will submit to the Central Bank an application containing the requisite information, i.e. share capital, economic activities etc. Applications are classified into one of three categories:

1. Direct Investment covering Cypriot legal entities which may belong partly or wholly to non-residents and which may carry on business and derive income within Cyprus.
2. Offshore Enterprise covering Cypriot legal entities which belong entirely to non-residents and which carry on business and derive income exclusively outside Cyprus.
3. Shipping Business covering Cypriot legal entities which may belong entirely to non-residents and which limit their objects to the ownership, bareboat chartering and operation of ships in international transport.

Permits concerning offshore enterprises and shipping companies are normally issued by the Central Bank within a few days, depending on the availability of the requisite information or assurances. This speedy response is due to the consensus that offshore enterprises and shipping companies make a positive net contribution to the national economy without antagonizing local firms.



Applications concerning direct investments are considered by the Central Bank in consultation with appropriate government departments. Normally, the administrative procedure is completed within 30 days and the applicant receives an official reply. However, in cases where the procedure cannot be completed in that period the applicant is notified accordingly.

Upon receipt of the necessary permit the non-residents' shares or participation must be registered in their names or in the names of their nominees at the Department of the Registrar of Companies under the Companies or Partnerships Laws, as the case may be. These laws are also based on the corresponding acts of the United Kingdom.

Matters pertaining to the registration of ships are handled by the Department of Merchant Shipping. Legal procedures pertaining to the registration, re-organization and liquidation of business entities must be completed through advocates practising on the island. At the same time, business entities with non-resident participation are required to prepare and submit to the Central Bank and the Department of Inland Revenue annual financial statements audited by local practising accountants.

Applications by foreigners wishing to live or work in Cyprus are handled in the first instance by the Ministry of Interior under the Aliens and Immigration Laws. In the case of offshore enterprises, arrangements have been made whereby the Ministry may issue and renew the temporary residence-employment permits of their expatriate employees upon the recommendation of the Central Bank, while it retains ultimate authority over all such permits.

The Tax Regime

With the aim of introducing an attractive tax regime for foreign investments Cyprus has significantly improved its tax framework in a serious and responsible manner, abiding at the same time by all relevant E.U. directives. Cyprus prides itself today in possessing a modern and flexible tax system that is utilised by many overseas enterprises.

The main aims of the new tax reform (that took place in 2002) were to conform to E.U. and OECD requirements as well as the maintenance and enhancement of the competitiveness of Cyprus as an international business centre. The main elements of the new tax regime of Cyprus are:

- **Low corporation tax:** All companies are subject to a uniform tax rate of 10% except for public law organisations which are taxed at 25%. The 10% tax is the lowest corporate tax rate in the European Union and one of the lowest in the world. A company is tax resident in Cyprus when its management and control is exercised in the Republic. Its taxable income includes both income earned in Cyprus and abroad. A non-Cyprus tax

Resident is taxed only on income earned in Cyprus.

- **Tax on dividends:** Cyprus tax-resident companies are exempt in respect of dividends received from other Cyprus resident companies. The exemption is extended, subject to conditions, to dividends from non-resident companies. Resident companies are required to have distributed at least 70% of their after-tax profits in the form of



dividends at the end of the two-year period since the end of the respective accounting year. In the case that the distribution does not take place within the time limits mentioned above, 70% of the profit would be considered as distributed (deemed distribution). In this way, tax avoidance, though the accumulation of profits and the creation of companies by individuals as a means of lowering their tax burden is prevented. These mandatory distribution provisions do not apply to profits accruing to non-resident shareholders.

- **Tax on interest:** Interest income arising from, or closely connected to, the ordinary activities of the company is taxed at the corporate tax rate of 10%. Moreover, 50% of all other interest income is exempt from income tax and is subject to special defence contribution at 10%.
- **Tax treatment of losses:** Tax losses can be carried forward and set off against future profits indefinitely. In addition, the loss of a Cyprus tax resident company can be set off against the profit of another company in case they belong to the same group of companies. Companies belong to a group when one company holds ordinary voting shares of at least 75% of another company. Losses from a permanent establishment abroad can be set off against profits earned by a company in Cyprus.
- **Profits of permanent establishments abroad:** The profits of permanent establishments abroad are not subject to tax in Cyprus. The exemption is not available if the permanent establishment directly or indirectly is engaged more than 50% in activities which result in investment income and the foreign tax suffered is significantly lower than the tax payable in Cyprus.
- **Reorganisations:** Transfers of assets and liabilities between companies in the course of reorganisations, such as mergers, demergers, transfer of activities in exchange of shares, are not subject to tax.
- **Disposal of securities:** Profits gained from the sale of securities are exempt from tax for all companies.
- **Double tax treaties:** As already mentioned, Cyprus has over 35 double tax treaties
- **Foreign tax credit:** Tax paid abroad on income that is subject to tax in Cyprus is credited against Cyprus tax payable on the same income.
- **Personal income tax:** Individual tax resident of Cyprus is an individual who stays in the Republic for 183 days in the year of assessment. Cyprus tax residents are taxed on income earned both in Cyprus and abroad. On the contrary, non-tax residents are taxed on income earned only from Cyprus sources. 20% exemption of emoluments or CY€5.000 whichever is the lowest, is granted in the case of non-residents starting employment in the Republic for a period of 3 years after the 1st of January following the year of commencement of the employment. The tax rates are among the lowest in Europe with the higher rate being 30% for taxable income over CY€20.000. Dividends are exempt from income tax and are subject to a special defence contribution at the rate of 15%, applicable only to tax residents. Likewise, interest income is exempt from income tax and is subject to a special contribution for defence at the rate of 10% in the case where the individual is tax resident in Cyprus. Interest income from saving bonds, development bonds, deposits with the Housing Finance Corporation and interest income earned by provident funds is subject to a special contribution for defence which is at the lower rate of 3%. Salary earned abroad for services rendered to a non-Cyprus resident employer or foreign permanent establishment of a Cyprus resident employer, for a period of more than 90 days in a tax year, is not subject to tax. Finally, income received in the form of retirement gratuity, compensation for death or injuries, provident fund, pension fund, or other approved funds, is exempt from tax.
- **Value Added Tax:** The VAT rate is set at 15%, the lowest permitted rate in the E.U. Cyprus also has two reduced rates. The reduced rate of 8% applies for hotel accommodation, restaurants and catering services. It also applies for domestic transport of passengers and their accompanied baggage by taxi, by tourist, excursion and intercity buses. A reduced rate of 5% is imposed on a variety of other products and services such as books, magazines, newspapers, liquid gas, the delivery of non-bottled water, the transport of passengers and their belongings by urban and rural buses, certain foodstuffs excluded from the zero rate, fertilisers, animal foodstuffs, seeds, live animals etc. Zero-rated goods and services include exports, food for human consumption



and medicines. Exempt from VAT are inter-alia land for building purposes (until 2007), healthcare, education, insurance and financial services, postal services etc.

A number of years after its implementation the tax reform, has contributed decisively to the efforts of establishing Cyprus as an internationally renowned business centre. Many overseas enterprises show an increased interest to use Cyprus as a base for their operations and take advantage, among other things, of its favourable tax environment.

The Labour Market

The satisfactory growth rate of the Cyprus economy over recent years was accompanied by job creation, resulting in increased employment, especially among women. One important aspect of this growth was the huge expansion of the tertiary sector from the point of view of employment, as a result both of job creation and the migration of labour from the primary and secondary sectors.

According to the Labour Force Survey, employment increased by 3.7 per cent in 2003, compared with 1.9 per cent in 2002, bringing the number of people in employment to 327 094. 58 per cent of this increase was accounted for by women, with the female employment rate rising by five per cent. The tertiary sector expanded by four per cent, accounting for 72 per cent of the workforce and almost 85 per cent of women in employment. The share of the primary and secondary sectors suffered another minor setback, accounting for 5.3 per cent and 22.7 per cent of total employment.

The increase in employment resulted in a satisfactory increase in the employment rate, especially among women, rising to 69.2 per cent in the 15-64 age group in 2003 (60.2 per cent for women aged 15-64 and 78.8 per cent for men aged 15-64). These figures compare favourably with EU averages and are very close to the targets set by the European Council in Lisbon for 2010 (70 per cent employment rate for men aged 15-64 and 60 per cent for women aged 15-64).

One important aspect of increased employment rates is that the gap between male and female employment has closed significantly (18.6 per cent in the 15-64 age group). Although this differential increases with age, it is a mere 2.1 per cent for the 15-24 age group, 18.8 per cent for the 25-54 age group and 36.1 per cent for the 55-64 age group.

Another important aspect of increased employment is the constant increase in the employment rate among the highly educated. This has helped to shift employment to sectors and professions which demand a high level of education. This is apparent from the gradual increase in employment in these professions (managers, qualified and technical assistants) as a percentage of total employment (from 23 per cent in 1992 to 29 per cent in 2003). More importantly, the number of higher education graduates is rising constantly as a percentage of total employment (32.5 per cent in 2003).

Unemployment is relatively low and compares favourably with levels in the EU Member States. According to the Labour Force Survey, the unemployment rate was 4.1 per cent in 2003. One important aspect of unemployment is that the rate among women is always higher than the rate

among men (4.6 per cent and 3.8 per cent) and is highly sensitive to changes in the economy. More importantly, the highest rates are among women aged 15-24 (8.8 per cent) and 40-49 (5.6 per cent). Generally, the rate for the 15-24 age group is worryingly high (8.9 per cent).

Apart from the positive impact of the sharp increase in the demand for labour over recent years, there has been a shortage of jobs and qualitative imbalances on the job market, which was tackled by employing foreign labour on a temporary basis. Foreign workers now account for 11.7 per cent of the total workforce. The sectors with acute qualitative imbalances are hotels and restaurants, manufacturing and the wholesale and retail trade, which employ a high percentage of foreigners and have high rates of unemployment. This is an indication that the supply of labour from the unemployed cannot satisfy the demand for labour from employers, and the shortage is met by employing foreigners.

