



## Executive Summary

Strategically located at the crossroads of Europe, Asia, and Africa, Cyprus offers much promise and opportunity to U.S. investors. Best prospects lie in the energy, shipping, services, and high technology sectors. Though smaller, niche investment opportunities exist in food processing, franchises, and export-oriented businesses. Investors should not miss new opportunities created by efforts to develop renewable energy and offshore energy resources, expand tourism infrastructure, and reform the healthcare sector. Cyprus offers a low tax business environment, skilled and English-speaking professionals, and excellent infrastructure.

Doing business in Cyprus is not without its challenges. The Cypriot economy contracted by 5.4% in 2013 because of the financial crisis, and is expected to contract by another 4.8% in 2014, before returning to mild growth in 2015. Many economists attribute the financial crisis to the Cypriot banking sector's high exposure to Greek bonds. Cyprus engaged the Troika (European Commission, IMF, and European Central Bank) for assistance that was contingent on several points include the government agreeing to restructure the banking sector and cut government spending by roughly 7% over four years. As of early 2014 the Troika has praised Cyprus for its progress in, three formal reviews, and risk rating agencies have improved Cyprus' ranking since the crisis.

Companies considering investments in Turkish Cypriot administered areas should be aware of complications that arise from the lack of international recognition and the absence of a comprehensive political settlement in Cyprus. Turkish Cypriot business leaders are especially interested in working with American companies in the fields of processed agriculture, renewable energy, and franchises. Since 1974, the southern two-thirds of Cyprus has been under the control of the government of the Republic of Cyprus (ROC), while the remaining area in the north has been administered by Turkish Cypriots. In 1983, the Turkish Cypriot-administered area declared itself the "Turkish Republic of Northern Cyprus" ("TRNC"), but this has not been recognized by any country other than Turkey. The accession of the Republic of Cyprus to the European Union (EU) in 2004 had important consequences for the northern part of Cyprus. Though the EU suspended implementation of the *acquis communautaire* (AC) in the area administered by Turkish Cypriots, EU funded technical programs are being used to bring Turkish Cypriot goods and services into compliance with EU standards and norms.

The single-greatest catalyst for island-wide Cypriot economic growth and prosperity lies in the efforts of both communities to achieve a settlement of Cyprus' long-standing political problem. According to many analysts, prospects for a settlement, combined with benefits from exploiting the island's offshore hydrocarbons potential, hold the promise of doubling Cyprus' GDP by 2035.

### 1. Openness To, and Restrictions Upon, Foreign Investment

#### *Republic of Cyprus*

The Republic of Cyprus' favorable business climate for foreign investment is derived from its strategic geographic location, low corporate and personal tax rates, its 49 double taxation avoidance treaties (including with the United States), excellent telecommunications and transportation infrastructure, and its highly-educated English-speaking labor force. An unintended consequence of the 2013 financial crisis is that Cypriot businesses are pursuing foreign strategic investors more aggressively for projects and deals that span from expanding and broadening tourism-related infrastructure, modernizing the ports, to opportunities to invest in Cyprus' banking sector. Foreign investors may establish a business in Cyprus on equal footing with local investors in most sectors. As permitted under EU regulations, some restrictions apply:

- Non-EU entities (persons and companies) may purchase only two real estate properties for private use (normally, two holiday homes or a holiday home and a shop or office). This restriction does not apply if the investment is through a company registered in Cyprus or another legal entity elsewhere in the EU.
- Non-EU entities also cannot invest in the production, transfer, and provision of electrical energy. Additionally, the Council of Ministers may refuse granting a license for investment in hydrocarbons prospecting, exploration, and exploitation to a third-country national or company if that third country does not provide similar treatment to Cyprus or other EU member states.
- Individual non-EU investors may own no more than 5% of a local TV and radio station, and total non-EU ownership of a local TV or radio station is restricted to 25%.
- The right to register as a building contractor in Cyprus is reserved for citizens of EU member states. Non-EU entities are not allowed to own a majority stake in a local construction company. Non-EU physical persons or legal entities may bid on specific construction projects, but only after obtaining a special license by the Council of Ministers.
- Non-EU entities cannot invest in tertiary private institutions.
- Provision of healthcare services on the island are also subject to certain restrictions, applying equally to all non-residents.
- Finally, the Central Bank's prior approval is necessary before any individual person or entity, whether Cypriot or foreign, can acquire over 9.99% of a bank incorporated in Cyprus

For more information:

One Stop Shop & Point of Single Contact  
Ministry of Commerce, Industry & Tourism  
13-15 Andreas Araouzos  
1421 Nicosia, Cyprus  
Tel. +357 22 409318 or 321

Fax: +357 22 409432  
 Email1: onestopshop@mcit.gov.cy  
 Email2: pscyprus@mcit.gov.cy  
 Website: [www.businessincyprus.gov.cy](http://www.businessincyprus.gov.cy)

### ***Area Administered by Turkish Cypriots***

To establish a company a foreign entity or individual must first obtain the approval of the “Council of Ministers”. Turkish Cypriot authorities welcome foreign investment and are eager to attract projects or investments that include the transfer of advanced technology and technical skills. Priority is also given to investments in export-oriented industries. According to the “registrar of companies office”, foreign ownership of construction companies is restricted to 49%. No foreign investment is allowed in travel agencies. The authorities in the area administered by Turkish Cypriots established “YAGA” – the Turkish Cypriot Investment Development Agency – a one stop shop for foreign and domestic investors.

