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TRADE POLICY REVIEW

CYPRUS

MINUTES OF MEETING

Addendum

Answers to Written Questions

The following communication was received on 22 July 1997 from the Delegation of Cyprus responding to questions raised by delegations and the discussants during the review.

QUESTIONS FROM AUSTRALIA

Free movement of goods under the Customs Union Agreement which came into force in 1988 between Cyprus and the EC will be achieved by 2002. At what point will agricultural goods be freely traded, bearing in mind that Cyprus maintains tariff quota regimes that include trade for which the EU enjoys preferential access? What principles of the CAP will be applied to Cyprus?

The passage to the second phase of the Agreement was discussed at the last Association Council between EU and Cyprus. The Government of Cyprus is now expecting the Commission to respond with concrete proposals on the procedure to be followed.

As regards the principles to be followed in relation to the mechanisms of the CAP to be adopted by Cyprus, we quote article 26 of the CUA.

"1. The free movement of agricultural products covered by the Agreement and the present Protocol by reciprocal concessions, shall be conditional on an Agreement being made in the framework of the decision taken by the Association Council for the passage to the second phase of the second stage, on the following principles.

- (i) The introduction by Cyprus of Community quality standards for these products. It is noted that Cyprus will implement quality standards for 24 vegetables and 12 fruits, as from 1.1.1998. The standards are harmonized with those of the EU.

- (ii) The application by Cyprus internally of domestic price constraints for these products similar to those in force in the Community, with a view to ensuring the stability of the domestic market and avoiding market crises.
- (iii) The application by Cyprus of Community measures for these products at the Cyprus frontier."

In any case, this issue is directly related with the developments of the negotiations on the application of Cyprus for full membership with EU.

Australia understands that Cyprus introduced a tariff quota regime for frozen lamb in 1996 to replace the domestic purchase requirement. Cyprus lamb imports fell dramatically after the introduction of the new system. Does Cyprus consider that the MFN tariff quota, which includes an allocation for preferential trade, has maintained current access opportunities for exporters of frozen lamb is required by the Uruguay Round?

Yes, the new import regime for frozen lamb maintains current access opportunities for exporters of frozen lamb as required by the Uruguay Round.

It should be noted that the rates of duties for this product are well below the level of our commitments to WTO and under the new system there was not a favourable shift to preferential imports of this product against MFN imports.

With the lifting, as from 1.1.1996, of the import restrictions for this product and the abolition of the domestic purchase requirement, it became necessary to introduce a tariff quota. The experience of earlier years showed that the allocation of tariff quota on a first come first served basis would create conditions of oligopoly with the quota being utilized by a limited number of importers. Hence, the combined system which treated all importers equally was considered to be the most appropriate.

As a reaction to the BSE crisis, demand for all meat, not just beef, had declined drastically in 1996. In addition, tourist traffic in Cyprus had declined, accentuating the poor market conditions for frozen sheepmeat; these factors resulted in reduced consumption of both locally-produced products and imported frozen sheepmeat. The situation was not expected to arise in the future; imports of these products for the first five months of 1997 were already well above total imports for 1996.

Can Cyprus confirm that it has removed the local purchase requirement on cheese?

It is hereby confirmed that as from 17.1.1997 Cyprus has removed the local purchase requirement on cheese.

QUESTION FROM CANADA

Foreign investment in certain important services industries is allowed on a case-by-case basis. Can Cyprus clarify whether there are any guidelines which set out criteria to be used in the approval process? Are these restrictions considered permanent or transitional?

For a small number of cases, such as the establishment of new banks and new insurance or financial services companies, the publishing of newspapers and the establishment of new airlines companies, the level of foreign participation is decided taking into account the particular characteristics of each individual case. For the assessment of these applications consultations take place between the Central Bank and the competent Ministry. There are no predetermined guidelines or criteria on the

basis of which applications are assessed though in the case of banks, besides the minimum capital requirement, "fit and proper" and "experience in the field" criteria are applied. These restrictions may be considered transitional aiming to further liberalizations.

