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**REGULAR REPORT**

**FROM THE COMMISSION**

**ON**

**CYPRUS'**

**PROGRESS TOWARDS ACCESSION**

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## A. INTRODUCTION

### a) Preface

The European Council in Luxembourg decided that :

"From the end of 1998, the Commission will make regular reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and East European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis*." ..... "In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession."

After the European Council in Cardiff, the same approach was followed for Cyprus.

The European Council in Vienna invited the Commission to present its further progress reports with a view to the Helsinki European Council.

The regular report on Cyprus follows the following structure:

- it describes the relations between Cyprus and the Union, particularly in the framework of the Association Agreement;
- it analyses the latest political developments including institutions ,democracy, rule of law, human rights, the situation in the northern part of the island and the efforts to achieve a political settlement for the Cypriot question.
- it assesses the situation and prospects of Cyprus in respect of the economic conditions mentioned by the European Council (functioning market economy, capacity to cope with competitive pressures and market forces within the Union)
- it addresses the question of the capacity of Cyprus to adopt the obligations of membership, that is, the *acquis* of the Union as expressed in the Treaty, the secondary legislation and the policies of the Union.

It also covers judicial and administrative capacity as requested by the Madrid European Council which underlined the necessity for the candidate countries to adapt their administrative structures so as to guarantee the harmonious implementation of Community policies after membership.

The report takes into consideration progress since the 1998 Regular Report. It looks at whether intended reforms referred to in the 1998 Regular Report have been carried out and examines new initiatives.

While the assessment of progress in meeting the political and *acquis* criteria focuses on that which has been accomplished since the last Regular Report, the economic assessment is based on a longer term evaluation of the economic performance of Cyprus. The assessment of progress made in adopting the *acquis* has been made on the basis of adopted legislation rather than legislation which is

in various stages of either preparation or Parliamentary approval. This approach ensures equal treatment for all the candidate countries and permits objective assessment and comparison between countries in terms of concrete progress in preparation for accession.

The report draws on numerous sources of information. The candidate countries were invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. Their presentations, the information provided in the context of the analytical examination of the *acquis* and in the negotiations were additional sources of information. Council deliberations and European Parliament reports and resolutions<sup>1</sup> have been taken into account in the preparations. The Commission also used assessments made by the Member States, particularly with respect to the political criteria for membership and the work of various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the IFIs as well as that of non-governmental organisations in preparation of the regular reports.

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

Relations between the EU and Cyprus are intensifying in the pre-accession process. The relationship is based on the Association Agreement and it is supported financially through the Fourth Financial Protocol. As this Protocol expires at the end of 1999, the financial co-operation will continue with a specific financial regulation for Cyprus and Malta. The relations between Cyprus and the EU are also enhanced by the analytical examination of the Acquis and the accession negotiations.

### **a) The Association Agreement**

Cyprus has continued to implement its obligations under the Association Agreement. It has also contributed to the smooth functioning of the various joint institutions, although no Association Council has been convened during 1998 (the last meeting took place on 2<sup>nd</sup> February 1997). The Customs Co-operation Committee met on 27 April 1998 to discuss the need to update the current rules of origin contained in the Agreement and to undertake effectively and gradual approximation of legislation in the customs field. The Joint Parliamentary Committee comprising representatives of the Cypriot and European Parliament met on 16 December in Strasbourg and 23/24 April 1999 in Paphos.

Cyprus and the EU are presently at the last phase for the completion of a Customs Union to be finalised by the year 2002. This phase will provide for the free and unrestricted movement of industrial and agricultural goods and the adoption of the necessary accompanying measures. As a step forward in this process, the restrictions on Turkish imports into Cyprus have been lifted.

The EU Member States have always been the major suppliers of goods to Cyprus, accounting for 62% of its total imports in 1998 and receiving 52% of Cyprus' total exports in 1998; The main imports were consumer and capital goods (manufacturing, agriculture, construction and transport). The main domestic exports to the EU were industrial products of manufacturing origin (mostly

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<sup>1</sup> For the European Parliament the rapporteurs are A. Oostlander and E. Baron Crespo; Co-rapporteurs: M. Aelvoet, J. Donner, O. Von Habsburg, E. Caccavale, F. Kristoffersen, M. Hoff, C. Carnero Gonzales, P. Bernard-Raymond, R. Speciale, J. Wiersma, J.W. Bertens, B. Malone.

clothing), raw agricultural products (mostly potatoes and citrus fruits) and industrial products of agricultural origin (mostly wine).

**b) Financial Co-operation**

Financial and technical co-operation is based on the fourth financial protocol amounting to a total value of €210 million (€68 million from the EU-budget, €142 million of EIB loans).

The date of validity of the 4<sup>th</sup> Financial Protocol was extended by one year (until 31 December 1999) as, the indicative programme signed in 26 September 1996 had an important scope for bi-communal activities, and the prevailing political situation has not allowed for bi-communal Co-operation.

- The protocol is the sole financial instrument (EIB loans set aside) to support activities in the framework of financial and technical co-operation.
- For 1999, €5 million are available, which will be committed as follows: €1,975 million for civil society activities and €2,9 million for pre-accession measures (€1,5 million for harmonisation of the Cypriot legislation to the *acquis* and €1,4 million for the participation of Cyprus in the 5<sup>th</sup> framework programme Science Technology and Development).

**c) Specific EU Pre-accession strategy**

In accordance with the decision taken by the Luxembourg European Council in 1997 regarding a specific pre-accession strategy for Cyprus, several measures have been implemented such as

- use of technical assistance services provided by the Technical Assistance Information Exchange (TAIEX) Office. (E.g. study visits, experts advice),
- participation of Cyprus in Community Programmes. Cyprus has been extending its participation in EU programmes and initiatives (bilateral agreements for full participation of Cyprus in the MEDIA II and the Fifth Framework Programme on Research Technological Development and Demonstration Activities have been concluded). Negotiations are underway for participation in other programmes, such as the Third Multiannual Programme for Small and Medium Enterprises, Karolus etc. Furthermore, Cyprus was allowed to participate in the Institution Building-Twinning Programme for which is in the process of submitting specific proposals for the Chapters of Justice and Home Affairs and Agriculture.

Participation in certain targeted projects, aiming at boosting judicial and administrative capacity and projects in the area of justice and home affairs especially relating to external border control, law enforcement issues and the setting up of support and technical structures such as computerised databases compatible with European technical infrastructures.

The Commission services are currently preparing a regulation defining the activities to be financed under the pre-accession strategy, for the next five years. The activities financed will focus on the harmonisation process (based on the priority areas that will be determined in the Accession Partnership with Cyprus) and on bi-communal measures that might help bring about a political settlement.

**d) Accession Partnership**

It is foreseen that a first Accession Partnership for Cyprus will be adopted in 1999. The EU's Accession Partnership with Cyprus will set out the priorities identified by the Commission in order to prepare Cyprus for accession and the financial means available to help implement these priorities.

**e) Accession negotiations.**

The analytical examination of the acquis (screening) has been concluded except with regard to the agricultural acquis, which is foreseen to be held in autumn 1999.

Since the opening of accession negotiations in March 1998, Cyprus has participated in two rounds of ministerial negotiations. As a result of these negotiations ten chapters have been provisionally closed (science and research, education and training, small and medium-sized enterprises, statistics, industrial policy, telecommunications, culture and audio-visual policy, external relations, customs union and consumer protection) while five (CFSP, company law, free movement of goods, competition policy and fisheries) remain open.

## **B. Criteria for Membership**

### **1. Political Criteria**

#### *Recent Developments*

In the political field, little progress has been achieved in the efforts to reach a just and lasting political settlement since last year. Some encouraging measures destined to reduce the tensions in the island, such as the Cypriot government's decision on December 1998 not to deploy additional weaponry have been adopted and welcomed by the international community and the European Union.

As regards the accession negotiations, the Union has repeatedly regretted the absence of representatives of the Turkish Cypriot community in the Cypriot negotiation team and it has been reiterated that the offer extended by Mr Clerides remains on the table. The presence of Turkish Cypriot negotiators along with their Greek Cypriot counterparts would ensure that Turkish Cypriots interests would be taken due account of, and assist the Union's determination that accession should benefit the whole of the island. It would also allow for the implementation of the *acquis* throughout the island.

#### **1.1. Democracy and the Rule of Law**

As mentioned in the last Regular Report, Cyprus has achieved stability of institutions guaranteeing democracy and the rule of law. This section therefore describes only the most significant developments of the past year. As a political settlement has not yet been reached the constitutional dispositions regarding power sharing at the different levels of the administration between the Turkish and Greek Cyprus are not effectively applied.

#### *The Parliament*

The Parliament has made impressive efforts during the last year to pursue an intense legislative programme. An important number of bills regarding particularly alignment with the *acquis* have been tabled before the House of Representatives and a number of draft legislation has been adopted. The decision to set up a special parliamentary fast-track system with the establishment of the "Grand Committee for EU and External Affairs" has increased the rate of adoption of new legislation. Such an improvement is in deed opportune as some bottlenecks remain regarding legislation, particularly in the cases of fiscal policy and the removal of the interest rate ceiling. The possibility to approve framework laws by Parliament and allow for technical dispositions to be adopted through administrative regulations by ministries (notably in the in the field of the internal market) is also contributing positively to the harmonisation process.

#### *The Executive*



The institutions of the state continue to operate smoothly. However restructuring of some of the existing ministerial departments could be made in view of assisting the enforcement of the acquis notably in the case of the environment. The law drafting procedure, crucial in the harmonisation process, can be slow. The human resources of the institutions involved in the process should be reinforced. This is especially relevant for the Law Office, which plays a central role in the approximation of legislation.

### *The Judiciary*

The judiciary is independent and the separation of powers between executive, judicial and legislative branches respected. The standard of justice is high. The existing procedural system is satisfactory but suffers some delays in trials of civil cases (it takes in average circa 2-3 years before a regular disputed civil case is settled). Reforms of the law foreseeing decisions on uncontested cases at a pre-trial stage would speed up the procedure. Regarding the efficient administration of justice, the administration of courts could be strengthened so that necessary infrastructure (equipment, premises, and support staff) is planned and managed adequately. A training programme for judges covering notably jurisprudence of the Court of Justice and the European Court of Human Rights could be established. In view of improving access to legal sources, case management and administration, the computerisation of the Courts could be a great asset. Cyprus does not yet have a legal aid system for civil cases.

As for the situation of prisons, Cyprus has only one prison catering for all those detained in custody, unconvicted, short term and long term offenders. The existing regime and living condition complies with the minimum standards expected of a penal institute.

### *Anti-corruption measures*

Cyprus has ratified most of the conventions in this field. It signed in January 1999 the Council of Europe Criminal Law Convention On Corruption. However the OECD Convention of 1997 on Combating Bribery of Foreign Public Officials in International Business Transactions should be signed.

Corruption is defined as a criminal offence in the criminal code. Sanctions for committing such offences are up to 5 years imprisonment and a fine. Active and passive corruption in public and private sectors are covered by Cypriot law. A code of conduct exists for public officials with special provisions for public procurement.

There are not a great number of cases reported of corruption in the administration so that it does not seem to be a major problem. As regards law-enforcement agencies the situation is similar, In 1998-99 139 formal complaints against police were made and 124 officers were formally investigated. Of those dealt with, 6 officers were dismissed, 28 were fined and warnings were issued to a further 28.

## 1.2. Human rights and the protection of minorities

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

Cyprus has ratified most international legal instruments in the field of human rights, including those in the field of protection and respect of minorities and combating racism (see annex).

The Law Commissioner (independent officer and former judge) is responsible for monitoring Cyprus' obligations under these international instruments, identify inconsistencies between municipal Law and administrative practice and international law standards and propose necessary action. A National Institution for the Protection of Human Rights has been recently established in order to monitor respect of Human Rights in Cyprus.

By virtue of article 2 of the Constitution all Cypriot citizens belong either to the Greek Community (if Greek origin, Greek culture and part of Greek Orthodox Church) or Turkish Community (Turkish origin, culture and Muslim religion)<sup>2</sup>. In accordance with the international legal instruments ratified by Cyprus there should be no restriction on the exercise of rights. and enjoyment of freedoms, whether individual or as a group.

The Government of the Republic of Cyprus has generally respected human rights norms and practices; however, instances of ill treatment of asylum seekers by the police have been reported last year. The Attorney General ordered investigations into the incidents, a Report have been released and criminal prosecution has been opened against a high Police official. Financial compensation has been granted to those asylum seekers physically harmed. A case of two wrongful deportations has also been reported. The Council of Ministers has referred the case for disciplinary action to the Justice and Interior ministries. The lack of legislation on Asylum (under preparation) and the need to update the existing Immigration Law have led to some instances of abuse such as protracted indefinite detentions beyond the sentences for illegal immigrants.

Since the 1998 Report, Cyprus has abolished the relevant provisions of the Criminal code that included the death penalty and signed Protocol no. 6 to the European Convention on Human Rights concerning the abolition of the Death Penalty.

As the de facto partition continues, the freedom of movement of people cannot be exercised in the whole island. The Republic of Cyprus authorities permit only day travel by tourists to the northern part of the island. It is illegal to enter Cyprus except at authorised entry points in the south, effectively barring entry to foreigners who have entered Cyprus from the north. The Turkish Cypriot leadership instituted a new system of crossing fees at the main Nicosia checkpoint. In addition to requiring substantially higher crossing fees the new plan requires Greeks and Greek Cypriots to obtain a formal "TRNC"<sup>3</sup> visa to visit the north. This has resulted in the reduction of crossings, especially for Maronites visiting from the south, for whom travel previously was free.

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<sup>2</sup> Armenians (0,4%), Latins(0,1%) and Maronites(0;6%) have opted to belong as a group to the Greek community

<sup>3</sup> "Turkish Republic of Northern Cyprus" only recognised by Turkey

Following an agreement in 1997 on reciprocal visits to religious sites, a number of visits have occurred. This type of measure should be encouraged given its effect in creating a climate of confidence between the two communities necessary to reach a political agreement.

A recent arson attempt to the Tekke Mosque in Larnaca has been condemned by the whole Turkish and Greek Cypriot political spectre and police investigations have been immediately launched. The damage affected the tapestry of the mosque which amounts to € 2598 and it has already been restored. The Mosque will be permanently guarded in the future.

Cypriot legislation provides for protection against discrimination based on sex, religion, or national, racial or ethnic origin.

Whilst domestic legislation covering the trafficking of humans and sexual exploitation is currently adequate<sup>1</sup> it has recently been consolidated and includes child pornography. Forced prostitution is banned by law, although there has been cases of "human trafficking" concerning mostly non Cypriot women. Few arrests exist since the victims, fearing retaliation by their employers, generally do not press charges.

Throughout Cyprus, women generally have the same legal status as men. Legislation adopted in December has allowed Greek Cypriot women married to foreign husbands to transmit citizenship to their children automatically. Previously they were required to apply for Cypriot citizenship for their children, while Greek Cypriot men could transmit citizenship to their children automatically.

Women participate actively in the political process. Although underrepresented in government, they hold some cabinet-level, judicial, and other senior positions. In the House of Representatives, women hold 3 of 56 seats.

In Cyprus disabled persons are not discriminated against in education or the provision of state services. Those applying for a public sector position are entitled to preference in case of equal qualifications to those of other applicants. Although legislation provides for new public building and tourist facilities to be equipped to facilitate access for the disabled, there is not a general enforcement of this law.

In the context of citizens rights, amendments to the relevant Cypriot legislation are necessary in order to ensure full compliance with the *acquis* in the area of voting rights notably as regards **registration of the electors, it is not in line with Community rules. Concerning the right of residence current legislation does not grant any automatic right to family reunification**

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

Following "legislative" elections in December 6<sup>th</sup> 1998 a coalition "government" was formed between the nationalist right wing party National Unity Party (UBP) (40% of votes) and the moderate Communal Liberation Party (TKP) (15%). The position regarding a political settlement and EU

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<sup>1</sup> Law 57 of 1983; Criminal Code Cap 154 as amended; Children Law Cap 352

accession has however remain unchanged (in spite of increasing popular support regarding the later as proved in recent polls published by the Turkish Cypriot journal "Kibris").

The EU has repeatedly urged the Turkish Cypriot leadership to accept the invitation of Mr Clerides and take its rightful place in the Cypriot accession negotiation team. This will ensure that Turkish Cypriot concerns will be taken due account of and allow for the implementation of the *acquis* in the whole of the island. The co-operation that would be forged in these negotiations would no doubt contribute to increase the chances of achieving an overall settlement in the framework of the UN process.

The Turkish Cypriot authorities generally respect human rights norms and practices; however, police abuse of suspects' and detainees' rights have been reported. The authorities have also restricted freedom of movement. Since December 1997 the Turkish Cypriot authorities have banned most bicomunal contacts between Turkish Cypriots and Greek Cypriots (many sponsored by the EU), both in the island and in some cases outside. A new, system requiring higher crossing-fees at the main Nicosia checkpoint, have made contacts between both sides more difficult. Commission staff notably in the EU Commission Delegation in Cyprus have faced since December 1997 difficulties to cross to the north . This has not allowed the Commission to carry out the information activities to the Turkish Cypriot civil society as requested by the council on March 6<sup>th</sup> 1995. Member States' missions, on the other hand, have had the opportunity to continue contacts and activities in the north on a bilateral basis.

