



U.S. Department of State FY 2000 Country Commercial Guide: Cyprus

The Country Commercial Guides for Cyprus was prepared by U.S. Embassy Nicosia and released by the Bureau of Economic and Business in July 1999 for Fiscal Year 2000.

International Copyright, U.S. and Foreign Commercial Service and the U.S. Department of State, 1999. All rights reserved outside the United States.

TABLE OF CONTENTS

- I. EXECUTIVE SUMMARY
- II. ECONOMIC TRENDS AND OUTLOOK
- III. POLITICAL ENVIRONMENT
- IV. MARKETING U.S. PRODUCTS AND SERVICES
- V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT
- VI. TRADE REGULATIONS AND STANDARDS
- VII. INVESTMENT CLIMATE
- VIII. TRADE AND PROJECT FINANCING
- IX. BUSINESS TRAVEL
- X. APPENDICES:
 - A. COUNTRY DATA
 - B. DOMESTIC ECONOMY
 - C. TRADE
 - D. INVESTMENT STATISTICS
 - E. U.S. AND COUNTRY CONTACTS
 - F. MARKET RESEARCH
 - G. TRADE EVENT SCHEDULE

I. EXECUTIVE SUMMARY

This Country Commercial Guide (CCG) presents a comprehensive look at Cyprus' commercial environment, using economic, political and market analysis. The CCGs were established by recommendation of the Trade Promotion Coordinating Committee (TPCC), a multi-agency task force, to consolidate various reporting documents prepared by the U.S. business community. Country Commercial guides are prepared annually at U.S. embassies through the combined efforts of several U.S. Government agencies.

Cyprus' small, services-based economy recorded strong growth, declining inflation, and low unemployment in 1998. Specifically, growth reached 5.0 percent (from 2.5 percent in 1997), inflation fell to 2.2 percent (from 3.6 percent in 1997), and unemployment remained at the traditionally-low level of 3.3 percent. As in previous years, services (especially tourism) provided the main impetus for growth. Additionally, and in contrast to the previous two years, agriculture and manufacturing performed quite well in 1998.

By contrast, a growing fiscal deficit and deteriorating balance of payments constituted the Cypriot economy's two most noticeable weak areas in 1998. The public finance sector deteriorated further in 1998, with the deficit growing from 5.3 percent of GDP in 1997 to 5.5 percent in 1998 and moving further away from the Maastricht target of 3.0 percent. As a result, public debt continued to rise at a pace causing strong concern, reaching 60.0 percent of GDP from 56.6 percent. A package of fiscal measures designed to increase state revenue and reverse this trend is currently pending before the House of Representatives.

Despite a healthy increase in invisible receipts, fueled by increased earnings from tourism, the current account deficit increased considerably, from 4.0 percent of GDP to 6.7 percent, because of a large increase in the trade deficit. With total exports declining by 13.9 percent and total imports increasing by 6.0 percent, the trade deficit reached a record USD 2.5 billion (up 17.1 percent from 1997).

Cyprus has good business and financial services, modern telecommunications, an educated labor force, good airline connections, a sound legal system, and a low crime rate. Cyprus' geographical location, tax incentives, and modern infrastructure also make it a natural hub for companies looking to do business with the Middle East, Eastern Europe, the former Soviet Union and North Africa. As a result, Cyprus has a thriving international business sector. A more liberal regime for foreign investments and portfolio investment has been in place since 1997, complementing a modern Banking Law passed in the same year. Intellectual property is well protected with a modern copyright legislation (passed in 1994) and a modern patent law (passed in 1998).

Exports from the U.S. to Cyprus (including goods for re-export to third countries) have almost quadrupled in the last decade, from USD 128.9 million in 1989 to USD 460.5 million in 1998. This helped keep the U.S. at the top of the list of Cyprus' leading suppliers of imports for the fourth year in a row, with a 12.5 percent share of the market in 1998. Roughly two-thirds of U.S. origin goods exported to Cyprus in 1997 (about USD 305.9 million) were American cigarettes, the vast majority of which were re-exported to Eastern European countries.

Best prospects for U.S. goods in Cyprus include government and semi-government tenders in telecommunications equipment, medical equipment for a major new hospital, computer services, and desalination plants. Local municipalities are working on long-term plans for sewerage projects and plans for new highways and marinas are also underway. The island's private sector also has a growing appetite for U.S.-made office machines, computer software and data processing equipment. With the changes in Cypriot tariff regime, many other opportunities are opening up for exporters.

Full membership in the EU is one of the Government's foremost political and economic policy objectives. Cyprus, one of six countries scheduled for the EU's next enlargement, began accession negotiations with the EU on March 31, 1998. In view of this prospect, the Government has embarked on an extensive and far-reaching effort to harmonize Cypriot laws, standards and regulations with those of the EU. Although much progress has been made, Cyprus still has to address some of the thorniest issues on the road to harmonization, such as interest rate liberalization, abolition of state monopolies in air transport, and telecommunications, and the treatment of international business companies.

The political events of 1974 led to a de facto division of Cyprus into the South and an area in the North which declared itself in 1983 the "Turkish Republic of Northern Cyprus" ("TRNC"). This latter area is recognized only by Turkey. This report covers only the part of the island controlled by the internationally-recognized Republic of Cyprus.

Country Commercial Guides are available for U.S. exporters from the National Trade Data Bank on CD-ROM or through the Internet. Please contact STAT-USA at 1-800-STAT-USA for more information. Country Commercial Guides can be accessed via the World Wide Web at <http://www.stat-usa.gov>, <http://www.state.gov>, and <http://www.mac.doc.gov>. They can also be ordered in hard copy or on diskette from the National Technical Information Service (NTIS) at 1-800-553-NTIS. U.S. exporters seeking general export information/assistance and country-specific commercial information should contact the U.S. Department of Commerce, Trade Information Center by phone at 1-800-USA-TRADE.

II. ECONOMIC TRENDS AND OUTLOOK

Major Trends and Outlook

According to the World Bank's Development Report, Cyprus is ranked 16th in terms of per capita income adjusted for purchasing power parity. In 1998, the Cypriot economy recorded strong growth, declining inflation, and low unemployment. Specifically, growth reached 5.0 percent (from 2.5 percent in 1997), inflation fell to 2.2 percent (from 3.6 percent in 1997), and unemployment remained low at 3.3 percent. As in previous years, services provided the main impetus for growth. Additionally, and in contrast to the previous two years, agriculture and manufacturing performed quite well in 1998.

The Cypriot economy's two most noticeable weak areas in 1998 were a growing fiscal deficit and deteriorating balance of payments. The public finance sector deteriorated further in 1998, with the deficit growing from 5.3 percent of GDP in 1997 to 5.5 percent in 1998 and moving further away from the Maastricht target of 3.0 percent. (Note: Being one of six candidate for EU accession, the Government of Cyprus frequently compares its key economic statistics with the Maastricht criteria.) As a result, public debt continued to rise, causing strong concern, reaching 60.0 percent of GDP from 56.6 percent. A package of fiscal measures designed to increase state revenue and reverse this trend is currently pending before the House of Representatives.

Tourism, the island's engine of growth, generated revenue of USD 1.7 billion in 1998, up 4.2 percent from 1997. Tourist arrivals, 75 percent of which came from the EU, increased by 8.5 percent reaching 2,265,000.

Cyprus' thriving international business and shipping sectors provided another valuable source of foreign exchange in 1997. A total of 4,846 new international business companies registered in 1998 (compared to 5,260 in 1997) (previously known here as "offshore businesses"), raising the total number of international business companies registered here to 36,585, approximately one-half of which are active. About 26.9 percent of new permits were given to companies from the European Union (EU). The number of international business companies operating in Cyprus from fully-fledged and staffed offices recorded a small increase from 1,049 in 1997 to 1,055 in 1998. At least 30 of these fully-staffed international business companies are from the United States. Cyprus also has the sixth-largest ship register in the world, with more than 2,700 ships and 27.0 million Gross Registered Tons (GRTs). Foreign exchange earnings from international business and ship ownership activities recorded a solid increase of 10.0 percent in 1998, reaching USD 386.23 million.

GDP in nominal terms was USD 8.97 billion in 1998 vs. USD 8.40 billion in 1997. GDP per capita reached USD 13,604 in 1998, one of the highest in the world. Inflation dropped

to 2.2 percent in 1998 from 3.6 percent in 1997 on account of a deceleration in the prices of domestic goods and services. Full employment conditions were maintained in 1998, with unemployment recording a marginal drop, from 3.4 percent of the economically active population to 3.3 percent in 1998.

Productivity, measured as the ratio of real value added to gainful employment, rose by 3.6 percent in 1998, compared with only 2.2 percent the year before. This positive development helped the Cypriot economy regain some of its lost competitiveness, which was undermined in recent years by the fact that productivity gains stayed behind real earnings increases. In 1998 real earnings increased by 2.9 percent. The sector of agriculture recorded the biggest productivity gains (6.9 percent), followed by the broad services sector (4.5 percent).

Total exports declined by 14.1 percent in 1998, while total imports increased by 6.0 percent, causing the trade deficit to reach a record USD 2.5 billion in 1998 (up 17.1 percent from 1997). As a result of this development, and despite a healthy increase in invisible receipts, the current account deficit deteriorated considerably, increasing from 4.0 percent of GDP to 6.7 percent.

Public finances also deteriorated, with the fiscal deficit widening further from 5.3 percent of GDP in 1997 to 5.5 percent in 1998 and moving further away from the Maastricht target of 3.0 percent. (Note: Being one of six candidate for EU accession, the Government of Cyprus frequently compares its key economic statistics with the Maastricht criteria.) As a result, the public debt continued to rise causing strong concern, reaching 60.0 percent of GDP from 56.6 percent. A package of fiscal measures designed to increase state revenue and reverse this trend is currently pending before the House of Representatives.

The forecast for 1999 calls for satisfactory growth, based on an anticipated improvement in external demand for goods and services. Tourism prospects, in particular, appear excellent, with arrivals are expected to grow by 7.1 percent. With this backdrop, real GDP growth is forecast to reach 4.0 percent in 1999, slightly below the 1998 rate.

Principal Growth Sectors

The share of the tertiary sector (services) to GDP has been growing rapidly in recent years -- from 54.4 percent in 1992 to 60.2 percent of GDP in 1998, in constant 1990 terms -- reflecting the fact that Cyprus is rich in human capital (large numbers of Greek Cypriots have advanced degrees from U.K. and U.S. institutions of higher learning). Within the broad services sector, the principal growth sub-sectors were services other than tourism. In particular, finance, insurance, real estate and business services recorded healthy gains (from 16.6 percent of GDP in 1992 to 19.8 percent in 1998) and community and personal services (from 6.2 percent

of GDP to 8.0 percent over the same period). The subsector of restaurants and hotels contributed 9.4 percent of GDP, compared with 10.2 percent in 1992. (Tourism as a whole, which benefits from spill-over effects from many other sub-sectors, generated a little over 18.0 percent of GDP in 1998, compared with 21.0 percent in 1992. This reflects the relative shrinking of importance of tourism compared to other services.)