QUESTIONS FROM THE EUROPEAN UNION

Trade in services increased ten-fold between 1980 and 1996. How does the Government view the dependence of the economy on tourism and the future prospects for the development of the services sector?

Tourism will remain an important economic activity as it is an area where Cyprus has a comparative advantage. However, it has approached its limits in terms of bed capacity. Besides, the efforts to enrich the tourist product and diversify the relevant markets, Government policy aims at reducing the dependence on tourism and achieving a more balanced growth through the implementation of measures in the following directions:

- strengthening of the manufacturing sector and improving its supply conditions;
- promotion of other exportable services, where Cyprus has the potential to become a regional service centre.

Please comment on progress made in improving conditions of competition. Does the Government intend to take further steps to promote competition in areas where monopolies still exist?

The Law for the Protection of Competition No. 207/89 came into force on 8.6.1990. This Law reproduces the text of articles 85 and 86 of the EC Treaty and most of the provisions of the Council Regulations No. 17/62 and 27/62. Article 85 prohibits agreements which prevent competition to an appreciable extent; Article 86 prevents abuse of a dominant position, affecting trade between member States. Exemptions to article 85 apply to agreements necessary for the attainment of the objectives of the CAP and practices or agreements which contribute to improving the production or distribution of goods or promoting technical or economic progress.

The current legislation outlaws import cartels, but allows export cartels in order to enhance exports. The aim of competition policy in Cyprus is to consolidate the existing legislative framework in order to cover all sectors of economic activity, including the operation of public enterprises, and to make it comparable to the EU regulatory framework.

The above-mentioned law is enforced by an independent seven-member Commission (located at the Ministry of Commerce, Industry and Tourism) acting as an administrative tribunal (similar to the European Commission) and assisted by the Competition and Consumer Protection Service of the Ministry of Commerce, Industry and Tourism. The seven members of the Commission are appointed by the Council of Ministers. At least three members of the Commission must come from the private sector. The responsibility of the Commission is to investigate restrictions or distortions of competition and to examine applications with a view to granting exemptions from the law. The Division, acting as Secretariat to the Commission, maintains a register of applications for exemptions and decisions of the Commission and of the High Court of Appeal.

The Competition and Consumer Protection Service has also drafted seven Orders of the Council of Ministers regarding block exemptions from the provisions of the Law No. 207/89 which are an exact replica of the European Commission Regulations No. 1983/83, 1984/83, 2349/84, 4087/88, 556/89,

417/85 and 418/85. These Orders, which are in force today, concern agreements between enterprises on subject matters regarding exclusive distribution, exclusive purchasing, patent licensing, franchising, know-how licensing, specialization, and research and development respectively. The Competition and Consumer Protection Service is also preparing additional orders and regulations, within the prospect of harmonizing Cypriot legislation with the *acquis communautaire* for the better enforcement of the Competition Law No. 207/89 which will enable Cyprus' accession to the European Union.

The Competition and Consumer Protection Service, in cooperation with a foreign expert, has completed the preparation of a draft law regarding the control of concentrations between enterprises which is based of the European Council Regulations No. 4064/89 of 21.12.1989. This bill was approved by the Council of Ministers in December 1996 and has been recently forwarded to the House of Representatives and is expected to come into effect during 1997. The specific objective of this piece of legislation is to prevent any takeovers or mergers between enterprises which tend to create or strengthen the existing dominant position of enterprises in the relevant market or industry thereby restricting or distorting competition. Under the proposed legislation, companies with an annual turnover of more than £C 2 million would need permission to acquire or merge with competing businesses. Such legislation would not be retroactive.

The Commission for the Protection of Competition meets on average once a week. During 1996 the Commission had held 50 meetings. Four new complaints were lodged with the Commission in 1996 and six new self-appointed or voluntary cases concerning violations were initiated. The Commission also issued eight decisions on different subject matters concerning transgressions of the law.

QUESTIONS FROM HONG KONG

Divergence between MFN and preferential rates. We hope that Cyprus would bring down MFN rates to align them with the preferential rates so as to allow fair competition. We would like to know if Cyprus has any plan to adjust the high tariff products to let them fall in line with the preferential rates.