According to the “registrar of companies office” statistics, as of March 2014, there are:  
 16,769 Turkish Cypriot majority-owned companies;  
 330 foreign companies; and  
 281 international companies.

For more information and requirements on establishing a company, licenses and doing business visit:

“North Cyprus Investment Development Agency”

Tel: (+90) 392 - 22 82317

Website: <http://www.investinnorthcyprus.org>

E-mail: [mehmet.yildirim@investinnorthcyprus.org](mailto:mehmet.yildirim@investinnorthcyprus.org)

Turkish Cypriot Chamber of Commerce

<http://www.ktto.net/english/index.asp>

Tel:(+90) 392 - 228 37 60 / 228 36 45

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### ***Competitiveness Rankings***

#### ***Republic of Cyprus***

Cyprus’ relatively liberal and transparent investment climate is reflected in the following globally-recognized reports and indexes.

<b>Measure</b>	<b>Year</b>	<b>Rank/ Value</b>	<b>Website Address</b>
TI Corruption Perceptions index	2013	31 of 177	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation’s Economic Freedom index	2013	46 of 165	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>

World Bank's Doing Business Report "Ease of Doing Business"	2013	39 of 189	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>
Global Innovation Index	2013	43 of 142	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	USD 26,110	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

### ***Area Administered by Turkish Cypriots***

The Turkish Cypriot Chamber of Commerce (TCCC) publishes an annual Competitiveness Report on the Turkish Cypriot economy, based on the World Economic Forum methodology. The TCCC 2013-2014 Competitiveness Report ranked the northern part of Cyprus 118<sup>th</sup> among 144 economies. For more information on the TCCC Competitiveness Report, contact the Turkish Cypriot Chamber of Commerce (<http://www.ktto.net/english/index.asp>) Tel:(+90) 392 - 228 37 60 / 228 36 45 or Fax:(+90) 392 - 227 07 82.

## **2. Conversion and Transfer Policies**

### ***Republic of Cyprus***

The ROC implemented capital controls on March 28, 2013 prohibiting the transfer of funds internationally, limiting cash withdrawals, and preventing account holders from changing banks. Some aspects of these restrictions have been eased in the months since the financial crisis. New investments post-March 2013 are completely exempt from capital controls. U.S. companies interested investing in Cyprus are encouraged to regularly refer to the Central Bank's website on capital controls for the most current restrictions:

[http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=12583&lang=en](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=12583&lang=en)

### ***Area Administered by Turkish Cypriots***

There are essentially two separate financial systems on the island. As a result, the financial crisis in the government-controlled area has had little impact on capital transfer policies in the area administered by Turkish Cypriots. The financial system in the area administered by Turkish Cypriots is linked closely with that of Turkey. The Turkish Lira (TL) is the main currency in use although use of the Euro, U.S. dollar, and British Pound is frequent. The vast majority of business borrowing is derived from domestic and Turkish sources.

Any kind of devaluation of the TL in Turkey against foreign exchange rates (or the opposite), has an effect on the economy of the area administered by Turkish Cypriots. Wages across sectors are generally paid in TL, and almost all real estate, electronic white goods, vehicles, and other products are sold in foreign currencies. Banks in the Turkish Cypriot administered areas provide low interest rate loans to customers who seek foreign exchange loans in Euros or British Pounds. Foreign investors are authorized to repatriate all proceeds from their investments and business.

**Special Note:** In late 2013 and resulting from a move to strengthen their own anti moneylaundering operating procedures, some U.S. banks decided to stop offering U.S. dollar correspondent facilities to banks in certain jurisdictions, including Cyprus. Bankers and politicians in both the Republic of Cyprus and Turkish Cypriot-administered areas have expressed concerns about the impact such business decisions could have on bilateral money flows.

### **3. Expropriation and Compensation**

**Republic of Cyprus** The Republic of Cyprus expropriates private property for public purposes in a non-discriminatory manner and in accordance with EU norms and established principles of international law. Investors and lenders to expropriated entities receive compensation in the currency in which the investment was made. In the event of any delay in the payment of compensation, the Government is also liable for the payment of interest based on the prevailing 6-month LIBOR for the relevant currency.

#### ***Area Administered by Turkish Cypriots***

Private property can be expropriated for public purposes and a process is followed whereby investors are entitled to compensation. Foreign investors may claim any damages in cases of expropriation by non-legal means or by incorrect performance of responsibilities by the authorities.

According to the "Title Deeds Office," the "government" issues a notice to private owners when it intends to acquire land. The "government" will then seek the approval of the "Council of Ministers" for the acquisition, and notification of the acquisition is published in the official gazette. "District officers" are sent to inspect the land/property a final time and a notice of compensation is issued to the private owner. If the private owner accepts the package, then compensation payments are paid. In cases where the owner declines the compensation package, the case is turned over to the "court" for a final decision.

**Special Note:** For information pertaining to the risks associated with investing in Greek Cypriot property in the Turkish Cypriot-administered area or in Turkish Cypriot property in the Government-controlled area, please see the detailed section on "Protection of Property Rights."