Qualitative imbalances and the shortage of jobs are the result of numerous factors, such as the small size of the workforce in Cyprus, the quantum leap made by the economy of Cyprus over recent years and the new challenges faced by the Cypriot job market by reason of its imminent entry into the single European market, together with spiralling technological progress throughout the world and the gradual changeover from traditional to new, knowledge based economies. In order to anticipate and meet these challenges efficiently, the job market needs to adapt by creating a flexible and adaptable productive workforce and encouraging changes in job structures. This implies improving the quality and quantity of the workforce in order to ensure that employment improves both quantitatively and qualitatively, and the economy of Cyprus can respond efficiently to the quantum leap it is making.

For a small and open economy with limited natural resources such as Cyprus, its human capital constitutes the most important factor of production and its development, a high priority. At the same time, recognising the great importance of social cohesion for the stability of the entire socio-economic system, particular emphasis will be given to the creation of favourable conditions and the promotion of measures to prevent the possibility of social exclusion of vulnerable social groups.

The main goal regarding Development of Human Capital is the qualitative upgrading of human capital, the promotion of employment and the embedding of social cohesion conditions. To this end the public employment service will be upgraded and modernized to provide more training for the workforce.

The Development Plans

Important structural reforms are in progress in order to further modernise and liberalise the country's market – oriented economy with a view to enhancing its competitiveness internationally but also within the E.U. Single Market. A National Programme for the Promotion of the Lisbon Strategy was prepared at the end of 2005 while a New Strategic Development Plan for the period 2007-2013 was prepared in 2006 following an extensive public dialogue. It is mentioned that the Cyprus Chamber of Commerce and Industry participated actively in the public dialogue and submitted detailed positions during the preparation of both the Lisbon Programme and the Strategic Plan many of which have been incorporated into the documents, adding significantly to the quality, relevance, practicability as well as to the developmental character of both documents. The two documents are interlinked since the new programming period is directly connected to the achievement of the aims of the revised Lisbon Strategy, the Broad Economic and Employment Policy Guidelines of the E.U. and the Community Strategic Guidelines, 2007-2013 that concern the Cohesion Policy in Support of Growth and Jobs in the E.U. The design of the programmes that will be co-funded by the Structural Funds and the Cohesion Fund of the E.U. in the new programming period 2007-2013 will be based on the priorities of these Strategic Guidelines. The Strategic Development Plan of Cyprus takes seriously into consideration both the Guidelines and the National Programme for the Promotion of the Lisbon Strategy.

Both the National Lisbon Programme and the Strategic Development Plan additionally take into consideration the challenges faced by the Cypriot economy, the developmental priorities and targets of the country and the Convergence Programme of Cyprus in relation to its planned entry into the Economic and Monetary Union on 01/01/2008. Both Programmes/ Plans place emphasis on the following developmental priorities:



- Sustainability of public finances.
- Diversification of the economy towards higher value added activities, resulting in high value added products and services.
- Transition to the knowledge society through promotion of R&D and innovation and the facilitation of ICT diffusion.
- Enhancement of competition and competitiveness.
- Improvement of entrepreneurship and the overall business climate.
- Improvement of the efficiency and effectiveness of public administration and upgrading of the quality of the services offered.
- Expansion and improvement / upgrading of the basic infrastructures.
- Environmental sustainability /protection/ upgrading.
- Continuous development of human resources
- Maintenance of high rates of increase of labour supply.

- Increase of the flexibility of the labour market.
- Further strengthening of social cohesion.
- Upgrade of the quality of life.
- Balanced rural and urban development.

The proper implementation of the above priorities will result in the further improvement of productivity and competitiveness, the attraction of more (foreign direct) investments, the creation of more and better jobs, the more effective distribution and utilisation of the country's productive resources, the securing of sustainable development and generally the upgrade of business enterprises in Cyprus. In other words, with the proper implementation of the programmes, Cyprus will not only maximise its contribution to the achievement of the Lisbon objectives but will also increase the competitiveness, growth and employment prospects of its economy.





Corporate & Shipping Business in Cyprus

In mythological ancient times the island of Cyprus was known as the birthplace of Aphrodite, goddess of love and beauty. Today, the Republic of Cyprus stands as a reputable, respectable and reliable international business centre in the European Union and on the world map. The country also possesses a large network of Double Tax Treaties that has contributed in enhancing its credibility as a plausible international business jurisdiction affording significant tax advantages in international tax planning. Furthermore, some of the main assets of Cyprus are, among others, its strategic geographical location at the hub of three continents, its transport and telecommunication network, its stable democratic political system, its statutes regulating business matters which are essentially based on English Law that help the country to adapt to globalisation and its good international relations as it is a member of the United Nations, the Council of Europe and of the European Union since May 1st 2004. Relations with China and India have developed too.

The new Tax Reform and Investment Legislation which applies since January 1st 2003 aims to conform with European Union Law and the EU code of Conduct and confirms the commitment by Cyprus to the OECD to eliminate harmful tax practices. Thus Cyprus apart from having the lowest general corporate tax rate of 10% amongst members of the European Union, maintains and enhances its competitiveness as an international financial centre, is a stepping-stone for investments to and from the European Union and remains a perfect location for investments to and from Russia and the Middle East. Cyprus is a two to five hour's flight from all the main European capitals, Moscow or Kiev, less than three hours from the Arab countries and half an hour from Tel-Aviv and Beirut. It has one of the world's highest proportion of University graduates, a low crime environment and a European standard of living. Furthermore, in 2005, official estimations rated unemployment at about 3.4%, inflation below 3%, the per capita income euros 15818 and the

accountancy and auditing professions as well as the banking system as well-developed and organised.

The liberalization of Direct Investment has ended the 'offshore' status in Cyprus and there is now only one type of Cyprus Company which apart from being a European company can have onshore or offshore activities or both, can be owned at 100% by one or more European or non-European shareholders and can benefit from the E.U Parent-subsidiary Directive. Furthermore, shipping companies are exempt from corporate tax and profit from the disposal of shares held by a Cyprus Company is exempt from taxation. This last fiscal advantage obviously favours the use of Cyprus holding Companies that for instance can be used to hold subsidiary entities with scope for capital appreciation that can be sold at a later stage without bearing any taxation. Generally speaking, it is fair to say that the Cyprus Company can be a very useful vehicle for adequate tax-planning.

The information and documentation required by a Cypriot lawyer in order to register a Cyprus Company for any client are quite simple and easy to fulfil. Firstly, the lawyer will ask for a list of names in order to proceed with the approval of the company name. Then, once the name is approved, he will need to know or receive from his client the object and activity of the company, the passport copy and address of the beneficial owner, the number of shares per shareholder and whether the beneficial owner wishes confidentiality/nominees.

Shipping plays also an important part in the economy of the country which still has today one of the world's largest ship registry and is one of the largest third-party ship management centre. Thus shipping lawyers provide for legal advice, assist clients with their shipping loans & mortgages and provide for the registration of Cyprus shipping companies, the registration of vessels under the Cyprus flag and the registration of vessels on shipping companies under flags of other jurisdictions.

Furthermore, nominees can be used in the shipping company that at a later stage will transfer their shares to the beneficial owners. Once the Cyprus Shipping Company is registered, a vessel can be registered in its name and under the Cyprus flag, and since May 1st 2004 new regulations apply to Cyprus Shipping following amendments to the Cyprus Merchant Shipping Laws. Shipping lawyers make sure procedures are followed and documentation submitted for the provisional registration of a vessel under the Cyprus flag which must be followed within 6-9 months by the permanent registration of the vessel with the Registrar of Ships.

Shipping lawyers will also make sure that a vessel registered in a foreign registry may be registered in parallel in the Cyprus Registry as long as the ship is bareboat chartered-in to a Cyprus company, the laws of the vessel's initial foreign flag allow parallel registration and the written consent of both the foreign registry and the mortgagees, if any, is submitted to the Registrar of Cyprus Ships. Similarly, it is feasible under Cyprus law for a vessel registered under the Cyprus flag to be bareboat chartered-out to a foreign corporation, for parallel registration in a foreign registry.

Furthermore, Cyprus has ratified most of the International Conventions on maritime safety, prevention of pollution of the sea and training and certification of seafarers, which are currently in force. Cyprus is a member of the Council of the International Maritime Organisation. Furthermore, as a new member of the E.U, Cyprus has modernized all its maritime legislation according to European standards, participates in the Community law-making process as well as the Short Sea Shipping and Euromed initiatives. An example is the necessity for vessels registered under the Cyprus flag to possess a double hull.

Along with corporate business and shipping comes a favourable tax regime that allows lawyers and accountants to provide clients with adequate tax-planning. A Cyprus shipping company with a vessel registered in its name flying the Cyprus flag and operating in international waters pays tonnage tax and is tax exempt for the rest. This implies that there is no corporate or income tax on profits or dividends, no income tax on the salaries of officers and crew no capital gains tax on share transfers and no estate duty on the inheritance of shares.

Further to the general corporate tax rate on profits of Cyprus companies of 10%, the potential investor can benefit from a number of other relevant advantages that will enhance his business. Cyprus companies do not pay any withholding tax in Cyprus on the repatriation of income either of dividends, interest and almost all royalties. Dividend income received by a Cyprus company is, subject to certain restrictions, exempt from taxation. Capital gains tax is imposed at the rate of 20% on gains from the disposal of immovable property situated in Cyprus and immovable property situated out of Cyprus is outside the scope of capital gains tax. The Cyprus Company has the obligation to participate to the social insurance scheme when it has employees in Cyprus but not for employees out of Cyprus. All expenses incurred for the earning of income as well as the annual allowance and fixed assets are allowed as deductions provided that they were incurred for the purpose of earning the said income, and there is no estate duty on the inheritance of shares of Cyprus Companies.