The possibility of reviewing any high tariff rate always exists, depending on special circumstances. The tariff rates are anyway subject to annual reduction commitments. In addition, Cyprus will review the tariff rates, when proposals on adopting CCT tariffs will be made, in the framework of negotiations with the EU.

In entering into the second phase of the EC-Cyprus CUA, how would anti-dumping measures in force in the EC be dealt with in Cyprus?

If everything proceeds as planned and the amendment of existing anti-dumping legislation is completed by the end of 1997, then in entering into the second phase of the EC-Cyprus Customs Union, Cyprus would have already been harmonized with the EU legislation which conforms to WTO commitments.

While Cyprus bound roughly 80% of its industrial products at an uniform rate of 40% as its undertaking in the Uruguay Round, a number of products and sectors such as clothing, footwear and motor vehicles remain unbound for protection of the local industry (WT/TPR/S/25, p. 25, para. 6). In addition, clothing imports from MFN suppliers are subject to an average duty of over 50%, and a maximum of 60% (WT/TPR/S/25, p. 58, para. 40). Has Cyprus any plan for bringing in tariff reductions in these industrial sectors, in particular, the clothing sector, to allow for more open competition?

The tariffs referred to in the question are the ones that were applied in 1996. In 1997, tariffs were considerably reduced and they will be reduced further in due course.

QUESTIONS FROM INDIA

We would like Cyprus to clarify what changes they expect in their trade regime once their accession to the EU is finalized, particularly since their existing Custom Union Agreement differs from the main EU Custom Union Agreement.

On joining the EU, Cyprus, as all member countries, will be expected to adhere to the common external trade policy of the European Union including all bilateral or multilateral agreements or commitments made by the Union. In this respect Cyprus' trade regime will have to be modified accordingly.

We understand that even though all discretionary import licensing, except perhaps for groundnuts, has been abolished, quantitative restrictions on imports continue. We would be grateful if the WTO justification for the retention of these restrictions is kindly given.

Import prohibitions and quantitative restrictions have been abolished from January 1, 1996. However, for a small number of products the import licensing system has been maintained not for the purpose of protecting local production but for other considerations such as the protection of health, safety, environmental factors, etc., pursuant to GATT Articles XX and XXI.

A minimum level of investment is apparently required even in cases where the foreign investment is up to 100% of the equity. This may be a barrier for entry of small enterprises especially in food processing industries. Does Cyprus plan to remove these barriers to market entry thereby enhancing the environment for competition?

In view of the continuing liberalization process, these barriers will be reconsidered in the very near future with a view to widen further the opportunities for non-resident investment in Cyprus.

We note that an import surcharge is maintained on a number of products which have perhaps replaced discretionary licences/quotas. The import surcharge is expected to be removed for all products, except cement, chipboard and water pumps. We note that price controls also are in place on cement and chipboard. The multiplicity of regulation may obfuscate the rationale for the safeguards. We would like to know whether there are any other safeguards on these products and whether these as well as others have been notified to WTO.

There are no other safeguards on cement, chipboard and water pumps. Safeguards have been notified to WTO, as provided for in the relevant Agreements.

QUESTIONS FROM JAPAN

To what kind of products are price controls applied, how and to what extent do they operate?

The agricultural products whose prices are still under control are the following:

- (1) Pork;
- (2) Poultry and eggs;
- (3) Potatoes;
- (4) Dry beans.

As far as locally produced products are concerned, such as pork, poultry, eggs and potatoes, their maximum prices are fixed by the Ministry of Commerce, Industry and Tourism. It is worth while to note that the Minister takes a decision after the respective matters have been discussed in the Consultative Price Committee and its suggestions have been submitted to the Minister of Commerce, Industry and Tourism. The current prices for pork, poultry, eggs and potatoes are as follows:

	Wholesale £C	Retail £C
1. Pork per kilo	0.52	1.35
2. Poultry per kilo	1.05	1.16
3. Eggs per dozen	0.52	0.57
4. Potatoes per kilo	-	0.40

In the case of dry beans maximum margins are set for the wholesale and retail prices, which currently are 8% and 10% respectively.