The Turkish Cypriot "authorities" have taken some steps to improve the conditions of the 452 Greek Cypriots and 159 Maronites living in the north, but the treatment of these groups still falls short of Turkish Cypriot obligations under the Vienna III agreement of 1975. This agreement provides for voluntary transfer of populations, free and unhindered access by UNFICYP to Greek Cypriots and Maronites living in the north and Turkish Cypriots living in the south, and facilities for education, medical care, and religious worship. Greek Cypriots and Maronites residing in the north are not able to bequath their property; even to their next of kin, unless the heirs are also residing in the north.

Since the *de facto* partition Greek Cypriots and Maronites living in the north are barred by law from participating in Turkish Cypriot elections. Conversely Turkish Cypriots living in the south are barred from voting in Greek Cypriot elections.

The judicial system runs smoothly although no conclusive investigation has been made of the 1996 murder of Turkish Cypriot journalist, Kutlu Adali, who wrote articles critical of Turkey's role in the north. Similarly no progress has been registered in the investigation of the death of two Greek Cypriot demonstrators in the UN buffer zone in 1996.

In 1996 the European Court of Human Rights ruled that Turkey committed a continuing violation of the rights of Mrs Loizidou (Greek Cypriot) by preventing her from going to her property located in the north of Cyprus. The Court also found in this case that "the Turkish army exercised effective overall control" and that "this entailed Turkey's responsibility for the policies and actions of the TRNC." In July 1998 the Court ordered Turkey to pay Mrs Loizidou damages and costs by October 28. The Turkish Government has refused to settle, arguing that the land in question is not Turkish but is part of the "Turkish Republic of Northern Cyprus" In April 1999, the President of the

Committee of Ministers of the Council of Europe recalled the obligation of Turkey to pay the compensation awarded by the Court.

Other questions related to the situation in the north of Cyprus have been referred to the European Court of Human Rights since the last regular report, in particular within the context of the interstate complaint Cyprus against Turkey (application n° 25781/94). The case deals with the issues of , the missing persons, the rights of property of displaced Greek Cypriots and their rights to hold free elections and the living conditions of the Greek Cypriot and Maronites residing in the north. In September 1999, the European Commission of Human Rights of the Council of Europe issued a report in which it found Turkey guilty of violations of human rights in Cyprus. The United Nations, through the autonomous Tripartite (United Nations, Greek Cypriot, Turkish Cypriot) Committee on Missing Persons in Cyprus (CMP), is attempting to resolve the missing persons question that remained from the intercommunal violence beginning in 1963-64 and the 1974 Turkish military intervention. However, the CMP has made little progress. In July 1997, the leaders of the Greek and Turkish Cypriot communities agreed to collect and share information on missing persons (1,619 Greek-Cypriots and 803 Turkish Cypriots) by the end of September 1997, outside of the CMP process. In January 1998 the information finally was exchanged on the location of mass graves. The Cypriot government is currently conducting the exhumation of remains at two Nicosia cemeteries in the search for the missing persons.

Freedom of religion generally is respected. Turkish Cypriots residing in the southern part of the island and non-Muslims in the north are allowed to practice their religions. Restrictions on the right of Greek Cypriots resident in the north to visit Apostolos Andreas monastery located in the north of the island have been eased. Greek Cypriots living in the north, in groups of 20 or more, now may visit the monastery every Sunday and on religious holidays.

There are however some matters of concern such as the fact that an application to replace a retiring priest in the north has been pending for more than 18 months. There have also been allegations that Orthodox churches have been generally neglected and in some cases vandalised.

As for worker's rights 50 to 60 percent of Turkish Cypriot private sector workers and all public sector workers belong to labour unions. In both communities, trade unions freely and regularly take stands on public policy issues that affect workers and maintain their independence from the authorities. In this context the only effective instance of bi-communal co-operation remaining in the island is the Pan-Cypriot Trade Union Forum which has convened (with EU funding) three times since 1995 in order to discuss matters of interest for the workers of both communities. Unions in both parts of Cyprus are able to affiliate with international trade union organisations, although Greek Cypriot unions usually object to recognition of Turkish Cypriot unions formed after 1963.

A significant percentage of the labour force in the north consists of "illegal" workers, mostly from Turkey. According to some estimates, "illegal" workers constitute as much as 25 percent of the total work force there. There are frequent allegations that such workers are subject to mistreatment, including non-payment of wages and threats of deportation.

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

Since the lack of success of the last intercommunal talks at Troutbeck and Glion in the summer 1997, the international community has repeatedly recognised and discussed the need for an international initiative for a settlement of the Cypriot question. In the framework of the UN Secretary General initiative announced on September 30<sup>th</sup> 1998, the UN Secretary General Special Representative has established a process, of separate meetings with the two Cypriot leaders aimed at finding a basis for a resumption of direct talks.

In order to reinforce the UN efforts the G-8 Summit of Head of States decided on June 21<sup>st</sup> to "urge the UN secretary-general in accordance with relevant UN Security Council resolutions to invite the leaders of the two parties to negotiations in the fall of 1999". In the conclusions it was further stated that both parties should commit to set no pre-conditions, put all issues on the table, negotiate in good faith until a settlement is reached, and to take full consideration of relevant UN resolutions and treaties.

The Security Council endorsed this initiative by asking on June 29 (resolution 1250/1999) the UN secretary-general to invite the Greek and Turkish Cypriot leaders to hold negotiations in the autumn. It also calls on the two sides on Cyprus, including military authorities, to work constructively with the secretary-general and his special representative to create a positive climate on the island that will pave the way for these negotiations.

Mr Denktash's and the Turkish Foreign Ministry's view, as expressed in recent declarations, is that the approach followed by the UN contravenes the reality on the island and that negotiations must be among two equal and sovereign states, stressing the preservation of the-Turkish-Greek balance on the island.

As evidenced by the joint Declaration of 20 July 1999 issued by Messrs. Denktash and Ecevit, Turkey and the north of Cyprus still envisage to develop their relations « in line with the target of integration set at the highest level ». At the time the Commission indicated that this approach does not contribute to the establishment of confidence between the two Cypriot communities necessary to ensure progress in the negotiations under UN auspices.

It should be recalled that, on the contrary, Turkey as a guarantor country, should show strong commitment to bring the two sides together under the UN process launched at the invitation of the G8. Turkey could have an active and constructive role in this framework in order to reach a comprehensive solution that addresses the legitimate concerns of all parties.

The recent meeting on September 28<sup>th</sup> between US President Mr Clinton and Turkish prime Minister Mr Ecevit although not marking a significant progress on the Cypriot question served to portray the US firm interest supported by the EU to advance on a political settlement for the island.

A second UN resolution (1251/1999) approved a six-month renewal of the 1,223-member UN Peacekeeping Force in Cyprus (Unficyp). The resolution on Unficyp called for efforts to build confidence and reduce tensions, especially along the UN-patrolled buffer zone and urges the Greek Cypriot side to agree to the implementation of the UNFICYP package of measures on this issue. It also requests a reduction in defence spending and in the number of foreign troops on the island. In this context it is encouraging the recent positive reaction of the governments of Turkey and Greece to the US governments request of withdrawing American-made arms transferred to Cyprus, in contravention of a 1987 US Congress provision

Finally the UN expresses once more its support to the promotion of bicomunal events held in order to build co-operation, trust and mutual respect and calls upon the Turkish-Cypriot leadership to resume such activities. In this context the acceptance of the Greek Cypriot parties AKEL, DIKO and the leftist United Democrats of the invitation of Mr Talat (leader of the Republican Turkish Party) to attend his party's conference must be seen as a very positive development.

The UN initiative is viewed with expectation by the EU as, by the end of 1999 and beginning of 2000 (estimated dates for the UN peace talks) given the good pace of the negotiating process; the prospects of concluding accession negotiations with Cyprus will probably become more apparent. Progress towards accession and towards a just and viable solution of the Cyprus problem will naturally reinforce each other. The UN initiative arrives therefore at a time that will assist the EU to handle its new round of enlargement with clearer political prospects.

### **1.5. General evaluation**

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

## 2. Economic criteria

### 2.1 Introduction

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

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

The 1998 Regular Report confirmed the finding that the Cypriot economy has the ability to adapt to the challenges posed by the adoption of the *acquis communautaire*.

In examining the economic developments in the other candidate countries, the Commission’s approach was guided by the conclusions of the European Council in Copenhagen in June 1993 which stated that membership of the Union requires:

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

The Commission has followed the same methodology below. Due to the lack of economic data and up-to-date information on the north of Cyprus, the analysis is largely confined to the southern part of the island. The disparity in terms of per capita income in favour of the south continues to increase.

### 2.2. Economic developments

Most key macroeconomic indicators showed an improved performance in 1998, but the rapid deterioration of government and external accounts remains a cause of concern. The revenues from tourism are vulnerable to outside events, such as the conflict in Kosovo. Hotel owners have noticed a decline in the rate of bookings. The Government aligned itself with the oil embargo on the Federal Republic of Yugoslavia, and has implemented a freeze of assets held by Yugoslav banks.

#### *Macroeconomic developments*

Cyprus’ economic growth since the early 1990s has been varying rather widely around an annual average of 4%, which is also one of the objectives of its 1999-2003 Strategic Development Plan. In 1998, real GDP growth returned to this benchmark after two years of much lower growth. Unemployment decreased slightly to 3.3% of the labour force.

On the balance of payments, a trade deficit of some 28% of GDP is largely offset by a surplus on the invisibles balance of some 21% of GDP, mainly thanks to tourism, offshore business and expenditures on other services. Nevertheless, the resulting current account gap of nearly 7% of GDP



is considerable. Moreover, the total investments of Cypriots abroad more or less balance out against foreign investments in Cyprus (FDI and portfolio investment), so that the coverage of the current account deficit by net foreign direct investment is very limited. Total FDI inflows are estimated to be in the range of 1 to 1.5% of GDP. The bulk of the current account deficit is covered by other long-term capital inflows. Cyprus' international reserves have decreased since August 1997 to a value of €371 million in November 1998.

Inflation was down to 2.2% in 1998, and is currently below 2% on an annual basis, mainly as a result of decelerating energy prices. However, the influence of centralised wage negotiations, with widespread indexation, remains strong.

From 1 January 1999 the Cyprus pound is linked to the euro, replacing the peg to the ECU, with a fluctuation margin of +/-2.25%. Actual fluctuations around the central rate have not exceeded +/- 1%.

Prompted by a wave of mergers and acquisitions, the Cyprus stock exchange has witnessed spectacular increases in prices during the first eight months of 1999. The market index has increased some 220 percent (excluding dividends), while some stocks have increased by over 400 percent. Daily transactions have increased seven fold. In August this year, market capitalisation was £CYP 5.9 billion, or 125 percent of GDP.

Over the last three years the government deficit has risen from 1% of GDP (in 1995) to more than 5% of GDP (in 1998). New taxation proposals were rejected by Parliament last year. The Government aims to stabilise the level of public expenditure at 37% of GDP, mainly by restricting wage increases and employment growth within the public sector, and to reduce the fiscal deficit to 2% of GDP by the end of 2002. This fiscal programme is currently discussed with the political parties and the social partners in order to reach the necessary consensus. The Government's stated aim is to keep public debt (which was already at 59.7% of GDP in 1998) below the line of 60% of GDP.

Main Economic Trends						
Cyprus		1995	1996	1997	1998	1999 latest
Real GDP growth rate	per cent	6.1	2.0	2.5	5.0	:
Inflation	rate					
- annual	average per cent	2.6	3.0	3.6	2.2	:
- December-on-December	per cent	1.6	2.5	3.9	0.9	:
Unemployment rate, end-year						
- ILO definition	per cent	2.6	3.1	3.4	3.3 <sup>4</sup>	:

<sup>4</sup> Provisional.

General government budget balance <sup>5</sup>	per cent of GDP	-0.9	-3.4	-5.3	-5.5	:
Current account balance	per cent of GDP	-2.0	-5.4	-4.0	-6.6	:
	million ECU/€	-131	-375	-299	-537	:
Foreign debt <sup>6</sup>						
- debt export ratio	per cent	:	:	186	163	:
- gross foreign debt	billion ECU/€	:	:	6.8	6.4	:
Foreign direct investment net inflow	per cent of GDP	1.4	:	:	:	:
- balance of payments data	million ECU/€	91	:	:	:	:

*Source: National sources, OECD external Debt Statistics, IMF Government Finance Statistics.*

### *Structural reforms*

Against the background of Cyprus' application for EU membership, the need for greater flexibility and faster adjustment to external developments in a more liberal economic setting now seems to be acknowledged. A first step has been the privatisation of Cyprus' desalination plants, which is supposed to be followed by the two airports in the not too distant future; in anticipation, a strategic investor has been invited to run the airport business and prepare for investments. Some preparatory moves have also been made on the deregulation and liberalisation of telecommunications; tenders have been invited for drafting the necessary legislation and setting up the infrastructure. But the Government is still reluctant to speed up the privatisation of such enterprises as the Cyprus Tourist Development agency, which owns the Hilton hotel, the Cyprus Forest Industries and the Pancyprian Company of Bakers.

EU accession would also require an extensive adjustment of the financial system and a reorientation of public finances. The liberalisation of capital movements will be a major force for enhancing competition in the protected commercial banking sector of the Republic of Cyprus, which cannot be effectively advanced because of the rigidity of interest rates. The Government has not yet managed to liberalise interest rates by removing the 9% ceiling on lending rates. This ceiling dates from the early 1940s, when it was introduced by the British administration of the island to combat extortion. A

<sup>5</sup> Excluding local government.

<sup>6</sup> The data are the result of cooperation between BIS, IMF, OECD and World Bank. This source should be more reliable in terms of broader coverage, avoidance of double counting, etc., as well as improved timeliness.

recent unilateral decision by the small Alpha Bank to reduce its lending rate by a quarter of a percentage point, on the other hand, received only a lukewarm reception by the central bank and the two main commercial banks. Although Alpha Bank's move came at a time when the deterioration of the balance of payments is a major concern, the reaction shows that the window for interest rate differentiation is extremely narrow. The Government is currently making a renewed attempt to push through the bill to abolish the interest rate ceiling in combination with its proposals for a new taxation package.

<b>Main Indicators of Economic Structure in 1998</b>		
Population (average)	thousand	6637
GDP per head	PPS-ECU per cent of EU average	14800 <sup>8</sup> 78
Share of agriculture <sup>9</sup> in:	per cent	4.6
- gross value added	per cent	9.6
- employment		
Investment-to-GDP ratio	per cent	17.7
Gross foreign debt/GDP	per cent	80.0
Exports of goods & services/GDP	per cent	43.5
Stock of foreign direct investment, according to EBRD	billion € €per head	: :
<i>Source: National sources, OECD external Debt Statistics, IMF, EBRD.</i>		

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<sup>7</sup> Population at the end of year.

<sup>8</sup> PPS available only for 1997.

<sup>9</sup> Agriculture, hunting, forestry and fishing.

## 2.3 Assessment in terms of the Copenhagen criteria

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

As set out in Agenda 2000, the existence of a functioning market economy requires that prices, as well as trade, are liberalised and that an enforceable legal system, including property rights, is in place. Macroeconomic stability and consensus about economic policy enhance the performance of a market economy. A well-developed financial sector and the absence of any significant barriers to market entry and exit improve the efficiency of the economy.

The Government of the Republic of Cyprus constantly emphasises the need to converge to the EU in terms of the Maastricht criteria as well as in other areas, such as privatisation. As trade unions wield considerable influence in Cyprus, they usually back the opposition's rather more reserved stance on these issues, and argue that the liberalisation process should commence after, rather than before accession.

For years, the Cypriot economy has been characterised by low inflation and near-full employment, but since 1995 the government deficit has been rising rapidly. In the same period, the current account balance turned negative and the trade gap has continued to widen.

Trade and price liberalisation have advanced. The Government actually blames the loss of revenue due to the provisions of the Customs Union Agreement with the EU for a large part of the increase in its budget deficit, but that is quantitatively unwarranted. The remaining price controls on milk, common bread, cement and the products of Cyprus Forest Industries will be abolished by the end of 1999.

Cyprus is still far from the adoption of the full *acquis* on the freedom of capital movements and has several restrictions and limitations on foreign participation in a number of sectors.

The interest rate ceiling, which prevents domestic banks from charging more than 9% interest on lending, and the Government's heavy participation in many types of business have long biased the entrepreneurial climate towards low-risk activities. Moreover, although it is not clear that the co-operative credit societies can be considered as banks, they do fulfil an important role in the financial intermediation for their members. The Cyprus Co-operative Central Bank operates a network of savings institutions and is the agent of German insurance company on the island, although it is eager to enter the insurance sector with a company of its own. This shows that the credit co-operatives remain a separate segment of the financial sector, in parallel to the banking sector, which raises obvious questions on supervision and competition.

The extensive offshore business and the confidentiality accompanying this sector have created the image of Cyprus as an attractive place for money laundering and other activities. Since 1996, an information system has been in place which has improved the reporting of suspicious transactions. More than one hundred disclosure orders were obtained since 1 January 1997, half of them at the request of foreign authorities. Assets were frozen in six cases, for a total value of approximately €13 million. In response, the government has recently introduced a legal and institutional framework to enhance the authority's capability to combat money laundering.