Value added in the primary sector (agriculture and mining) shrank from 7.1 percent of GDP in 1992 to 5.8 percent of GDP in 1998 and, similarly, the secondary sector (including manufacturing, electricity and construction) has declined from 25.9 percent to 20.6 percent over the same period. Efforts to revive the manufacturing sector have not been successful in recent years for many industries. The island's advantageous position in the Mediterranean, its rich history and friendly people give Cyprus a natural comparative advantage in tourism and services, while the relative shortage of blue-collar workers and rising labor costs make it progressively harder for labor-intensive manufacturing operations to flourish.

Government Role in the Economy

The role of the government is still significant by U.S. standards but is declining. Substantial assets remain in government hands in the form of Semi-Government Organizations (SGOs), such as the Cyprus Telecommunications Authority (CyTA), the Electricity Authority of Cyprus (EAC), etc.

In 1996, the Central Bank of Cyprus spearheaded a campaign to liberalize and reform Cyprus' financial sector, achieving substantial progress. Monetary policy is now successfully conducted through a new monetary policy framework, using market-based instruments. Repurchase transactions between the Central Bank and financial institutions constitute the primary tool of liquidity management and the use of the minimum liquidity requirement has been totally abandoned. The new monetary policy framework also includes a lower minimum reserve requirement and two standing facilities, aimed at providing and absorbing overnight liquidity. The new operational set-up of monetary policy is fully in line with EU practices.

The most important structural impediment to full liberalization of Cyprus' financial sector is the continued existence of an obsolete interest rate regime. An antiquated law (first introduced in 1944) fixing an interest rate ceiling of 9.0 percent is still in effect, even though the maximum interest rates applicable at the present time (after some recent adjustments by the Central Bank) are 6.5 percent for deposits and 8.0 percent for loans. A bill for the liberalization of interest rates is currently being hotly debated by interested parties. The bill could pass before the end of 1999, although the government will have a hard time convincing the unions and communist party, AKEL

Despite certain recent relaxations concerning the amounts involved, residents of Cyprus are still subject to exchange control restrictions, covering the holding of foreign currency accounts, investing abroad, travel allowance, etc. Once interest rates are liberalized, or, at any rate, prior to EU accession, the abolition of foreign exchange controls will follow (first, for inflowing capital and then for outflowing capital). (Non-residents are exempt from these restrictions. Non-residents may hold and manage assets and liabilities in any foreign currency and in any foreign country, including freely convertible and transferable balances with banks on the island.)

Additionally, the Central Bank has put in effect a more liberal policy on foreign direct investment since February 1997. Under this new policy, foreign participation of up to 100.0 percent will generally be allowed in the manufacturing and services sectors and up to 49.0 percent in agricultural activities. In some sensitive areas like banking, insurance and other financial services, as well as publishing and distribution of newspapers and magazines, applications will be examined on a case-by-case basis. In "saturated" activities, such as real estate development, tertiary education and the provision of public utility services, non-residents will be discouraged from investing.

Since June 1996, the maximum limit on foreign participation in public companies (traded on the stock exchange) was raised from 24.0 percent to 49.0 percent. The limit on foreign participation in public companies has been abolished completely, for non-residents of Cypriot origin. Public companies in the banking sector are exempted: the limit on total non-resident participation (Cypriot and non-Cypriot) in Cypriot banks is now 15.0 percent of their total share capital (compared to 8.0 percent before 1996). (For additional information on the Cyprus Stock Exchange please refer to paragraph A1 of Section VII)

The relatively large role of government in the economy of Cyprus is being reconsidered in many areas. For example, the government's monopoly of telecommunications services is being reviewed, while the liberalization of air transport in Europe is exerting an increasingly strong pressure on Cyprus Airways, the national airline, to restructure. Additionally, in view of increasing competitive pressures and low productivity gains, more people in Cyprus are questioning the wisdom of practices such as fixed shopping hours, and the Cost of Living Allowance (COLA) wage indexation system. Another, long-lasting practice in Cyprus used to be fixed sales periods, which was abolished about a year ago on a trial basis despite protests from small shop keepers.

Balance of Payments Situation

The Balance of Payments recorded significant deterioration in 1999 displaying an overall deficit of USD 242.9 million

compared with a deficit of USD 229.9 million in 1997. Despite a small increase in the invisibles surplus, the current account deficit increased considerably, from USD 337.9 million or 4.0 percent of GDP in 1997 to USD 603.9 million or 6.7 percent in 1998, because of a disproportionate increase in the trade deficit.

The trade deficit rose by 17.1 percent from 1997, reaching a record USD 2.5 billion. Total exports (FOB, including re-exports) declined by 13.9 percent due to a substantial fall in re-exports. In particular, re-exports of cigarettes from the United States recorded a sharp fall of 36.7 percent with the two main re-export markets -- Russia and Bulgaria -- suffering the largest drops. Total imports rose by 6.0 percent to USD 3.9 billion in 1998, fueled by a significant increase in imports of intermediate inputs and also by an increase in capital goods imports.

The surplus in the invisibles account-- the lifeblood of the Cypriot economy -- registered a 5.2 percent increase, from USD 1.79 billion in 1997 to USD 1.88 billion in 1998, reflecting the increase in net earnings from tourism and international business companies.

Capital transactions resulted in a net inflow of USD 341.4 million in 1998, after a net inflow of USD 183.1 million in 1997, reflecting an upsurge in net long-term loans and credits extended by government and financial institutions. Gross foreign exchange reserves decreased by USD 563.0 million in 1998, reaching USD 4.47 billion, mainly because of an increase in foreign currency lending by deposit banks and a decrease in foreign currency deposits.

Infrastructure Situation

Infrastructure in general is commensurate with European standards and is considered efficient. Semi-state organizations handle power generation, telecommunications, management of ports, marketing of agricultural products and several other areas of economic life.

The Cyprus Telecommunications Authority (CYTA) provides modern telecommunications services. Installation of telephones, telexes and telefax usually takes one week. Direct dialing is available to the majority of countries in the world. Postal and courier services are highly efficient and there are many courier companies in Cyprus, including DHL and Federal Express. Internet service including ISDN has been available from a number of providers in recent years and the number of internet users is growing rapidly.

Several roads connecting the main cities have recently been constructed as dual-way highways. Land transport in this small island is performed by vehicles only (private or company vehicles and taxis). There is no train, and bus service is limited but the easy availability of taxis makes up for this

The Government of Cyprus and the larger Cypriot firms are very much aware of the Year 2000 (Y2K) problem and have taken steps to address it. Most large organizations have already set up their own task forces to deal with this problem or have their personnel attend special seminars (some of them organized by the Embassy). Some of Cyprus' smaller companies, however, may not be adequately prepared.

III. POLITICAL ENVIRONMENT

Nature of Political Relationship with the United States

The United States and Cyprus enjoy an excellent bilateral relationship. The most prominent is the U.S. effort to assist Cyprus find a way to heal the island's political division. There is broad cooperation between the two governments on a host of issues. One key area of cooperation is in combating money laundering, where Cyprus has made strides in meeting international banking standards.

Major Political Issues Affecting Business Climate

Political events in 1974 resulted in a de facto division of Cyprus into a Government-controlled area in the South -- Greek Cypriot (population about 661,500) -- and a Turkish Cypriot area in the North (population about 204,200). Since 1983, the Turkish Cypriots have declared the northern area to be the "Turkish Republic of Northern Cyprus" ("TRNC") -- an entity recognized only by Turkey. Approximately 30,000 Turkish troops are stationed there. The following parts of this section, as well as the rest of the report, however, cover only the part of the island controlled by the internationally recognized Republic of Cyprus. The United Nations Force in Cyprus (UNFICYP) polices a buffer zone between the Greek Cypriot and Turkish Cypriot communities. Except for occasional demonstrations or incidents along the buffer zone (which resulted in five deaths in 1996), there has been no violent conflict since 1974. At present, there is essentially no movement of goods, persons, or services between the two parts of the island. Foreign products sold in the North (including many U.S. products) are handled by agents in Turkey or trading companies in the Turkish Cypriot community. The ports and airports of the Turkish Cypriot community are considered illegal by the government of the Republic of Cyprus. As a result, visitors who enter Cyprus from the "TRNC" are not allowed to visit the part of the island in the South. The U.S. plays a significant role in supporting the U.N. Secretary General's efforts to negotiate a political solution to the Cyprus problem.

Political System, Schedule for Elections, and Major Parties

Cyprus is a democratic and independent Republic with a presidential system of government. The elected President of the Republic (who serves for five years) appoints the Council of Ministers, which is the main executive instrument of the Republic. Ministers are responsible for the initiation of legislation and administration of matters falling within their domain. Legislative power lies in the hands of the House of Representatives, which consists of 56 elected members (who serve for five years).

Presidential elections held in February 1998 brought Glafcos Clerides and the political right to power for a second consecutive term.

In the parliamentary elections of May 26, 1996, the right-wing Democratic Rally (DISY) remained the largest political party, supported by roughly 34.0 percent of the electorate. Second in strength was the island's oldest political party, communist AKEL, which commanded 33.0 percent support. Next came the centrist Democratic Party (DIKO) with 16.0 percent, followed by socialist party, EDEK, with just over 8.0 percent and the left-of-center Free Democrats, with under 4.0 percent. Traditionally, the Greek Cypriot Orthodox Church has also played an important role in Greek Cypriot politics, although its influence has waned considerably in recent years.

The President of the House of Representatives, Spyros Kyprianou, is the country's second-ranking government official and becomes Acting President in the absence of President Clerides.

Closer ties with the EU

The Republic of Cyprus applied for full EU membership on July 4, 1990 and began formal accession negotiations with the EU on March 31, 1998. The island's political problem presents the greatest challenge for both sides in this accession course. In view of this reality, the Government of Cyprus has been working to eliminate as many other potential sticking points as possible. A far-reaching and intensive campaign, involving virtually all Cypriot ministries, has been in progress in recent years, aimed at harmonizing the Cypriot economy with that of the EU to the greatest possible extent.

The earnestness of the government's efforts can be seen in the rapid, extensive, and fundamental steps taken so far. The harmonization effort involves virtually all government ministries and departments and is coordinated by the Planning Bureau. The government's target is to harmonize completely with the EU over the next three or four years (by January 1, 2003).

Some of the important changes which have already taken place include completion of the Customs Union agreement (which entails zero tariffs on most EU products and adoption of the

EU's Common Customs Tariff for most products from third countries); adoption of a modern banking law in 1997 and a modern patents law in 1998; more liberal provisions on competition; lifting of import permit requirements; and abolition of price controls on many categories of products sold in Cyprus. These changes have resulted in increased competition and are putting pressure on Cyprus' manufacturing and agriculture sectors.

In short, the whole economic structure of Cyprus is being transformed as a result of the drive for harmonization. This effort challenges traditional ways of doing business in almost all areas and has a considerable financial cost as well. It is difficult to pin down a number but Cyprus' chief EU accession negotiator, former President Vassiliou, recently estimated the cost of Cyprus' drive for EU harmonization at 946 million Euros or USD 1.01 billion.