Preferential tariff rates apply to imports from EU suppliers. MFN rates are high compared to preferential rates (especially vegetables, fruit, beverages). Does Cyprus intend to review these high tariff rates?

The possibility of reviewing any high tariff rate always exists, depending on special circumstances. The tariff rates are anyway subject to annual reduction commitments. In addition Cyprus will review the tariff rates, when proposals on adopting CCT tariffs will be made, in the framework of negotiations with the EU.

Potato and Carrot and Beetroot Marketing Boards are sole exporters of their respective products, although private exporters may seek permission to export. Could Cyprus explain the procedures to enable private traders to seek permission to export? Are there any quantitative restrictions?

Almost all the exported quantities are directed to Western European countries. In each country of destination the marketing of the Cyprus potatoes and beetroot is exercised wholly through an extensive network of local private traders. Carrots have not been exported since 1993.

Private traders may seek permission for direct export by applying to the respective Marketing Board. Permission is usually granted to private traders to export to non-traditional or to not well serviced markets such as Central and Eastern European countries, Middle East Countries and countries of all other continents (Asia including Japan, Africa, America, Oceania).

Normally the exporters have to buy their potatoes or beetroots on a f.o.b. basis from the Board's packing stations in order to secure high quality of the exported product. Exceptionally, however, (for very small quantities) the Board may allow the exporters to buy directly from the growers.

Are the local standards authorized by the Government? Are technical committees governmental or private organizations? Explanations on the contents of compulsory standards.

Local standards are authorized by the Cyprus Standards Organization (CYS) which is a governmental organization. Technical committees function under the auspices of the CYS and consist

of representatives from both the Government and the private sector. There exist both compulsory and voluntary standards. Compulsory standards apply mainly to food items and building materials.

When is the patent law expected to be brought into conformity with the WTO Agreement on TRIPS? Does Cyprus adopt procedures to enable property rightholders to lodge application in writing with the administrative authorities? What are the unauthorized parallel imports that trademarks and patent rightholders may prevent?

The patent law will be enforced within 1997-1998. Concerning the administrative procedures in the case of infringement, interested persons can apply to the Office of the Registrar of Trade Marks for the expungement of a Trade Mark from the Trade Mark Registry if a trade mark has been wrongly registered.

Unauthorized parallel imports are imports of goods that are illegal copies, pirated products, etc.

As to retail price controls on pasteurized milk, what are the main reasons and please provide explanation on the retail price controls themselves.

Price controls were set up in January 1974, after a joint declaration was signed by the Government, the Employers Association and the Labour Unions. The declaration for price controls was signed in order to prevent "price explosions" and to keep prices at reasonable levels, thus protecting the consumer, since there were a number of reasons by the end of 1973 which made such actions necessary. These reasons were the energy crisis and the inflation that occurred in countries with which Cyprus was trading. Apart from the above exogenous factors there were also domestic problems which led to the joint declaration such as the conditions of drought.

Today most of the consumer goods and services which were under price controls have been liberalized and price levels are determined by market forces. One of the few goods whose price is still under control is pasteurized milk for the simple reason that there are only two units which pasteurize milk, thus forming an oligopoly.

With due time and the enforcement of the competition law, it is expected that by the end of 1998 there will be no price controls whatsoever.

The price controls concerning the pasteurized milk are set by the Minister of Commerce, Industry and Tourism after the matter has been discussed in the Consultative Price Committee and the suggestions of its members have been submitted to the Minister.

Could Cyprus explain why the retail price of imported cheese in most cases is lower than that of locally produced even with higher import duties on cheese (para. 26, p. 51)? Is this caused by any price control on the product or by any other measures?

There seems to be a misunderstanding concerning the notion that the retail price of imported cheese is lower than that of similar locally-produced cheeses even with a high rate of import duty. It is noted that the local production concerns mainly edam type of cheeses. Even before the prices of edam cheese were liberalized with the then existing system of subsidies and before that with the so called "marriage system", the retail prices of locally produced cheeses were lower than the prices of imported cheeses. According to the results of a market research which covered the months of March, April, May and June 1997, the retail prices of locally-produced cheeses are below those of imported cheeses.