Finally, freely transferable currency accounts in any currency may be kept either in Cyprus or anywhere abroad without any exchange control restrictions.

Anthony Indianos
Lawyer

Costas Indianos & Co – Advocates & Legal Consultants

Costas Indianos & Co is a Cyprus Law Firm that was established in 1924.

The Law Firm is specialized in Business & Corporate Law and Shipping. Other areas of practice include Tax-Planning Family Law, Real estate, Debt Collection, immigration law, as well as civil, administrative and criminal litigation.

It has acquired through the years a solid local and international client base comprising, inter alia: Commercial Banks, Ship owners, Embassies, Municipalities, International and local individual businessmen, International and local commercial and business firms, International, etc.

Anthony Indianos is fluent in Greek, French and English with a fair knowledge of Spanish and Italian.



3. Infrastructures and Transportation

The telecommunications sector is one of the most modern sectors of the economy of Cyprus utilising state-of-the-art technology. More specifically, the Cyprus telecommunications sector provides a variety of advanced telecommunication services covering the whole spectrum of customer needs for voice and data communications, both fixed and mobile. In addition, there is an extensive fibre optic cable network complemented by an equally impressive satellite telecommunications network. Internet, WAP and mobile telephony services are widely available, while special emphasis is placed on the provision of value added services such as various Internet – based multimedia services which promise to be a dominant business activity in the years to come. As a result, the island may claim, in this respect, to be among the most developed countries in the world. In the field of air transportation Cyprus is rapidly becoming a major international transit station for commercial air transportation with excellent connections within the entire region. A wide network of air routes connects Cyprus with all the major destinations in Europe, the Middle East, Africa, the Gulf, the Far East and Australia. The island is served by two international airports, one in Larnaca and one in Paphos which handle well over 1.100 scheduled flights per week served by 32 international airlines as well as flights operated by 41 chartered airlines.

Due to its strategic location and favourable policies, Cyprus is also an attractive base for shipping companies.

All the island's port facilities are under the jurisdiction of the Cyprus Ports Authority which owns, manages, markets and develops all the ports in Cyprus. Seaborne traffic is secured by a fully renewed port system comprising the multi-purpose ports of Limassol and Larnaca, the industrial port of Vassiliko and the 3 specialised oil terminals of Larnaca, Dhekelia and Moni. About 70 shipping lines include Cyprus in their regular schedules to and from the 5 continents and 4.800 ships totalling 20 million net registered tonnes call at Cypriot ports each year. Limassol and Larnaca ports are the island's main sea gateways handling over 3,5 million tonnes of international seaborne cargo including the entire traffic in transit. Experienced clearing, forwarding and logistics companies are available to assist entrepreneurs to deal speedily with the procedures relating to the import and export of goods.

Cyprus is established as an international shipping centre for the conduct of maritime activities and the rendering of shipping services worldwide. The Cypriot commercial fleet is among the 10 biggest worldwide, ranking third in the European Union with a percentage of 16% of the total fleet of the 25 mem-

ber-states of the E.U. There are about 1.800 ships of a total gross tonnage of over 21 million registered under the Cypriot flag. This development is attributed to the comparative advantages of Cyprus as well as the excellent services offered to the sector. However, Cyprus cannot be regarded as an opportunity flag state. The government of the Republic of Cyprus has ratified major international conventions on maritime safety, the prevention of sea pollution, the training, certification and watch-keeping of seafarers and the limitation of ship-owners' civil liability in case of oil pollution damage, as well as conventions on maritime labour. Over the last few years, the legislation ruling merchant shipping has been significantly modernised, particularly through the ratification of all major international maritime conventions and the adoption of the *Acquis Communautaire*. Cyprus has also set up a network of inspectors of Cyprus' ships which is expanding constantly, in its efforts to continuously keep improving the safety conditions of Cypriot ships.

Cyprus is also an important transit trade centre. The share of re-exports in total exports is continuously increasing and as already mentioned, today it accounts for almost 65% of the total. Transit cargoes enjoy special treatment at Cyprus ports including minimal customs formalities, free trade facilities, the extension of berthing priority to their carriers, long-term storage, etc.

As a result, private and general bonded warehouses are widely available to companies wishing to import and store goods without having to pay import duty. The main advantage of these warehouses is that they enable traders to clear goods from customs in stages, thus responding to market demand. These warehouses can also be used for breaking bulk and repackaging goods in transit, an important activity given the island's strategic location and its role in transit trade. The rates for storing goods are very competitive.

The island is an internationally renowned tourist destination offering some of the best hotel facilities in the world. Annual tourist arrivals are around 2,5 million, showing an increasing trend, while it is expected that the rising trend will continue in the coming years. The revenue from tourism exceeds CY£1 billion per year also showing an increasing trend. The contribution of tourism to GDP is quite significant and accounts for about 15% of the coun-

try's Gross Domestic Product. Services of the highest international standard are provided by travel agents who offer inclusive packages to incoming and outgoing tourists. The majority of tourists visits the island during the long summer season which begins in late April and extends to the beginning of November. However, an increasing number of tourists are taking advantage of the island's mild winter and Cyprus is fastly becoming a "winter destination" as well, offering to the overseas visitors many possibilities, ranging from simple relaxation, to swimming and even skiing on the Troodos mountains. All related services such as restaurants, car-rentals, sight-seeing tours, leisure and entertainment facilities are present on the island and are offered to the highest possible standard. Sports tourism, primarily supported by an infrastructure of football pitches and golf courses, cultural tourism and agro-tourism are gaining ground, while the implementation of the Strategic Tourism Development Plan is expected to contribute significantly / result in sustainable tourism development, the repositioning of Cyprus as a tourist destination and the differentiation and qualitative development of our tourist product.

Banking, finance and insurance are amongst the most highly developed sectors of the Cypriot economy and compare very favourably with the most advanced financial sectors of the world. The broad financial sector of Cyprus is comprised of both local / domestic institutions as well as of international / multinational institutions. The regulation of financial institutions is fully in line and in accordance with the *Acquis communautaire* safeguarding the interests of depositors and assured. The financial institutions are instrumental in the facilitation of investments into productive activities. Furthermore, Cyprus possesses a modern Stock Exchange giving momentum to the stock market that is stimulated further by the island's sound economy.

In addition, the island possesses excellent conference and exhibition facilities using state of the art technologies and equipment, while conference activity is complemented by vacation and leisure activities, thus providing a relaxing break for conference participants.

Legal and accounting but also other professional services such as business consultancy, advertising, market research, data management, software production and web design, construction, civil engineering and architectural services, transport ser-



vices, personnel recruitment, design, film and PR communication, printing and publishing, surveying and town planning, engineering and electrical consulting etc. are of the highest standard and are offered by experienced and highly qualified professionals, members of internationally renowned professional bodies. It is mentioned indicatively that most of the major international accounting firms are represented in Cyprus.

The real estate sector has been particularly strengthened as a result of the accession of Cyprus to the European Union. The excellent climatic conditions prevailing on the island and the high standard of the related services are already attracting a lot of interest for acquiring property as well as for residence in Cyprus. The fact that every purchaser of property in Cyprus is protected by serious legal provisions that safeguard his/her legal rights is a major factor that has contributed to the development of the real estate sector.

An abundance of schools and colleges (including a considerable number of English speaking institutions), a university and several others on the pipeline (both public and private) as well as a large number of clinics, hospitals and medical facilities complete the range of services that are available in Cyprus. The education and health sectors in particular, are considered as sectors with a high potential for the Cyprus economy and the policy of the Government is to develop Cyprus into an educational and health-care centre of the highest quality in South-Eastern Europe and East Mediterranean.

Regarding life mode Cyprus is part of Europe and as such its culture, way of life, educational level and standard of living are similar to those of Europe. All this, coupled with an excellent Mediterranean type of climate offering more than 330 days of sunshine per year and the traditional hospitality of the Cypriots, make Cyprus an ideal place to live and work.



INTRODUCTION

Mr Manthos MAVROMMATIS

Cyprus opens its multiple prospects to international business

Cyprus is a well-established regional business centre providing to foreign entrepreneurs all the necessary infrastructure and facilities for operating on a broad international basis. Since the early days of its three-millennium history Cyprus has been centre of traders in the East Mediterranean and this role has been maintained and further upgraded with passing centuries. In the early years of its history Cyprus was a main trading centre with neighbouring countries and a major maritime power with its vessels sailing to all the main trading pots of the Mediterranean Sea promoting trade and other exchanges with all states of ancient history.

Adjusting to the needs and conditions of the changing times the role of Cyprus as a regional centre of trade and business has not changed with the passing centuries. Contributing to this is the geographical position of Cyprus, at the meeting point of three continents, Europe, Asia and Africa and the extrovert attitude of the Cypriot people and their highly developed readiness for business and international cooperation.

This role of the island is now further strengthened and enlarged to top grading after its accession to the European Union on 1st May 2004. The three years which passed since then have recorded firm growth of Cyprus economy and emergence of broader prospects for its business partners in and out of the European Union. Cyprus is now well established as the bridge linking the Community with the broader Middle East and North - East Africa and even beyond.

In absolute compliance with the needs of the times and as a result of its specialized infrastructure Cyprus is rapidly growing into the regional business centre mainly of the services sector. The highly qualified and fully trained personnel and the highly advanced competitive services in all fields of the tertiary sector are constantly improved and even further developed providing all the requirements for establishment of business by enterprises from the community and by international companies.