It should be noted that since January 1, 1999, the Cyprus Pound (CP) has been pegged to the Euro. The central CP-Euro exchange rate is one CP to 1,7086 Euros, with a fluctuation band of plus or minus 2.25 percent. This margin will expand to plus or minus 15.0 percent after the Central Bank of Cyprus abandons the current policy of administratively fixing the exchange rate of the CP in favor of a market-based determination of the value of the CP.

Asked to assess Cyprus' progress towards accession, the head of the EU's negotiating team for Cyprus' accession, Leopold Maurer, said on June 22, 1999 that Cyprus was "the first pupil in its class of six candidate countries." Cyprus has finished the screening stage of the negotiations and has so far completed a third of the 29 chapters for negotiation. These chapters are: Science and Research; Education and Training; Culture and Audiovisual Policy; Industrial Policy; Small- and Medium-Sized Enterprises; Statistics; Consumers and Health Protection; Company Law; Customs Union; and External (Commercial) Relations. Additionally, Cyprus has submitted positions on most other chapters, even though these remain open. These include: Common Foreign and Security Policy; Fisheries; Competition Policy; Free Movement of Goods; Free Movement of Capital; Economic and Monetary Union; Energy; and Social Policy and Employment.

Still, some of the most difficult challenges still lie ahead for Cyprus. For example, European officials have often pointed out that Cyprus will have to abolish the interest rate ceiling and foreign exchange control. Cyprus also must liberalize protected state monopolies in air transport, telecommunications, and other sectors. Another hurdle to be overcome, concerns the favorable tax treatment Cyprus grants to international business companies. Cyprus will try to obtain derogations for this sector but, even if it succeeds, these derogations will probably have a limited duration.

IV. MARKETING U.S. PRODUCTS AND SERVICES

Distribution and Sales Channels:

Use of Agents/Distributors; Finding a Partner

It is relatively easy to find qualified Cypriots to serve as agents and distributors and hundreds of U.S. companies are already represented here on an agency/representative basis. Cypriot agents/ representatives normally market U.S. products and services under binding agency agreements based on commissions. In general, the Embassy's experience has been that Cypriot agents are reliable and pursue their work objectives aggressively and with a keen business sense. In Cyprus, a Commercial Agent has to register with the Council of Commercial Agents and receive a license with a registration number. Importers/ distributors/dealers are free of any registration.

Franchising

U.S. franchises, particularly in the food business, have been extremely successful in Cyprus in recent years. The following companies have opened franchise outlets in Cyprus since 1990: Blimpie's, Domino's Pizza, McDonald's, Pizza Inn, Pizza Hut, Dairy Queen, Kentucky Fried Chicken, Kenny Rogers Roasters, Henry J. Beans, TGI Friday's, and Subway sandwiches. Non-food U.S. franchises, such as Athlete's Foot and Gold's Gym, are also present and successful in Cyprus. Operation of these ventures results in a substantial outflow of capital in the form of licensing fees and royalty payments (estimated at around USD 20.0 million a year for all foreign franchises, not just American ones).

Present trends suggest that the franchising sector have great prospects for growth in Cyprus. A recent delegation of U.S. franchise companies to Athens, Greece was successful in attracting interest from Cypriot businessmen as well.

Joint Ventures/Licensing; Steps to Establishing an Office

A partnership or a joint venture/licensing agreement with a Cypriot individual or organization is another channel for selling U.S. goods in Cyprus, depending on the nature of business concerned.

Non-residents wishing to participate in a Cypriot business enterprise are required to obtain the services of a lawyer or accountant practicing in the Republic who must submit, on their behalf, an application to the Central Bank with the requisite information. This information includes share capital for the proposed investment, economic activities, financial requirements, confidential references, and a four-page questionnaire, which can be obtained from the Central Bank.

All applications for direct investment by non-residents require the approval of the Central Bank, which considers

them in consultation with appropriate government departments. Registration, re-organization and liquidation of businesses must be undertaken through attorneys or accountants practicing on the island. Businesses with non-resident participation must prepare and submit to the Central Bank of Cyprus and to the Department of Inland Revenue annual financial statements audited by accountants practicing in Cyprus. (See also Investment Climate, Section VII.)

Selling Factors/Techniques; Direct Marketing; Advertising and Trade Promotion

Marketing has been a growth industry for Cyprus in recent years, to the point where many local firms offer their services to customers in the region. Advertising methods for the local market have become sophisticated and the choice of available media is approaching those available in other developed countries.

Direct marketing involving telephone calls to households has been used in recent years and so has tele marketing (advertising through the TV, with call-in numbers to order directly).

The rapid growth in the number of Internet users in Cyprus provides another alternative means for advertising through the web. Several Internet providers specialize on designing web pages.

More traditional advertising channels, such as bill-boards, or the print media, are also used extensively. General and product-specific trade shows take place year-round. Most newspapers are affiliated with particular political parties. The major Greek language newspapers are **Phileleftheros**, **Alithia**, **Simerini**, **O Politis**, and **Haravghi**. The major English language newspapers are the **Cyprus Weekly**, **Cyprus Mail** and the **Cyprus Financial Mirror**. There are numerous radio channels and seven television channels: two Government-owned, three private and two paid subscription TV channels.

Pricing Product

The intense effort to harmonize the Cypriot economy with that of the EU in recent years is making the Cypriot market place more open and more competitive. For example, over the last two years, the government has slashed the number of staples subject to price controls from 40 to just five. The products still subject to price controls are the following: common bread, pasteurized cows' milk, coffee and coffee substitutes, cement, and timber. Additionally, the implementation of the Uruguay Round agreement since January 1, 1996 resulted in the abolition of import permits, quantitative restrictions and other non-tariff barriers to trade.

When considering pricing strategy, U.S. exporters should bear in mind that the Cyprus market is small and orders are usually in limited quantities. The usual method of transactions is by Letter of Credit, with 90-days credit.

Sales Service/Customer Support

U.S. companies bidding on various projects in Cyprus should bear in mind that a local representative is a necessity. When evaluating tenders, Government and Semi-Government Organizations will take into consideration the reliability and reputation of the local agent/representative. The Commercial Section of the U.S. Embassy in Nicosia can help U.S. firms locate reputable local agents. Also taken into consideration are after-sales service, maintenance contracts, and the availability of spare parts.

Selling to the Government

The procurement practice of the Government is to announce international or local tenders, depending on the size of the procurement. All tenders of over USD 45,000 must be put out to international tender. U.S. companies may bid directly or through a local agent on any tender. Information on upcoming tenders is available through the Department of Commerce in Washington, the National Trade Data Bank (on CD-ROM or through the Internet: www.stat-usa.gov), or the American Embassy in Nicosia (E-mail address: amembass@spidernet.com.cy).

Evaluation of government tenders is done by committees. Bids are evaluated first on cost and then on technical merit. Bidders on government contracts are advised to offer products/services that exactly meet tender specifications. "Overbidding" -- providing additional technical capabilities or services -- only adds to the cost thus risking low ranking by the financial committee. The Government is required by law to choose the lowest-cost bidder among technically qualified proposals. A number of U.S. firms have had their bids disqualified by quoting prices in currencies not listed in the tender documents.

The Government of Cyprus grants a 20 percent price preference to suppliers of goods and services which have a local content of at least 25 percent. This provision, which discriminates directly against foreign bidders for public tenders, is contrary to EU practice and WTO Government Procurement rules. U.S. companies, particularly in the pharmaceutical and computer sectors, have expressed their concern over this provision. The U.S. Embassy in Nicosia and EU diplomatic missions are trying to convince the GOC to abolish this in the near future.

Protecting Your Product from IPR Infringement

The adoption of a new Copyright Law in Cyprus in January 1, 1994 and a modern Patents Law on April 2, 1998 were important milestones in the island's course towards better protection of intellectual property rights (IPR). The new Patents Law is consistent with Cyprus' obligations under the European Patent Convention and the World Trade Organization (WTO) TRIPs agreement. As a result of these improvements, in 1998 (for the first time since 1990) the United States Trade Representative (USTR) removed Cyprus completely from the "Special 301" list of countries which effectively deny adequate protection of IPR.

Need for a Local Attorney

A local attorney must prepare the constitution of the company and submit the application for registration to the Registrar of Companies. A list of local attorneys is available from the Consular Section of the Embassy, Tel: 357-2-776400, Fax: 357-2-780944.

V. LEADING SECTORS FOR U.S. EXPORTS AND INVESTMENT

Best Prospects for Non-Agricultural Goods and Services

The new Cyprus Five-year Development Plan (1999-2003) aims to prepare the Cypriot economy for the world-wide trend towards globalization and further trade liberalization as well as Cyprus' envisaged accession to the EU. The plan takes into account the changes in the external environment that have a decisive effect on small open economies, such as Cyprus; the recent trends and the growth potential of the economy; and its comparative advantages and constraining factors. The main strategic objectives laid out by the plan include achieving the highest possible growth, accelerating harmonization with the EU *aquis communautaire*; and restructuring the economy.

Best prospects for U.S. firms generally center in the services and high technology sectors: computer equipment and data processing services, financial services, environmental protection technology, medical and telecommunications equipment, sewerage treatment plants, and tourism development projects. In addition, opportunities exist for U.S. firms for the supply of equipment for the following ongoing and upcoming projects (the exchange rate used is the 1998 average of CP 1.00 equals USD 1.93):

-- 1. Electrical Power System (ELP).

Construction of the first phase of the Vassiliko 240 MW power station started in 1996. Tenders for the first phase of the project (for USD 69.0 million) were awarded to non-American companies. New tenders for fiber optics, underground cables and heavy fuel oil were issued during 1998. The Electricity Authority will issue tenders during 1999 for the supply of laboratory equipment, switchgear

poles and meters. The approximate value for the new tenders will be about USD 50.0 million.

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	69.0	30.0	30.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	69.0	30.0	30.0
E. Imports from the U.S.	0.0	N.A.	N.A.

Note: The above statistics are unofficial estimates.

-- 2. Medical Equipment (MED).

A new Nicosia General Hospital (450 beds) will need the latest technology in medical and surgical equipment. The construction and equipment for the hospital will cost about USD 150.0 million over a period of four years beginning end of 1997. Initial tenders for equipment for about USD 50.0 million will be announced over the next two years. It should be noted that U.S. companies have had an excellent track record in the past in government tenders for medical equipment.

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	20.0	25.0	35.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	20.0	25.0	35.0
E. Imports from the U.S.	7.0	12.0	18.0

Note: The above statistics are unofficial estimates.

-- 3. Computers Peripherals (CPT), Computer Software (CSF) and Computer Services (CSV).

The government will spend about USD 60.0 million over the next few years for the gradual computerization of all departments and automation of different services. One big tender for the computerization of the Merchant Shipping is being evaluated and another one is expected to be announced soon for the computerization of the Courts Department.

The private sector also has a growing appetite for computers and peripherals. U.S. products in this field enjoy a very good reputation in Cyprus and have a market share of almost

50 percent (USD 30.0 million, out of total imports of around USD 68.0 million).