### **4. Dispute Settlement**

#### ***Republic of Cyprus***

International disputes are resolved through litigation in Cypriot courts or by alternative dispute resolution methods such as arbitration and mediation. Cyprus' judicial system is independent and judgments on cases generally take between three and five years to be issued, and up to 12 years for some investment disputes involving property foreclosure. The number of non-performing loans has grown, in the aftermath of the financial crisis, to account for more than 40% of the national portfolio; adding to pressure on the judicial system and dispute resolution mechanisms. The Ministry of Finance encourages the use of mediation services for banks and distressed borrowers. Commercial arbitration is available, offering an alternative recourse to normal judicial proceedings, provided both sides to the dispute agree to it. Under the Arbitration

Law of Cyprus, an arbitrator can be appointed when the parties' are unable to reach a settlement. Arbitration rulings are fully enforceable and the court may enforce an arbitral award in the same way as a judgment. Mediation is not fully enforceable. Cyprus is a signatory to both the International Center for the Settlement of Investment Disputes (ICSID) and the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (UNCITRAL); a foreign award may be enforced in Cyprus by an action in common law.

- The Cyprus Chamber of Commerce and Industry (CCCI, <http://www.ccci.org.cy/>) offers arbitration and mediation. A 2012 law sanctions international and domestic mediation and designates the following three bodies to act as mediators: the Cyprus Bar Association, CCCI, and the Scientific and Technical Chamber of Cyprus. For more info: [www.jurisint.org/en/ctr/62.html](http://www.jurisint.org/en/ctr/62.html)
- The Cyprus Arbitration and Mediation Centre (CAMC): [www.cyprusarbitration.com.cy/default.asp?pid=28](http://www.cyprusarbitration.com.cy/default.asp?pid=28) [www.triantafyllides.com/highlights-of-cyprus/86/24](http://www.triantafyllides.com/highlights-of-cyprus/86/24) ; and
- The Euro-Mediterranean Alternative Dispute Resolution Centre: [www.neocleous.biz/gr/download/busop\\_ccica.htm](http://www.neocleous.biz/gr/download/busop_ccica.htm) [www.neocleous.com/index.php?pageid=49&pageaction=neo&modid=102&newid=1524](http://www.neocleous.com/index.php?pageid=49&pageaction=neo&modid=102&newid=1524)

#### ***Area Administered by Turkish Cypriots***

Foreign investors may make use of all the rights guaranteed to Turkish Cypriots. Private dispute resolution is not available and alternatives to the formal "court" system in the Turkish Cypriot-administered area, to bring about settlement via arbitration or mediation, do not exist. The resolution of commercial and/or investment disputes through the "judicial system," takes an average of three to five years.

## **5. Performance Requirements and Incentives**

### ***Republic of Cyprus***

Cyprus does not have a rigid system of performance requirements for foreign investment and is a signatory to the WTO's Trade-Related Investment Measures (TRIMS) agreement. In the aftermath of the 2013 financial crisis, the ROC has stepped up efforts to promote Cyprus as an investment destination. New incentives added to the investment for visa/residency scheme can be found here: <http://www.investcyprus.org.cy/images/media/assetfile/Citizenship0002.pdf>. Cyprus also offers investors one of the lowest corporate tax rates in the EU at 12.5%. Cyprus' other tax advantages include:

- one of the EU's lowest top statutory personal income tax rates at 30%;
- an extensive double tax treaties network with over 49 countries, enabling lower withholding tax rates on dividend or other income received from the subsidiaries abroad;
- no withholding tax on dividend income received from subsidiary companies abroad under certain conditions; and
- no withholding tax on dividends received from EU subsidiaries.

A full description of Cyprus's investment incentives is available at:

[www.businessincyprus.gov.cy](http://www.businessincyprus.gov.cy)

### ***Area Administered by Turkish Cypriots***

The Turkish Cypriot-administered area does not impose performance requirements on investments and offers incentives such as:

- No limitations on transferring proceeds;
- Exemption from Custom Duties;
- Zero rate VAT on imported and locally purchased machinery and equipment.

For a full description of investment incentives, visit:

“North Cyprus Investment Development Agency”

Tel: 90 392 228 9378

Website: [www.investinnorthcyprus.org](http://www.investinnorthcyprus.org)

E-mail: [mehmet.yildirim@investinnorthcyprus.org](mailto:mehmet.yildirim@investinnorthcyprus.org)

Or: [info@InvestInNorthCyprus.org](mailto:info@InvestInNorthCyprus.org)

## **6. Right to Private Ownership and Establishment**

### ***Republic of Cyprus***

Foreign investors, like domestic business owners, can register a company directly with the Registrar of Companies. Foreign investors may acquire shares in an existing Cypriot company. Foreign investors, and domestic investors, are required to inform the Registrar of Companies about any changes in ownership to any Cyprus-registered company. Foreign investors are required to obtain all permits that may be necessary under Cypriot law to do business in Cyprus. For example, they may need to obtain a municipal permit to set up a kiosk or abide by prevailing health standards to own and operate a catering company, etc.

Local and foreign investors may establish any of the following legal entities or businesses in the Republic of Cyprus:

- Companies (private or public);
- General or limited partnerships;
- Business/trade name;
- European Company (SE);
- Branch of overseas companies.