The Cyprus Chamber of Commerce and Industry is actively involved in promoting the international business potential of Cyprus. Both in close cooperation with the competent government authorities as well as autonomously, the Chamber is constantly working towards enrichment of the friendly business environment of the country with new elements and attractive incentives, which help international business associates to expand towards the broader region of the island.

In the top priorities of the Chamber are business seminars in countries in all continents, cooperation agreements with Chambers and other competent authorities and agencies in the various countries, and services to prospective business partners, both at Chamber and at individual levels.

Mr Manthos MAVROMMATIS



Economic Strengths of Cyprus

Throughout the years, the economic structure of Cyprus has changed from an economy based on the primary sector of agriculture and traditional manufacturing to an economy based on services and the opportunities provided to E.U. but also other partners, are now broadened. Its services sector has recorded spectacular growth opening up new fields of activity to local and overseas businesspeople. Today the sector of services accounts for 77% of the Gross Domestic Product of the country, with tourism, shipping, finance, insurance, business and professional services being the main contributors.

The Cyprus economy is healthy and growing. The growth rate ranges around 4% well above the E.U. average. The GDP per capita is fastly approaching 20.000 Euros. This corresponds to nearly 85% of the corresponding E.U. average. With the decision of the Government of Cyprus to join the European and Monetary Union and adopt the Euro on 1 January 2008, the country is following economic policies of convergence with the relevant criteria. Inflation is around 1,5% (2006 figures) despite the high crude oil prices which limit further reduction. Registered unemployment is also low and ranges at 4%. The fiscal deficit and public debt are following decreasing trends too. The fiscal deficit is well below 3% of G.D.P. while the public debt is on the way to meeting the relevant convergence criterion (less than 60% of G.D.P.). The EU Commission has confirmed that Cyprus meets all the Maastricht criteria and will join the Eurozone with a strong economy and in a healthy financial situation. E.U. confirmation of the recorded progress was the inclusion of the Cyprus pound in

the Exchange Rate Mechanism II, in May 2005, which has been greeted as entry into the antechamber of the E.M.U.

The admission of Cyprus into the Eurozone and consequently the substitution of the Cyprus pound with the Euro, opens up additional possibilities for businesspeople and creates an extremely favourable environment for business activity particularly with the rest of the countries that belong to the Eurozone and account for most of the economic activity in Europe.

The small size of the local market makes penetration in foreign markets imperative and of vital importance to the economy of Cyprus. The entry into the Eurozone will undoubtedly create additional prospects in this direction. Exports represent more than 8% of the country's GDP while re-exports are a significant share of total exports, approaching 65%. Cyprus' main export categories are potatoes, dairy products, citrus fruit, wines, pharmaceutical products, cigarettes, cement, clothing, paper and plastic products, furniture and light machinery. As far as imports are concerned, total imports represent about 37% of the country's GDP. Intermediate goods, raw materials, consumer and capital goods, transport equipment and fuel constitute the country's main import categories.

The E.U. constitutes Cyprus' main trading partner accounting for more than 60% of the country's trade. Furthermore, more than 75% of tourists visiting the island originate from E.U. member-states.



The stability of the economy has attracted higher investments in recent years boosting the growth potential of the country further.

Working for Cyprus – Business and Employment

The private sector dominates production in Cyprus. The role of the State is a supportive one, and concentrates mainly in: maintaining conditions of macroeconomic stability and a favourable business climate by creating the necessary legal and institutional framework; securing conditions of fair competition; creating modern economic and social infrastructure, utilising the new instruments of public private partnership; ensuring conditions of social cohesion.

With a total area of just 9,250 sq km (of which 3,355 sq km are in north Cyprus and controlled by the regime there) the small size of the domestic market is a defining characteristic of the Cypriot economy. The population in the Government controlled area was 709,600 in 2002, out of which 69.1 per cent live in urban areas and 30.9 per cent in rural areas. The small size of the domestic market constitutes an adverse factor in the realisation of economies of scale and in the development of satisfactory intersectoral relationships.

Corresponding to a small country small enterprises dominate. According to the Registration of Establishments of 2000, the size of enterprises remained very small, with an average 4.4 persons

per unit in 2000, as compared to 4.3 persons in 1995. More than half of the total number of enterprises, 58 per cent employed only one person. Micro enterprises, that is the enterprises employing less than 10 persons constituted 95 per cent of the total, other small-sized enterprises with 10-49 employees constituted 4 per cent and medium-sized enterprises, with 50-249 employees constituted only 0.7 per cent of the total. The large enterprises with a workforce exceeding 250 employees amounted to just 67, representing 0.1 per cent of the total number of enterprises.

Quantitative and qualitative imbalances due to the small workforce are evident both at the sectoral and occupational level and have been partly ameliorated by the employment, to a large extent, of foreign labour. At the sectoral level, the imbalances are more evident in the sectors of hotels and restaurants, construction, agriculture and manufacturing, whereas at the occupational level, the shortages are observed in technical and low-skilled occupations.

The small size of the domestic market has encouraged a concentration on foreign markets and resulted in a remarkably open economy, with total imports and exports of goods and services accounting for around 102 per cent of GDP in 2003 as compared to an EU average of 66.9 per cent.

The Service sector is becoming predominate: accounting for 75.7 per cent of GDP and 71.5 per cent of total employment in 2003. This development reflects the gradual restructuring of the Cypriot





economy from an exporter of minerals and agricultural products, mainly copper, asbestos and citrus fruits in the period 1961-73 and an exporter of manufactured goods, mainly clothing and footwear, in the latter part of the 1970s and the early part of the 80s, to an international tourist, business and services centre during the 1980s and 1990s.

Tourism is a thriving and important sector in Cyprus. This sector made a total contribution, derived from the value added, either directly through the purchases of goods and services of tourists in various sectors of economic activity or indirectly, through the intersectoral linkages, amounted to 15-20 per cent of GDP in the period 1990-2003.

Structure of Production

The predominant and continuously expanding share of the services sectors (55 per cent of GDP in 1980, 66 per cent in 1990 and 75.7 per cent in 2003) at the cost of both the primary sectors of economic activity, agriculture and mining and quarrying and the secondary sectors of manufacturing and construction, reflects the comparative advantages, which Cyprus enjoys in the sectors of services.

These advantages derive mainly from Cyprus's: strategic geographical location at the crossroads of three continents; favourable business climate, which is directly related to the prevalence of conditions of macroeconomic stability and a generally favourable tax regime.

In relation to this, the recent tax reform introduced a uniform corporate tax rate of 10 per cent; well-

educated labour force (according to the Labour Force Survey of 2003, 32,5 per cent of the total gainfully employed population are graduates of tertiary level education), in conjunction with the competitive, as compared to international standards, level of remuneration; the relatively satisfactory state of its infrastructure in transport, energy and telecommunications; satisfactory living conditions for foreigners, as well as the close economic and political relations Cyprus has developed with its neighbouring countries.

The hotels and restaurants sector's share to GDP rose throughout the 1980s (3.6 per cent in 1980, 10.6 per cent in 1990). During the 1990s, however, the sector exhibited fluctuations, and its share was contained to 7.7 per cent of GDP in 2003, confirming its vulnerability to exogenous and imponderable factors.

The sectors of financial services, business and real estate and renting activities, educational and health services, also exhibited an increasing trend in their share to GDP. This development was the result of the utilisation of the comparative advantages of Cyprus as far as the supply of high quality of services are concerned, both in the domestic market and in the external market, as well as the high income elasticity which characterises these services.

The agricultural sector's share to GDP has been decreasing (10 per cent in 1980, 7.1 per cent in 1990 and 4 per cent in 2003), a development that constitutes an international phenomenon, and is attributed to the relatively low-income elasticity of demand for agricultural products, the urbanisation

trend and the reallocation of productive resources from agriculture to other more profitable economic activities. In the case of Cyprus, a constraining factor to the growth of the agricultural sector was also the Turkish invasion and the occupation of a large portion of fertile land, the water scarcity for irrigation, a problem which has become more intense in the past few years, the land fragmentation into small units, which prevents the use of advanced technology and the use of agricultural land for tourist development and other uses. In parallel, agricultural production faced intense competition during the 1990s due to the trend towards gradual liberalisation of world trade of agricultural products.

The contribution of the manufacturing sector to GDP also exhibited a falling trend since the early 1980s (18.2 per cent in 1980, 14.7 per cent in 1990, 9.3 per cent in 2003). The sector is characterised by chronic problems of competitiveness, due, inter alia, to the small size of the majority of manufacturing units, which negatively affects their capacity to utilise advanced technology and modern methods of management, production and marketing.

A study conducted by the Department of Economics of the University of Cyprus, in which the total factor productivity index of the manufacturing sector was estimated, confirmed that during the period 1987-96 the rate of increase of productivity in most Cypriot manufacturing sub-sectors was lower, compared to that of all other countries included in the study, that is, Germany, France, Italy and the UK. The decreasing trend of the contribution of the manufacturing sector to GDP is also attributed to the faster increase of production costs, as compared to competitor countries as well as the intensification of competition due to the implementation of the Customs Union Agreement between Cyprus and the EU and the trend towards liberalisation of world trade.

The construction sector's share to GDP has also been falling (14 per cent in 1980, 9.9 per cent in 1990, 8.2 per cent in 2003), a development attributed to the satisfaction of the housing needs of the vast majority of the population, the reduced interest in the construction of new tourist accommodation and the relative slackening of demand for secondary homes in recent years. Concerning the housing conditions, it is noted that according to the Family Budget Survey 1996/97, 74.3 per cent of the households live in privately owned dwellings and a substantial percentage around 16.5 per cent lives in Government housing estates, such as

refugee estates, self-help housing estates etc. It is noted, however, that a reversal of the decreasing trend of the construction sector is observed during the past three years, a development mainly attributed to the expansion of investment demand of the private sector.