Notwithstanding the preceding remarks and observations, and with the important proviso that the interest rate ceiling and other impediments to the functioning of the capital markets should be removed, the Cypriot economy continues to be a well functioning market economy.

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

As set out in Agenda 2000, Cyprus' ability to fulfil this criterion depends on the existence of a market economy and a stable macroeconomic framework, allowing economic agents to make decisions in a climate of predictability. It also requires a sufficient amount of human and physical capital, including infrastructure. State enterprises need to be restructured and all enterprises need to invest to improve their efficiency. Furthermore, the more access enterprises have to outside finance and the more successful they are at restructuring and innovating, the greater will be their capacity to adapt. Overall, an economy will be better able to take on the obligations of membership the higher the degree of economic integration it achieves with the Union prior to accession. Evidence of this is provided by both the volume and the range of products traded with EU Member States.

Cyprus is a service economy dominated by tourism. Almost three quarters of total value added is generated in the services sector, and the expenditure of foreign visitors in Cyprus is much larger than the value of the exports of goods. The main export products are clothing, potatoes and cement.

The Republic of Cyprus has a stable macroeconomic framework, but its economic dynamism is hampered by a number of rigidities.

Gross fixed capital formation in Cyprus has been about 20% of GDP, but has decreased to less than 18% in recent years. Net foreign direct investment has turned negative in 1998, as the gross inflow remained only at around 1% of GDP.

The Republic of Cyprus has many state monopolies and the Government has an anachronistic stake in business, ranging from Cyprus Airways to Bakeries. The trade unions are also reluctant to let go the tax-free status enjoyed by the co-operative credit societies, which they consider to have great social value.

Excluding re-exports, roughly 50% of Cyprus' trade is with the EU. In addition, the island is a major centre of transit trade to Russia and Bulgaria.

Cyprus should be able to cope with the competitive pressure and market forces within the Union. While the integration of the north of Cyprus would entail short-term economic costs, over the medium term it can only enhance the potential of the Cypriot economy, especially in terms of agriculture and tourism, certainly since it would take place within the framework of Cyprus' accession to the EU.

## **2.4 General evaluation**

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

Since the last Regular Report, the Republic of Cyprus has enjoyed rapid economic growth, while inflation has been contained. However, recent growth has depended upon domestic rather than external demand, and there is increasing evidence of macroeconomic and financial imbalances. In particular, the serious deterioration of both the current account and the fiscal account, coupled with the unsustainable growth of stock market valuations are causes for concern. The successful passage of the government's tax proposals will help reduce domestic demand, bridge the fiscal deficit and ease pressure upon the current account.

Cyprus should renew efforts in the areas of structural reform and deregulation. In recent years, progress towards privatisation has been slow, and the process needs to be accelerated. Further capital account liberalisation will enhance the competitiveness of the banking sector. The removal of the 9 % interest ceiling is long overdue, and it should be removed at the earliest opportunity. It is also important that the government takes the necessary fiscal measures to ensure macroeconomic stability. While involving certain short-term costs, the integration of the north of Cyprus would improve the growth prospects of the island, and enhance its attractiveness as a destination for foreign direct investment.

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

This section aims to update the Commission's Regular Report of 1998 as concerns Cyprus's ability to assume the obligations of membership - that is, the legal and institutional framework, known as the *acquis*, by means of which the Union puts into effect its objectives.

In the 1998 Regular Report on Cyprus's progress towards accession, the Commission concluded that:

«As regards the adoption of the *acquis*, a large number of the instruments required for the progressive adaptation of the *acquis* are already contained in the 1973 Association Agreement and the 1987 Protocol. On the basis of these instruments, Cyprus has made significant progress in adopting the *acquis* most notably in the context of the Customs Union. However, substantial efforts have yet to be undertaken in the internal market field and, in particular, in the offshore and financial sectors.

Furthermore, maritime transport, telecommunications as well as justice and home affairs constitute other areas of particular concern. Cyprus should not face major problems in adopting the *acquis* with regard to the 16 chapters already screened.»

The presentation which follows uses the same structure as the other candidate countries' Regular Reports. The report focuses on the progress made since October 1998. Under each heading legislative decisions and the progress in implementing and enforcing the legislation are reported.

#### 3.1. Internal market without frontiers

The Union's internal market is defined in Article 14 of the Treaty as an area without internal frontiers in which free movements of goods, persons, services and capital is ensured. This internal market, central to the integration process, is based on an open-market economy in which competition and economic and social cohesion must play a full part.

Effective implementation and enforcement of these four freedoms requires not only compliance with such important principles as, for example, non-discrimination or mutual recognition of national legislation but also the effective application of common rules, such as those designed for safety, environmental or consumer protection, and effective means of redress. The same principles apply to certain common rules, for example in the areas of public procurement, intellectual property and data protection, which are important in shaping the general framework within which the economies operate.

Regarding *Public procurement*, alignment of EU legislation is only partial. Further work is particularly needed as regards the scope of legislation (local government procurement to be covered), the elimination of the national preference clause and the remedies system. Although progress has been achieved with the extension of time limits for receipt of tenders, further harmonisation is still needed with respect to procedural rules. Statistical reporting needs reinforcement. Since July 1998 the number of public contracts awarded by the Main Tender Board,

excluding local authorities and bodies governed by public law, amounts to 1.560 with a total value of around €425 million.

Current legislation on public procurement is adequately implemented and enforced, as reflected, *inter alia*, in the suspension of tender procedures such as in the following cases:

- (a) Suspension at the stage of submission of tenders – by a serious error in the tender documents. Examples of these are when the same tender documents provide for two different dates for the submission of tenders.
- (b) Suspension of tenders after submission and before award – by major changes in the specifications which become imperative through the consideration of additional factors, not known at the time of the publication of tenders. Such cases rarely occur but the most recent case is the tender for the construction of a Water Desalination Plant which had to be suspended due to major changes in the specification as a result of the relocation of the plant and the decision to use electricity power instead of fuel power. Relocation was due to environmental reasons and the resistance of local authorities.
- (c) Suspension of contracts after award – by failure of the successful contractor to perform the obligations arising from the relevant contract. Such a case is a major road scheme (Nicosia-Limassol Road), awarded to a foreign contractor who proved incapable to perform the contract.

As far as *intellectual property* rights are concerned the Cyprus Patent Regulations have been adopted in order to facilitate the implementation of the Patent Law. There has been progress with the ongoing computerisation of the Patent Registry but efforts as regards enforcement capacity need to be made. Substantial parts of the *acquis* still need to be implemented, for example in Directives on rentals, terms of protection, cable and satellite, database and software. The Rome Convention on the protection of performers has still not been ratified. Concerning industrial property rights, Cyprus' must progress further in the field of trademarks in order to comply with the *acquis*. The enforcement capacity needs to be strengthened. Regarding border control enforcement, new legislation is necessary in order to introduce more specific measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated good.

The Competition and Consumer's Protection Service, under the Trade Descriptions Law, has the authority for market surveillance and enforcement of industrial property rights and trademarks as well as the power to prosecute infringers and confiscate pirated goods.

This Service has, during the period of 1<sup>st</sup> January 1998 to 30<sup>th</sup> of June 1999, prosecuted 46 different cases under the Trade Descriptions Law for misleading information and for infringement of intellectual property rights. (for more information please see the administrative cooperation chapter) During the investigations undertaken the following items have been seized: over 4 mln cigarettes, over 10 thousand pairs of shoes, over 10 thousand pieces of clothing and many thousands of electrical equipment, cosmetics, video tapes, leather goods etc.

Cyprus Customs Officers between January and August of the current year, acting upon information and/or during the normal physical check of imported cargo have spotted and seized various commodities as being counterfeit or pirated contrary to the provisions of the existing laws. Larnaca



Customs reported 14 seizures of such goods. In all cases the goods were finally destroyed and the offences were compounded under the provisions of the Customs and Excise Law, on payment by the Offender of a compounding sum in lieu of criminal proceedings against them.

As regards *company and accounting law* no further progress can be reported. Many of the EU Directives have already been transposed but divergences still persist. Further approximation is needed with regard to the rules of disclosure (2<sup>nd</sup> company law Directive), and the rules setting up single member companies (12<sup>th</sup> company law Directive). Legislation bringing the requirements on the approval of the statutory auditor in line with the 8<sup>th</sup> Directive is yet to be enacted.

The Department of Registrar of Companies and Official Receiver is taking various measures to exercise effective implementation of the legislation. The computerisation of the Companies' registry will facilitate the publication of companies' documents in line with the 1<sup>st</sup> Company Law Directive. Further Indicatively, companies that do not comply with the disclosure requirements of the Company Directives (to file annual reports with the Registrar of Companies), also incorporated in the Cyprus Company Law, are being struck off the Register. Statistics show that the number of companies struck off were 1205 in 1998 and 4676 as from January 1999 till today.

No specific development can be mentioned as far as *data protection* is concerned.

### *The Four Freedoms*

#### **Free movement of goods**

In order to meet EU requirements, it is necessary to transform the Cyprus Organisation for Standards and Control of Quality in an independent organisation. This re-organisation will be achieved with the adoption of a new act which should regulate the areas of standardisation, certification, accreditation and notification procedure. Its adoption will allow the progressive implementation of the technical EC legislation in this field. The necessary dispositions should be taken as soon as possible.

Adoption of EN standards as Cyprus standards is progressing slowly. Approximately 1500 European Standards, or about 15% of the total, have already been adopted. The process of adoption is expected to accelerate, as soon as the new institutional framework has been set up.

As regards sector specific legislation related to areas covered by the new approach, no progress has been made, due to the delay in adopting the Law on Standardisation. The Toys Directive is the only one, which has been transposed till this date.

Concerning implementation of sector specific legislation of sectors covered by the old approach, existing legislation in the field of legal metrology pre-packaging machinery, lifts, personal protective equipment, electromagnetic compatibility, equipment used in potentially explosive atmospheres, gas appliances, pressure vessels and construction products, has still not yet been harmonised.

In sectors such as machinery, personal protective equipment and lifts, existing legislation focuses on aspects relating to the protection of workers but does not contain specific provisions regarding the placing on the market of the products. In the field of foodstuffs, there is a need to transpose the

*acquis* on quick-frozen foodstuffs, on materials and articles intended to come into contact with foodstuffs and on food additives. In the field of motor vehicles, Cyprus still **needs to align its legislation** to the *acquis*. In particular, the introduction of EC-type approval procedure and acceptance of EC-type approval certificates have not yet taken place.

In the field of chemicals, further legislative approximation is needed in the areas of dangerous substances and preparations, restrictions on the marketing and use of these substances and preparations and on fertilisers. In the field of footwear, a new regulation has entered into force in 1999. It fully transposes the EU directive on labelling of materials used in footwear components. No progress has been made in the field of textiles, crystal glass wood and pharmaceuticals. Transposition is needed in the field of cosmetics. It is important that the legislation which is being prepared in these areas is rapidly adopted.

### **Free movement of capital**

Cyprus is still behind in the process of aligning to the *acquis* in capital movements, although some modest progress has been achieved since the last report.

According to a three phase plan for full liberalisation the Central Bank has liberalised payments of royalties (patents, designs, trade marks and inventions) by residents to non-residents, and relaxed restrictions on the following personal capital movements: gifts and endowments granted by residents to non-residents, transfer of local funds inherited by non-residents; and transfer of local funds of residents in the event of emigration. This completes the first phase except for the use of credit cards for current payments abroad, which remains to be liberalised.

A rather comprehensive system of restrictions remains, with many types of capital movements being subject to authorisation procedures. For the implementation of the remaining two liberalisation phases (to be completed by, respectively, 2000 and 2003), it is essential that the interest rate ceiling (see chapter 2) be abolished. This is of particular importance for the removal of restrictions concerning long and medium term borrowing by residents in foreign currency; portfolio operations; financial credits; and operations on deposits. “

### **Free movement of services**

The *Banking Law* of July 1997 constitutes the national legal framework for banking activities. In this respect, most of the requirements of the EC Directives are already part of domestic Cypriot law although minor amendments are still necessary.

Notices implementing EC legislation on own funds, solvency ratios and large exposures have already been issued by the Central Bank. A new law on deposit guarantee schemes, adopted in February 1999, will come into force in 2001. Further progress need to be achieved as regards consolidated accounts and supervision on a consolidated basis, capital adequacy and contractual netting requirements.

The Cypriot authorities consider that the Co-operative Credit and Savings Societies being credit institutions of a co-operative nature with particular character should be outside the scope of the Cyprus Bank Law, and fall under the Co-operatives Societies Law. The main reasons are that the co-operatives focus on meeting the economic, social and educational needs of their members, who

are associated with a common bond; are non-profit oriented organizations and do not engage in cross-border activities. This interpretation is under review.

Measures should be taken to decrease the level of non-performing loans (mainly agricultural and housing loans) of the Credit Co-operatives. As explained above by being outside the scope of the Bank Law, Cyprus does not intend to place the co-operative credit sector under the supervisory purview of the Central Bank. Currently, a separate central agency is responsible for the overall supervision of the Co-operative and Credit Saving Societies.

The Central Bank of Cyprus is responsible for the supervision of banks. By off-site and on-site monitoring measures. In the first case, banks are monitored on a continuous basis through review and analysis of prudential and financial information to the Central Bank. As regard, in-site monitoring, examinations are carried out once a year for all banks. In 1998, 14 on-site examinations were made including overseas branches and subsidiaries. The findings and recommendations are discussed with the management of each bank. Tripartite meeting with external auditors are also held. Nine such meetings were held in 1998.

Since mid-1998, the Cypriots authorities have not adopted legislation or regulations related to the *insurance* sector. Further alignment is needed to provide for the 'single passport' and 'home country control' principles. (Existing rules must be corrected with regard to minimum capital requirements, specialisation rule, accounting, and supervision of insurance groups and legal status of captive insurance companies). In 1998, the Insurance Companies Control Service, undertook the examination of the annual returns of all licensed insurance companies (78) in order to assess the company's state of solvency. In case further monitoring was thought necessary for some companies, they were required to submit half yearly financial returns. Two on-site inspections were carried out concerning outstanding claim reserves and reinsurance. There was one withdrawal for an insurance company for not complying with the provisions of the law.

The *Securities* and Stock Exchange Laws of 1993 to 1998 provide for the legal framework in the securities field. Progress with implementing the *acquis* was made, as in April 1999 a Law implementing the provisions of Council Directive co-ordinating regulations on Insider Dealing was adopted. This Law designates the Cyprus Securities Commission as the competent authority giving it powers of investigation and imposition of fines, and the ability to instigate criminal proceedings. The law also requires the adoption and implementation of codes of conduct by issuing companies and their officers.

The Undertakings for Collective Investments in Transferable Securities Directive needs to be transposed. The Stock Exchange Law should be amended in order to ensure the ability of the Stock Exchange to exchange information and co-operate with other competent authorities, the mutual acceptability of prospectuses the treatment of certificates representing shares, Euro-securities and minor offers. The Joint Compensation Fund for broker members of the Stock Exchange should also be brought in line with the *acquis*. Further progress is needed concerning the alignment of Cypriot legislation to the EC *acquis* on capital adequacy and investment services rules.

The Cyprus Stock Exchange has seen a 220% rise in prices in 1998. A new Automation system of securities transactions on the Stock Exchange has been in place since May 1999. This has led to an important increase in average daily transactions (3.500) but also to several temporary shutdowns in

order to clear the backlog of transactions. Consideration should be given to recruitment of additional staff to ensure compliance with the requirements of the Securities and Stock Exchange Laws of Cyprus and Regulations with respect to clearance and settlement of transactions.

In 1998, the Securities and Exchange Commission examined 18 listing applications and presented its views to the Stock Exchange Council regarding the companies' compliance with the conditions provided by the Stock Exchange Law Regulations. Four companies (among them two public companies of which the state is a major share-holder, Cyprus Airways and Cyprus Tourism Development Company) risk to be delisted if the necessary conditions are not met by 31.12.2000.

The Banking Law of 1997 needs to be amended to implement Directives on cross-border credit transfers and on settlement finality in payment and securities settlement systems. The banks have already been informed of the planned amendments and asked to incorporate the spirit of the new legislation into their codes of practice. The Central Bank of Cyprus has started preparatory activities for the introduction of a real-time gross settlement (RTGS) system.

In 1999 legislation was adopted to complement existing rules on prevention of *money laundering* activities. Only one minor divergence remains with respect to the threshold amount for customers' identification. The Financial Intelligence Unit, the MOKAS, which is operating since 1997, ensures the practical implementation of this legislation.

### **Free movement of persons**

Admission of third country nationals for study purposes has to be brought into line with EU law. As regards Mutual recognition of qualifications, Cyprus already has developed structures for the mutual recognition of professional qualifications given that academic and professional training is often obtained abroad

This is the case for most post graduate diplomas and for most of the medical professions. However in order to achieve full conformity with the Community acquis any restrictive provisions on nationality and residence requirements which are currently necessary for registration with the professional bodies for all professions need to be removed. Particular attention should be paid to any language restrictions.