This process involves completing an application for approval/change of name, followed by several steps outlined in the following link:

<http://www.businessincyprus.gov.cy/mcit/psc/psc.nsf/All/A2E29870C32D7F17C2257857002E18C9?OpenDocument>

### ***Area Administered by Turkish Cypriots***

Registered foreign investors may buy property for investment purposes. Foreign natural persons also have the option of forming private liability companies and foreign investors can form mutual partnership with one or more foreign or domestic investors.

## **7. Protection of Property Rights**

### ***Republic of Cyprus***

The newest IPR law passed was 2012 Law 207(I), which places the burden of proof on the defendant in cases of intellectual property right infringement. The law also allows the police to assess samples of pirated articles in lieu of the whole shipment and introduces the alternative for out-of-court settlement in some cases. Other important IPR laws include Law 103 (2007) on unfair commercial practices and Law 133(I) (2006) strengthening earlier legislation targeting copyright infringement. Cyprus has been off the Special 301 list since 2007. The last time Cyprus was included in the Special 301 report was in 2006, when the International Intellectual Property Alliance (IIPA) included Cyprus in its "special mention" category.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Andrea Donnally [DonnallyAS@state.gov](mailto:DonnallyAS@state.gov)

Local attorney list: <http://cyprus.usembassy.gov/lawyers.html>

EU nationals and companies domiciled in any EU country are not subject to any restrictions when buying property in Cyprus. By contrast, Cypriot law imposes significant restrictions on the foreign ownership of real estate by non-EU residents. Non-EU persons and entities may purchase a maximum of two real estate properties for private use (defined as a holiday home built on land of up to 4,014 square meters; plus a second home or office of up to 250 square meters, or shop of up to 100 square meters). Exceptions can be made for projects requiring larger plots of land but are difficult to obtain and rarely granted. This restriction applies to non-EU citizens or non-EU companies. A legal entity is deemed to be controlled by non-EU citizens if it meets any of the conditions listed below:

- 50% or more of its board members are non-EU citizens;
- 50% or more of its share capital belongs to non-EU citizens;
- Control (50% or more) belongs to non-EU citizens;
- Either the company's Memorandum or Articles of Association provides authority to a non-EU citizen securing that the company's activities are conducted based on his/her will during the real estate acquisition period. In the case that the authority is provided to two or more persons, a legal entity is considered to be controlled by non-EU citizens if 50% or more of the people granted such authority are non-EU citizens.

For additional information and application forms for the acquisition of property by non-EU residents, please refer to the Ministry of Interior website:

[http://www.moi.gov.cy/moi/moi.nsf/index\\_en/index\\_en?OpenDocument](http://www.moi.gov.cy/moi/moi.nsf/index_en/index_en?OpenDocument)

Legal requirements and procedures for acquiring and disposing of property in Cyprus are complex but professional help from real estate agents and developers can ease the burden of complying with government requirements. The Government's Department of Lands and Surveys keeps records and follows internationally-accepted procedures. Non-residents are allowed to sell their property and transfer abroad the amount originally paid, plus interest or profits, without restriction.

#### ***Area Administered by Turkish Cypriots***

Intellectual property rights are not adequately protected in the area administered by Turkish Cypriots. The "laws" in this area are inadequate, antiquated, and most importantly, lack enforcement. Infringing goods imported from Turkey and other sources are a significant concern. For information, please contact the same sources listed above.

**Special Note:** Investors are advised to consider the risks associated with investing in immovable property and potential investors are strongly advised to obtain independent legal advice concerning purchasing or leasing property.

In the government-controlled area, there are restrictions on investing in Turkish Cypriot property. The Turkish Cypriot Property Management Service (TCPMS), established in 1991, administers properties of Turkish Cypriots who are not ordinarily residents of the government-controlled area. This service acts as the temporary custodian for such properties until a comprehensive political settlement is reached. The TCPMS is mandated to administer properties under its custodianship "in the manner most beneficial for the owner." Ownership of Turkish Cypriot properties cannot change (unless for inheritance purposes) except in exceptional cases when this is deemed beneficial for the owner or necessary for the public interest.

For property in the Turkish Cypriot-administered areas, only pre-1974 title deeds are uncontested. In response to the European Court of Human Rights' (ECHR) 2005 ruling in the *Xenides Arestis* case that Turkey's "subordinate local authorities" in Cyprus had not provided an adequate local remedy for property disputes, Turkish Cypriot authorities established an Immovable Property Commission (IPC) to handle property claimed by Greek Cypriots. In a March 2010 ruling, the ECHR recognized the IPC as a domestic remedy. As of April, 2014, the IPC has received 5853 applications, of which 503 of them have been concluded through friendly settlements, and 12 through formal hearings. For more info on IPC please visit

<http://www.tamk.gov.ct.tr/>

On January 19, 2010, the UK Court of Appeal enforced an earlier court decision taken in the Republic of Cyprus in support of a Greek Cypriot person's trespassing claim (the *Orams* case - <http://curia.europa.eu/juris/liste.jsf?language=en&num=C-420/07> and <http://www.bailii.org/ew/cases/EWCA/Civ/2010/9.html>), effectively voiding the transfers of Greek Cypriot property in the Turkish Cypriot-administered areas. This landmark decision also

establishes precedent in cases where foreign investors purchasing disputed properties outside of the government-controlled area can be found liable for damages.

## **8. Transparency of the Regulatory System**

### ***Republic of Cyprus***

In the past, U.S. companies competing on government tenders have noted concerns about opaque rules and the possible bias in decisions made by the technical committees responsible for preparing specifications and reviewing tender submissions. Overall, procedures and regulations are transparent and applied in practice by the government without bias.