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	70.0	80.0	90.0
B. Total Local Production	2.0	2.0	3.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	68.0	78.0	87.0
E. Imports from the U.S.	30.0	35.0	40.0

Note: The above statistics are unofficial estimates.

-- 4. Telecommunications Equipment (TEL).

The Cyprus Telecommunications Authority (CYTA) is planning continued upgrades of the telecommunications network, including procurement and launching of two communications satellites (one for broadcasting and the other for mobile telephones). This will be a regional project, covering areas from Africa to the Mediterranean, the Balkan countries and the Middle East. This is considered Cyprus' biggest telecommunications project ever at about USD 100.0 million. Additionally, it is possible that some aspects of the national telecommunications system may be privatized over time. Once again, U.S. products in this field have an excellent reputation and dominate the field.

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	30.0	40.0	60.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	30.0	40.0	60.0
E. Imports from the U.S.	10.0	20.0	25.0

Note: The above statistics are unofficial estimates.

-- 5. Pollution Control Equipment (POL).

The Sewerage Board of Nicosia will issue tenders this year for the design/engineering of the pumping stations and treatment plants of the Greater Nicosia Sanitary Sewerage System (USD 7.0 million). At a later stage, tenders will be announced for the construction of the sewerage system. The total cost for this project will be USD 170.0 million.

Additionally, other municipalities will issue tenders over the next two years for pollution control equipment valued at over USD 5.0 million. The Ministry of Commerce and Industry

has also announced that it will provide grants to manufacturers for the establishment of systems for the control of industrial pollution. The Chamber of Commerce is actively recruiting environmental technology firms to come to Cyprus to demonstrate new products/techniques.

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	5.0	12.0	50.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	5.0	12.0	50.0
E. Imports from the U.S.	0.5	7.0	25.0

Note: The above statistics are unofficial estimates.

-- 6. Air Traffic Management Facilities - LEFCO (APG).

Tenders were invited for the supply of Air Traffic Management facilities for the new Area Control Center of Nicosia and Larnaca airports. Estimated value is USD 20.0 million.

The Government of Cyprus is considering the partial privatization of airports and will invite tenders for international consulting firms to take over the management of the Larnaca and Paphos airports.

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	20.0	20.0	20.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	20.0	20.0	20.0
E. Imports from the U.S.	0.0	20.0	20.0

Note: The above statistics are unofficial estimates.

-- 7. Airport Weather Radar - L-203 (APG)

Tenders will be announced by the Civil Aviation Department within 1999 for the supply and installation of Weather Radar at Larnaca Airport. Estimated value is USD 300,000

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	1.0	1.0	1.0

B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	1.0	1.0	1.0
E. Imports from the U.S.	0.0	0.3	0.3

 Note: The above statistics are unofficial estimates.

-- 8. Meteorological Stations (APG)

The Government of Cyprus will announce within 1999 tenders for the supply and installation of eight small-to-medium meteorological stations around the island. Estimated value is USD 240,000

 Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	1.0	1.0	1.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	1.0	1.0	1.0
E. Imports from the U.S.	0.0	0.5	0.5

 Note: The above statistics are unofficial estimates.

-- 9. Aeronautical Information Service (APG)

The Civil Aviation Department will announce within 1999 tenders for the supply and installation of the Aeronautical Information Service (AIS). Estimated value is USD 600,000.

 Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	1.0	1.0	1.0
B. Total Local Production	0.0	0.0	0.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	1.0	1.0	1.0
E. Imports from the U.S.	0.0	0.6	0.6

 Note: The above statistics are unofficial estimates.

Best Prospects for Agricultural Products

-- 1. Cereals.

Up until 1998, cereals were by far the best agricultural U.S. export crop to Cyprus, with annual exports valued at around USD 20.0 million. The interruption of the Export

Enhancement Program (EEP), though, has resulted in a drastic drop in the export of U.S. cereals to Cyprus (from USD 33.3 million in 1997 to USD 3.9 million in 1998).

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	107.0	113.0	120.0
B. Total Local Production	37.0	38.0	40.0
C. Total Exports	0.0	0.0	0.0
D. Total Imports	70.0	75.0	80.0
E. Imports from the U.S.	3.9	5.0	7.0

Note: The above statistics are unofficial estimates.

-- 2. Animal or Vegetable Oils and Fats, Animal Feeds and Oil Seeds.

Other prospects for agricultural exports to Cyprus include animal or vegetable oils and fats, animal feeds and oil seeds.

Data Table (USD Million)

	1998	1999	2000
A. Total Market Size	64.0	69.0	73.0
B. Total Local Production	46.0	47.0	48.0
C. Total Exports	16.0	18.0	20.0
D. Total Imports	18.0	22.0	25.0
E. Imports from the U.S.	4.0	6.0	8.0

Note: The above statistics are unofficial estimates.

VI. TRADE REGULATIONS AND STANDARDS

Trade Barriers

Cyprus began full implementation of the Uruguay Round agreement January 1, 1996. Under this agreement, the Government of Cyprus eliminated quantitative restrictions and other non-tariff barriers to trade. This opened up the Cypriot market to most U.S. goods, most of which previously had been severely limited.

Additionally, completion of the first phase of the EU-Cyprus Customs Union agreement on January 1, 1998 liberated the island's trade regime further, allowing most goods to be traded between Cyprus and the EU with a zero tariff rate. Under the same agreement, Cyprus has also adopted the EU's Common Customs Tariff (CCT) for most products from third (non-EU) countries. Significantly, the preference now given

to EU products under the CCT is less than the preference Cyprus gave to EU countries under its previous tariff regime. These developments are helping U.S. exports to Cyprus become more competitive than ever.

As mentioned in Section IV., under "Selling to the Government," the 20 percent price preference granted to locally produced goods and services for public tenders is clearly discriminatory against foreign bidders. It is also contrary to EU practice and the WTO's Government Procurement Agreement. The U.S. Embassy will continue to urge the Government of Cyprus to rescind this law.

Customs Valuation

Customs duties are regulated by a tariff system based on the harmonized commodity description and coding system (HS). Goods are classified according to their composition, description and purpose and carry various rates of duty. Luxury items carry the highest duties. Other than import tariffs, there is an 8.0 percent value added tax (VAT) which is destined to increase substantially (to 10-15 percent) in the near future. The Temporary Refugee Levy (TRL), a temporary tax on imports introduced in 1974 in addition to tariffs, has been abolished for most products as of January 1, 1998 (a very small number of "luxury" products such as cookies and whiskey still carry a 5.0-6.0 percent TRL).

Import Documentation

The following documents should be presented at Customs at the time goods are cleared: delivery order for the goods; an invoice; and a packing list.

Various other documents according to the nature of each import will be required. A health certificate and listing of ingredients are required for imported food products.

Temporary Entry

The temporary entry of goods allows the importation without payment of duty. Other than the temporary importation of motor vehicles, this facility is extended to goods for processing or repair prior to their re-exportation, goods for exhibition, and commercial samples, provided they do not change their form or character. The initial temporary permit is valid for three months and can be extended by application to Customs headquarters.

Labeling, Marking Requirements

In 1995, Cyprus adopted a stricter law on the labeling of

net contents and country of origin be in the Greek language. A sticker with a Greek translation on the product is acceptable, provided it does not conceal the original label and it has the approval of the Ministry of Commerce, Industry, and Tourism. Implementation of this law has been mandatory for all food products since February 1, 1997.

The "Safety of Consumer Products Law" of 1994 outlines the legal responsibilities of those involved in the production or distribution of consumer products requiring safety warnings (including household appliances, pharmaceuticals, and many other products). One of these responsibilities concerns the proper labeling and packaging of consumer products to render them completely safe to the public. This includes having the necessary safety warnings for consumer products in Greek. The government has re-doubled efforts for stricter enforcement of the law.

Prohibited Imports

The importation of certain items is prohibited. The principal ones are listed below:

- Rifles and repeating firearms, automatic and semi automatic, repeating and semi-repeating shotguns, airguns, air rifles and air pistols of a caliber exceeding 0.177 inches.
- Narcotics.
- Seditious Publications.
- Counterfeit or false coins or currency notes.
- Goods bearing a false trade mark.
- Agricultural products such as fresh vegetables, fruits and plants.
- Dogs, cats, tropical fish, parrot and other birds can be imported into Cyprus after the issuance of a special permit from the Director of the Veterinary Services.

Standards

Increasingly, Cypriot standards and regulations are being harmonized with corresponding EU provisions, in line with the Government's efforts to remove all potential obstacles to EU accession.

A good example of this policy was the recent adoption by Cyprus of legislation requiring "CE" marking on certain products. (Note: "CE" certification stands for "Communaute Europeuene." This is the standard used in EU countries to indicate conformity to European standards for a number of products which are critical to consumer safety. Currently

18 product categories, including, toys, home appliances, construction products, telecommunications terminal equipment, and medical devices are required to bear the CE mark in the EU.) Cyprus has passed a series of legislation, beginning March 1998, requiring "CE" certification for 18 product categories (starting with toys, low-voltage appliances, and home appliances), in line with EU practice. This is something that U.S. exporters of these products need to bear in mind for the future: CE marking is becoming mandatory for most imported products.

There are numerous other examples of how the Government's efforts to harmonize the Cypriot economy with the EU have affected Cypriot legislation and standards. These include the adoption in 1997 of a modern banking law, which conforms to the EU's directives for banking supervision, adoption of a modern patents law, as well as adoption of minimum EU programming requirements for television stations.

On the issue of standards in general, it should be noted that many companies in Cyprus have achieved the ISO standard. Semi-government organizations such as the Cyprus Telecommunications Authority and the Electricity Authority request tendering companies to meet ISO requirements.

Free Trade Zones/Transit Trade

In recent years, transit trade through the island has become an increasingly important source of business for Cyprus. This business is transacted through free trade zones in the two ports of Limassol and Larnaca or through bonded warehouses where goods are kept for onward transshipment. Permission for foreign participation in transshipment activities through Cyprus is usually granted easily by the Central Bank.

The total value of goods re-exported through Cyprus to neighboring countries has increased from USD 378.6 million in 1990 to USD 652.0 million in 1997. (During the same period, Cyprus' domestic exports declined from USD 575.3 million in 1990 to USD 411.3 million in 1998.) Safe port facilities, reasonable storage rates, safety of storage facilities in free port areas, and good business connections are the leading reasons behind this booming trade.

Re-exports of U.S.-origin tobacco to Eastern European countries (primarily Russia and Bulgaria) have accounted for more than half of Cyprus' total re-exports in recent years. Last year, for the first time in a decade, the value of this trade recorded a decrease from USD 526.9 million in 1997, to USD 305.9 million in 1998. Of these, all but USD 16.0 million were re-exported.

Membership in Free Trade Arrangements

On March 31, 1998 Cyprus began formal accession negotiations for entry into the EU and is currently one of six countries scheduled for the EU's next enlargement. A Customs Union Agreement initiated in 1972 and partially completed in 1998, allows 80.0 percent of the goods traded between Cyprus and the EU to have zero tariffs. Under the same agreement, Cyprus has adopted the EU's Common Customs Tariff (CCT) for third countries on most products since January 1, 1998.