Further alignment is needed with regard to the distinction between academic and professional recognition. Compliance with the directive on procedural guarantees for migrants will also need to be included in the revised legislation, in particular access to an appeals procedure.

Free movement of workers is regulated by the Aliens and Immigration Law of 1952 and its implementing regulations. In addition Cyprus has ratified the ILO convention on migration and employment, the convention concerning migrant workers and the European social charter. Nevertheless conformity with Community legislation remains partial.

Cyprus has experience in the area of coordination of social security schemes, through the implementation of bilateral agreements but it will require further institutional and staffing reinforcements. In particular concerning training and information activities.

Alignment with the social security elements of the *acquis* will present a significant financial strain on Cyprus. There will be a need to reinforce existing structures to be able to cope with the implementation of this system.

### *Competition*

The *anti-trust* legislation is generally satisfactory, as Cyprus has already taken over most of the principles and criteria of the *acquis*, including a great part of the secondary legislation (block exemptions). In 1999 another important step was achieved with adoption of the law for the control of concentration between undertakings. The Commission for the Protection of Competition (CPC) which is an independent authority entrusted, with the enforcement of the Protection of Competition Law of 1989, undertakes on average about 12-14 investigations (for less than half of these, the CPC, after examining the case, reaches the conclusion that there is transgression of the Law) and about 1-2 applications for exemptions or negative clearances (no negative clearance has been approved so far, while exemptions, when approved, cover usually a period of five years).

Cyprus has only partially aligned its state aid award provisions with the *acquis* and, thus, does not systematically follow, the State aid *acquis* in its granting of public support to enterprises. Ensuring compliance of state aid should be viewed as a priority. There is a relatively high degree of transparency with regard to direct subsidies but not for indirect aid (notably aid granted through the tax system). Certain State aid schemes (offshore, co-operatives...). need to be brought into line with the *acquis*. Concerning State monopolies of commercial character progress need to be done on the liberalisation of certain State-controlled sectors (telecommunications, ports, civil aviation...) to ensure internal and external competition.

Cyprus should make progress in the short term regarding the non-applicability of competition rules to public undertakings and undertakings with special or exclusive right.

### **Conclusion**

Cyprus has made important progress particularly in the field of public procurement implementation. Effective transposition is needed notably in the sector of intellectual property rights. Special attention should be paid to enforcement. Cyprus should continue legislative transposition the different sectoral fields of the free movement of goods. The horizontal legislation on standardisation and certification should be implemented. The liberalisation process continues to be slow regarding the free circulation of capital. The interest rate ceiling needs to be abolished as soon as possible in order to allow for full liberalisation. As regards competition, Cyprus has achieved considerable progress in approximation in the *anti-trust acquis*. However important efforts are needed in the field of state aid, public undertakings and undertakings with special or exclusive rights and state monopolies of a commercial nature.

## **3.2 Innovation**

### *Information Society*

The Strategic Development Plan adopted by the government contains a separate chapter on Information Society. It focuses on the adoption of a national strategy, which is tailored to the

structure and the needs of Cyprus economy. The policy objective is to increase productivity and to develop competitive advantages that will establish Cyprus as a regional service centre.

#### *Education, training and youth*

Free circulation of persons and the principle of non-discrimination, in particular, on grounds of nationality must be applied throughout the fields of Education, Training and Youth. In this context admission of third countries nationals for study purposes has to be brought into line with EU law. Cyprus continues its participation in the Community programmes in the field of education, training and youth.

Cyprus plans to take part in the new generation of programmes (Socrates II , Leonardo da Vinci) starting in 2000.

In 1998-99, 310 students have benefited from Erasmus mobility grants to study in EU countries and 1205 young Cypriots have taken part in the Youth for Europe programme. In 1998, 10 Cypriots participated in exchange within the framework of the Leonardo programme (vocational training).

#### *Research and Technological Development*

The present Community *acquis* does not require transposition into the national legal order. However, the compatibility of the general legal order with the Community *acquis* needs to be ensured.

The association of Cyprus with the 5<sup>th</sup> Framework Programme entered into force in May 1999. In order to prepare the successful association several structures have recently been established in Cyprus. The real implementation capacity will be tested during the association to the 5<sup>th</sup> Framework Programme. In accordance with the association Agreement Cyprus has also decided to open its corresponding research activities to the enterprises, researchers and universities of the Member States.

#### *Telecommunications*

Cyprus has the highest penetration rate in fixed telephony (60.7 %) of all the candidate countries which is well above the average rate in the EU Member States. The penetration rate in mobile telephony of 17.5 % and the degree of digitisation of the fixed network (92.6%) are also very high.

As for the liberalisation of the markets, Cyprus has withdrawn its request for a transition period in the field of fixed voice telephony and will introduce full competition in January 2003. Concerning the implementation of the *acquis*, the Government has issued a schedule for the establishment of an independent regulatory authority, the introduction of a tariff rebalancing scheme on the basis of cost-orientation and the adoption of a new telecommunications law. In view of the possibility of a partial privatisation, the status of the public network operator, CYTA, will be changed.

In the postal sector, further efforts towards the implementation of the *acquis* are also needed, in particular by the adoption of a new postal law.

#### *Audiovisual*

Cypriot broadcasting legislation is broadly in line with the audiovisual *acquis*. Some transposition is needed on definitions (broadcaster, television advertising), advertising telemarketing and transfrontier broadcast provisions for full adoption of the audiovisual *acquis*.

## Conclusion

Progress has been achieved in the field of research and technological development with the full association to the 5<sup>th</sup> Framework Programme. As regards telecommunications, whereas infrastructure and services are well advanced, considerable efforts have to be made to adopt a regulatory framework in line with the *acquis*, in particular in the field of gradual market opening, interconnection and licensing.

### 3.3 Economic and fiscal affairs

#### *Economic and Monetary Union*

Cyprus has indicated that it accepts and will comply fully with EMU *acquis* as defined by Title VII of the EC Treaty and the other relevant texts. Cyprus has also stated that the administrative structures to implement and enforce the *acquis* will be in place.

Some progress has been made in Cyprus' preparation for participation in the Economic and Monetary Union. In particular for the *acquis* that has to be implemented before accession, the obligation of insurance companies to invest at least 20% of their funds in domestic government securities, which constituted a form of privileged access of the public sector to financial institutions, has been abolished in 1998. The Central Bank of Cyprus' Law still provides for the direct financing of the public sector within certain borrowing limits, although a policy of gradual reduction of these borrowing limits has been pursued by the government since 1994. Cyprus needs to amend the Law on the Central Bank as well as the relevant provisions of the Constitution in order to enhance statutory independence of the central bank and to achieve compatibility in all material respects with the EMU *acquis* on Central Bank independence.

Compliance with the EMU *acquis* is conditional on the process of liberalisation of capital movements, which is examined under the section on free movement of capital.

#### *Taxation*

Since last year report, slight progress has been achieved with the decision to increase the rates for excise duties on cigarettes. However, there are still discrepancies between the Cypriot VAT and excise legislation and the Community *acquis*. In the field of VAT, the main problems include the extension of "zero-rates", difference in rates, the special regime in favour of off-shore companies and the absence of provisions for refunding VAT to non-resident taxable persons and of a refund scheme for tourists.

On *excise* duties the main concerns are: the difference in the structure and rates both for tobacco and alcoholic beverages which could lead to discrimination against products coming from the E.U and the absence of a tax warehousing system.

## Conclusion

In the field of taxation Cyprus should intensify its efforts both in the area of harmonisation and in the upgrading of its administrative capacity. Efforts to bring the standard VAT rate to the minimum level required by the *acquis* should be intensified.

### *Statistics*

Legislation governing the collection and dissemination of data is largely in line with the relevant Community legislation. Since the last Report, progress has been achieved in the following fields: compilation of the Harmonised Indices of Consumer Prices (HICP), work in the context of the project on Purchasing power parities in collaboration with EUROSTAT, labour force survey, harmonisation of national accounts based on ESA 1995 requirements and collection of harmonised data on guest flows in collective accommodation establishments. There is still some way to go to meet the requirements of the EU system. The Statistics Law must be revised including provisions with regards to administrative records access, rules for statistical confidentiality in collecting and disseminating data, the keeping of registers and the procedures for the organisation and initiation of statistical surveys. Other improvements are necessary in macro-economic statistics including regular reporting system on FDI, the production of accounts of the general government, compilation of social indicators and data on income, poverty and social exclusion, as well as on foreign workers adaptation of the structural business surveys to European requirements, introduction of a survey on research and development, carrying out a survey on transport of goods by road and improvement of statistical data on agriculture.

## **3.4 Sectoral Policies**

### *Industry*

Over the last year, Cyprus has promoted structural reforms aiming at removing market rigidities, improving resource allocation and adapting to the conditions prevailing in the EU Single Market in order to ensuring the competitiveness of Cypriot industry. The New Strategic Development Plan (1999-2003) focuses on globalisation and further trade liberalisation, technological changes and the information society.

Various actions are foreseen to improve productivity, through advanced technology, modern management methods, organisation of production and marketing, as well as the adaptation of educational and training systems. Attraction of capital intensive foreign investment is also envisaged.

The new Industrial Policy aims to improve the access of enterprises to finance with short, simplified and advantageous financial conditions. Governmental guarantee schemes, loans for the extension of existing enterprises or the creation of new ones as well as subsidies of the interest rates are foreseen. The Creation of business incubators and a Centre for Technology, Research and Development are envisaged.

Cyprus companies present however, some weaknesses in terms of lack of specialisation; weak links between production and distribution; machinery operating below capacity; a tight labour market; distance from its export markets and late payments in commercial transactions. These structural weaknesses will have to be addressed in view of further opening to the EU Single Market.



To overcome these constraints a package of support schemes has been introduced. The main aim is to improve infrastructures, strengthen the technological base, restructure enterprises and upgrade management and staff training, and promote inter-business co-operation and merging of enterprises and competitiveness.

A restructuring effort is especially needed in the manufacturing sector notably in the areas of textiles and footwear.

An important dimension of the industrial policy is the control of state aids (see competition chapter).

### *Agriculture*

#### **Agricultural situation**

Agricultural production in Cyprus accounts at present for less than 5% of GDP, 10% of total employment and about 20% of all exports. Total agriculture land is around 200.000 ha out of 455.000 ha in total. The fruit and vegetable sector in Cyprus is the most important with 20% of arable land and 60% total value of arable crops. In terms of total value added crops contributed for 69% and livestock for 31%.

#### **Agricultural policy**

In line with its WTO commitments Cyprus does not apply import licenses for agricultural products except to the extent necessary to meet sanitary, phytosanitary and other technical standards and specifications.

Government regulation and support in some markets such as cereals, wine, olive and milk is strong operating through state-controlled trading monopolies or analogue State bodies. Arable crop reform has been approved, including a direct payment scheme to compensate farmers for a reduction of the buying-in prices for cereals. There is also a support scheme to promote in the fruit and vegetable sector the setting up of regional marketing organisations (equivalent to producer organisations).

Transposition of legislation in the *veterinary* and *phytosanitary* field is partial. Efforts towards harmonisation are needed particularly in the areas of Control of Substances and Residues in Live Animals. Contingency plans as required by the Community do currently not exist but are under preparation. Cyprus has the necessary laboratory capacity for diagnosing all classical diseases except Foot and Mouth Disease where laboratories in other countries are used for reasons of cost efficiency. Further legislative transposition is needed in the plant health sector. The institutional capacity needs to be strengthened notably regarding border controls in the veterinary area and the upgrading of slaughterhouses to EU standards. The Department of Veterinary Services is currently making progress with adaptation of the system for identification and registration of animals to Community requirements.

Particular attention needs to be paid to the setting up of necessary institutional structures to apply the Common Agricultural Policy.

Nevertheless, agricultural policy measures are not fully aligned to the mechanisms and requirements of the Common Agricultural policy, for example the present market role of the State trading monopolies and the level of support prices for several commodities (for instance in the wine sector) need to be adopted. As regards structural and environmental policy, Cyprus implements a number of schemes regarding investments in the livestock and poultry sector which are related to the improvement of the environment, hygiene and animal welfare. Also worth mentioning are a young farmers settlement scheme and an afforestation programme envisaging bringing the forest cover to 25-30%.

## **Conclusion**

There has been some progress in preparing the integration of Cyprus agriculture into the Common agricultural policy but this process needs to be continued notably regarding the establishment of the necessary administrative structures. This concerns particularly reinforcement of border controls in the veterinary area and the upgrading of slaughterhouses to EU standards

### *Fisheries*

Fisheries provide direct employment for 1500 people and 1000 are engaged in support activities although it represents a small share in the Cypriot economy. The production is round 3100 tones per year. The main species are picarel, red mullet, stripped mullet and cephalopods. Despite recent dispositions adopted in this field important gaps remain notably in the area of licensing for fishing vessels under Cypriot flag, inspection and control of the fishing vessels and the establishment of a fishing fleet. These measures are essential for the effective adoption of the relevant *acquis*. The institutional capacity for the implementation of the Common Fisheries policy should be strengthened.

### *Energy*

Cyprus has practically no indigenous energy sources and depends therefore heavily on imports, particularly for crude oil and oil products (90% of energy balance), but also for coal (6 %). It has no nuclear plants and there are no plans to build one. There is no natural gas consumption, but its introduction in the country's economy is continuously under study. Solar energy represents 4% of total primary energy consumption and is used only for heating. Around 90% of households are equipped with solar water collectors and heaters.

The national regulatory energy objectives remain to be incorporated in the legal framework for energy. Cyprus needs to further align with energy *acquis* on such matters as the Internal Energy Market (notably electricity directive), energy efficiency and emergency preparedness including oil stocks. Energy efficiency should be improved

### *Transport*

Cyprus has made progress in harmonising its legislation with the *acquis* in all transport sectors but a substantial part of the legislation remains to be transposed.

Regarding *road* transport Cyprus has introduced new legislation to transpose parts of the road transport *acquis*, although further efforts are needed in the fields of heavy goods vehicle taxes, safety legislation, social legislation including driving times and rest periods and weights and dimensions.

Cyprus has yet to sign a number of important UN-ECE conventions and has not transposed the acquis in the area of dangerous goods.

Concerning *maritime* transport in spite of some progress, improvements are needed in the operation of the Cyprus vessel register especially regarding flag State control. Cyprus' ship register ranks sixth worldwide with 2670 vessels and a total capacity of 26 million tons in 1999. The creation by Cyprus of a global network of Flag State inspectors has been an important and notable development. Cyprus has embarked on an initiative to survey all Cyprus-flagged vessels at regular intervals by using the flag State services of a number of traditional registers. During April-June of 1999 a total of 119 were inspected and 55 were either allowed to sail after restoration or deleted from the register. However, the work undertaken to establish better safety standards in maritime transport has yet to show its effects through any significant reduction in the very high detention rate for Cyprus flag vessels. Although already decreasing the detention rate of vessels is well above the Community average of 6%.

Regarding air transport Cyprus has established an ambitious program of legal harmonisation although further efforts are needed in the field of safety to become a full member of JAA. In 1998 and 1999 Cyprus has participated with observer status to the multilateral negotiations on the establishment of a European Common Aviation Area (ECAA)

Cyprus is participating in the work of the *Transport Infrastructure Needs Assessment (TINA)*. A substantial upgrading programme is already being implemented for ports and airports, and this will continue over the coming years, to cope with increased demand. Improvements in the major road network linking the transport nodes with the capital Nicosia are also under consideration in the TINA process.

## **Conclusion**

In spite of progress in some areas Cyprus needs further legislative transposition notably in the field of maritime safety and the operation of the vessel register notably regarding flag State control.

### *Small and medium-sized enterprises*

Cyprus' economy is dominated by SME's, as only 36 enterprises can be classified as large companies based on the EU definition for SME's. The environment in Cyprus is conducive to private initiative. SMEs, already benefit from Community initiatives such as EICC, BC-NET, BRE and take part in business co-operation events such as Europartenariat and Interprise.

The forthcoming participation of Cyprus in the 3<sup>rd</sup> Multi-annual Programme on SMEs is expected to further encourage SME's to internationalise their strategy, co-operate with EU business organisations and to improve access to research, SME related information networking as well as networking in the craft sector. Private sector institutions such as Chambers, Business Associations, Financial Institutions, Consultants etc. already participate through Advisory Committees in both the formulation and the monitoring of implementation of sectoral policies, and maintain close contacts with their counterparts in the Member States and at EU level.

### 3.5. Economic and Social Cohesion

#### *Employment and social affairs*

Overall unemployment rates relatively low. In 1998 unemployment represented 3.3% of the labour force. It affected notably the construction sector.

The situation regarding social dialogue and Employment policy is comparable to that of Member States. However Cyprus needs to make progress in the field of labour law, where a number of directives have not yet been transposed.

Relevant provisions on working conditions need to be legally binding for all employees and employers. The main EU provisions concerning equal treatment are covered by national legislation but needs to be completed by a Parental Leave provision and the extension of the burden of proof rules. In the area of public health, the “tobacco” Directives on labelling and maximum tar content and tobacco advertising should be fully transposed. Important work towards harmonisation remains in the field of Health and Safety at Work.