When passing new legislation or regulations, Cypriot authorities follow the EU *acquis communautaire*. A formal public notice and comment procedure is not legally mandated in Cyprus, although it is a requirement for specific types of laws. Despite not being legally-mandated, the Cypriot government typically seeks feedback directly from stakeholders. Draft legislation must be published in the Official Gazette before being debated in the House to allow stakeholders an opportunity to submit comments. The House of Representatives also typically invites specific stakeholders to offer their feedback when debating bills. Draft regulations, on the other hand, do not have to be published in the Official Gazette prior to being approved. Most regulations are published in Greek and English translations are usually made available.

### ***Area Administered by Turkish Cypriots***

The level of transparency for "lawmaking" and adoption of "regulations" in the area administered by Turkish Cypriots does not meet EU or U.S. standards.

## **9. Efficient Capital Markets and Portfolio Investment**

### ***Republic of Cyprus***

The Cyprus Stock Exchange (CSE), launched in 1996, is one of the EU's smallest stock exchanges, with a capitalization of just under €1 billion (USD 1.2 billion) as of April 2014. The CSE and the Athens Stock Exchange (ASE) have operated from a joint trading platform since 2006, allowing capital to move more freely from one exchange to the other, even though both exchanges retain their autonomy and independence. The joint platform has increased capital available to Cypriot firms and improved the CSE's liquidity although its small size remains a problem. The private sector has access to a variety of credit instruments, which has been enhanced through the operation of private venture capital firms. Credit is allocated on market terms to foreign and local investors alike. Foreign investors may acquire up to 100% of the share capital of Cypriot companies listed on the CSE with the notable exception of companies in the banking sector.

### ***Area Administered by Turkish Cypriots***

There is no stock exchange in the Turkish Cypriot-administered area.

The "Central Bank" oversees and regulates all branches of local banks, foreign banks, private banks and international banking units. Out of 22 banks, there are 14 Turkish Cypriot banks, seven international branch banks, and one development bank. All banks are required to follow

KYC and AML “laws,” are regulated by the “Ministry of Economy,” and supervised by the “Central Bank”. Due to non-recognition issues, Turkish Cypriot banks encounter practical difficulties hampering their operations as a result of not qualifying for an international SWIFT number (SWIFT code is a standard format of Bank Identifier Codes (BIC)). Therefore, Turkish Cypriots and foreigners making international transfers depend on Turkish banks for assistance. Turkish Cypriot banks access international markets via Turkey. The total number of deposits, which includes bank, “public”, individual and other was around USD 5.3 billion as of December 2013. More information is available at the “Central Bank” website: [http://www.kktcmerkezbankasi.org/ser/english/index\\_englishz.htm](http://www.kktcmerkezbankasi.org/ser/english/index_englishz.htm)

## **10. Competition from State-Owned Enterprises (SOEs)**

### ***Republic of Cyprus***

The Republic of Cyprus maintains exclusive or majority-owned stakes in approximately 40 entities; although Troika recommendations will change this in the years to come through the recently approved road map for privatizations. Despite union opposition, the Cypriot government has already embarked on a privatizations program to raise €1.4 billion (USD 1.93 billion). The parliament passed legislation establishing the legal framework for privatizations on March 4, 2014. The government intends to privatize the following SOEs:

- Cyprus Ports Authority (CPA): The first SOE offered for partial privatization, in March 2014, was the Ministry of Communications and Works when it invited tenders for a consultation study on how to privatize Limassol port operations. The government plans for CPA to remain a regulator, but management of port commercial activities will be transferred to the private sector. This public-private partnership model is already being implemented for Larnaca port. The government plans to issue a tender and grant a long-term license for an operator of Limassol port by December 31, 2015.
- Cyprus Telecommunications Authority (CyTA): According to the Roadmap CyTA will be converted into a private company with the state as the only shareholder by December 31, 2014. By early 2015, CyTA employees and the union of workers will be offered the first right of refusal to buy shares, after which strategic investors and opportunity to buy shares of the telecom company.
- Electricity Authority of Cyprus (EAC): by June 30, 2015, the electricity company’s various business streams will be unbundled into separate legal entities. EAC will be turned into a private company (or companies) with the state as the only shareholder by December 31, 2015. A share of the equity will be offered to workers by March 31, 2016. The government plans to complete the sale of shares of EAC September 30, 2017.
- The Cyprus Stock Exchange: Details are forthcoming, target privatization date is June 30, 2016;
- Cyprus State Fairs Authority: Details are forthcoming, target privatization date is June 30, 2016;

- Cyprus Forest Industries (51% state-owned): Details are forthcoming, target privatization date is June 30, 2016;
- The government stake in the Pancyprian Bakers' Company (11.9% state-owned): Details are forthcoming, target privatization date is June 30, 2016

The government anticipates conducting studies on the efficacy of privatizing the House Financing Organization, Land Development Organization, Fuel Storage Company, Cyprus Grain Commission, and the immovable property of the main slaughterhouse in Kofinou.

#### ***Area Administered by Turkish Cypriots***

In the Turkish Cypriots administered area, there are institutions known as "public economic enterprises" (POEs) and "semi-public enterprises," which aim to provide common utilities and essential services.