VII. INVESTMENT CLIMATE

(A1) Openness to Foreign Investment

(Note: This report covers only the Government-controlled area of Cyprus. Please refer to section III for more details on the current political situation.)

Attitude Towards Investment and Regulatory Framework

In February 1997, Cyprus introduced a more liberal policy on foreign direct investment, replacing the previous policy which had been in effect for a decade. The government expects that the new policy will gradually expand direct investment in Cyprus and help promote Cyprus as an international business center.

Cyprus' Exchange Control Law makes a distinction between residents and non-residents, as opposed to between Cypriot nationals and aliens. Non-residents are Cypriots living abroad, aliens and foreign companies. A new policy introduced in 1997 minimizes bureaucratic intervention and opens up opportunities for investment by non-residents in most sectors. Non-residents can invest in Cyprus after obtaining permission under the Exchange Control Law from the Central Bank.

Non-residents wishing to invest in Cyprus should apply for permission through an appropriate professional (attorney or accountant) practicing in Cyprus. The professional will submit to the Central Bank an application containing the requisite information, i.e., share capital, economic activities, etc. (The Embassy's Consular Section can supply interested persons with a List of Attorneys in Cyprus. The Consular Section can be contacted, inter alia, through the Embassy's Internet Homepage: www.americanembassy.org.cy.) The Central Bank's policy distinguishes between three different forms of foreign investment:

-- Direct Investment, which may belong partly or wholly to non-residents, conduct their business in Cyprus, and derive income from Cyprus;

-- International Business Companies (a.k.a. offshore enterprises), covering Cypriot firms belonging entirely to non-residents and conducting business and deriving income exclusively from outside Cyprus; and

-- Ship Ownership Companies, covering Cypriot firms belonging entirely to non-residents and limiting their activities to the ownership, bareboat chartering and operation of ships outside Cyprus.

Upon receiving an investment application, the Central Bank (sometimes, in consultation with appropriate government departments) will normally respond within 30 days. In the case of international business companies and ship ownership companies, the Central Bank normally issues the permit within a few days, if all the information is complete. Where the procedure cannot be completed in one month, the applicant is notified by the Central Bank. After the permit is issued, the non-residents' shares or participation must be registered in their names or in the names of their nominees at the Department of the Official Receiver and Registrar under the Companies or Partnerships Laws. These laws are based on corresponding Acts of the United Kingdom but are currently in the process of being harmonized with EU norms.

Registration, re-organization and liquidation of businesses must be undertaken through attorneys or accountants practicing on the island. Businesses with non-resident participation must prepare and submit to the Central Bank of Cyprus and to the Department of Inland Revenue annual financial statements audited by accountants practicing in Cyprus.

It should also be noted that U.S. franchises, particularly in the food sector, have proved tremendously successful in Cyprus in recent years and show great potential for further growth in the future. Although franchises are not considered a form of foreign investment, this success is largely due to the fact that U.S. goods and services enjoy a good reputation in the Government-controlled area, which also reflects Cyprus' overall receptivity to U.S. investment projects.

Employment Permits

Non-residents wishing to take up employment in Cyprus require work permits by the Immigration Department. Employment permits are readily issued to the senior executives of companies as well as to other foreign personnel when administrative or technical staff of the same caliber cannot be found in Cyprus, or when the employment of the non-resident is absolutely necessary for conducting the business of the enterprise. In the case of international business companies, arrangements have been made for the Ministry to issue and renew the permits of expatriate employees upon the recommendation of the Central Bank.

Direct Investment

The screening mechanism used by the Central Bank for prospective foreign investors is routine and non-

discriminatory. In general, the new policy allows up to 100.0 percent foreign participation in manufacturing and services and up to 49.0 percent in agriculture, provided some prerequisites are met -- concerning an adequate level of investment, environmental considerations, national security matters, etc. Following is a summary of the new screening criteria, currently used by the Central Bank for foreign direct investment:

(i) In the primary (agriculture) sector, foreign participation of up to 49.0 percent is allowed, provided the minimum level of investment is CP 100,000 (currently, the exchange rate between the Cyprus Pound (CP) and the USD is about CP 1.00 = USD 1.80).

(ii) In the secondary (manufacturing) sector, foreign participation of up to 100.0 percent is allowed. (For investments of up to CP 750,000 or for participation of up to 49.0 percent, the Central Bank approves the investment on its own, but for larger projects and more foreign participation it consults with the Ministry of Commerce, Industry and Tourism.)

(iii) In the tertiary (services) sector, the following regulations apply:

-- Foreign participation of up to 100.0 percent is allowed for up to 70 types of services. These services have been grouped into two categories, those with a minimum investment capital of CP 50,000; and those with a minimum investment capital of CP 100,000. The first category includes professional services, computer-related services, research and development services, other business services, courier services, entertainment services and new agencies. The second category of services (for investments of more than CP 100,000) includes business services, communications services, construction services, educational services, environmental services, sporting and other recreational services, and transport services.

-- Foreign participation of up to 49.0 percent is easily granted for wholesale and retail trading companies, even for relatively small projects. For foreign ownership in excess of 49 percent in the wholesale and retail trading sector, the Central Bank generally requires a capital investment of more than CP 300,000.

-- The Central Bank has the discretion to approve any application for up to 24.0 percent foreign participation for investments of less than CP 50,000.

-- Investments in hotels, tourist villas, tourist agencies, restaurants, etc. are subject to a maximum level of foreign participation of 49.0 percent, although other tourist investments which enrich Cyprus' tourist product (e.g. golf courses, theme parks, etc.) may have up to 100.0 percent foreign participation.

(iv) For a small number of business activities, including the establishment of new banks, insurance and financial services companies, publication of newspapers and magazines and new airline companies, applications (and the extent of foreign participation) will be considered on a case-by-case basis.

(v) Direct investment by non-residents continues to be discouraged in "saturated" sectors. The list of "saturated" activities has been substantially reduced from previous years and it includes real-estate development, tertiary education, and public utilities. It should be noted here that most public utilities (e.g. telecommunications, electricity, and water supply) continue to be monopolized by the state.

(vi) The Cyprus Stock Exchange (CSE) began operation on March 29, 1996, replacing the unofficial, over-the-counter stock market which existed previously. Since June 1996, foreign investors are no longer required to obtain the Central Bank's permission to invest in the CSE, provided the money comes from an external account and maximum foreign participation conforms to these rules: maximum foreign participation may be up to 49.0 percent for publicly-traded private companies other than banks and up to 6.0 percent for banks. The maximum allowable share-holding for individual non-resident companies or investors is 5.0 percent for non-bank publicly-traded private companies and 0.5 percent for banks. Foreign investors need to buy or sell their shares through one of the 30 or so licensed members of the CSE (stock brokers), just like local investors.

Cyprus is a signatory to the Convention of the Settlement of Disputes between States and Nationals of other States, the Multilateral Investment Guarantee Agency Agreement (MIGA), and the Convention on the Protection of Industrial Property. Additionally, Cyprus signed an Investment Guarantee Program with the United States in 1963. This program is essentially unused but, in principle, makes it possible to insure long-term U.S. investments abroad against the possibility of non-commercial risks.

The appropriate contact person at the Central Bank for further information on foreign direct investment is Mr. Yiannis Kalavanas, Senior Officer, International Division. Contact information follows:

Central Bank of Cyprus
 80 Kennedy Ave.
 P. O. Box 5529
 Nicosia, Cyprus
 Tel: 357-2-379800
 Fax: 357-2-378153
 e-mail: idfi@centralbank.gov.cy.
 Homepage: www.centralbank.gov.cy.

1. Exchange Controls for Residents.

The Exchange Control Law does not distinguish between Cypriot nationals and aliens but rather between residents and non-residents. The residential status of physical persons is normally determined by their places of residence and employment. The residential status of firms is normally determined by the place of incorporation. Currently, residents are subject to exchange control restrictions, covering the holding of foreign currency accounts, investing abroad, travel allowance, etc.

Restrictions on outward investment for residents of Cyprus were somewhat relaxed in February 1997. Applications by Cypriot residents to invest abroad must meet the Central Bank's revised criteria, which generally aim to improve the prospects for the Cypriot economy. These criteria are as follows:

(i) The investment abroad should benefit the Cypriot economy in the form of, say, the inflow of foreign exchange from increased exports of goods, provision of services to people residing abroad, patents, management fees, etc.

(ii) The profitability of the investment is such that it ensures coverage of probable future additional needs from own funds or foreign loans.

(iii) The investment enhances tourism to Cyprus, particularly quality, conference or special interest tourism, and facilitates penetration of new tourist markets.

(iv) The applicant's experience in the field of the proposed investment.

(v) The percentage of participation in the foreign company. It will be considered an advantage if the foreign company is controlled by the applicant investor.

(vi) The repatriation of capital and profits is allowed by the country where the investment will take place.

Irrespective of whether the proposed investment satisfies some or all of the above criteria, the Central Bank's final decision will also take into consideration the amount of capital to be exported or any guarantees to be extended from Cyprus. Specifically, the direct foreign exchange cost for each investment should not exceed CP 0.5 million. If only the issue of guarantee is required (rather than the export of capital), the guarantee should not exceed CP 1.0 million.

Within its overall liberalization of the financial system and as part of the GOC's drive to harmonize fully with EU norms, we expect the Government's exchange control policy to be relaxed before January 1, 2003. For now, however, these restrictions remain in place.

2. Non-residents Exempt from Exchange Controls.

Non-residents are exempt from exchange control restrictions. Non-residents may hold and manage assets and liabilities in any foreign currency and in any foreign country, including freely convertible and transferable balances with banks on the island.

Cypriot firms which belong partly or wholly to non-residents and which carry on business or derive income within the island are considered residents for exchange control purposes. Cypriot firms which belong exclusively to non-residents and which carry on business and derive income exclusively outside the island are exempt from exchange controls. Persons who are not permanent residents of Cyprus are also exempt from exchange controls.

Once the non-resident investor has obtained the approval of the Central Bank, he/she is free to go ahead with an investment project and repatriate freely capital, profits, dividends and interest arising from the investment. The savings of expatriate employees may be transferred abroad monthly or credited to a freely convertible or foreign currency account in Cyprus. There is no prescribed maximum percentage of profits that may be repatriated each year, or minimum period before which the non-resident may dispose of his investment. On both counts the foreign investor may act freely.

(A3) Expropriation and Compensation

Nationalization has never been government policy and it is not contemplated in the future. Private property is only expropriated for public purposes in a non-discriminatory manner and in accordance with established principles of international law. In cases where expropriation is necessary, due process is followed and there is transparency of purpose. Furthermore, investors and lenders to expropriated entities receive fair compensation in the currency in which the investment is made. In the event of any delay in the payment of compensation, the Government is liable to the payment of interest based on the prevailing 6-month LIBOR for the relevant currency in addition to the amount of compensation.