The increased interest of the private sector is partly explained by the negative performance of the investment in the CSE, which increased the relative profitability of investment in immovable property, as well as the increased external demand for holiday houses, as shown by the applications and approvals for purchase of immovable property by foreigners.

In conclusion, the continuing upward trend of the share of the tertiary sectors of services to GDP reflects the comparative advantages of Cyprus in these sectors and denotes the important role of services in a contemporary society.

Structure of Employment

The change in the structure of production in favour of the tertiary sectors implied a similar change in the structure of employment. The contribution of the tertiary sectors to the total gainfully employed population increased from 45.5 per cent in 1980, to 57.2 per cent in 1990 and around 71.5 per cent in 2003, which was accompanied by a fall in the shares of both the primary and secondary sectors. In parallel, it is noted that as early as from the beginning of the 1960s there was a decrease, in absolute terms, of employment in the primary sectors, while a similar trend is observed in the secondary sectors as from the beginning of the 1990s, a development which implies that the additional posts are exclusively created in the tertiary sectors of services.

Another basic characteristic of the labour market is the employment of large numbers of foreign workers, especially in unskilled or low-skilled occupations. The total number of legally employed foreign workers reached 40,700 in 2003 and represented 12.9 per cent of the gainfully employed population. From a sectoral perspective, in 2003 29.6 per cent of the foreign workers in Cyprus were employed as household help, 19.6 per cent worked in the sector of hotels and restaurants, 8.5 per cent in construction, 8.4 per cent in agriculture, 8.3 per cent in manufacturing and 8.3 per cent in trade.





Structure of Investment

There has been a decline in gross fixed capital formation as a per centage of GDP over the past years, from 34 per cent in 1980 to 24.5 per cent in 1990 and around 17.5 per cent in 2003. This development reflects the gradual satisfaction of the housing needs of the refugees and, more recently, the reduced interest in investing in new tourist accommodation. In addition, economic activity has tended in recent years to focus on the tertiary sectors of services, which are more labour-intensive rather than capital-intensive.

The structure of investment continues to display weaknesses, given that about 69 per cent of the total is channelled into construction works. Investment in machinery and equipment, however, improved in recent years, with its share to total gross fixed capital formation rising from 19.5 per cent in 1980 to 26.5 per cent in 2003, but still lacks behind as compared to the respective per centage of the majority of the developed countries, which fluctuates between 40-50 per cent. These figures are indicative of the low level of utilisation of advanced technology, which affects adversely the growth of productivity, particularly in the primary and secondary sectors.

Structure of Exports

The changing structure of the Cyprus economy is reflected in a parallel change in the structure of exports of goods and services. Characteristic of these changes is the rise in the exports of services, which in 2003 accounted for around 85 per cent of all revenues

from the export of goods and services, compared to 50 per cent in 1980. Exports of services, except tourism, constitute the primary source, accounting for about 53 per cent of the total. Tourism contributes around 32 per cent of total receipts from exports of goods and services and the EU countries constitute our main tourist market with a share of 83.3 per cent of the total tourist arrivals. The share of the UK in total tourist arrivals accounted for 58.5 per cent in 2003, while Germany, Greece, Russia and Sweden followed with a per centage share of 5.6 per cent, 4.8 per cent, 4.6 per cent and 3.8 per cent respectively. At the same time, the share of international business activities exhibits an upward trend and has risen from 1 per cent of the total value of exports of goods and services in 1980 to 12 per cent in 2003. Other export-oriented sub-sectors include banking and other business services, such as accounting, market research, consultancy services, etc.

Exports of goods accounted for about 15 per cent of total foreign currency revenue in 2003, with the largest share, around 7 per cent, coming from re-exports. Domestic exports accounted for 6.5 per cent of the total and shipstores for the remaining 1.5 per cent. Cyprus' main agricultural exports are potatoes and citrus fruit, while the most important manufactured products are pharmaceuticals, clothing, despite a steady decline in the past decade, cigarettes, cement and haloumi - cheese.

Trade Relations

The EU member countries and particularly Britain continue to be the most important trading partners of Cyprus, absorbing 54.5 per cent of domestic



exports in 2003. The share of domestic exports, which is absorbed by the EU, exhibited an upward trend during the 1980s, from 33 per cent in 1980 to 61 per cent in 1990. However, during the 1990s, the corresponding share decreased gradually to 54.5 per cent in 2003, reflecting, mainly, the erosion of competitiveness of Cyprus' products in these markets.

The Arab countries absorb about 17 per cent of domestic exports and constitute the second most important trading partner of Cyprus. The Eastern

European countries progressively increased their share in domestic exports reaching 10.5 per cent in recent years.

As regards imports, the EU constitutes the main supplier of goods with a per centage of around 55.5 per cent of total in 2003. An important part of imports comes from other countries, such as Japan, 5.6 per cent, China, 4.9 per cent, the USA, 4.2 per cent and other Asian countries with a per centage share of around 4.5 per cent.



1. Cyprus: a Mature Tourist Destination

For over 10,000 years Cyprus has been a destination of choice for visitors from ancient pilgrims, who came to pay homage to Aphrodite, to great leaders such as Alexander the great and Cleopatra. Now it is selected by millions of holiday makers each year who want to bask in the year round light of the warm Mediterranean sun. Tourists can investigate the storied past of 10,000 years of civilisation or enjoy the services of modern Cyprus.

Today Cyprus effortlessly marries European culture with ancient enchantment. Visitors rediscover a compact world of alluring beaches and fragrant mountain peaks, vineyards studded with olive trees and ancient ruins that stir the imagination, citrus groves and old stone villages where sweet wine flows as freely as conversations at the local café. An official website of the Cyprus Tourism Organisation is provided to give potential visitors an electronic entry point to the quiet beauty of Cyprus.

Tourism has been the leading growth sector in the economy of Cyprus since 1980 and now constitutes the backbone of the Cyprus economy. Ever since the country's independence in 1960, the Government of the Republic has accorded a high degree of priority to tourism development. At present, the Island hosts more than two million tourists every year, of whom 90 per cent originate from European Countries; foreign exchange income amounts to approximately USD 1,9 billion, which represents a contribution of approximately 20 per cent to the Island's GDP. The choice of stay includes around 85 000 beds in

licensed accommodation establishments, ranging from five star hotels to hotel apartments, villas and traditional houses located on the coastline, the hinterland and on the mountains.

At present there are 613 tourist establishments in operation. In addition, the Tourism Sector comprises of 445 licensed travel agents with 162 branch offices, 2,940 licensed catering and entertainment establishments, 264 licensed tourist guides and a number of other tourist enterprises. The majority of them are small and medium size businesses.

The relative importance of tourism in Cyprus's external finance (CXR) has declined. Tourist numbers recovered slightly in 2004 following the 2002-2003 trough caused by the general slowdown in the global tourism industry and preliminary indications point to further recovery in 2006. Even so, tourism now accounts for just over 26 per cent of all CXR, representing a significant rebalancing of the economy from previous levels (35 per cent of all CXR in 1995 and over 40 per cent in the early 1990s). On the other hand, business services are a further important source of foreign exchange (19 per cent of CXR).

The Cyprus tourism industry has been long established and has by now reached a mature stage. Looking at the broader international tourism perspectives, as we enter the new millennium, it is obvious that the industry is becoming more and more challenging, with competition getting intense



and the needs of the educated traveller becoming increasingly more diverse and sophisticated.

The Cyprus Tourism Organisation has recognized the importance of satisfying these needs. A new strategic plan defining the vision, goals and strategic direction for the Tourism Sector in Cyprus for the period leading up to the year 2010, has now been completed and approved by the Government.

The core of the vision is to reposition Cyprus and establish it as a quality tourist destination which will appeal to more upscale discerning travellers, thus contributing in securing continuous improvement in the quality of life of the Island's population.

The strategy, therefore, centres on sustainability and focuses on quality rather than on quantity. The basic objective of the strategy is the doubling of receipts from tourism, in real terms, by the year 2010. This objective will be achieved through: an increase in the per capita spending of tourists, an increase in the average length of stay of tourists, an increase in repeat business, a more even seasonal spread of tourist arrivals, an increase in the number of arrivals.

The strategy aims at offering value for money to the visitors, through the upgrading and differentiation of the tourist product.



Finance And Banking Activities

2. Banking and Finance: the backbone of the Cyprus economy

Banking System

The banking system comprises the Central Bank of Cyprus, the domestic banks and the international banking units. It also encompasses the co-operative credit institutions, which are supervised by the Co-operative Societies' Supervision and Development Authority.

The Central Bank of Cyprus, by virtue of the powers conferred upon it by the Central Bank of Cyprus Law, is the licensing authority for the conduct of banking business and for the supervision of banks. In the exercise of its supervisory role, the Central Bank is guided by the recommendations of the Basel Committee on Banking Supervision and the regulatory framework of the European Union. In July 2003, the Banking (Amendment) Law 2003 was enacted by the House of Representatives for purposes of full compliance and harmonisation of the regulatory and supervisory framework within which banking business may be carried out with the acquis.

There are currently 14 domestic banks operating in Cyprus, 11 commercial banks and 3 specialised financial institutions. All banks are incorporated in Cyprus with the exception of Arab Bank plc and

National Bank of Greece S.A., which operate as branches of foreign banks. The commercial banks incorporated in Cyprus are: Bank of Cyprus Ltd, the Cyprus Popular Bank Ltd, Hellenic Bank Ltd, Co-operative Central Bank Ltd, Universal Bank Ltd, Alpha Bank Ltd, National Bank of Greece (Cyprus) Ltd, Emporiki Bank - Cyprus Ltd, Societe Generale Cyprus Ltd. The latter four are subsidiaries of foreign banks.