### **11. Corporate Social Responsibility (CSR)**

#### ***Republic of Cyprus***

In recent years, CSR awareness among both producers and consumers is growing in Cyprus. Leading foreign and local enterprises tend to follow generally-accepted CSR principles, and firms pursuing these practices tend to be viewed more favorably by the public. The Cyprus Stock Exchange does impose CSR requirements for companies that are publicly-listed on the main market, and encourages voluntary CSR for smaller companies listed on the alternative market. See the CSE website for further information on these requirements prior to seeking to list on the Stock Exchange: <http://www.cse.com.cy/en/>

#### ***Area Administered by Turkish Cypriots***

In recent years, CSR awareness among both producers and consumers has been growing. Firms pursuing these practices tend to be viewed more favorably by the public.

### **12. Political Violence**

#### ***Republic of Cyprus***

There have been no incidents of politically-motivated damage to foreign projects and or installations since 1974. U.S. companies have not been the target of violence. There were numerous relatively peaceful protests against the ROC government and the EU focused mainly at the Parliament and Presidential Palace in the early days following the financial crisis of March 2013 and in response to the forced conversion of deposits into equity. Since then, protests against additional austerity measures have been fairly calm. A couple of these demonstrations resulted in minor scuffles with police but most passed without incident.

#### ***Area Administered by Turkish Cypriots***

There have been no incidents of politically-motivated damage to foreign projects and or installations since 1974.

### **13. Corruption**

***Republic of Cyprus***

The U.S. government is not aware of any U.S. firms identifying corruption as a significant obstacle to foreign direct investment in Cyprus. Notwithstanding certain well-publicized cases in the recent past that tend to suggest that the public is less tolerant of corruption involving politically-exposed persons, Cyprus does well by most international measures: it ranked 31 out of 177 on the 2013 Transparency International Corruption Index and 85% on the World Bank "Control of Corruption" World Governance Indicator.

Corruption, both in the public and private sectors, constitutes a criminal offense. Under Cyprus' Constitution, the Auditor General controls all government disbursements and receipts and has the right to inspect all accounts on behalf of the Republic. In the most recent annual report, the Auditor General identifies specific instances of mismanagement or deviation from proper procedures in the civil service.

Cyprus cooperates closely with EU and other international authorities to fight corruption and provide mutual assistance in criminal investigations. Cyprus ratified the European Convention on Mutual Assistance in Criminal Matters. 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. Cyprus signed and ratified the Criminal Law Convention on Corruption and has joined the Group of States Against Corruption the Council of Europe.

***Area Administered by Turkish Cypriots***

The Embassy is unaware of any recent complaints from U.S. businesses involving corrupt practices in the north. Corruption, both in the public and private sectors, constitutes a criminal offense. The "Audit Office" controls all disbursements and receipts and has the right to inspect all accounts. In its annual report, the "Audits Office" identifies specific instances of mismanagement or deviation from proper procedures and anecdotal evidence suggests that corruption and patronage continue to be a factor in the economy.

**14. Bilateral Investment Agreements*****Republic of Cyprus***

The United States is in negotiations with the EU for a Transatlantic Trade and Investment Partnership which would extend bilateral investment incentives and protections to Cyprus once the agreement is reached. Cyprus is a party to 27 bilateral investment treaties (BITs), listed here: [http://unctad.org/Sections/dite\\_pcbb/docs/bits\\_cyprus.pdf](http://unctad.org/Sections/dite_pcbb/docs/bits_cyprus.pdf)

The United States and Cyprus entered into a Tax Convention in 1985, which remains valid today. Under this treaty, residents or citizens of the United States are taxed at a reduced rate, or are exempt from foreign taxes, on certain items of income they receive from sources within Cyprus. This income tax treaty contains what is known as a "saving clause" which prevents a citizen or resident of the United States from using the provisions of a tax treaty in order to avoid taxation of U.S. source income. Cyprus has negotiated and ratified bilateral double tax treaties with 49 countries: [http://www.mof.gov.cy/mof/ird/ird.nsf/dmldtc\\_en/dmldtc\\_en](http://www.mof.gov.cy/mof/ird/ird.nsf/dmldtc_en/dmldtc_en)

## 15. OPIC and Other Investment Insurance Programs

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 Operate and Transfer (BOT) contracts in the government-controlled area. Cyprus is a member of the Multilateral Investment Guarantee Agency (MIGA).

## 16. Labor

### *Republic of Cyprus*

Unemployment in Cyprus has risen sharply in the last two years, reaching 17% at the end of 2013, and exceeding the corresponding averages of both the Euro area and the EU 28. Cyprus has a high per capita rate of college graduates, including many U.S. university graduates and offers an abundant supply of English-speaking staff. Cyprus' total labor force is estimated at 356,600 persons. The breakdown is: services, 79.5%; industry and construction, 17.7%; and agriculture, 2.8%. More women are joining the labor force, and their percentage participation has risen from 33.4% in 1980 to around 45% today. For information, about hiring local employees, contact the Ministry of Labour and Social Insurance: [www.mlsi.gov.cy/dlr](http://www.mlsi.gov.cy/dlr).

In an environment of declining influence, the financial crisis further weakened trade union influence in the Republic of Cyprus. The percentage of the labor force belonging to unions as of April 2014 was estimated to be around 50%, down from around 70% in 2012, and 80% in 1980. Local labor experts predict that this percentage will shrink further to around 30-40% over the next few years, on par with EU averages. Head-on confrontations between management and unions in Cyprus are rare. Most recently, disagreement has arisen over the Troika requirement to privatize several state-owned enterprises. International companies are not required to hire union labor.