(A4) Dispute Settlement

There have been no cases of investment disputes or outstanding expropriation/nationalization cases in recent years. Effective means are available for enforcing property and contractual rights. Under the Arbitration Law of Cyprus, an arbitrator is appointed when a dispute between the parties to an agreement cannot be settled by the parties' attorneys. An arbitral award may be enforced by the court in the same way as a judgment. In 1979, Cyprus became a signatory to the New York Convention on the Recognition and Enforcement of

Foreign Arbitral Awards and a foreign award may be enforced in Cyprus by an action in common law. Cyprus is also a signatory to the Convention of the Settlement of Disputes Between States and Nationals of Other States.

(A5) Performance Requirements/Incentives

Cyprus does not have a rigid system of performance requirements for foreign investment. Each application for investment is judged on its own merits and any conditions are negotiated and agreed before the investment is approved. Transfer of technology, for example, although not a requirement, is definitely considered a "plus" in the initial evaluation.

Investment incentives. Investment incentives currently available in Cyprus are summarized in the following paragraphs:

I. Direct Investment Incentives:

- Relatively low corporate tax; resident companies are taxed at the rate of 20.0 percent for chargeable income up to CP 40,000 and 25.0 percent for chargeable income in excess of CP 40,000;
- Initial investment and annual depreciation allowances;
- Carry-forward of losses for five years;
- Exemption from customs and excise charges for operations in the Larnaca Industrial Free Zone; and
- Salaries of foreign employees working in the Industrial Free Zone are taxed at one-half of the standard rates.

II. Investment Incentives for International Business Companies:

- International business companies are taxed on income at a rate of 4.25 percent.
- International business branches which are managed and controlled from abroad and international business partnerships are totally exempt from corporation or income tax.
- Beneficial owners of international business companies, branches and partnerships are not liable to tax on dividends or profits other than that paid by the firms themselves.
- The expatriate employees of international business companies living and working in Cyprus are taxed at half the standard rates applicable to personal income, i.e. from 0 to 20.0 percent, instead of 0 to 40.0 percent.

-- Foreign employees of international business companies living and working outside the island are exempt from Cyprus income taxes if paid through any bank in Cyprus, and taxed at 10.0 percent of the standard rates if paid directly abroad.

-- No capital gains tax is payable on the sale or transfer of shares in an international business company.

-- No estate duty is payable on the inheritance of shares in an international business company.

Additionally, Cyprus has concluded 27 treaties for the avoidance of double taxation (including one with United States, effective January 1, 1986). These treaties offer significant possibilities for international tax planning.

III. Investment Incentives for Ship Ownership Companies:

The Cyprus Register compares favorably with other open registers in terms of the registration costs and annual fees vis-à-vis the level of services provided. For example, the Cyprus Department of Merchant Shipping responds quickly to requests by foreign ship owners for technical support or assistance in dealing with the authorities in foreign ports (such as obtaining an exemption certificate for a crew member who falls sick during a journey). Other important incentives are:

-- Zero tax on profits from the operation of a Cypriot registered vessel and on dividends received from a ship ownership company;

-- Zero capital gains tax on the sale or transfer either of a Cypriot registered vessel or of the shares of a ship ownership company;

-- No estate duty on the inheritance of shares in a ship ownership company;

-- No income tax on wages and benefits of officers and crew; and

-- No stamp duty on ship mortgage deeds or other security documents.

For additional information, please contact Mr. Serghios Serghiou, Director, Cyprus Department of Merchant Shipping at:

Kyllinis Street
 Mesa Geitonia
 CY 4007 Limassol
 CYPRUS
 Tel: 357-5-848100
 Fax: 357-5-848200
 E-mail: dms@cytanet.com.cy
 Internet Homepage: www.shipping.gov.cy

(A6) Right to Private Ownership and Establishment

Approval of foreign investment in Cyprus is subject to a set of pre-conditions set out by the Central Bank, as described in the previous section (A1). The right of foreign entities to establish, acquire or dispose of interests in business enterprises is subject to these pre-conditions.

(A7) Protection of Property Rights

Investment in real estate is treated differently for residents and non-residents. Non-residents may buy a single piece of real estate for private use (normally a holiday home). The Central Bank must verify that non-residents purchase their real estate solely with funds from abroad. The Council of Ministers, which must approve such purchases, does so routinely. Non-residents are allowed to sell their property and transfer abroad the amount originally paid, with the remainder being released from a blocked account at the rate of CP 50,000 per annum from the capital plus the whole amount of interest earned that year.

The legal requirements and procedures for acquiring and disposing property in Cyprus are complex but professional help by real estate agents and developers can ease the burden of dealing with the GOC bureaucracy. Once a property title is issued, its security is iron-clad. The government's Department of Lands and Surveys prides itself in keeping meticulous records and following internationally accepted procedures (which have changed little since British colonial times).

Protection of intellectual property was improved in Cyprus with the adoption of a new Copyright Law on January 1, 1994 and of a modern Patents Law on April 2, 1998. These two laws have helped Cyprus comply with its obligations under the World Trade Organization (WTO) TRIPS agreement. As a result of these improvements, in 1998 (for the first time since 1990) the United States Trade Representative (USTR) removed Cyprus completely from the "Special 301" list of countries which effectively deny adequate protection of IPR.

(A8) Transparency of the Regulatory System

The GOC has promulgated detailed regulations concerning foreign investment in Cyprus (as outlined in section A1) and applies these regulations in practice and without bias. For this reason, the U.S. Embassy in Nicosia considers the existing procedures sufficiently transparent.

(A9) Efficient Capital Markets and Portfolio Investment

With a legislative ceiling on interest rates, and onerous foreign exchange controls for residents, the capital market in Cyprus can hardly be described as efficient. However, prospects for improvement are great, given the GOC's commitment to liberalize the financial system by January 1, 2003 as part of the GOC's EU harmonization efforts.

Current policy provides that the permit issued by the Central Bank to non-resident investors specifies the activities of the firm and imposes certain conditions with regard to financing arrangements. One of these conditions is that equity capital issued to non-resident investors must be funded from abroad.

Total capital must be commensurate with the total cost of the project. Loan financing must be raised from local and foreign sources in proportion to the equity participation by residents and non-residents. For example, if non-resident ownership is 40.0 percent, 40.0 percent of the loans must come from abroad. This requirement is waived if non-resident participation is 24.0 percent or less.

Terms for foreign loans must be approved by the Central Bank. Interest and other costs must be at market prices. Royalties and other payments for the use of patents, know-how, brand names, etc., must be approved in advance, but then may be readily remitted abroad.

The official Cyprus Stock Exchange (CSE) was launched on March 29, 1996, replacing the unofficial stock exchange, which had operated since 1983. Following a down correction which lasted for more than two years, the CSE has experienced an impressive bull run starting November 1998. The CSE Index, which was set at 100.0 points when the market was launched in March 1996, reached 162.8 points at the end of June 1999. The capitalization of the market currently stands at around USD 5.4 billion.

The passing of new draft legislation against insider dealing in early 1999, and the introduction of screen-based automated trading system in May 7, 1999 helped enhance the security of stock trading transactions and gradually build investor confidence. Further computerization of CSE's central registry (also known as the "back-room"), which carries out the clearing and settlement of transactions, will shorten the period required to transfer effective ownership of shares from nine days to three and render the CSE technologically at par with other advanced stock exchanges in the world.

The positive developments outlined above and the relaxation of regulations on portfolio investment by non-residents outlined in Section A1, has helped attract foreign investors in the CSE recently, particularly from Greece. However, official statistics on foreign portfolio investment in the CSE are still unavailable (they will be available after the computerization of the CSE central registry). It is estimated unofficially that foreign portfolio investment in the CSE is no more than USD 500.0 million at the moment.

(A10) Political Violence

The political events of 1974 led to a de facto division of Cyprus. The southern two thirds of the island are under the control of the internationally-recognized Republic of Cyprus. The Turkish-Cypriot administered northern third declared itself in 1983 as the "Turkish Republic of Northern Cyprus" ("TRNC"). This latter area is recognized only by Turkey. As stated in the beginning, this report covers only the part of the island controlled by the Republic of Cyprus.

In 1996, a demonstration along the buffer zone separating the two communities led to a violent intercommunal incident and the deaths of five Greek-Cypriots. This incident underscored the importance of continued cooperation between all concerned parties to avoid recurrence of similar events until a lasting solution is found to the Cyprus problem. Other than this isolated incident, intercommunal violence has been kept at bay since 1974, thanks to increased cooperation and vigilance between the two sides and the United Nations Force in Cyprus.

Also, there have been no incidents of politically-motivated serious damage to foreign projects and or installations since 1974. A number of demonstrations took place in early 1999 outside the U.S. Embassy in Nicosia in opposition to NATO air-strikes in Yugoslavia and in response to the death sentence verdict for PKK leader Abdullah Ocalan. These demonstrations resulted in some damage to the Embassy compound.

(A11) Corruption

In Cyprus, corruption, both in the public and private sectors, constitutes a criminal offense. The main laws dealing with this problem are listed below:

-- Criminal Code, Chapter 154: contains provisions related to corruption in the public sector, and specifically to extortion, abuse of office and receiving property to show favor.

-- The Prevention of Corruption Law, Chapter 161: deals with acts of corruption by public and private employees both in the private and public sectors.

-- The Customs and Excise Law, No. 82 of 1967: contains provisions related to public corruption -- both active and passive.

-- Law Number 65 of 1965: provides for the prosecution of persons holding public office who "acquire property by abuse of power." A weakness of this law is that it does not address the procedure for investigating the assets of such persons. This inefficiency is being addressed by a bill, currently pending before the House, obliging government

officials and politicians to disclose personal financial details every year as long as they hold office and for three years thereafter.

-- A new law on public tenders was recently enacted, which contained detailed rules strengthening the openness and transparency of public procurement and minimizing the opportunities for corruption.

Furthermore, under Cyprus' Constitution, the Auditor General controls all disbursements and receipts and has the right to inspect all accounts on behalf of the Republic. In his Annual Report, the Auditor General identifies specific instances of mismanagement or deviation from proper procedures in the civil service. Since 1991, Cyprus has also introduced the institution of the "Ombudsman," who oversees the acts or omissions of the administration.

Cyprus cooperates closely with EU and other international authorities on fighting corruption and providing mutual assistance in criminal investigations. Cyprus has signed the European Convention on Mutual Assistance on Criminal matters and is in the process of ratifying it. Cyprus also uses the foreign Tribunal Evidence Law, Chapter 12, to execute requests from other countries for obtaining evidence in Cyprus in criminal matters. Additionally, Cyprus is an active participant in the Council of Europe's Multidisciplinary Group on Corruption. As such, it has already signed (on January 27, 1999) the Criminal Law Convention on Corruption and formally notified the Council of its intention to join the "Group of States Against Corruption-GRECO."

Additionally, Cyprus' democratic regime, transparent procedures and open, lively press act as a further deterrent against corruption in the civil service. The Embassy is not aware of any U.S. firms identifying corruption as an obstacle to foreign direct investment in Cyprus.