#### **Conclusion**

Progress has been uneven on the social field. While there has been advances on the employment policy and social dialogue substantial parts of the *acquis* have not yet been transposed. Decision-making should be speeded up particularly as regards Labour Law, Equality legislation and Occupational Health and Safety.

#### *Regional policy and cohesion*

The Union supports the strengthening of cohesion, mainly through the Structural Funds. Cyprus will have to implement these instruments effectively whilst respecting the principles, objectives and procedures which will be in place at the time of its accession.

Pending a political settlement, it is not possible to establish a final region designed in accordance to EU-methodology" (NUTS) classification. Cyprus would be classified as a single NUTS 2 unit, and the 6 districts would qualify for NUTS 3. The municipal level (likely to qualify for NUTS 5) is facing reorganisation.

The main regional instruments consist of the National Development Plan administered by the Planning Bureau and an Island Plan administered by the Town and Country Planning Service. Both are aimed at the harmonious development of all areas of the island although since 1974 its competence covers only the southern part of the island. Since the report of 1998 there continues to be no official information on policy implementation in the northern part.

The development objectives are generally in line with the objectives and policy framework of EU structural policy.

The necessary budgetary procedures for the implementation of the EU regional policy are in line with Community standards, with the exception of some limited adaptations. The existence of a development budget with a pluri-annual dimension, covering all the State spending on investment will

greatly facilitate the implementation of Structural and Cohesion funds. It also has the experience of co-financing public utilities projects with local authorities.

An evaluation system is already implemented within the planning system. The Planning Bureau will adapt its system according to the structural funds regulations before accession.

The regional disparity between northern and southern Cyprus is substantial. These important gaps could be addressed upon accession as Cyprus would be eligible for financial assistance from the structural funds in order to promote economic and social cohesion throughout the island. It would also allow for the establishment of an integrated infrastructure throughout the island. Priority should be given to the preparation of statistics in line with EU methodology.

## **Conclusion**

Structural development policy in Cyprus is broadly in line with EU policy. The implementation of structural funds can address the widening regional disparities between the northern and southern part of the island when a political solution is found.

### **3.6 Quality of life and environment**

#### *Environment*

Environmental approximation is advanced and several sectorial areas are close to full alignment with the acquis. However, at present, no Community environmental directive is fully transposed.

Cyprus has undertaken to bring its legislation into line with the acquis through a new environment law that will fill the gaps in existing legislation. In order to facilitate the transposition, Cyprus decided in July to split this proposed environmental law into a number of different legal acts dealing with the various sectors. Therefore concrete transposition of legislation will begin to be implemented in the medium term and it has to be said that Cyprus remains in line with the commitments it has given on this aspect.

In the context of *horizontal legislation*, Cyprus signed the Kyoto protocol on climate change on 16 July 1999. Transposition is needed of the *Environment Impact Assessment (EIA) Directive*, incorporating the provisions of the Community Directive on EIA. The directive on access to environmental information needs to be harmonised. Reporting obligations still need to be aligned with Community standards notably in the field of location of sampling sites, measurement, methodology and frequency.

Water is scarce in Cyprus, water protection features high in Cyprus environment policy. Orders on the Quality Standards under the *Water Pollution Control Law* need to be adopted. These orders will incorporate the provisions of a number of Community Directives. Standards for drinking water were finalised. Surface waters currently supply 65% of drinking waters and desalination plants are being constructed to provide for up to 20% of the needs. Further transposition is required of Directives on Bathing Water, Fish Waters and Shellfish Waters (although non-existent in Cyprus).

Concerning *waste management*, progress has been made in producing the Code of Conduct for Good Agricultural Practices and of the Quality Standards for the Re-use of treated Effluent. Work on municipal waste management plans should be accelerated.

On *air quality* amendments to current legislation need to be introduced. Identification of zones where there is heavy concentration of pollution is still to be carried and action plans drawn up. Further transposition is needed of the Directives on ozone, non-road mobile machinery and control of volatile organic compound. Institutional strengthening is required in particular as regards monitoring and data exchange.

Cyprus has currently no capacity to produce unleaded petrol. It is therefore difficult to comply with the Directives on the lead content of petrol and on quality of petrol and diesel fuels. Plans to upgrade the capacity of the only existing petrol refinery are under consideration so as to allow for compliance with the acquis. If these investments are not made Cyprus, will consider importing unleaded petrol.

Regarding *industrial pollution control and risk management*, Cyprus will need to make further efforts to align with the acquis. No difficulties are foreseen for the implementation of the directive, as there is no heavy industry in Cyprus, in fact, only a few industrial units (25) fall under the scope of the Law. Nevertheless particular attention needs to be paid to the application of the Large Combustion Plant Directive to the electricity generating power plants. Transposition of Directive on the control of major accident hazards (Seveso II) is needed. The total number of establishments coming under the directive in Cyprus is estimated to be around 12. The investment cost for the industry concerned will be substantial.

Further progress in *chemicals, genetically modified organisms and ozone depleting substances* is needed. Cyprus needs to strengthen its technological and scientific capacity to implement these directives and carry out risk assessment.

Cyprus has no specific legislation in *nuclear safety and radiation protection*.

In the area of *Nature protection* Cyprus is active party to the Washington convention on trade in endangered species (CITES). Full transposition of the Habitats and Birds Directive is needed particular regarding management issues and providing a comprehensive system for the designation of special protection areas.

Cyprus is an applicant to participate in the activities of the European Environment Agency (EEA). LIFE-Third Countries continues to be used to fund environmental projects complying with the aims of Community policy and legislation. Two projects were selected for 1999 in the framework of Cyprus's pre-accession strategy.

Since the last regular report Cyprus has undertaken an exercise to identify and record necessary legal and institutional changes and measures needed to comply with the acquis. A draft action plan (including time schedules, costs and needs) has been produced that will form the basis of harmonisation efforts, although this has not yet been provided to the Commission.

The Commission has completed an overall assessment of the costs for compliance with the environmental acquis. This estimates €1,118 to €1,263 million is needed to provide the necessary infrastructure and related capital equipment to achieve full compliance.

## Conclusion

Since the last regular report there has been little visible progress in the transposition of the acquis although it must be stressed that there are considerable preparatory efforts underway to complete approximation by the date of accession. Administrative reforms need to move from the proposal stage to action if the environmental acquis is to be effectively applied.

### *Consumer Protection*

Good progress has been made since the last Regular Report. A law transposing the Directive on Package Travel was adopted this year. The Unfair Terms in Consumer Contract Laws was amended in order to implement the EU Directive on Unfair Contract Terms. Legislation incorporating the Directive on Injunctions has been adopted. The Consumer Product Safety Law has also been amended for the transposition of the General Product Safety Directive. Regulations implementing the Directive on Dangerous Imitations have equally been adopted.

### **3.7. Justice et affaires intérieures**

#### *Immigration / Border control*

The levels of economic development and social stability can favour organised flux of aliens wishing to reside in the country or as a transit point to the EU. Cyprus has a total of 772.49 kilometres of maritime borders. Nevertheless illegal *immigration* is not yet a major issue for Cyprus (estimation of 8000 illegal aliens) although some recent cases have been reported of smuggling of aliens especially via maritime routes. 4702 aliens were refused entry into Cyprus in 1998. In 1999 Cyprus has signed two interim readmission agreements with Lebanon and Syria.

Further efforts are needed in the transposition of the acquis notably regarding, rules of admission, admission for employment, family reunification, marriages of convenience and expulsion measures. Uniform resident permits should be adopted and consular co-operation reinforced.

The Cypriot Customs Service is committed to combating customs fraud, through a number of mutual assistance agreements with various partners. Co-operation has been established with the European Fraud Prevention Office (OLAF) in specific areas (e.g. the task force on cigarettes). Cyprus is a point for the international network engaged in smuggling cigarettes by sea.

Cyprus should continue progressive alignment of visa legislation and practice with that of the EU. The Schengen visa system should be adopted.

It would be convenient to establish links between the future legislation on asylum and the reform of the existing Aliens and Immigration Law in order to address cases of rejected asylum seekers who remain in the country.

Current border control legislation appears to give the relevant authorities the powers needed to accomplish this task effectively. However additional measures must be taken (concerning in

particular the inspection of documents under the terms of the Schengen Convention). Increased coastal surveillance may be necessary in order to decrease illegal immigration risks.

### *Asylum*

There is no specific legislation regarding asylum in Cyprus. The asylum applications received by Cyprus are referred to the UNHCR office for evaluation. If applicants are found to meet the criteria for refugee status, they are permitted to remain and are given temporary work permits. Cyprus has adopted the Geneva Convention related to the Status of Refugees and the relative New York Protocol. New legislation must be approved in order to fully implement the *acquis* in this field.

### *Police*

Much of the EU legislation is already in place through ratification of major international conventions and the transposition of EU decisions and joint actions notably in the area of money laundering. However transposition is still needed in the area of data protection in order to comply with Schengen and Europol requirements. Most of the legislation relating to co-operation with Europol needs to be adopted. The concept of criminal organisation should be incorporated in the Penal Code. The Protocol on Mutual Legal Assistance in Criminal Matters has yet to be adopted although Cyprus co-operates fully with request for assistance on a bi-lateral basis. Procedural safeguards should be developed to ensure that laws passed are enforced effectively and that the rule of law is rigorously followed.

Cyprus has achieved progress in the field of money laundering prevention. Full alignment with the EU *acquis* will be achieved once the dispositions regarding threshold amount for customers identification is adopted. The Financial Intelligence Unit, operating since 1997, ensures the practical implementation of this legislation and has investigated 136 reports of suspicious transactions (58 requests from foreign countries) leading to two prosecutions and freezing orders of approximately € 13,3 million.

### *Drugs*

Cyprus although not a drug producing country may be used due to its geographical situation as a transit point for trafficking from its eastern neighbours. Existing legislation is in line with the *acquis*. It covers the entire range of offences from manufacture through importation to supply and possession. Since the last report Cyprus has signed the Agreement on Illicit Trafficking of Drugs by Sea, implementing Article 17 of the UN Vienna Convention. There is good regional co-operation between Cyprus and its neighbours in the field of combating drugs trafficking is very close. Bilateral agreements including provisions for combating drugs trafficking have been signed with twelve countries.

### *Judicial co-operation*



In the civil field, Cyprus has not yet ratified the Hague Conventions on Civil Procedure (1954) and on Access to Justice (1980). In the criminal field, Cyprus is yet to ratify the Protocol on Mutual Legal Assistance in Criminal Matters and its Additional Protocol, the European Convention on the Transfer of Proceedings in Criminal Matters ni le protocole additionnel à la Convention sur le transfert des personnes condamnées.

## **Conclusion**

Since the 1998 Regular Report, some progress in the field of immigration, but none in the field of asilum has been noted. Concerning the fight against drugs, Cyprus has ratified the agreement on illegal traffic by sea transport, as suggested in the Regular Report. Six instruments in the field of judicial cooperation remain to be signed or ratified. During the coming year, Cyprus should therefore strengthen its visa delivery regime and adopt a forgery-proof visa, adopt a new asilum legislation, ratify the Council of Europe convention on data protection and sign and/or ratify the international instruments for judicial cooperation.

### **3.8 External policies**

#### *Trade and international economic relations*

As a WTO Member Cyprus already implements the Uruguay Round Agreements, as well as the plurilateral Civil Aircraft Code and Government Procurement Agreement. When it joins the EU, Cyprus will have to renounce its status as a developing country and will have to subscribe to the plurilateral WTO agreements to which the Community adheres. Cyprus' external trade regime is already substantially aligned with that of the EC. Cyprus' applied tariffs average (simple) 8.4% on all products: 27.6% on agricultural products; 9.8% on fishery products; and 4.8% on industrial products. Cyprus accepts the Community *acquis* in respect of external relations, including the CCP. It is in the process of alignment; it requests no transitional periods. Cyprus is signatory to the General Agreement on Trade in Services (GATS). Cyprus has expressed its willingness to work closely with the EC in the preparation of, and during, the forthcoming WTO Round, with a view to aligning positions and policies as closely as possible.

Cyprus is prepared to co-ordinate with the EU its actions concerning the WTO Agreement for Textiles and Clothing with a view to achieving of commitments upon accession.

No legislation on dual-use presently exists in Cyprus. Legislation regarding export control and transit of dual-use goods will need to be adopted

#### *Customs*

Cypriot customs legislation still differs from the *acquis*, in areas such as customs regimes with economic impact, simplified procedures, counterfeit and pirated goods, cultural goods, customs warehouses, free zones, customs debt tariff quotas, ceilings, duty suspensions and duty reliefs.

There have not been any new legislative decisions in the field of customs since the publication of the last regular report. However, according to the Cypriot authorities, in many cases the necessary modifications to the customs legislation can be introduced through decisions by the customs authorities without the need for amendments to the primary legislation.

No major progress has been recorded in the area of computerization of the customs services. A Binding Tariff Information system exists in Cyprus. In 1999 the Customs Authority, in co-ordination with the Pharmaceutical Services, has introduced measures aiming at the reinforcement of border control on trade of precursors. The procedure for the adoption of a Protocol on Mutual Administrative Assistance on customs matters between the E.U. and Cyprus is underway.

## **Conclusion**

According to the available information, Cyprus has made no concrete progress in terms of adopted legislation in this area since July 1998. Despite the existence of a modern customs administration, the harmonization process should be accelerated in order to give sufficient time to the customs officials and to operators to adapt to the new customs system before accession. The computerization of the customs service should be reinforced

### *Common foreign and security policy*

Cyprus continues to participate actively in the multilateral dialogue within the framework of the Common Foreign and Security Policy (CFSP), including the regular meetings of Political Directors', European Correspondents' and Working Group level. It has regularly aligned itself with the Union's statements, declarations and démarches, including in the context of the UN and OSCE.. Thus it joined the Common Position on Kosovo, the ban on Former Republic Yugoslavia flights and the oil embargo on the former Republic of Yugoslavia.

In this context , there have been some divergences recently between the legislative and the executive branches regarding the implementation of EU sanctions against the FRY. In spite of such differences, the Cypriot government taking due consideration of the competences attributed to each power by the Constitution, decided to align itself with the Union's measures

According to the Cypriot MFA adherence to CFSP "weighed most prominently" in favour of the decision of December 1998 to desist from the deployment of Russian S-300 anti-aircraft missiles.

Cyprus continues to orientate its foreign and security policy towards the EU and strives to contribute to regional stability in the framework of the Euro-Mediterranean Dialogue and has established strong co-operation with its Mediterrean neighbours.

## **3.9 Financial questions**

### *Financial control*

The concept of internal financial control in Cyprus appears to be sound and consistent with European standards. As far as the quality of control is concerned it is suggested that management and control

systems for receiving EU funds are developed as soon as possible and explained through the establishment of an audit trail tool. Finally, extra efforts to upgrade control and audit quality in both the Ministry of Finance and line ministries will be required.

### **3.10. General evaluation**

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

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

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

## 4. Administrative capacity to apply the *acquis*.

This chapter updates the information given in the Commission's Regular Report of 1998. The European Council in Madrid in December 1995 referred to the need to create the conditions for the gradual, harmonious integration of the candidates, particularly through the adjustment of their administrative structures. Taking up this theme Agenda 2000 underlined the importance of incorporating Community legislation into national legislation effectively, but the even greater importance of implementing it properly in the field, via the appropriate administrative and judicial structures. This is an essential pre-condition for creating the mutual trust indispensable for future membership.

For this year's report the Commission continued to work with the candidate countries to identify an illustrative list of enforcement bodies in key areas of the *acquis*. Wherever possible information is provided on the Ministry or organisation which is responsible for a specific part of the *acquis*, its legal powers, staffing levels and budget. As in the Member States each administration has to decide how to allocate scarce human and financial resources, ensuring that it has sufficient capacity to implement the *acquis*. There is no 'ideal' level of staffing and numbers alone are no indication of capacity to implement the *acquis* effectively. However, wherever they are available, staff numbers and changes in staffing levels are provided. It is clear that in areas where there is a heavy control and enforcement burden one or two people are not sufficient and in such cases very low staff levels can indicate a need to give greater priority to administrative capacity.

Many of the enforcement structures covered in this report have only recently been established. They are beginning to take decisions in *acquis*-related areas but it is often too early to assess the quality and compatibility of these decisions with the *acquis* or the information needed is not available. However, in some areas it is possible to provide data to illustrate that the *acquis* is becoming a living and integral part of domestic decision-making. During the coming year the Commission will continue to work with each of the candidate countries to build up a data base on administrative capacity and information on enforcement which will allow the Union to assess operational capacity to implement the *acquis*.

In the 1998 Regular Report, the Commission concluded that :

“As concerns Cyprus' administrative and judicial capacity to apply the *acquis*, it seems that major problems will not be encountered. However, administrative capacities remain to be strengthened in a number of areas, including the internal market, maritime transport, telecommunications, environment, and justice and home affairs.”

The administrative capacity has become a central issue in the negotiation process.

### 4.1. Administrative structures

The civil work force numbered 36,957 employees in 1998 compared with 36,229 in 1997. Since the last regular report 314 posts have been filled in the civil service.