Cyprus imposes a minimum wage for certain professions as follows:

- Clerks/secretaries, sales assistants, paramedical, live-in maids/domestic helpers, school assistants/child-carers: €870 (USD 1,201) per month, rising to €924 (USD 1,275) after six months' employment.
- Security guards: €4.90 (USD 6.76) per hour, rising to €5.20 (USD 7.18) after six months' employment.

- Cleaning personnel: €4.55 (USD 6.28) per hour, rising to €4.84 (USD 6.68) after six months' employment. Non-EU, live-in domestic servants have a separate minimum wage, set at USD 426 (€ 309) per month, plus their room and board as of April 2014.

For all other professions, there is no minimum wage, and wages are set through free. Collective bargaining agreements between trade unions and employers cover most sectors of the economy. Wages set in these agreements are typically significantly higher than the legislated minimum wage.

### ***Area Administered by Turkish Cypriots***

As of January 2012, the "State Planning Office" estimated the labor force in the area administered by Turkish Cypriots to be 108,929. The area administered by Turkish Cypriots also has a high per capita rate of college graduates, including many U.S. and European university graduates and offers an abundant supply of white-collar workers. As of December 2013 estimated unemployment was approximately 9.6%. The breakdown of employment by sector at the end of 2011 was as follows: 3.7% in agriculture, 8.7% in construction sector, and 80.3% in services (including "public sector", trade, and tourism). As of the most recent statistics available in 2011, women accounted for roughly 32% of the labor force. Around 10% of private sector workers and more than 65% of "semi-public" and "public sector" workers belong to labor unions. Workers are allowed to form and become members of unions. As of January 2014, the minimum wage was TL 1,560 per month (approximately USD 730).

Foreign persons are required to obtain work permits through their employer. Foreign entities may import their key personnel from abroad and are also permitted to hire trainees and part-time workers. A full-time work week is 39 hours.

## **17. Foreign-Trade Zones/Free Ports**

### ***Republic of Cyprus***

The lead government agency handling areas subject to a special customs regime is the Department of Customs and Excise. Specific rules for the two main types of such areas, namely Customs Warehouses and Free Zones, are listed below, and are fully harmonized with equivalent EU norms:

<http://www.mof.gov.cy/mof/customs/customs.nsf/All/6D61C14C3E95345CC22572A6003BCBD5?OpenDocument>

There are two types of Free Zones:

- Control Type I Free Zone, in which controls are principally based on the existence of a fence; and
- Control Type II Free Zone, in which controls are principally based on the formalities carried out in accordance with the requirements of the customs warehousing procedure.

Cyprus has two Control Type II Free Zones (FZs) located in the main seaports of Limassol and Larnaca, which are used for transit trade. These areas are treated as being outside normal EU customs territory. Consequently, non-EU goods placed in FZs are not subject to any import

duties, VAT, or excise tax. FZs are governed under the provisions of relevant EU and Republic of Cyprus legislation. The Department of Customs has jurisdiction over both normal zones and FZs, and can impose restrictions or prohibitions on certain activities, depending on the nature of the goods. Additionally, the Ministry of Commerce, Industry and Tourism has management oversight over the Larnaca FZ.

A Customs Warehouse can be set up anywhere in Republic of Cyprus, provided the right criteria are met, and with the approval of the Department of Customs. For more information, interested parties may contact:

Director  
Department of Customs and Excise  
Michali Karaoli Str.  
1096 Nicosia  
tel. +357-22-601754 or 55  
fax: +357-22-302018  
website: [www.mof.gov.cy/ce](http://www.mof.gov.cy/ce)  
E-mail: [headquarters@customs.mof.gov.cy](mailto:headquarters@customs.mof.gov.cy)

When larger projects are involved, potential investors interested in establishing their own customs warehouse or seeking to engage existing customs warehouses may also contact the Ministry of Commerce, Industry, and Tourism for guidance on identifying suitable locations. For additional info, please contact:

One Stop Shop & Point of Single Contact  
Ministry of Commerce, Industry & Tourism  
13-15 Andreas Araouzos  
1421 Nicosia  
Tel. +357 22 409318 or 321  
Fax: +357 22 409432  
Email 1: [onestopshop@mcit.gov.cy](mailto:onestopshop@mcit.gov.cy)  
Email 2: [pccyprus@mcit.gov.cy](mailto:pccyprus@mcit.gov.cy)  
Website: [www.businessincyprus.gov.cy](http://www.businessincyprus.gov.cy)

Additional information on the Limassol and Larnaca FZs can be obtained from:

Cyprus Ports Authority  
P.O. Box 22007  
1516 Nicosia  
23, Kritis Street  
1061 Nicosia  
tel. +357-22-817200, X-0  
fax: +357-22-762050  
E-mail: [Kokkinos@cpa.gov.cy](mailto:Kokkinos@cpa.gov.cy)  
Website: <http://www.cpa.gov.cy/>

***Area Administered by Turkish Cypriots***

Regulated by the "Free-Ports and Free Zones Law," Famagusta has a "free port and zone."