(B) Bilateral Investment and Double Tax Agreements

Cyprus has ten bilateral agreements for the encouragement and reciprocal protection of investments with the following countries: Armenia, Belgium, Bulgaria, Belarus, Greece, Hungary, Poland, Russia, Romania and the Seychelles. Another 23 bilateral investment agreements are currently under negotiation. Cyprus does not have a fully-fledged investment protection agreement with the United States other than an exchange of letters between the Cypriot Ministry of Foreign Affairs and the U.S. State Department on reciprocal protection of investments.

Additionally, Cyprus has entered into bilateral double tax treaties with a total of 27 countries. The main purpose of these treaties is the avoidance of taxation of income earned in any of these countries. Under these agreements, a credit is usually provided for tax levied by the country in which

the taxpayer resides for taxes levied in the other treaty country. The effect of these arrangements is normally that the taxpayer pays no more than the higher of the two rates. Cyprus has such agreements with Austria, Bulgaria, Canada, China, Czech Republic, Denmark, Egypt, France, Germany, Greece, Hungary, India, Ireland, Italy, Kuwait, Malta, Norway, Poland, Romania, Russia, Slovakia, South Africa, Sweden, Syria, United Kingdom, United States and Yugoslavia. Treaties with Algeria, Armenia, Belarus, Bulgaria, Czech Republic, Estonia, Kazakhstan, Singapore, and Thailand are at various stages of negotiations.

(C) OPIC and Other Investment Insurance Program

The U.S. Overseas Private Investment Corporation (OPIC) is not active in Cyprus, but OPIC finance and insurance programs are open and may be useful when bidding on build, own, operate and transfer (BOOT) contracts. The Government of Cyprus has started a campaign to attract U.S. corporate investors. Cyprus is a member of the Multilateral Investment Guarantee Agency (MIGA).

(D) Labor

At the end of 1998, the local labor force comprised 289,000 persons. Of these, 26.9 percent worked in trade and tourism, 24.6 percent in community, social and personal services, 14.7 percent in manufacturing, 10.2 percent in agriculture, 8.5 percent in construction, 8.5 percent in finance and business, and 6.6 percent in transport and communications.

Since 1977, the rate of unemployment in Cyprus has not exceeded 4 percent, which is much lower than the EU average rate of unemployment of more than 10.0 percent. In recent years, though, unemployment has recorded a slight increase, from 2.6 percent in 1995 to 3.3 percent in 1998. Even so, conditions of full employment can be said to exist, requiring continued employment of a substantial number of foreign workers.

Cyprus has a high rate of college graduates per capita, many of whom have studied in the U.S., and offers an abundant supply of white collar workers and college degree-holders. One side-effect of Cyprus' experience as a British colony (until 1960) is the widespread use of the English language.

In response to labor shortages in recent years, more women have joined the labor force (women are now about 39.0 percent of the labor force, compared with 33.4 percent in 1980) and a growing number of Cypriots are repatriating from abroad. There are also about 25,000 legally-registered foreign workers in Cyprus and another 5,000 estimated to be working illegally. Existing legislation ensures that foreign workers receive minimum wages. The minimum wage for sales assistants, clerks, paramedical staff, and child care staff is currently USD 450.00 per month (USD 495.00 after six

months). For live-in housemaids, the minimum wage is about USD 300.00 per month, plus room and board.

Currently, about 71.0 percent of the labor force is unionized (compared to 80.0 percent in 1980), which gives the unions a strong say in collective agreements. Head-on confrontations between management and unions occur frequently, although long-term work stoppages are rare. International business companies are not required to hire union labor. The current economy-wide practice of giving all employees twice-yearly Cost of Living Allowance (COLA) increases has come under fire by employers and may soon be revised, if the government (itself, the largest employer in Cyprus) can find a compromise formula that will satisfy both unions and employers.

Productivity, measured as the ratio of real value added to gainful employment, rose by 3.6 percent in 1998, compared with only 2.2 percent the year before. This positive development helped the Cypriot economy regain some of its lost competitiveness, which was undermined in recent years by the fact that productivity gains stayed behind real earnings increases. In 1998 real earnings increased by 2.9 percent. The sector of agriculture recorded the biggest productivity gains (6.9 percent), followed by the broad services sector (4.5 percent).

(E) Foreign Trade Zones/Free Ports

In recent years, transit trade through the island has become an increasingly important source of business for Cyprus. This business is transacted through free trade zones in the two ports of Limassol and Larnaca or through bonded warehouses where goods are kept for onward transshipment. Permission for foreign participation in transshipment activities through Cyprus is usually granted easily by the Central Bank.

(F) Foreign Direct Investment Statistics

The Government of Cyprus did not establish an official policy on foreign direct investment until 1986 and it was only then that significant investments started taking place. Since 1986, the Central Bank has issued 1,477 permits for foreign equity participation amounting to USD 380.0 million in projects costing around USD 800.0 million. In 1998, the Central Bank issued 222 new permits for foreign investment of USD 21.6 million in projects costing around USD 45.4 million. By comparison, in 1997 the Central Bank issued 175 permits for foreign investment of USD 27.0 million.

Additionally, since January 1, 1976, non-residents have established over 38,000 international business companies for the management of their overseas affairs and 11,800 companies for the registration of ships under the flag of the Republic. There are currently 1,055 international business companies

with fully-fledged offices on the island, at least 30 of which are from the United States (including two oil companies, two computer companies, and several accounting firms).

Breakdown of direct investment by country of origin and names of specific foreign investors are unavailable -- the GOC considers this information confidential. In terms of sector destination, the allocation of foreign direct investment in 1998 was as follows: tourism, 27.8 percent; trading, 21.5 percent; services 19.0 percent; banking and insurance, 17.2 percent; manufacturing, 4.3 percent; and miscellaneous 10.2 percent.

Traditionally, U.S. direct investment in Cyprus consisted of relatively minor projects, mostly by Greek-Cypriot expatriates. However, the liberalization of foreign direct investment regulations in February 1997 opens up new possibilities for U.S. investment in Cyprus. For example, one sizable new tourist project (a theme park) took place in 1998 with minority U.S. investment. In the manufacturing sector, the only major project involving direct U.S. equity investment in Cyprus in recent years was a 51.0 percent, USD 1.6 million investment by PepsiCo in a local snacks factory (through a Greek subsidiary). The venture has been extremely successful and has helped establish the local company as the island's leading snack manufacturer.

VIII. TRADE AND PROJECT FINANCING

Banking System

The standard of banking services in Cyprus compares well with European countries and the United States. The Central Bank of Cyprus supervises closely private banks and requires them to meet Bank for International Settlements (BIS) standards as well as corresponding directives by the European Union. Bank financial statements are in compliance with international standards and audited by internationally-recognized auditors. The new Banking Law of 1997 provided for a properly-funded deposit insurance scheme. However, the specific provisions and regulations for this scheme are still pending before the House of Representatives (they are expected to pass in the Fall of 1999).

Currently, there are six active domestic banks in Cyprus offering all types of services, including deposit accounts, lending advances, leasing, credit card facilities, automatic banking machines, etc., while some of them have subsidiaries dealing with insurance services, investment banking, and other related services. All domestic banks have correspondent arrangements with U.S. banks. Cyprus banks have received very high ratings from international rating agencies.

Foreign Exchange Controls Affecting Trading

Current regulations for exchange control do not affect or hinder international trade. The Central Bank actively encourages cross border financing activity and grants permission freely to businessmen to meet their international obligations. In general, there is no problem with credit availability, although the capital market will obviously benefit when the legislative ceiling on interest rates, and foreign exchange controls for residents are finally lifted.

**General Financing Availability/
Types of Available Export Financing and Insurance**

Cypriot businesses generally have to rely on local sources of financing. However, the Central Bank has already started liberalizing the financial system and will proceed with full liberalization in the near future, allowing locals to borrow from abroad as well.

Companies with foreign participation are required to borrow from external sources in proportion to the non-resident participation in their capital. This requirement is waived if the non-resident participation is less than 24.0 percent of the share capital.

Cyprus enjoys an excellent credit rating internationally (Standard and Poor's rates Cyprus' long-term credit AA and it's short-term credit A1+). Banks in Cyprus employ all modern methods of cross-border financing, including letters of credit, bills for collection, documentary credit, cash against documents, etc. U.S. Eximbank financing could also be applied in Cyprus for U.S. source equipment purchases. Eximbank is open for short- and long-term trade financing. Cyprus graduated from World Bank borrowing in 1992.

**List of Banks with Correspondent
U.S. Banking Arrangements**

The following banks offer correspondent U.S. banking arrangements in Cyprus:

- Alpha Bank, tel: 357-2-888888, fax: 357-2-773766;
- Arab Bank, tel: 357-2-767111, fax: 357-2-760890;
- Bank of Cyprus, tel: 357-2-37800, fax: 357-2-378327;
- Cyprus Popular Bank, tel: 357-2-450000,
fax: 357-2-449831;
- Hellenic Bank, tel: 357-2-360000, fax: 357-2-454074;
and
- National Bank of Greece, tel: 357-2-441412,
fax: 357-2-369349.

IX. BUSINESS TRAVEL

Business Customs

Business customs in Cyprus are not very different from the U.S. Despite the long and hot summer, the conventional business dress code usually calls for a suit and tie for men and conservative attire for women. More casual wear is usually worn when entertaining business guests, depending on the venue.

Air and Sea Connections

Air traffic is served through the island's two international airports situated in Larnaca and Paphos. Cyprus Airways is the national carrier of Cyprus. Many international airlines including Cyprus Airways offer daily flights to major destinations in Europe and the Middle East. The port of Limassol serves the country's external trade and seaborne passenger traffic, acting also as transshipment centers for the region. The port of Larnaca has recently been closed for restructuring.

Travel Advisory and Visas

Cyprus enjoys a low crime rate, good hygienic conditions, and a modern array of goods and services. Visitors can call the Consular Section of the U.S. Embassy for travel advisories for the area (tel. 357-2-776400) or the U.S. State Department (tel. 202-647-0518). Any foreigner arriving in Cyprus must possess a valid passport. U.S. citizens do not need visas to enter Cyprus. Persons arriving with the intention to work must obtain special work permits.

Holidays

The list of holidays observed by businessmen in Cyprus for 1999 are:

January 1	(New Year's Day)
January 6	(Epiphany Day)
March 2	(Clean Monday - Start of Lent)
March 25	(Greek Independence Day)
April 1	(EOKA Day)
April 17	(Good Friday)
April 18	(Holy Saturday)
April 28	(Easter Monday)
June 8	(Holy Spirit Day)
August 15	(Assumption Day)
October 1	(Cyprus Independence Day)
October 28	(OHI Day)
December 24	(Christmas Eve)
December 25	(Christmas Day)
December 26	(Boxing Day)

Businessmen should avoid making appointments on the above dates.

Business Infrastructure

Traveling within Cyprus is by taxi and bus service or rental car. Taxis are metered. There is a satisfactory taxi service system between cities, and prices are considered reasonable. The cost for a taxi from the airport to Nicosia is around CP 15.00 (USD 30.00). Rental cars cost between CP 15.00 to CP 20.00 (USD 30.00 - 40.00) per day with unlimited mileage, depending on the season.

The principal languages on Cyprus are Greek and Turkish. Greek is spoken in the government-controlled area and Turkish is mainly spoken on the northern part of Cyprus. English is very widely spoken and understood, particularly in commercial and political circles.