The Chief Negotiator's Office which supervises and co-ordinates the harmonisation process is supported by the Law Office of the Republic (Staff: 124, of which 40 engaged on accession process) and the Planning Bureau (Staff: 64 of which 16 on accession) as well as the relevant departments of the Ministries. Each Ministry has an EU affairs co-ordinator with a number of officers dealing exclusively with the accession process

The Chief Negotiator is in charge of a small Negotiating Team but is fully supported in his work by the EU divisions of the Ministry of Foreign Affairs and the Planning Bureau as well as by the Law Office of the Republic, officers of which in fact comprise the Negotiating Team together with the Permanent Secretary of the Planning Bureau, the Permanent Secretary of the Ministry of Agriculture, Natural Resources and Environment and an Advisor/Co-ordinator of the Office of the Head of the Negotiating Team.

All major political decisions, including the approval of Cyprus's negotiating positions, are taken by the Council of Ministers after the consultations of the Chief Negotiator with the President of the Republic.

A Ministerial Committee for EU affairs has been set up presided by the President and composed of the Head of the Negotiating Team, the Attorney General, the Ministers of Foreign Affairs and Finance, all Ministers who have a vertical competence on any one of the subjects involved in the accession process as well as the Governor of the Central Bank of Cyprus. Senior officials from the Departments headed by the members of the Committee also participate in the meetings. The Committee allows the Ministers to be informed on all aspects of Cyprus-EU relations and exchange views on the various subjects.

After the initial study by the Ministries, meetings take place with the participation of the representatives of the Planning Bureau, the Ministry of Foreign Affairs and the Law Office of the Republic for the purpose of identifying the problems and deciding on the time frame within which the Republic will be able to meet the *acquis communautaire*. When the initial work has been completed, a number of meetings take place among all the relevant officials and the Head and members of the Negotiating Team, in order to discuss key issues arising and take decisions concerning the specific commitments that the Republic will take within the harmonogram. If any major political or other issues arise, then the appropriate consultation is carried out with the President of the Republic and the relevant Ministers as well as the Attorney General.

Subsequently to the submission of the harmonogram, and as a parallel process, the preparation of Cyprus's negotiating positions on the issues under examination is carried out and the time frame for implementing the harmonisation is decided upon. The implementation of the various decisions and the drafting of the necessary legislation are a complex task carried out by the relevant Ministries, the Planning Bureau and finally the Law Office of the Republic. .

For the smooth and timely progress of the EU related legislative process the House of Representatives has established a Committee consisting of representatives of all political parties in the House which meets regularly with the Head of the Negotiating Team for the purpose of being informed on the negotiation process and discussing issues related to future legislative work. The

intention is to provide the opportunity to all political parties to express their views before the final commitments are made and generally be aware of the process. The draft laws are submitted by the Council of Ministers after they have been prepared by the Law Office of the Republic in co-operation with the relevant Ministry Departments. The usefulness of this expedited procedure of consultation and information with the House of Representatives, among others, enables the parties to know well in advance what legislation they should expect and what are the priorities.

For the effective monitoring of the implementation of the sectoral harmonisation programmes, a comprehensive computerised harmonisation Monitoring System has been developed, which keeps track of all the steps taken and those required to achieve compliance with the *acquis*.

From the outset it must be mentioned that an overall training scheme on the EU for the civil service has been in place since July 1996 as conceived by the Ministry of Finance. The main provider of the training - which aims to acquaint the broader civil service (senior-middle-junior management levels) with the EU and its structures and working has been the Cyprus Academy of Public Administration (CAPA). These local training courses which will span a five-year period till 2001 are divided into three categories. (a) Basic 45 hour introductory programme offering a broad but comprehensive view of the EU. Thirty-seven such programmes have been organised over the last three years for over 700 civil servants. (b) Seminars on specialised EU matters for Cypriot officers dealing with specific EU issues by the CAPA in co-operation with the European Institute of Public Administration. Seven programmes for over 300 civil servants have been organised over the past two years. (c) Workshops on the implications of accession for the civil service organised by the CAPA in conjunction with the National Centre of Public Administration of Greece. 7 programmes for 150 civil servants over the last two years.

Overseas training is also sought and supported from technical assistance sources with priority given to those areas relating to the government's commitments on harmonisation and the difficulty of the task undertaken. This form of assistance is handled by the Planning Bureau in co-operation with the appropriate Ministries and services and is channelled through Bilateral Co-operation Agreements, the TAIEX, the Third Pillar programmes and the Twinning programmes on institution building

#### **4.2. Administrative and judicial capacity: key areas for the implementation of the *acquis*.**

**The uniform application of the EC law:** The judiciary is a self governing and self administered body. The budget of the Judiciary is included in the state budget. The budget is, however, controlled by the administrative staff of the courts under the supervision of the Supreme Court. The appointment, transfer, promotion and discipline of the judges in the first instance courts is trusted exclusively to the Supreme Council of Judicature. The criteria for appointment to the Bench are professional proficiency and high moral standing. The judges are appointed from the practising advocates. To be appointed as a judge, a lawyer must regularly have at least seven years practice. To qualify as a president of a district court one must have at least ten years' practice as a lawyer.

The Supreme Court judges are appointed by the President of the Republic on the proposal of the Supreme Court. Excepting the district court judges the scale of remuneration of all other judges is fixed. The salaries within the judiciary can not be considered low. There are 62 judged (18 female ). The number of proper criminal cases filed during 1998 was 7.780. The same year 40.540 traffic

cases were filed, and 47.902 other criminal cases. This category includes so called private prosecutions, which are instituted by private individuals and state organs such as Government Departments, Public Organizations and Local Government Authorities. The number of cases filed by private individuals represents a limited percentage. They mostly relate to criminal liability for dishonoured cheques.

The right to a speedy trial is provided also by the Constitution. However, the rules of procedure originating mainly from the time before independence, and amended repeatedly since, tend to cause delay in the courts. The situation has improved slightly after the European Court of Human Rights ruled that there was a violation of human rights and ordered the state to pay compensation to the party in a delayed case. Although criminal processes do not present significant delays, it takes in average circa 2-3 years before a regular disputed civil case is settled. In view of the harmonization process of the European rules of procedure there might be need for a reform of current rules.

Judges receive training usually abroad in seminars and conferences. Last year the amount expended for missions, seminars, conferences and meetings of judges abroad was 11.304 Cyp £, this year circa 56.860 Cyp £. Most of these funds have been used and will be used for a two week Community Law seminar organized by the European Commission in Greece for seven Supreme Court judges and three District Court Judges. President of the Supreme Court stated that the participants of the seminar will function as trainers arranging training to their colleagues. Law School or a Faculty of Law is planned to be established by the Cyprus University in two or three years.

The judges need training not only in Community law but also on other core areas like the European Convention on Human Rights . Further training should also be provided on the jurisprudence of the European Commission and Court of Human Rights notably for first instance judges.

As for infrastructure the Courts are currently short of premises, computers and office personnel. Therefore the administration of courts needs to be strengthened with personnel resources and know how.

Law libraries should also be reinforced.

**Single market:** The institutional structures in respect of *public procurement* are generally in place for the effective implementation of the *acquis*.

The main Tender Board, the Departmental Tender Board and the Tender Board at the Central Stores Department are the institutions responsible for implementing the *acquis* in this area. Committees for the evaluation of tenders at each Department, as well as technical committees responsible for the preparation and approval of technical specifications, and the acceptance of goods after technical inspections, can be set up by the competent authority either on a permanent or an ad hoc basis. The Board deals with approximately 150 on site visit controls per year. The procedures take between 6 to 9 months from the date of publication of the tender notice. There are approximately 1850 approvals/refusals per year.

Computerisation of the Companies' Registry is in process with the ultimate objective of complying with the requirements emanating from the First Council Directive on *company law*.

The Competition and Consumer's Protection Service, under the Trade Descriptions Law, has the authority for market surveillance and enforcement of industrial property rights and trademarks as well as the power to prosecute infringers and confiscate privated goods.

During the investigations undertaken the following items have been seized: over 4 mln cigarettes, over 10 thousand pairs of shoes, over 10 thousand pieces of clothing and many thousands of electrical equipment, cosmetics, video tapes, leather goods etc.

The Department of Customs and Excise applies the provisions of the existing IPR legislation at the exit and entry points of the Republic by enforcing the Customs and Excise Law. The latter provides that anything imported or exported contrary to any prohibition or restriction for the time being in force, is liable to for future. In particular, the customs officers based on risk assessment analysis carry out inspections of incoming or outgoing consignments of goods in order to establish whether there is a violation of existing IPR legislation. In addition the Department of Customs and Excise deals with complaints from rightful owners and investigates and confiscates goods which it has the power to destroy. It also prosecutes or imposes penalties to the offenders.

At the office of the Registrar of Companies, a Central Management Unit operates and co-ordinates the work of various national implementing authorities (i.e. Customs, Police, Competition and Consumers Protection Service) for all matters concerning industrial property rights and trademarks.

A new unit named *Intellectual Property Rights* Management Centre will be established in the year 2000 for the co-ordination of the enforcement bodies, the effective market surveillance, the follow up of all pending IPR cases until their final outcome and the promotion of public awareness.

Concerning border control enforcement, new legislation is required introducing more specific measures to prohibit the release for free circulation, export, re-export or entry for a suspensive procedure of counterfeit and pirated good.

An independent control authority responsible for the protection of personnel *data* should be set up. The administration of the ministry of Interior (130 staff) is also involved in the implementation of the *acquis* in this area.

The Council of Ministers decided the transformation and restructuring of the Cyprus Organisation for Standards and Control of Quality (CYS) which currently has a staff of 10 into an autonomous organisation,. This move is expected to speed up the harmonisation efforts and facilitate the effective implementation of the *acquis* and the establishment of the necessary infrastructure, particularly in the areas of standardisation, national accreditation and certification system as well as the application of the notification procedure.

The competent authority for the implementation of legislation relating to toys is the Competition and Consumer Protection Service (30 staff) of the Ministry of Commerce, Industry and Tourism and the relevant tests are carried out by the Higher Technical Institute (86 staff). The Competition and Consumer Service is also the competent authority for the implementation of the legislation relating to Glass, Textiles and Footwear and the necessary tests are carried out by the State General Laboratory (89 staff) or by private laboratories. The establishment for an approved body is currently under examination. The Competition and Consumer Protection Division of the Ministry of



Commerce, Industry and Tourism requires reinforcement both with regard to human resources and equipment.

For pharmaceuticals, the competent authority for the implementation of the relevant legislation is the Drugs Council, which acts as the drugs Regulatory Body, under the Ministry of Health. The Department of Pharmaceuticals Services (178 staff), the State General Laboratory and the Department of Veterinary Services (227 staff) of the Ministry of Agriculture are also involved in the implementation of the legislation

The implementation of legislation regulating foodstuffs is the responsibility of the Health Services (38 staff) of the Ministry of Health and it is not expected to cause particular problems.. The State General Laboratory is currently responsible for the carrying out of analyses for the control of foodstuffs.

Cyprus decided to establish the Type Approval Authority for motor vehicles within the Ministry of Communications and Works and to examine the necessary structures of this Authority and of the technical units. Testing laboratory capacity must increase in certain areas, such as manufacture of silencers and oil filters.

*In the area of foodstuffs, cosmetics, motor vehicles and pharmaceuticals the competent authorities are already in place. However, restructuring and strengthening of these authorities is needed in some cases.*

The Department of Labour (152 staff) of the Ministry of Labour and Social Insurance, is responsible for the legislation regarding Dangerous Substances and Dangerous Preparations. Generally, administrative structures must be developed and strengthened for the enforcement of the acquis in the chemicals sector. In particular, a national authority/institution must be set up for the evaluation of technical dossiers in the framework of the notification procedure for new dangerous substances. Suitable provisions for testing facilities and training of staff must be made in the area of Detergents. An accreditation scheme is being promoted to operate in combination with Good Laboratory Practices.

The Weights and Measures Services (staff of 5) of the Ministry of Commerce, Industry and Tourism is the responsible authority for the implementation of the acquis in respect of legal metrology and pre-packaging. The necessary metrology infrastructure has to be established

For Electrical Equipment, various Government Services are involved such as the Electrical Mechanical Services (525 staff) of the Ministry of Communication and Works, and the Department of Labour of the Ministry of Labour and Social Insurance. The establishment of notified bodies in connection with the low voltage directive and the electromagnetic compatibility for electrical equipment is currently under examination

For machinery, lifts, personnel protective equipment and pressure vessels, the implementation of legislation is vested with the Department of Labour of the Ministry of Labour and Social Insurance and the Electrical and Mechanical Services of the Ministry of Communications and Works. Appropriate structures need to be established

*Market surveillance* responsibilities for Machinery, Lifts, Personal Protective Equipment, Equipment in Explosive Atmospheres will be vested with the Factory Inspectorate of the Department of Labour (Ministry of Labour and Social Insurance), whereas for Pressure Vessels, with the Departments of Labour and Electrical and Mechanical Services of the Ministry of Communications and Works.

Market surveillance in the fields of toy safety and electrical equipment designed for use within certain voltage limits is carried out by the Competition and Consumer Protection Division of the Ministry of Commerce, Industry and Tourism. The necessary laboratory tests are carried out at the Higher Technical Institute, the University of Cyprus, the State General Laboratory, the Electricity Authority and the Electrical and Mechanical Services. These institutions are well equipped and manned with professional staff. Nevertheless the capacity should be strengthened with additional equipment.

For Medical Devices market surveillance will be with the Ministry of Health, for Recreational Craft, the Ministry of Communications and Works and for Explosives for Civil Uses, the Mines Department of the Ministry of Agriculture, Natural Resources and Environment.

As regards *notified bodies* technical assistance will be secured from EU member states and the European Commission. It is expected that existing accredited independent bodies notified to the EU will be extensively used, especially in the cases where no local manufacturing exists. The review will also cover the market surveillance systems to be introduced, in order to adopt practical improvements of their performance and efficiency.

Notified bodies concerning medical devices may not be required, as there is no manufacture of such devices in Cyprus. In any case, the competent authority for the implementation of legislation in this area is the Ministry of Health, which co-operates closely with the Electrical and Mechanical Services of the Ministry of Communications and Works and CYS.

Regarding laboratory and testing centres infrastructure, the approach of the Cyprus Government is to upgrade existing laboratories where feasible, or to encourage the creation of new ones by the private sector. In the meantime, the Government will be providing incentives encouraging the use of accredited European laboratories and testing centres by local manufacturers. Preliminary discussions have already been initiated with ELOT (the Hellenic Organisation for Standards).

The Cyprus Council for the Recognition of Higher Education Qualifications and the Department of Labour (152 staff) and the Department of Social Insurance (286 staff) of the Ministry of Labour and Social Insurance in co-operation with the Industrial Training Authority, made up of 68 employees, are responsible for the implementation of the acquis.

The Council, decides on issues of *recognition of diplomas*, issues the relevant certificates and advises the Minister of Education on all relevant issues contained in international and transnational agreements. It also draws up suggestions on the preparation of national regulations relating to procedures, requirements and the methodology for the recognition of diplomas. Finally it appoints committees of experts for the examination of diplomas, decides on the matters proposed by such committees and informs all parties concerned. The Ministry of Interior (130 staff) is the responsible

authority for the adoption and the implementation of the *acquis* regarding residence permits, students' rights and voting rights. With regard to the employment of non-nationals, the responsibility is shared between the Ministry of Interior and the Ministry of Labour and Social Insurance. The Department of Social Insurance is responsible for the co-ordination of social security schemes. The administrations of the Ministry of Justice and Public Order (59 staff) and the Ministry of Communications and Works (60 staff) are also responsible for the implementation of the *acquis*.

The necessary regulatory and supervisory bodies for the different financial sectors have been established.

In the field of *banking*, the competent division of the Central Bank (307 staff) employs qualified personnel and has the necessary expertise in supervision for both onsite examination and offsite. The performance of banks is continuously assessed with special emphasis on capital and liquidity adequacy, quality of loan portfolio, and the avoidance of concentration of risks, monitoring of foreign currency operations, profitability and adequacy of internal control systems. Furthermore all commercial banks, all of which are already operating in the EU, possess the prerequisites in terms of experience, human resources and technological infrastructure to cope well within the competitive environment of the single market.

With respect to the Deposit Protection Scheme, a Board will be established to administer the scheme under the auspices of the Central Bank.

In order to ensure an efficient system for the supervision of *insurance* companies, an increase in personnel is already approved by the government and foreseen in the budget. The Insurance Companies Control Service (12 staff) possesses in general, the expertise in prudential supervision and is staffed with qualified personnel. Insurance companies are also required to prepare financial statements and submit them to the Service within six months of the close of the period to which the accounts relate. These accounts comply with the International Accounting Standards and have to be accompanied by an auditor's report before being carefully examined by the Service, in particular with regard to solvency, share capital adequacy, and reserving for unexpired risks and outstanding claims. The implementation of the Service should be enhanced through its full computerisation, the training of its staff and the recruitment of additional staff.

The Cyprus Stock Exchange has recently increased its staff to 38 in order to ensure compliance with the requirements of the *securities* and stock exchange laws and regulations with respect to clearance and settlements of transactions, including supervision of prospectuses information and ongoing obligations of issuers. However, certain gaps must be filled to ensure the ability of the Stock Exchange to exchange information and cooperate with other competent authorities.