The specialised financial institutions are the Cyprus Development Bank Ltd, the Housing Finance Corporation and Mortgage Bank of Cyprus Ltd. The Cyprus Development Bank Ltd specialises in the provision of medium and long-term finance for development purposes, carries out investment banking operations and provides consulting services to companies. The Housing Finance Corporation provides long-term housing loans mainly to low and middle-income families while Mortgage Bank of Cyprus Ltd specialises in granting medium and long-term loans for the development of the tourism and manufacturing industries.

In recent years banks have expanded their activities beyond traditional banking and their services include insurance, leasing, hire purchase finance, factoring, mutual fund management, investment and

consulting as well as custody and asset management services. They have also developed new products and services through electronic means or electronic access, using alternative distribution channels such as the internet, call centres, etc.

In addition to the domestic banks, there are currently 29 international banking units, which have been authorised by the Central Bank of Cyprus to operate from within Cyprus. They are required, however, to confine their activities primarily with non-residents and in currencies other than the Cyprus pound. As from 1 January 2001, these institutions have been permitted to grant medium and long-term loans in foreign currencies to residents.

International Business Sector

In July 2002, Cyprus enacted new tax legislation aimed at satisfying the European Union's Code of Conduct for Business Taxation as well as meeting its commitments to the OECD in their efforts to eliminate harmful tax competition.

Under the new legislation, which came into effect on 1 January 2003, there is a uniform rate of corporation tax (10 per cent) for all companies registered in Cyprus. There is also a windfall tax of 5 per cent for chargeable income in excess of USD 2.1 million, which will be collected for the years 2003 and 2004.

The introduction of the new legislation has enhanced Cyprus's attraction as a location for foreign investors. Prior to the tax reforms international business companies (IBCs) were confined to activities outside Cyprus. However, provided they convert their status from an IBC to a local company, IBCs can now engage in local activities without being taxed at a higher rate. By doing so they can avail themselves of the opportunities that the Cypriot market provides whilst at the same time being taxed at a much lower rate than in many other countries.

Even though there is no longer a distinction between IBCs and local companies for the purposes of taxation, those IBCs which were registered in Cyprus prior to 1 January 2002, and derive their income exclusively from outside Cyprus, will be able to continue being taxed at the old rate of corporation tax (i.e. 4.25 per cent) until the end of 2005.

Foreign Direct Investments

There are no exchange control restrictions applicable to direct investments in Cyprus by natural or legal

persons from EU member states. Investors from the EU wishing to register a company in Cyprus apply directly to the Registrar of Companies without any Central Bank involvement.

Inward direct investments from non-EU countries are subject to certain restrictions related to the maximum equity participation and minimum level of capital investment. Applications are processed by simple administrative procedures and in most cases the requisite permit can be issued within a few days by the Central Bank, without any further consultation with other government departments. Profits, dividends and the proceeds from the liquidation of investments are transferable abroad without restrictions and are routinely handled by commercial banks.

Portfolio Investments in Cyprus by Non-Residents

Natural and legal persons from EU member states may acquire equity in public companies without restrictions. However, the participation of non-EU residents in public companies listed on the Cyprus Stock Exchange is subject to a 49 per cent ceiling.

Capital Movements and Payments

The Central Bank of Cyprus, within the context of harmonisation with the European Union's *acquis communautaire*, has implemented liberalisation measures for nearly all types of capital movements including the following: abolition of restrictions on current payments; liberalisation of medium and long-term borrowing in foreign currencies by residents from banks in Cyprus and abroad; abolition of restrictions on direct investments abroad by residents of Cyprus; liberalisation of portfolio investments abroad. It has also liberalised, under certain conditions, the maintenance of deposits with foreign banks by residents of Cyprus.

The remaining exchange control restrictions will be abolished upon accession to the EU through the repeal of the Exchange Control Law and the introduction of new harmonised legislation to ensure the free flow of capital movements and payments in accordance with the *acquis*.

The Central Bank of Cyprus was established in 1963, about three years after Cyprus gained its independence, as an autonomous institution in accordance with the Central Bank of Cyprus Law



1963. Since July 2002, the Central Bank has been governed by the Central Bank of Cyprus Law 2002. This new law ensures the independence of the Bank and compatibility with the relevant provisions both of the Treaty establishing the European Community and of the Statute of the European System of Central Banks and of the European Central Bank.

The most important changes effected by the 2002 Law concern the necessary adjustments with the *acquis communautaire* regarding the Bank's independence and primary objective as well as the Bank's financing of the public sector. Furthermore, the Monetary Policy Committee has been upgraded to a decision-making body, whereas under the previous legislation the Committee's role was only advisory.

More specifically, the new Central Bank of Cyprus Law establishes the institutional and financial independence of the Bank and the independence of the members of its decision-making bodies when carrying out the tasks conferred upon them. In addition, the Law specifies that the primary objective of the Bank is to ensure price stability, as stipulated in the Treaty establishing the European Community and in the Statute of the European System of Central Banks and of the European Central Bank. The new Law explicitly prohibits the financing of the government, local authorities, public corporations or public undertakings by the Central Bank.

The independence of the Central Bank from any political influence, which is now ensured by law, has enhanced the Bank's ability to accomplish its tasks. With the accession of Cyprus to the EU on 1.5.2004, the Central Bank has joined the European System of Central Banks.

Monetary Policy and Developments

In recent years, the Central Bank of Cyprus has intensified its efforts towards the liberalisation of the financial sector, which is necessitated both by economic considerations and by the need to harmonise Cypriot economic structures and policies with those of the EU.

In this connection, the Central Bank has, since 1996, adopted a new monetary policy framework, moving away from the use of direct instruments

for monitoring liquidity in the economy in favour of market-based tools. Thus, the liquid asset ratio, which was the main instrument of monetary policy since the early 1970s, was abandoned and main refinancing operations, allotted through tenders in the form of reverse transactions based on a repurchase agreement between the Central Bank and commercial banks, now constitute the primary tool of liquidity management. Auctions for the acceptance of deposits have also been recently introduced as a means of absorbing excess liquidity. Under the new monetary policy framework, a minimum reserve account is the only operational account of banks with the Central Bank, and two standing facilities for the purpose of providing and absorbing overnight liquidity have also been introduced.

A landmark in the process of financial sector liberalisation was the abolition of the long-standing statutory interest rate ceiling on 1 January 2001. This development allows the continuation and completion of the abolition of exchange control restrictions on capital flows.

For the most part of 2003, the war in Iraq was at the centre of international developments, since it created an environment of uncertainty and pessimism based, in part, on the deviation of oil prices thus leading to expectations of a weak recovery in the international economy. The ECB reduced its official interest rates by a total of 75 basis points, the Bank of England by 50 basis points, and the US Federal Reserve by 25 basis points.

Based on the possible negative effects of the war, and given the reduction of the ECB's official rates, the Central Bank of Cyprus reduced its official rates by 50 basis points in April 2003. The inflationary pressures, the increased fiscal deficit, the high current account deficit and the boost to expectations of a revival in international economic activity following the end of the war in Iraq led the Central Bank to follow a cautious stance, maintaining its interest rates unchanged for the remainder of the year. In 2003, credit growth exhibited further deceleration with domestic borrowing growing at 5.1 per cent, compared with 8.0 per cent in 2002, while total money supply also registered a deceleration. The excess liquidity observed in 2003 was relatively lower than in 2002 due, in part, to the absorption of liquidity through the sale of government securities.



3. *The High Tech and Telecommunications Sector*

Cyprus recognises the importance of telecommunications and has invested heavily in the development of this sector. As a result, the island may claim, in this respect, to be among the most developed countries in the world. The Cyprus Telecommunications Authority (CYTA) provides a variety of advanced telecommunications services, covering the whole spectrum of customer needs for both voice and data communications, fixed and mobile. Special emphasis is also placed on the provision of value added services, such as various Internet - based multimedia services which promise to be a dominant business activity in the next decade.

The national network utilizes state-of-the-art technologies such as digital switching and transmission systems and fibre optic cables. CYTA has expanded its role as a significant telecommunications hub in the Eastern Mediterranean through its participation in submarine fibre optic cable systems and through the provision of international telecommunication products.

In 2003 a total of seven international fibre optic cable systems, landing in Cyprus were in full operation: SEA-ME-WE 3 (Far East, Australia, Asia, Middle East, Europe); SEA-ME-WE 2 (Europe, Asia, Middle East); LEV (Cyprus, Italy, Israel); APRODITE 2 (Cyprus, Greece); CIOS (Cyprus, Israel); CADMOS (Cyprus, Lebanon); UGARIT (Cyprus, Syria). Furthermore CYTA participates in other regional and international cable

systems such as BSFOCS, RIOJA and TAT-14 and is a shareholder and utilises the services of INTELSAT, EUTELSAT and NEW SKIES SATELITES. It also utilises other satellite systems such as Russian EXPRESS 6A.

The High Tech Revolution In Cyprus

The Government of Cyprus attaches great importance to Research and Technological Development (RTD), as it recognises its contribution towards the attainment of the development objectives in the fields of productivity and competitiveness, towards the acquirement of new knowledge and the adoption of advanced technology, across the whole spectrum of the productive process.

Up until the early nineties, the level of RTD activities in Cyprus was low, not only by international comparison, but also given the relatively high level of development of the economy of Cyprus. Most of the research activities were undertaken by the public sector. Since financing of these activities was provided directly through the annual Development Budget of the Republic, there was little incentive for competition to secure the required funding.

During the last few years, however, RTD activities in Cyprus have been significantly expanding, mainly as a result of the establishment of the University of Cyprus and the increase of research activities undertaken by a number of research organisations,





in the public as well as in the private sector. The establishment of the Research Promotion Foundation - an institute responsible for the co-ordination and support of research activities - has also been an important step towards the promotion of RTD in Cyprus. Moreover, the participation of Cyprus in the Fifth Framework Programme for Research, Technological Development and Demonstration Activities of the European Union, is considered of utmost importance, as it plays a catalytic role to the expansion of research activities and enables Cypriot scientists to create networks of co-operation and interact with their European colleagues.