The island's telecommunications system is quite advanced and efficient. More than 190 countries can be reached on a fully automatic direct dialing. Installation services are offered within a few days notice. Telefax service is available, as is the Internet.

Housing is available in various categories at relatively low prices by European standards. There are many good restaurants on the island. The food and water are considered safe.

Please note that the "Guide for Business Representatives" is available for sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402; tel. (202) 512-1800; fax (202) 515-2250. Business travelers to Cyprus seeking appointments with U.S. Embassy Nicosia officials should contact the Commercial Section in advance. The Commercial Section can be reached at 357-2-776400 or by fax at 357-2-781663.

X. APPENDICES

A. COUNTRY DATA

The following statistics concern the government-controlled area of Cyprus, unless otherwise noted. Source: Government of Cyprus Department of Statistics and the Central Bank.

- Population (1998): 661,500 in Republic of Cyprus area (in the northern part of the island, according to unofficial sources, the population is around 204,200)
- Population Growth Rate: 1.3 percent
- Religion(s): Greek Orthodox, Muslim, Maronite, Roman Catholic
- Government System: Democratic, elected president
- Languages: Greek, Turkish, English
- Work Week:

Government: 7:30 AM to 2:30 PM
 Offices: 8:00 AM to 5:30 PM with a lunch-break from 1:00 PM to 2:30 PM
 Shops: Same as offices in the winter but in the summer 8:00 AM to 7:00 PM with a three-hour siesta from 1:00-4:00 PM

B. DOMESTIC ECONOMY

(in USD million, except where noted)

Item	1998	1999(proj.)	2000(est.)
GDP	8,974.7	8,907.0	9,300.0
Real GDP Growth (pct)	5.0	4.0	4.0
GDP per capita (USD)	13,604.0	13,330.0	13,777.0
Govt. Spending (pct of GDP)	37.2	38.7	38.0
Inflation (pct)	2.2	2.0	3.0
Unemployment	3.3	3.1	3.0
Foreign Exch. Reserves	5,060.0	5,540.0	6,000.0
Average Exchange Rate			
-- (USD 1.00 = CP)	0.52	0.55	0.53
Foreign Debt (CP)	570.0	559.0	600.0
Debt Service Ratio (pct)	8.0	6.7	8.0
U.S. Economic Assistance	15.0	15.0	15.0

C. Trade

Item	1998	1999(proj.)	2000(est.)
Total Country Exports	1,059.7	1,029.8	1,200.0
Total Country Imports	3,446.0	3,242.0	3,500.0
U.S. Exports	460.5	500.0	550.0
U.S. Imports	20.0	22.0	25.0
U.S. Share of Imports (pct)	12.5	15.4	15.7

-- Trade Balance with three leading partners in 1998:
 U.S., (-) USD 440.5 million; U.K., (-) USD 259.8 million; and Italy, (-) USD 334.2 million.

-- Principal U.S. Exports: tobacco and cigarettes, office machines and data processing equipment, electrical equipment, and passenger cars.

-- Principal U.S. Imports: portland cement, clothing, hunting rifle cartridges, canvas, and dairy products.

D. INVESTMENT STATISTICS

In 1998 the Central Bank issued 222 new permits for foreign investment of USD 21.6 million in projects costing around USD 45.4 million. By comparison, in 1997 the Central Bank issued 175 permits for foreign investment of USD 27.0 million. The stock of foreign equity participation in Cyprus since 1986 is estimated at USD 280.6 million in projects costing around USD

799.4 million. For more details, please refer to Section VII, Paragraph F.

E. U.S. AND COUNTRY CONTACTS:

Ministry of Foreign Affairs

Minister: Dr. Yiannakis Kasoulides, tel: 357-2-300700
 Permanent Secretary: Andreas Pirishis, tel: 357-2-300713
 FAX: 357-2-461881

Ministry of Finance

Minister: Mr. Takis Clerides, tel: 357-2-454309 FAX: 357-2-367471
 Permanent Secretary: Mr. Antonis Malaos, tel: 357-2-803511
 FAX: 357-2-366080

Ministry of Commerce and Industry

Minister: Mr. Nicos Rolandis, tel: 357-2-867111
 FAX: 357-2-375323
 Permanent Secretary: Mr. Michael Erotokritos, tel: 357-2-308064 FAX: 357-2-375120

Ministry of Communications and Works

Minister: Mr. L. Ierodionou, tel: 357-2-302199
 FAX: 357-2-441022
 Permanent Secretary: Dr. Vasos Pyrgos, tel: 357-2-302278
 FAX: 357-2-475024

Ministry of Agriculture and Natural Resources

Minister: Mr. Costas Themistocleous, tel: 357-2-303815
 FAX: 357-2-781156
 Permanent Secretary: Mr. Symeon Matsis, tel: 357-2-300817
 FAX: 357-2-781156

Ministry of Health

Minister: Mr. Christos Solomis, tel: 357-2-309503
 FAX: 357-2-434189
 Permanent Secretary: Mr. Achilleas Patzinakos, tel: 357-2-309508 FAX: 357-2-434203

Electricity Authority of Cyprus

President: Mr. Costas Constantinides
 tel: 357-2-762001 FAX: 357-2-767658

Cyprus Telecommunications Authority

General Manager: Mr. Nicos Timotheou,
 tel: 357-2-701202 FAX: 357-2-494940

Cyprus Ports Authority

Acting General Manager: Mr. Michalakis Vasiliades
tel: 357-2-756100 FAX: 357-2-765420

Country Trade Associations/Chambers of Commerce

In 1997 the Cyprus-American Business Association was established under the Cyprus Chamber of Commerce and Industry to handle matters relating to trade with the United States. For information, contact Mr. Sotos Jacovides, tel: 357-2-757188, FAX: 357-2-750604.

The Cyprus Chamber of Commerce and Industry is the major contact for business orientation and is located in Nicosia, Cyprus. Contact: Mr. Panayiotis Loizides, Secretary General (tel: 357-2-669500, FAX: 357-2-669048). Regional Chambers of Commerce are also located in four other towns.

There are also trade associations governing most professions. Most of these associations are housed within the Chamber's building. Contact: Mr. Thasos Katsourides, Secretary, tel: 357-2-669500, FAX: 357-2-667593.

Country Market Research Firms

There are many market research bureaus operating in Cyprus. Listed below are a few that can be used by U.S. businessmen:

-- Middle East Marketing Research Bureau Ltd., P.O.Box 2098, Nicosia, Cyprus (tel: 357-2-335333).

-- AMER World Research Ltd., 2 Limassol Road, Nicosia, Cyprus (tel: 357-2-334131 or 756600).

-- RAI Consultants/Research, 16 Kyriacos Matsis Street, Eagle Tower, Nicosia, Cyprus (tel: 357-2-317258)

-- M. & R. Euroresearch Ltd., 5 Chytron Street, 1075 Nicosia, Cyprus (tel: 357-2-761142).

COUNTRY COMMERCIAL BANKS

The commercial banks operating in Cyprus are the following:

-- Arab Bank, 28 Santaroza Str., Nicosia
(tel: 357-2-767111, fax: 357-2-760890)

-- Alpha Bank, St. Lenas Square, Nicosia
(tel: 357-2-474333, fax: 357-2-773766);

-- Bank of Cyprus, 51 Stassinos Street, Ayia Paraskevi, Nicosia (tel: 357-2-378000, fax: 357-2-378327);

-- Cyprus Popular Bank, 39 Arch. Makarios III Ave., Nicosia (tel: 357-2-752000, fax: 357-2-811491);

-- Hellenic Bank, 92 Digenis Akritas Ave., Nicosia
(tel: 357-2-768000, fax: 357-2-754074);

-- National Bank of Greece, 36 Arch. Makarios III Ave.
Nicosia (tel: 357-2-751412, fax: 357-2-758923).

The local banks are open to the public five days a week from 8:15 a.m. to 12:30 p.m. The facilities offered by them are the same as by European banks and include cash points, credit cards and checking accounts. The International Banking Units (IBUs) are open to international business companies only, from 8:30 a.m. to 5:30 p.m. A list of IBUs can be obtained from the Central Bank of Cyprus, P.O.Box 5529, Nicosia, Cyprus, Tel: 357-2-379800, Fax: 357-2-378152.

U.S. EMBASSY TRADE PERSONNEL

The Embassy Commercial Department and the Commercial Library are in the main compound. An American Commercial officer is assigned to the Embassy for a three-year tour. A Cypriot Commercial Specialist, a Cypriot Economic Assistant, and a Cypriot Commercial Librarian are available to assist U.S. Businessmen. The Embassy's telephone number is 357-2-776400 Ext. 2520. FAX number: 357-2-781663. The Embassy has its own website on the Internet (<http://www.americanembassy.org.cy>) and may also be reached by e-mail (amembass@spidernet.com.cy).

Washington-Based USG Country Contacts

Washington-based USG country contacts include the Cyprus Desks at the Department of State (tel: 202-647-6113) and Department of Commerce (tel: 202-482-3945), the Overseas Private Investment Corporation (OPIC) (tel: 202-336-8474), Eximbank (tel: 202-566-8990), and Trade and Development Agency (tel: 703-875-4357).

F. Market Research

At present there are no Industry Sector Analysis reports (ISAs) available in Cyprus.

List of USDA/FAS/Commodity Reports and Market Briefs

There is no Agricultural Officer assigned to cover Cyprus in the region. Agricultural problems from Cyprus are referred to Washington. Requests for Commodity Reports and Market Briefs should be referred to USDA Washington at the following address:

U.S. Department of Agriculture
Director, AgExport Services Division
Foreign Agricultural Service
Washington, DC 20250-1052

Tel. (202) 690-3424
Fax: (202) 690-4374

G. Trade Event Schedule

The major trade event in Cyprus scheduled on a yearly basis is the Cyprus International Fair, which is an exhibitor-financed event. Next year's Fair, the 25th Cyprus International Fair, is scheduled for May 26-June 6, 2000. In recent years, the U.S. pavilion has been the largest single-country pavilion at the fair. Should any U.S. firm wish to exhibit at the U.S. Pavilion, please contact Ms. Chrystalla Varianou, tel: 357-2-776400 ext. 2062, fax: 357-2-781663, email: amembass@spidernet.com.cy.

Additionally, the State Fairs Authority organizes specialized exhibitions such as:

- Agrifair (agricultural machinery, products and tools and foodstuffs), October 13-17, 1999;
- Watertech (water treatment machinery), October 13-17, 1999;
- Ideal Home Exhibition, October 30-November 7, 1999;
- Home Equipment, October 30-November 7, 1999;
- International Education Fair, February 24-27, 2000;
- Sports and Leisure, Boat Show, and 4X4 Motor Cars, March 15-19, 2000;
- Offitec (office equipment), October 18-22, 2000; and
- Motorshow, November 8-12, 2000.

Some U.S. companies participate at these specialized exhibitions. Updated listings of these fairs are sent to the Department of Commerce and are available from the Desk Officer (tel. 202-482-2177).