The effective implementation and enforcement of Cyprus' comprehensive legislation on prevention of the use of the financial system for the purpose of money laundering is successfully monitored by the Unit for Combating *Money Laundering* (MOKAS). composed of 9 officers (3 attorneys from the Law Office of the Republic, 3 police officers and customs officers. Since then MOKAS, has achieved several freezing orders, disclosure court orders, prosecutions and convictions. Since then, 136 cases were reported to MOKAS, which obtained 6 freezing orders worth approximately EUR 13.3m and 118 disclosure court orders. In June 1998, MOKAS was recognised as a member of the

Egmont Group and signed a memorandum of understanding for the exchange of information with the Belgian Unit while it is in the process of signing a similar memorandum with the French Unit. In the course of its investigative functions, the Unit is assisted by the Financial Crime Unit of the Police (13 staff) and the Investigation Section of the Customs Department.

**Competition:** The authority and independence of the Commission for the Protection of Competition (CPC) need to be further strengthened by the enactment of the Protection of Competition Amendment Law. The seven-member CPC has investigative powers and may impose fines of up to 10% of an enterprise's annual turnover. The CPC is supported in investigations by the Competition and Consumer Protection Service (CCPS) of the Ministry of Commerce, Industry and Tourism. CCPS has a staff of 30 people, out of whom 5 qualified officers deal exclusively with competition matters, which is considered insufficient. The amended law provides for new staff for the CPC.

At present, there is no *State Aid* monitoring Authority which still needs to be set up.

**Telecommunications:** On Telecommunications which falls under the competence of the Ministry of Communications and Works (staff 60) and the Cyprus Telecommunications Authority (CyTA semi-governmental organisation staff 2379), the government is proceeding with the establishment of a national regulatory authority for telecommunications by December 2001. The early set up of the authority of the sector is necessary for the sector's performance and the implementation of the *acquis*. Regarding postal services the establishment of a national regulatory authority legally separate and functionally independent is still pending.

**Audiovisual services :** Already in line with Community *acquis*, Cyprus' legislation, structures and practices provide the framework for the implementation of the *acquis* in cultural policy. The Cultural Services Division (37 staff) of the Ministry of Education and Culture is the competent department for formulating and implementing national policy in the field of the letters and the arts. The Department of Antiquities (300 staff) of the Ministry of Communications and Works is responsible for the maintenance and protection of the cultural heritage while the Department of Town Planning and Country Planning of the Ministry of Interior (277 staff) is responsible for the preservation and rehabilitation of buildings of cultural significance.

On audiovisual policy the Cyprus Radio-Television Authority (est. 05/1998) with a staff of six, set to increase by the end of 1999 to twelve, is assigned with the implementation of the relevant legislation and with monitoring broadcasters. The Cyprus Broadcasting Corporation, the public broadcaster, has this year activated self-regulating mechanism.

**Taxation:** The VAT Department (141 staff) is a modern administrative unit (VAT was introduced in 1992), computerised, with competent personnel and has adequate capacity to implement the *acquis*. The administrative system of control of VAT is based on central administration with local control and there are currently four regional offices, one in each major town of Cyprus. They are responsible for providing information to traders, registering taxable persons and carrying out control visits and are all linked to the computer mainframe. In the area of VAT control, there will be considerable new recruitments by the end of 1999 which will increase VAT personnel by 65% and VAT control officers by more than 150%. Furthermore, a computerised system for control visits will be purchased and extensive training of control officers will continue.

The technical and administrative structure requires further improvement and the training of customs officers must continue.

The Department of Inland Revenue (560 staff) which is the authority responsible for the administration of direct taxation is staffed with qualified personnel. In addition, its systems are computerised with regard to the issuing of income tax returns, raising of assessments and collection of taxes.

*The existing administrative structure is not sufficient in terms of human technical and financial resources to be able to implement the acquis effectively*

**Agriculture:** The Ministry responsible for the formulation and implementation of agricultural policy is the Ministry of Agriculture, Natural Resources and Environment (MANRE). Although a lot of issues on the marketing side are the responsibility of the Ministry of Commerce, Industry and Tourism (eg. standards, producer organisations, marketing boards, etc.), it is the MANRE through its various departments (Agriculture, Veterinary Services, Water Development, Geological Survey, Agricultural Research, Forests, Metereological Services) that bears most of the responsibilities for the implementation of the CAP and the agricultural sector acquis.

The MANRE has already embarked on an effort (through studies, training of personnel, study visits, etc.) to upgrade its services, and to streamline all necessary institutional changes for the taking up of the acquis. Such as the setting up of a paying agency and the intervention mechanisms.

The Department of Veterinary Services of the Ministry of Agriculture. Natural Resources and Environment assumes the responsibilities for veterinary issues. The institutional capacity also needs strengthening in will the area of veterinary border controls.

**Fisheries :** The Department of Fisheries (66 staff) of the Ministry of Agriculture, Natural Resources and Environment is responsible for the fisheries sector. The Department of Merchant Shipping (71 Staff) of the Ministry of Communications and Works and the Administration (286 staff) of the Ministry of Commerce, Industry and Tourism are also responsible for the implementation of the acquis in this area.

Within the Fisheries Department, there is a specialized Inspectorate Service comprising of 11 inspectors and possessing two (2) patrol fast boats. The Service maintains District Offices in the three main coastal towns which carry out regular patrolling of the coastal fishing zone (sea and land patrols) as well as on the spot checks at the three ports and six fishing shelters where nearly all catch is landed. The Fisheries Department's administrative structure must be adjusted before accession in such a way as to enable it to better monitor and control the fishing activity. Cyprus will not create an independent vessel monitoring station. In stead, Cyprus is about to conclude an agreement with Spain whereby the latter will carry out satellite surveillance of Cyprus-flag vessels fishing in the high seas.

**Energy:** The Ministry of Commerce, Industry and Tourism (286 staff) is the competent authority for all energy matters and its Energy Division (5 staff) has the overall responsibility for implementing the acquis in this area. Regarding nuclear energy, the Ministry of Labour and Social Insurance (1497

staff) assumes responsibility for the supplies and safeguards components, while the Ministry of Foreign Affairs (222 staff) has the responsibility for the external relations component.

There is only one oil refinery in Cyprus is located in a tourist site, which needs to be upgraded in order to meet the requirements of the directives on unleaded petrol and on storage of the security stocks thought to be five times greater than the existing capacity.

Cyprus has to improve overall administrative capacity in the energy sector. It has particularly to establish an appropriate and efficient mechanism for regulation as required under the electricity and gas directives.

**Transport:** The Civil *Aviation* Department of the Ministry of Communications and Works which employs 977 persons, carries out the tasks of a Civil Aviation Authority and of the air traffic control service provider. Compliance with the Joint Aviation Requirements (JAR) on technical harmonisation is already effected through the provision of services by the UK Civil Aviation Authority. The terms of reference have been prepared for the elaboration of a comprehensive three-year action plan so as to achieve compliance with Community aircraft maintenance standards and flights operations inspections.

There is need to improve significantly the *maritime* safety performance through the strengthening of the maritime administration (Department of Merchant Shipping and Cyprus Ports Authority, training, the effective implementation of international safety conventions and codes and further expansion of the world-wide network of ship inspectors as the main area of concern is the safety record of the fleet. To this effect, the number of staff at the Department of Merchant Shipping (Ministry of Communications and Works) has increased from 64 in 1997 to 71 in 1998.

The main responsibility for administering and enforcing the *acquis* in the field of *land transport* lies with the Road Transport Department (167 staff), the Electrical and Mechanical Services (525 staff), and the Public Works Department (1592 staff) of the Ministry of Communications and Works. The Department of Labour (152 staff) of the Ministry of labour and Social Insurance is the competent authority for enforcing legislation on driving and rest periods. Finally, the Customs and Excise Department (454 staff) of the Ministry of Finance is the institution responsible for transport authorisations.

The implementation of technical and safety requirements is a major task taking into account the past experience of those Member States which had no legislation for the transport of dangerous goods.

**Employment and social policy:** The competent authority for labour legislation is the Ministry of Labour and Social Insurance (MLSI). The implementation capacity of the Labour Inspectorate (MLSI) needs to be strengthened both in terms of personnel training and technical equipment.

The sound industrial relation system of Cyprus and the long-standing practice of *social dialogue* may facilitate the implementation of the *acquis*. A network of tripartite bodies exists at all levels and on issues, such as the Labour Advisory Body, the Board of Industrial Training Authority and the Safety and Health Council. The Government is currently examining the establishment of an Economic and Social Committee.

The Ministry of Justice and Public Order (MJPO) is responsible for equal opportunities issues. The National Machinery for Women's Rights, coming under the MJPO provides advice to policy-makers. The Ministry of Labour and Social Insurance is the competent authority for the promotion of equal treatment and equal opportunities in the social and employment field. The judiciary and the Ombudsman's Office (19 staff) secure the enforcement of the legislation in this area. Sanction mechanisms concerning *equal opportunities* are not yet fully effective.

Additionally the Industrial Relations code sets out the principles and procedures for collective bargaining and settlement of labour disputes including disputes arising from interpretation and implementation of collective agreements or the examination of individual complaints. These structures need to be reinforced by an Equality Committee to deal with issues relating to access to employment, vocational training, promotion, equal pay and conditions of employment.

The Ombudsman as well as the National Organisation for the Protection of Human Rights -an independent body- are empowered to examine complaints about violation of human rights.

To ensure proper and effective management of the European Social Fund, the strengthening of the Department of Labour as well as the training of government officials and social partners needs to be envisaged. Consultations have already started between the MLSI and the Commission for the co-operation in the field of ESF actions.

The administrative capacity of the Labour Inspectorate, within the Department of Labour (Ministry of Labour and Social Insurance) which has the overall responsibility concerning *Health and Safety* at Work, was strengthened by the recruitment of 7 additional staff. The improvement of the administrative capacity of the Department of Merchant Shipping (Ministry of Communications and Works) is needed to ensure implementation of the relevant directive concerning medical treatment on board.

**Regional policy and cohesion:** Responsibilities are clearly defined under the co-ordination of the Planning Bureau, which will be in charge of implementing the structural and cohesion Funds. The Planning Bureau has horizontal experience of the Development Fund, which is under its responsibility. It has the necessary skills to adapt its framework. The Ministry of Interior is appointing the District Officers, who are supervising local administration. Municipalities are associated to the implementation of town and country planning policies by the relevant department. Due to the size of the country, partnership on structural policy issues can be organised quite easily by the Planning Bureau.

The necessary budgetary procedures for the implementation of the EU regional policy are in line with Community standards, with the exception of some limited adaptations. The existence of a development budget with a pluri-annual dimension, covering all the State spending on investment will greatly facilitate the implementation of Structural and Cohesion funds. It also has the experience of co-financing public utilities projects with local authorities.

An evaluation system is already implemented within the planning system. The Planning Bureau will adapt its system according to the structural funds regulations before accession.

**Environment:** The Ministry of Agriculture, Natural Resources and Environment (MANRE) is responsible for most of the areas covered by the *acquis*. The Ministry of Interior is responsible for the civil defence aspects of the *acquis*, the civil defence infrastructure are currently being strengthened.

The Ministry of labour and Social Insurance (MLSI) is responsible for *air quality*. In respect of emissions from mobile machinery, the Ministry of Communications and Works will be the type-approving and implementing authority, it has the expertise to implement the *acquis*.

The MANRE is the competent authority for issues related to *waste* oils, disposal of PCBs and PCTs, with the exception of issues relating to incineration which come under the MLSI. Work on an inventory of contaminated equipment in the private sector will be completed, and a decontamination programme prepared.

Domestic Solid Waste Management is the responsibility of local authorities. The strategy is to put programmes in place to manage waste in a sustainable manner. They will include the full assessment of the situation of waste covered by the European Waste Catalogue and waste management programmes. Investments in the order of 100 MEURO are envisaged in this sector.

With respect to the supervision and control of shipment of waste, the strengthening and technical improvement of the administrative structures (MANRE, Ministry of Communications and Works, Ministry of Finance) will be needed.

The MANRE is responsible for implementing the *acquis* in the *water* sector with the exception of the aspects relating to urban waste water, falling under the competence of Ministry of Interior and Sewage Boards. In this respect, considerable investments are required, the majority of which are already committed.

The management authority in the area of the trade in endangered species will continue to be the MANRE Environment Department and appropriate scientific authorities should be appointed.

The competent authorities to implement the *acquis* in respect of *industrial pollution* are the MANRE and MLSI, additional resources should be made available to enhance their capacity for control and inspection.

The Cyprus Organisation of Standards and Control of Quality – which will be the Accreditation institution- is already involved in Quality Systems Certification (ISO-9000) and is moving towards certification of an environment management system (ISO-14000 and EMAS).

The environment service of the Ministry of Agriculture, Natural Resources and Environment (MANRE) is currently understaffed and the spheres of competence between the institutions involved in environmental policy are not always clearly defined. Since the last regular report Cyprus has produced proposals to address both issues, which are currently being considered within government. Given the limited staffing and the size of the country the additional administrative demands of the accession process might be difficult to meet without reinforcement of the existing structures.



**Consumer protection:** The Competition and Consumer Protection Service of the Ministry of Commerce, Industry and Tourism is the competent authority in the field of consumers and health protection. It has a staff of 30 qualified people out of whom 25 officers dealing with consumer protection. The reinforcement of the Service is under study and in the meantime the existing staff is trained accordingly.

The two other supporting institutions are the Higher Technical Institute (121 staff) and the General State Laboratory (GSL) (89 staff). The latter will inevitably need further reinforcement mostly in terms of personnel in order to fulfil its tasks.

**Justice and home affairs:** Senior officials participate in various seminars in virtually all the issues covered by the JHA *acquis*.

The institutional system regarding migration is composed by the Immigration Control Board composed of representatives of the ministries of interior foreign affairs Labour, commerce and tourism. The Migration officer is the main authority for migration policy, under the Ministry of Interior. He is responsible for aliens registration and control and for the issue of alien permits. The Aliens and Immigration department of the Police is responsible for the enforcement for aliens immigration policy under the Ministry of Justice. It has a central unit in Nicosia under the authority of the Chief of Police and comprises duties related to border control, aliens registration, issuing of visas at the port of entry and control of deportations. The Police has set up a computerised. Central Registry of aliens and statistics on illegal migration. Cyprus is proceeding with the installation of an Automated Fingerprint Identification System. The Customs and Excise Department co-operate with the Police in the exchange of information and surveillance of coastal areas.

Co-operation between the different ministries seems to be satisfactory. The competent authorities are currently considering whether the reallocation of responsibilities for the issuing of work, study and other permits for third nationals is necessary for reasons of efficiency and speed. A major involvement of the Department of Labour and Social Welfare Services could assist in coping with the social problems posed by migrant workers and vulnerable groups. Upgrading of the existing computer network in the Department of Justice and Public Order will be necessary in view of the establishment of the Schengen Information System.

Upon the enacting of the Bill on Refugees, Cyprus should set up a Refugee Authority and secure training of appropriate officers. Consultations already started with UNHCR which offered to provide technical assistance. It is also envisaged to equip the Authority with the necessary technology so as to have access to UNHCR Geneva data bank.

In the area of border management, Cyprus is proceeding with the purchase of exit/entry post equipment. Equipment for detecting forged documents at points is also needed.

A clear delineation of organisational and executive responsibilities between the Ministry of the interior and the Police and the MFA and strengthening of the personnel through training and personnel recruitment will be necessary. 30 Cypriot officers participated in the “Mediterranean Borders” seminar organised in the framework of ODYSSEUS programme. A project of computerisation of the Customs Department in order to facilitate the exchange of information and the operation of the SIS is expected to be completed in two years.

The incidence of criminality in the Republic of Cyprus is extremely low. A total of 4318 serious crimes were recorded in 1998, of which 77.95% were detected. Cyprus' recorded crime rate at 600 crimes per 100,000 head of population is one of the lowest in the world.

Organised Crime is not believed to be prevalent within the island, however the lack of proactive targeting of suspected individual and groups means that there may well be a small number of hidden Organised Crime Groups operating in, or transcending the Republic. The attractiveness of the island, its climate, wealth and living standards means that it may become a haven for Organised Criminal Groups, particularly with its geographic position close to the former Soviet Union and the Balkan Route. Proactive enforcement and active intelligence gathering are required in order to prevent organised crime from becoming a problem.

Two major institutions are responsible for law enforcement in the Republic of Cyprus; the Cyprus Police and the Customs and Excise department. Total operational staff of all Cyprus police is 4288 persons (one police officer per 160 people) The Cyprus Police is a well-established and stable institution. Officers are well trained and instances of corruption are rare. Some institutions need to be established such as a Europol Office, ideally co- located with the Interpol Office. The force is well funded having an annual budget of Cy£80,400,191 for the current financial year.

To enhance its capacity to fight against crime, Cyprus Police has recently taken several measures from the set up of specialised units i.e. “The Crime Intelligence Unit”, the “Crime Prevention Squads”, and the “Drug Law Enforcement Unit”, the “Mobile Immediate Action Unit” to the recruitment of university educated specialists including sociologists, criminologists and psychologists. In order to combat organised crime certain institutions could be created such as a central national intelligence agency to analyse and disseminate intelligence to all operational law enforcement and intelligence agencies.