Operations and activities permitted there include:

- Engaging in all kinds of industry, manufacturing, and production.
- Storage and export of goods imported to the "Free Port and Zone."
- Assembly and repair of goods imported to the "Free Port and Zone."
- Building, repair and assembly of all kinds of ships.
- Banking and insurance services.

Information about incentives provided to businesses established there can be accessed at:

<http://www.portisbi.com/news.html>

**18. Foreign Direct Investment Statistics*****Republic of Cyprus***

Given its small size, the Republic of Cyprus attracts considerable investment flows, particularly registration of businesses whose real operations are elsewhere, known as "brass plate" companies. Following is a link to the United Nations Conference on Trade and Development (UNCTAD) "2013 World Investment Report":

[http://unctad.org/en/publicationslibrary/wir2013\\_en.pdf](http://unctad.org/en/publicationslibrary/wir2013_en.pdf)

In 2012, according to Central Bank of Cyprus, the net inflow of FDI (excluding "brass plate" companies) reached €979 million (USD 1.2 billion), while the net outflow from Cyprus reached €219 million (USD 280 million). Economists estimate that 90% of the net inflow in 2012 came from the Russian Federation. In 2012, the stock of FDI in Cyprus reached €15.9 billion (USD 20.3 billion), while the stock of Cypriot investment abroad reached €5.6 billion (USD 7.2 billion). [Note: In 2011, the Central Bank of Cyprus stopped including FDI transactions by companies that either were not physically present in or operating in Cyprus, otherwise known as "brass plate" companies.]

Cyprus' liberal investment climate and, more recently, its potential offshore energy reserves have made it a progressively more attractive destination for U.S. investors. In 2012, the stock of U.S. Foreign Direct Investment (FDI) on the island reached USD 4,119 million, down from USD 4,430 million in 2011, making up 20% of Cyprus' total stock investment. The net inflow of U.S. investment into Cyprus was USD 110.1 million in 2012. Other projects involving U.S. investment in recent years have focused on services, specifically (in order of magnitude): finance and insurance (including re-insurance); management consulting; real estate; professional, scientific and technology/IT consulting; and wholesale trade. Over the next few years, Cyprus is poised to attract additional investment in the field of offshore energy exploration and infrastructure. For more info on Cyprus' FDI stocks and flows, please refer to following links posted by the Central Bank of Cyprus:

[http://www.centralbank.gov.cy/media/pdf/FDI\\_report\\_2012.revised.pdf](http://www.centralbank.gov.cy/media/pdf/FDI_report_2012.revised.pdf)

[http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=10905](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=10905)

[http://www.centralbank.gov.cy/nqcontent.cfm?a\\_id=12490&lang=en](http://www.centralbank.gov.cy/nqcontent.cfm?a_id=12490&lang=en)

<http://www.cipa.org.cy>

### ***Area Administered by Turkish Cypriots***

No detailed statistics on investment in the area administered by Turkish Cypriots are available. However, it is clear that most foreign direct investment in the Turkish Cypriot-administered area since 1974 has come from Turkey. The sectors which have attracted the most investment are tourism and real estate. For additional information on foreign direct investment:

<http://www.investinnorthcyprus.org>

### ***Web Resources***

American Embassy in Nicosia:

<http://cyprus.usembassy.gov>

***Republic of Cyprus*** ROC Government Portal:

<http://www.cyprus.gov.cy>

Ministry of Foreign Affairs:

[http://www.mfa.gov.cy/mfa/properties/occupiedarea\\_properties.nsf/index\\_en/index\\_en?OpenDocument](http://www.mfa.gov.cy/mfa/properties/occupiedarea_properties.nsf/index_en/index_en?OpenDocument)

Point of Single Contact (Ministry of Energy, Commerce, Industry and Tourism):

<http://www.businessincyprus.gov.cy>

Cyprus Investment Promotion Agency:

<http://www.cipa.org.cy>

Ministry of Interior:

<http://www.moi.gov.cy/da>

Ministry of Finance:

<http://www.mof.gov.cy>

Central Bank of Cyprus:

<http://www.centralbank.gov.cy>

Department of Merchant Shipping:

<http://www.shipping.gov.cy>

Cyprus Bar Association:

<http://www.cyprusbarassociation.org>

Green Line Regulation:

[http://ec.europa.eu/cyprus/turkish\\_cypriots/green\\_line\\_regulation/index\\_en.htm](http://ec.europa.eu/cyprus/turkish_cypriots/green_line_regulation/index_en.htm)

Commission for the Protection of Competition:

[http://www.competition.gov.cy/competition/competition.nsf/index\\_en/index\\_en?opendocument](http://www.competition.gov.cy/competition/competition.nsf/index_en/index_en?opendocument)

The following ROC website provides additional information on the risks of investing in the Turkish Cypriot-administered areas:

[http://www.mfa.gov.cy/mfa/properties/occupiedarea\\_properties.nsf/index\\_en/index\\_en?OpenDocument](http://www.mfa.gov.cy/mfa/properties/occupiedarea_properties.nsf/index_en/index_en?OpenDocument)

*Area Administered by Turkish Cypriots*

"TRNC State Planning Organization":

<http://www.devplan.org/>

Turkish Cypriot Chamber of Commerce:

<http://www.ktto.net>

"North Cyprus Investment Development Agency:"

<http://www.investinnorthcyprus.org>

## **19. Contact Point at Post**

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