Cyprus is substantially favoured by its scientific manpower and has the opportunity to utilise the pool of its distinguished expatriate scientists. Moreover, the infrastructure it has developed in telecommunications, which enables the easy access to international research networks, together with the high standard of living in Cyprus, could also attract foreign scientists, in general.

However, the efforts for the development of RTD activities are constrained by the small size of the Cyprus economy and its enterprises (often family run), which do not favour the development of industrial research, the inadequate, as yet, development of research skills within the educational system and the rather insufficient, as yet, research infrastructure.

Five years ago Cyprus was not renowned for being particularly "high-tech" however government policy shifted at that time to concentrate on high

tech industries. Given the country's high level of education and availability of foreign capital it was the right time to enter the new market.

To aid in the creation of new technology companies the government created a system of business incubators. The business incubator goes a step further in the practical application or utilisation of research results or innovative ideas for practical benefits.

The concept is based on the realisation that researchers or inventors may be very good in their field, but they do not necessarily make good businessmen. In addition, the initial stages of enterprises in the high tech field involve many risks, which act as a deterrent for external investors. Incubators aim at helping inventors or researchers in the early stages in order to develop and market their innovative ideas and create new productive enterprises based on them.

Incubators provide a variety of the services to help turn a technological idea into a successful business. The first stage for the incubator staff will be to help in determining whether the idea can be implemented from a technological and commercial point of view. Designing the plan for research and development will involve scientific and consulting support and bringing in the appropriate financing, secretarial and accounting support and office services (office space, basic furniture, telephone, fax computer network, internet connection, electronic and conventional mail, messenger services). The length of stay in the

incubator is usually limited to a period of two to three years, the idea being that within this period it should be decided whether the commercialisation of the idea has been successful. An extension may be approved, if this is considered justified.

The individual or group applying to enter the incubator has to submit a business plan and to form a limited liability company, the shares of which will belong to the inventor, his associates and (perhaps) the incubator. The inventor or his associate has to deposit a certain sum and will get seed capital from the Government (usually a grant of USD 200,000 for a deposit of USD 20,000).

Incubators

Although actively encouraged by the government and aided by the government seed capital the incubators themselves are for profit organisations run to the highest commercial standards.

The Promitheas Business Innovation Centre was Cyprus' first private High technology Business "Incubator", within the framework of the Program for the creation of new enterprises of high technology and innovation through Business Incubators under the Cyprus Government's New Industrial Policy as applied by the Ministry of Trade, Industry and Tourism. Promitheas aims to promote entrepreneurship, new business creation, and young people's initiatives for self-employment, create the infrastructure for applied industrial research and development and implementation. Examples of such advantages include: a) the consolidation of efforts and negotiating abilities with suppliers b)

access to its network of consultants, VCs, Universities and Research Centers, and c) improving of business dexterity.

Promitheas offers Technological Incubator Services to entrepreneurs and newly established enterprises, as well as existing companies wishing to develop activities related to the implementation of innovative technologies. Tenants have direct access to high caliber local and international consultancies and their services, which include (among others) funding and intellectual property opportunities; operational, marketing and financial management; public relations and human resource management; central secretarial and administration support.

In 2003 Promitheas demonstrated a track record of projects granted Government sponsorship of 80 per cent. Promitheas is a founding member of the Cyprus Association of Business Incubators.

Other incubators include Argus Technology Park, Athena High Technology Incubator Ltd and Diogenes Business Incubator (University of Cyprus). Argus Technology Park is formed by Argus Financial Group and Zeuxis Innovations Ltd to providing startup support to businesses in the following sectors: agro-industry; all innovative sectors; any business sector; any technology; audio-visual; business advisory services; document handling; e-learning; financial services; foodstuff industry; healthcare; high-tech; human resource investment; information and communications technology (ICT); innovation; international business; management services; market research; research and development (R&D); risk management; technology management; technology projects; tourism; wood technology.





4. Cypriot Industrial sectors

Even though the blow inflicted on the manufacturing sector by the Turkish invasion of 1974 was severe, recovery during the period 1975-83 was remarkable. In the post invasion period the sector grew at an average rate of 9.1 per cent per year and has become increasingly important for the economy, especially when emphasis was geared to supplying the foreign markets.

By 2002 the sector accounted for about 10 per cent of Gross Domestic Product (GDP) and 12 per cent of employment. Exports of manufactured products in 2003, compared to 1973 figures (USD 32.9 million), recorded a large increase and reached about USD 420 million. The most important sectors in terms of value added are food and beverages, clothing, furniture and metal products. Other industrial sectors, which continue to expand, include printing and publishing, plastics, chemical and pharmaceutical products.

The manufacturing industry of Cyprus has been going through difficult times in the past decade, experiencing a fall in the growth of production, exports and employment. This development has eroded Cyprus' competitiveness, both abroad and in the local market, at a time of increasingly intensified, international competition. At the root of these problems lie the structural weaknesses of the sector, the drastic reduction of tariff protection due to the participation of Cyprus in the World Trade Organization, the rising labour costs and low productivity. As a result the share of the manufacturing sector in the Gross Domestic Product and in employment remained stagnant. International competition is increasingly intensified

mainly from two directions: on the one hand, the high-wage producers, who have combined design, quality and new forms of flexible production to cut working and capital costs and improve response times and on the other, the low-wage mass producers of South-East Asia.

Faced with this situation the Government, having thoroughly considered ways and means for the reconstruction and development of the sector, has reformulated government policy to facilitate the process of modernization and technological upgrading of the productive fabric of the economy within the framework of harmonization with EU Regulations and the *acquis communautaire* in general.

More specifically, the Government has set amongst its priorities the following basic goals: attraction and development of new high-tech industries; assistance and reconstruction of Cyprus traditional industry; productivity improvement, attraction of capital intensive foreign investment.

Foreign capital would also play a major role in these efforts, as it contributes substantially to the introduction of high technology, know-how and expertise. Further, the full liberalization of the capital markets, within the context of harmonization with the European Union will add impetus to the inflow of foreign investment capital and the creation of joint ventures.

The economy of Cyprus is dominated by small enterprises. Almost all enterprises (99.9 per



cent) employ less than 250 persons whereas the overwhelming majority (95 per cent) employs less than 10 persons. The total number of SME's in Cyprus is 61,041.

The government of Cyprus emphasized the need for a regulatory climate conducive to investment, innovation and entrepreneurship stressed the need to lower costs of doing business and to remove unnecessary procedures which act as a barrier against the development of SME's in Cyprus. It is well understood that enterprise policy in Cyprus must ensure competitiveness in all areas of economic activity.

One of the primary objectives of the government development policy concerns the restructuring and modernization of the productive fabric of the economy in order to assist enterprises to meet the challenges of globalisation and accession to the European Union. To this end, various support schemes have been introduced in the different sectors of economic activity. Although the schemes do not generally distinguish between micro, small, medium or larger units, in view of the predominance of SME's in all sectors, size is one of the parameters which are taken into account in policy formulation.

The existing EU "acquis" does not require transposition into the national legal order. Conforming to the EU policies, implies that the EU's philosophy on SME's should be incorporated in Cyprus policies and actions in a more systematic and explicit form.

In view of this, the Ministry of Commerce, Industry

and Tourism and the Planning Bureau who have jointly the overall responsibility for the formulation of the Government Policy on SME's, always take into account the particular needs and specific problems of SME's, in the process of promoting the various programmes to support SME's.

The Government Policy for SME's is fully harmonized with that of the European Union, as it is outlined in the European Charter for Small Enterprises. The basic objectives, therefore, of the strategy of Cyprus, aiming at the support and development of SME's and entrepreneurship are the following: introduction of a simplified legal, regulatory and procedural framework for the function of SME's; improvement of the monetary and financial environment; assist SME's to internationalize their activities, taking into account the European perspective of Cyprus and to reorient accordingly the applied strategy, through the improved systems and information services; strengthen the competitiveness of SME's improve the access of SME's to research, technological upgrading, training and information services.

The accession of Cyprus to the European Union will provide Cypriot small and medium sized enterprises with the opportunity of participating in the various community programmes concerning industrial technology, professional training, product development, marketing etc. thus further enhancing the process of restructuring. Cypriot firms will also be presented with the challenge of penetrating the European market of 450 million consumers.



*H. E. Mr Yiorgos LILIKAS,
Minister of Foreign Affairs*

I would like to welcome the Mediterranean Economic and Business Guide, which can be a useful tool to all those engaged in business with Mediterranean countries.

The Republic of Cyprus is one of the more fervent supporters of the enhancement of the Mediterranean dimension of the Union's foreign policy, Cyprus, due to its strategic location, historical, cultural, and commercial bonds with both Europe and the Middle East can play an important role in strengthening the Euromediterranean partnership.

Cyprus is a dynamic and flexible economy and has proven its capacity to adjust to continuously changing conditions. The economy is based on the services sector that contributes about 76% to the GDP of Cyprus and is characterised by rapid growth, high per capita income, low unemployment and low inflation. Trade in goods and services has been the key to overcoming the challenges of a very small domestic market.

Amongst other things, a favourite environment for SMEs, a liberal investment policy that allows up to 100% foreign participation in most sectors of the economy, a low corporate tax of 10% and the numerous double tax treaties that Cyprus has signed with other countries, have established Cyprus as an International Business Centre.

In its effort to revive activity in the manufacturing sector, the Government of Cyprus has taken various initiatives related to research and technological development, including the operation of a science and technology park to serve as the main research platform on the island and the establishment of a number of business incubators with the aim to help start-up companies foster innovation in high tech products.