A pro-active capability must be developed to target individuals suspected of being responsible for the most serious offences. The above two units must work closely with the Unit for Combating Money Laundering to jointly tackle investigations. This will lead to a robust approach in the investigation of money laundering offences, as well as utilising financial investigatory skills. The Unit may require additional staff to undertake this increased workload. This should lead to the unit investigating more than suspicious transactions reported by the Central Bank, and will require a shift of resources. Active investigation of suspicious offshore companies may reveal criminality and organised crime. The Unit should have access to relevant data held by the police and customs to ensure that investigations are conducted efficiently and that they do not overlap.

The exchange of intelligence and working relationship between the Police and the Customs services is effective.

Cyprus maintains a very good co-operation with its neighbouring countries in the field of combating drugs trafficking, however, it will have, in the harmonisation context, to set up a National Drugs Monitoring Centre.

The implementation of the EU *acquis* in the field of judicial co-operation need to be ensured. Officials from the Ministry of Justice participated in seminars under the Octopus II programme and 9

Judges already attended TAIEX seminars on EU law (there are no established training programmes on European Law).

**Customs:** The Customs and Excise Department is supervised by the Ministry of Finance. There are currently 302 Customs officer operating from three Collections plus headquarters. The annual budget is Cy£5,500,000. Important efforts are required regarding the computerisation of the Custom services.

**Financial Control:** *External* financial control is carried out by the Auditor General, head of the Audit Office. The Office of the external auditor possesses the necessary expertise and is adequately staffed with qualified personnel. It has a manpower of 110 auditors and 10 administrative staff. About a third of the Staff possesses accounting qualifications at university or professional level.

The Accountant General is responsible for *internal* financial control and the introduction and maintenance of accounting systems. This is carried out by the Internal Audit Directorate of the Treasury, a functionally independent body, which has recently been reorganised and strengthened by the recruitment of professionally qualified accountants, who carry out their work in accordance with International Auditing Standards. The Government is currently in the procurement stage of an integrated computerised management and accounting system (FIMAS).

As regard own resources, the Customs and Excise Department is responsible for the establishment and collection of import duties, excise and import VAT, whereas the VAT service is responsible for the administration of the VAT. Several enforcement methods are available in cases where the audit control reveals evasion. The enhancement of the administrative capacity of these control mechanisms is secured through the provision of continuous training and the recruitment of additional staff (for the VAT Service).

An administrative co-operation arrangement has been signed between the Ministry of Finance and the Commission aiming at the co-operation in the conduct of audits of management of EU projects/programmes in Cyprus.

## C. Conclusion

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

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

Since the last Regular Report, the Republic of Cyprus has enjoyed rapid economic growth, while inflation has been contained. However, recent growth has depended upon domestic rather than external demand, and there is increasing evidence of macroeconomic and financial imbalances. In particular, the serious deterioration of both the current account and the fiscal account, coupled with the unsustainable growth of stock market valuations are causes for concern. The successful passage of the government's tax proposals will help reduce domestic demand, bridge the fiscal deficit and ease pressure upon the current account.

Cyprus should renew efforts in the areas of structural reform and deregulation. In recent years, progress towards privatisation has been slow, and the process needs to be accelerated. Further capital account liberalisation will enhance the competitiveness of the banking sector. The removal of the 9 % interest ceiling is long overdue, and it should be removed at the earliest opportunity. It is also important that the government takes the necessary fiscal measures to ensure macroeconomic stability. While involving certain short-term costs, the integration of the north of Cyprus would improve the growth prospects of the island, and enhance its attractiveness as a destination for foreign direct investment.

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

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

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

**HUMAN RIGHTS CONVENTIONS RATIFIED BY THE CANDIDATE COUNTRIES, JUNE 1999**

<i>Adherence to following conventions and protocols</i>	<b>BG</b>	<b>CY</b>	<b>CZ</b>	<b>EE</b>	<b>HU</b>	<b>LV</b>	<b>LIT</b>	<b>MT</b>	<b>PL</b>	<b>RO</b>	<b>SK</b>	<b>SV</b>	<b>T</b>
<b>CHR</b> (European Charter for Human Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 1 (right of property et al.)	X	X	X	X	X	X	X	X	X	X	X	X	X
Protocol 4 (freedom of movement et al.)	O	X	X	X	X	X	X	X	X	X	X	X	O
Protocol 6 (death penalty)	O	O	X	X	X	X	X	X	O	X	X	X	O
Protocol 7 (ne bis in idem)	O	O	X	X	X	X	X	O	O	X	X	X	O
<b>European Convention for the Prevention of Torture</b>	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>European Social Charter</b>	O	X	O	O	X	O	O	X	X	O	X	O	X
<b>Revised European Social Charter</b>	O	O	O	O	O	O	O	O	O	X	O	X	O
Additional Protocol to the EC (system of collective complaints)	O	X	O	O	O	O	O	O	O	O	O	O	O
<b>Framework Convention for National Minorities</b>	X	X	X	X	X	O	O	X	O	X	X	X	O

<b>CPR</b> (International Covenant on Civil and Political Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
Optional Protocol to the CPR (right of individual communication)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
Second Optional Protocol to CPR (abolition of death penalty)	X	O	O	O	X	O	O	X	O	X	O	X	X	O
<b>ESCR</b> (International Covenant on Economic, Social and Cultural Rights)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CAT</b> (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>ICERD</b> (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
<b>CEDAW</b> (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
<b>CR</b> (Convention on the Rights of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X	X

X = Convention ratified

O = Convention NOT ratified

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

## **Annex**

### STATISTICAL DATA



STATISTICAL DATA<sup>10</sup>

	1994	1995	1996	1997	1998
<b>1.1.1.1. Basic data</b>	in 1000				
<b>Population (end of the year)</b>	638	645	652	658	663
	Km <sup>2</sup>				
<b>Total area</b>	9251	9251	9251	9251	9251
<b>National accounts</b>	1000 Mio Cypriot Pound				
<b>Gross domestic product at current prices</b>	3.7	4.0	4.1	4.3	4.7
	1000 Mio EURO				
<b>Gross domestic product at current prices</b>	6.3	6.7	7.0	7.4	8.1
	EURO				
<b>Gross domestic product per capita<sup>11</sup> at current prices</b>	9900	10500	10800	11400	12200
	% change over the previous year				
<b>Gross domestic product at constant prices</b>	5.9	6.1	2.0	2.5	5.0
	in Purchasing Power Standards				
<b>Gross domestic product per capita<sup>2</sup> at current prices</b>	:	:	:	14787	:
	in % of Total Gross Value Added				
<b>Structure of production</b>					

<sup>10</sup> Data provided by Cyprus (see Sources) refer to the Government controlled area only, with the exception of data on area which refer to the whole of Cyprus.

<sup>11</sup> Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

- Agriculture	5.2	5.3	4.9	4.3	4.6
- Industry (excluding construction)	15.6	15.0	14.8	14.3	13.9
- Construction	9.4	9.0	9.0	8.4	8.0
- Services	69.8	70.7	71.3	73.0	73.5
<b>Structure of expenditure</b>					
<b>as % of Gross Domestic Product</b>					
- Final consumption expenditure	74.5	76.1	79.1	80.6	82.7*
- household and NPISH	57.8	59.7	61.1	62.0	63.4*
- general government	16.7	16.4	18.0		
- Gross fixed capital formation	20.6	19.3	20.4	18.4	17.7*
- Stock variation (including discrepancies)	5.3	7.9	7.0	6.5	7.1
- Exports of goods and services	47.7	46.8	46.9	47.0	43.5*
- Imports of goods and services	48.1	50.1	53.4	52.5	51.0*
<b>Inflation rate</b>					
<b>% change over the previous year</b>					
Consumer price	4.6	2.6	3.0	3.6	2.2
<b>Balance of payments</b>					
<b>Mio EURO</b>					
-Current account	63	-131	-375	-299	-537
-Trade balance	-1 459	-1 594	-1 720	-1 827	-2 175
<i>Exports of goods</i>	813	939	1 097	1 099	955
<i>Imports of goods</i>	2 272	2 534	2 817	2 926	3 130
-Services, net (excluding transfers and income)	1 500	1 398	1 352	1 509	1 632
-Income, net	-75	-23	-100	-73	-94
-Net current transfers	97	90	93	91	101

<b>- of which : government transfers</b>	13	15	14	15	23

	1994	1995	1996	1997	1998
<b>1.1.1.2.Public finance</b>	<b>in % of Gross Domestic Product</b>				
<b>General government deficit/surplus <sup>12</sup></b>	-1.3	-0.9	:	:	:
<b>Financial indicators</b>	<b>in % of Gross Domestic Product</b>				
<b>Gross foreign debt of the whole economy</b>	65.6	60.7	64.7	91.9	80.0
<b>Monetary aggregates <sup>13</sup></b>	<b>in 1000 Mio EURO</b>				
- M1	1.0	1.0	1.1	1.2	1.3
- M2	5.8	6.3	7.0	8.0	8.3
- Total credit	6.1	6.9	7.9	9.0	10.3
<b>Average short-term interest rates</b>	<b>% per annum</b>				
<b>Lending rate</b>	8.8	8.5	8.5	8.0 <sup>14</sup>	8.0 <sup>15</sup>
<b>Deposit rate</b>	5.8	5.8	5.8	:	:
<b>EURO exchange rates</b>	<b>(1EURO=...National currency)</b>				
- Average of period	0.5839	0.5916	0.5919	0.5826	0.5774
- End of period	0.5850	0.5990	0.5890	0.5803	0.5818
	<b>1990=100</b>				
- Effective exchange rate index	109.6	113.8	116.0	116.9	123.2
<b>Reserve assets</b>	<b>Mio EURO</b>				

<sup>12</sup> Central government only.<sup>13</sup> November 1998 data.<sup>14</sup> National source.<sup>15</sup> National source; effective as from March 1998.

<b>-Reserve assets (including gold)</b>	1334	985	1360	1382	1371 <sup>3</sup>
<b>-Reserve assets (excluding gold)</b>	1191	850	1231	1260	1250 <sup>3</sup>
External trade					
<b>Mio EURO</b>					
<b>Imports</b>	2074	2268	2475	2544	2736*
<b>Exports</b>	375	404	385	378	383*
<b>Balance</b>	-1699	-1864	-2090	-2166	-2354*
<b>corresponding period of the previous year = 100</b>					
<b>Terms of trade</b>	:	:	:	:	:
<b>as % of total</b>					
<b>Imports with EU-15 (EU-12 in 1994)</b>	55.5	59.0	57.2	56.3	61.9*
<b>Exports with EU-15 (EU-12 in 1994)</b>	52.2	59.0	55.4	48.0	50.4*
Demography					
<b>per 1000 of population</b>					
<b>Natural growth rate</b>	<b>8.6</b>	<b>7.7</b>	<b>7.2</b>	<b>6.3</b>	<b>5.3</b>
<b>Net migration rate</b>	<b>1.0</b>	<b>0.6</b>	<b>-0.3</b>	<b>0.6</b>	<b>2.1</b>
<b>per 1000 live-births</b>					
<b>Infant mortality rate</b>	8.6	8.5	8.3	8.0	:
<b>at birth</b>					
<b>Life expectancy :</b>	:	75.3	:	75.0	:
<b>Females</b>	:	79.8	:	80.0	:

	1994	1995	1996	1997	1998
<b>1.1.1.3.Labour market (ILO methodology)</b>	<b>% of labour force</b>				
<b>Economic activity rate</b>	61.0	62.0	62.0	61.3	61.5*
Unemployment rate, total	2.7	2.6	3.1	3.4	3.3*
<b>Unemployment rate of persons &lt; 25 years</b>	2.6	2.3	2.7	3.2	3.0*
<b>Unemployment rate of persons &gt;= 25 years</b>	2.7	2.7	3.1	3.5	3.4*
<b>Average employment by NACE branches (LFS)</b>	<b>% of total</b>				
- Agriculture and forestry	11.0	10.8	10.5	9.5	9.6*
- Industry (excluding construction)	17.1	16.3	15.5	15.0	14.5*
- Construction	9.1	9.1	8.9	8.8	8.5*
- Services	62.8	63.8	65.1	66.7	67.4*
<b>Infrastructure</b>	<b>Km per 1000 Km2</b>				
<b>Railway network</b>	0	0	0	0	0
	<b>Km</b>				
<b>Length of motorways</b>	158	168	194	199	204*
<b>Industry and agriculture</b>	<b>previous year = 100</b>				
<b>Industrial production volume indices</b>	103.7	101.5	96.9	99.8	102.8*
<b>Gross agricultural production volume indices</b>	91.7	116.0	99.0	88.8	106.2*
<b>Standard of living</b>	<b>per 1000 inhabitants</b>				
<b>Number of cars</b>	330	341	348	357	375*
<b>Telephone subscribers</b>	518	538	562	587	609*

Number of Internet connections	:	:	:	:	50*

\* Provisional

: Not available

## 2. METHODOLOGICAL NOTES

Inflation rate

**Consumer price** The EU Member States have designed a new consumer price index in order to meet the obligations in Treaty of the EU, as a part of the preparations for the common currency. The aim was to produce CPIs comparable between Member States. The main task was to harmonise methodologies and coverage. The result was the Harmonised Index of Consumer Prices (HICP).

A similar exercise has been started with Candidate Countries. In respect to enlargement, it is equally important that their economic performance is assessed on the basis of comparable indices. Some progress has already been made towards adapting the new rules. However, it will still take some time before genuine HICPs will be available in Candidate Countries, and it must be emphasised that the figures reported in the table are based on national CPIs, which are demonstratively non-comparable.

Finance

Sources

Where possible, Eurostat questionnaire on monetary and financial statistics has been used as the source. Candidate Countries are asked to supply regularly an update of tables contained in the questionnaire. The statistics covered include *foreign official reserves, monetary aggregates, interest rates, and exchange rates*. Failing this, the IMF's 'International Financial Statistics' publication has been used as the source. The European Commission is used as the source for exchange rates against the EURO, where available.

Concerning *gross foreign debt*, the OECD External Debt Statistics publication has been used as the source for 1994-6. The data for 1997-8 are the result of closer cooperation between BIS/ IMF/ OECD/ World Bank, and published jointly by them. Debt is of the whole economy, and includes both short- and long-term. According to the convention, the stock of outstanding debt is converted from US dollars into EURO at end-year exchange rates, whereas GDP is converted into EURO using annual average exchange rates.

Concerning *general government deficit / surplus*, Candidate Countries are presently unable to provide reliable data on a national accounts basis. Given the lack of reliable data, an approximation for general government deficit / surplus is derived from the IMF's Government Finance Statistics Yearbook (for an explanation of methodology, see below).

## 2.1.Method

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

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

*Monetary aggregates* are end-year stock data. M1 generally means notes and coin in circulation plus bank sight deposits. M2 generally means M1 plus savings deposits plus other short-term claims on banks. Total credit generally means domestic credit to the government (net of deposits, including non-financial public enterprises), plus the private non-financial sector, plus other non-monetary financial institutions. It should be noted that the problem of measuring the circulation of foreign currency in some Candidate Countries may affect the reliability of the data.

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

*Exchange rates* Where available, the EURO exchange rates are those officially notified. The effective exchange rate index is weighted by major trading partners, with a base year of 1990.

### External trade

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

Imports are recorded on CIF basis, exports on FOB basis.

*Imports and exports with EU-15*. Data declared by the republic of Cyprus.

### Demography

*Net migration rate*. Crude rate of net migration (recalculated by EUROSTAT) for year X, is: population (X+1) - population (X) - Deaths (X) + Births (X). This assumes that any change in population not attributable to births and deaths is attributable to migration. This indicator includes therefore also administrative corrections (and projection errors if the total population is based on estimates and the births and deaths on registers). Figures are in this case more consistent. Further, most of the difference between the Crude rate of net migration provided by country and the one calculated by Eurostat is caused by an under reporting or delay in reporting of migration.

### Labour force

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



**Labour force: employed and unemployed persons in the sense of the ILO definitions stated below.**

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

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

- (i) have no work,
- (ii) are actively seeking a job
- (iii) are ready to take up a job within a fortnight.

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

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

#### 2.1.1.

#### 2.1.2. *Infrastructure*

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

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

- (a) is provided, except at special points or temporarily, with separate carriageways for the two directions of traffic, separated from each other, either by a dividing strip not intended for traffic, or exceptionally by other means;
- (b) does not cross at level with any road, railway or tramway track, or footpath;
- (c) is specially sign-posted as a motorway and is reserved for specific categories of road motor vehicles.

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

Industry and agriculture

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

***Gross agricultural production volume indices.* Gross agricultural production volume indices are calculated in constant prices of 1993. The quarter indices are calculation on the basis of the previous quarter.**

### 2.1.3. *Standard of living*

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

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

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

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

## Sources

**Total area, national accounts (exceptions: data for GDP are from Eurostat, except GDP in PPS which is from national source), balance of payment, external trade, labour market, infrastructure, industry and agriculture:** National sources.

**GDP (except GDP in PPS), inflation rate, public finance, finance, demography:** Eurostat.