The Ministry of Commerce, Industry and tourism operates an investment unit with the task of giving assistance to potential investors. The Cypriot companies are ready and willing to enter into fruitful cooperation with foreign companies in order to develop all aspects of business activity.

I wish the publishers every success in their endeavours.

***H. E. Mr Yiorgos LILIKAS,
Minister of Foreign Affairs***



Place of Cyprus in the Region and in the World

1. The Cyprus Chamber of Commerce and Industry and Its Services

The Cyprus Chamber of Commerce and Industry (CCCI) operates as a Federation of the local Chambers of Commerce and Industry of the five major towns of Cyprus i.e. Nicosia, Limassol, Famagusta, Larnaca and Paphos which have jurisdiction in their respective towns and districts.

The Chamber's membership exceeds 8.000 enterprises from the whole business spectrum representing more than 95% of the business activity of the country. In addition, more than 140 Professional Associations from the sectors of commerce, industry and services are associated with it and operate under its auspices, availing themselves of a wide range of services.

The CCCI is an independent organisation (an NGO) operating as a private law corporate body. It is the leading representative of business enterprises in Cyprus and is a recognised social partner in the country. In this capacity, it takes an active part in the Social Dialogue at a national level, participating at the same time together with the trade unions and the Government in the various committees of tripartite co-operation that exist on the island and between them cover a wide range of economic and social issues.

The Cyprus Chamber of Commerce and Industry has always been proactive in its planning and activities to promote the business interests of its members. It offers a wide range of services to all business enterprises that operate in Cyprus and are registered with it. These services include, but are not restricted to:

- Indirect access to the decision-making centres through the Chamber's representation in a large number of tripartite and other committees but also through access to the Government and the House of Representatives.
- Complete provision of information and advice on trade (imports-exports), industry, services and labour relations' issues as well as more general issues of an economic and entrepreneurial nature.
- Promotion of exports and assistance to SMEs.
- Timely, up-to-date and valid information and advice on European Union issues.
- Participation in foreign trade exhibitions and organisation of specialised trade exhibitions.





- Organisation of trade missions abroad and reception of foreign trade missions in Cyprus.
- Arrangement of business meetings.
- Assistance in the search for business partners in Cyprus and abroad.
- Assistance in the resolution of problems faced by businesspeople at an individual and sectoral level.
- Access to a substantial number of European Union Services operated by the Chambers in Cyprus (Euro Info Centre, Europe Direct, European Reference Centre, Sales Office for the Official Publications of the European Committees etc.).
- Issue of Certificates of Origin and ATA-CARNETS and certification of invoices and other documents required for exports.
- Opportunity to participate in training programmes, seminars and lectures on a wide range of business – related subjects.
- Assistance in the conduct of negotiations with the trade unions.
- Regular dispatch of the Chamber's newspaper and other CCCI publications and (electronic) circulars.
- Listing in the Chamber's Business Directory (available in printed format, on CD-ROM and in the website of the CCCI on the Internet).
- Information on a regular basis concerning the various publications of international organisations and publishing houses (EUR-OP, ICC, WTO, UN, Euroconfidentiel, WelcomEurope) that are represented in Cyprus by the CCCI.
- Access to the CCCI's databases (those operated by it and those with which it is connected) and trade library.
- Provision of confidential reports on foreign and Cypriot enterprises in co-operation with well known international providers of such reports.
- Arbitration services for the settlement of trade disputes.
- Access to the results of studies and surveys conducted by the CCCI. ñ Representation in international fora and organisations such as Eurochambers, ICC, ILO, UEAPME, Eurocommerce, ASCAME, ABC e.t.c.
- Organisation of seminars promoting Cyprus abroad. ñ Secretarial and advisory services to the Professional Associations (more than 140) that are associated with it.
- Operation of a Bar-coding Service under the GS1 system.
- Operation of a mailing labels service.
- Organisation of professional examinations in a number of business related subjects.



These services are offered of course to overseas enterprises that set up operations in Cyprus and are registered with the Chamber but also to overseas business visitors who visit the island with a view to establishing and / or enhancing their co-operation with their Cypriot counterparts, or who want to establish themselves in the country and use Cyprus as a base for their operations, or generally examine the possibilities for investment and joint ventures. The doors of the Chamber are always open to the colleagues and friends from abroad who want to do business with, in or from Cyprus.

The Cyprus Chamber of Commerce and Industry also worked hard at the domestic level for preparing the Cypriot business community for harmonisation with the Acquis Communautaire and at the European level it defended and advanced Cyprus interests in business, professional and other E.U. bodies. The CCCI continues to work hard for promoting the interests of the Cypriot business community in Cyprus and abroad but also for promoting Cyprus as an international business centre and a bridge between the European Union, the Middle East, North Africa, East Europe and beyond through the organisation for this purpose of seminars and business meetings in major centres in Europe and elsewhere.

In the globalized world of the 21st century Cyprus, being in the crossroads of three continents, and justifiably the leading business and services centre in this part of the world, offers to entrepreneurs unique advantages and opens its doors and potentialities to them. An open invitation is extended to the

international business community with the certainty that if overseas entrepreneurs come to Cyprus for business they will engage in fruitful and lasting business activities.

Presented above, are the main advantages, incentives and investment framework that Cyprus offers to overseas enterprises. Also briefly presented is the assistance that the Cyprus Chamber of Commerce and Industry can provide. The conclusion is that Cyprus constitutes an attractive base for businesspeople. The advantages are numerous and the benefits are significant.

The Cyprus Chamber of Commerce and Industry through its intense activity within and outside Cyprus, can assist all overseas entrepreneurs who want to do business with Cyprus. It can provide an abundance of information and a wide range of services. The same applies to all overseas entrepreneurs who want to set-up operations in Cyprus. The Chamber would be very pleased if it was given the chance to prove all these in practice.

Cyprus maintains very good relations with a considerable number of countries and the objective of its foreign policy is to have an active involvement in processes that aim to promote international co-operation, peace, stability, and sustainable development.

Cyprus has always been a dedicated supporter of human rights, the sovereignty and territorial integrity of States, and a strong advocate of international



2. *Cyprus foreign relations*

peace and security. Its geographic position enables it to play a role both in the Eastern Mediterranean region and within the European family. Its accession to the European Union initiated new era in its relations with third countries, thus becoming a bridge of communication between the European Union and these countries.

The following countries have resident embassies in Cyprus: Australia, Austria, Belgium, Bulgaria, China, Cuba, Czech Republic, Denmark, Egypt, Finland, France, Georgia, Germany, Greece, Holy See, Hungary, India, Iran, Ireland, Israel, Italy, Lebanon, Libya, Netherlands, Poland, Romania, Russia, Serbia and Montenegro, Slovak Republic.

Non-resident embassies are maintained by:

Afghanistan, Albania, Albania, Algeria, Argentina, Armenia, Bangladesh, Barbados, Bolivia, Bosnia and Herzegovina, Brazil, Burundi, Cambodia, Canada, Chile, Colombia, Congo, Costa Rica, Croatia, Dominican Republic, Ecuador, El Salvador, Estonia, Ethiopia, Gabon, Gambia (The), Ghana, Guatemala, Iceland, Indonesia, Jamaica, Japan, Jordan, Kenya, Korea (Democratic People's Republic of), Korea (Republic of), Kuwait, Latvia, Lithuania, Luxembourg, Malawi, Malaysia, Mali, Malta, Mauritania, Mexico, Moldova, Morocco, Nepal, New Zealand, Nicaragua, Nigeria, Norway, Oman, Pakistan, Panama, Peru, Philippines, Qatar, San Marino, Seychelles, Sierra Leone, Singapore, Slovenia, South Africa, Sri Lanka, Swaziland, Thailand, Tuinsia, Uganda, Uruguay, Venezuela, Vietnam, Yemen, Zambia.

The Cypriot Chambers of Commerce and Industry

The five local Chambers of Commerce & Industry (CCIs) have developed a dynamic range of activities and have become the protagonists and often the catalysts in the development of their respective towns and districts.

At local level, the CCIs offer a multitude of services to their member - enterprises, while promoting the resolution of local problems and the regional growth of their respective areas.

Further to the important role that they have in their particular districts, the local Chambers are also the vehicles for conveying the views and demands of the regions to the centre. In essence, the CCIs are the means for two - way communication, resolution of problems and processing of various business issues.

NICOSIA	NICOSIA CHAMBER OF COMMERCE AND INDUSTRY	38, Grivas Dhigenis Av. and 3, Deligiorgis Str., Chamber Building, P.O.Box 21455 CY 1509 NICOSIA	22-889600 22-656858	22-667433	ncci@ccci.org.cy
LIMASSOL	LIMASSOL CHAMBER OF COMMERCE AND INDUSTRY	170, Franklin Roosevelt Str. P.O.Box 55699, CY 3781 LIMASSOL	25-877350 25-662563	25-661655	chamberl@cytanet.com.cy
FAMAGUSTA	FAMAGUSTA CHAMBER OF COMMERCE AND INDUSTRY	339, Ayiou Andreou Str., Andrea Chambers Bldg., Office 201 P.O.Box 53124 CY 3300 LIMASSOL	25-370165 25-370167	25-370291	chamberf@cytanet.com.cy
LARNACA	LARNACA CHAMBER OF COMMERCE AND INDUSTRY	12, Gregoriou Afxentiou Str., Skourou Bldg, 4th floor, P.O.Box 40287 CY 6302 LARNACA	24-823855	24-628281	
PAPHOS	PAPHOS CHAMBER OF COMMERCE AND INDUSTRY	Leof .Athinon & Gonias Alexandrou Papagou, 7, 1st Floor, Flat 101,102, P.O.Box 60082 CY 8100 PAPHOS	26-818173	26-944602	evepafos@cytanet.com.cy

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