Regarding a three-year plan to upgrade the tourism industry (para. 45, p. 59) are interest subsidies and other upgrading measures related equally towards each agency whether they are local or have foreign investment? Are foreign investors equally treated? Could Cyprus give further explanations on the three-year plan?

With regard to the incentive schemes included in the three-year Action Plan to upgrade tourism (interest subsidization and other upgrading measures) there is no discrimination towards any tourist enterprise whether they have local or foreign participation.

The three-year Plan is a package of measures aiming at:

- restricting new hotel development;
- enhancing tourist demand through marketing activities and liberalization of air traffic;
- containing operational costs in the tourist sector;
- upgrading infrastructure and the environment and diversifying the tourist product through the creation of facilities such as marinas, golf courses, theme parks, agrotourism, etc.

Is the CTO a governmental organization? What is the CTO authorized to do and what does it actually do?

The CTO is a semi-governmental organization. It is governed by a Board of Directors appointed by the Council of Ministers and it has its own budget. All policy decisions are submitted to the Government through the Minister of Commerce, Industry and Tourism who is responsible for the supervision of CTO activities. The CTO is responsible for the development and promotion of tourism in the Republic of Cyprus. In this context, the CTO designs, proposes and implements policies, executes short and medium-term programmes for tourism development and coordinates the activities of the departments and local authorities which are relevant to tourism. It also classifies and inspects tourist enterprises and undertakes extensive marketing activities abroad.

Are there any fields in which 100% foreign investment is allowed, other than for golf courses or theme parks?

In the following sectors, subject to certain prerequisites, 100% foreign ownership is allowed.

- Wholesale and retail trade
- Services sector
- Secondary/manufacturing sector

However, in restaurants and commercial representatives, both coming under the services sector, foreign ownership is allowed up to 49%.

Regarding the provision, installation and maintenance of telecommunications terminal equipment, what are the conditions for entry into business in this field regarding market access and national treatment? Are there any regulations in this field?

The conditions for entry into business in the field of provision, installation and maintenance of telecommunications terminal equipment (TTE) regarding market access and national treatment are as follows:

(a) Provision of TTE

No restrictions provided the TTE has received an approval from the Cyprus Telecommunications Authority (CYTA). If the TTE has been certified by an accredited (by the relevant authority of any of the EU countries) testing laboratory/house as complying with the ETSI standards and/or ITU recommendations, then CYTA proceeds with the testing of the interface section only. If this test is successful, an approval is granted and the TTE must always be marked accordingly.

(b) Installation of TTE

Only persons licensed by CYTA are allowed to carry out any installation of telecommunications services and/or TTE. It is always understood that the personnel responsible for the installation of highly and technologically advanced TTE should have been properly trained by the manufacturers of the TTE.

(c) Maintenance of TTE

Maintenance of TTE is free of any regulations. It is, however, always understood that maintenance personnel should have been properly trained by the manufacturers of the TTE.

QUESTIONS FROM NEW ZEALAND

Why there was no prior notification of the intention to combine in and out of quota duty rates to imports of frozen sheepmeat during the last half of 1996?

As you may be aware the tariff regime for frozen sheepmeat was amongst the issues negotiated with the EU under the obligations of the Customs Union Agreement between Cyprus and the EU. These were concluded late in 1996 and therefore the arrangements in 1996 were followed on an interim basis.

Why were importers of New Zealand frozen sheepmeat not eligible for a refund of duty amount above £C 0,50 per kilo on lamb meat imports for which they were overcharged during 1996?

The Cyprus' Customs and Excise Law does not provide in this case for a refund of the duty. In any case duties collected do not represent an overcharge as the rate of duty was well below the level of our commitments to WTO.

Does Cyprus intend to reinstate a "combining" duty rate to imports of frozen sheepmeat at a later stage and will duties on sheepmeat imported from the EU be subjected to the same treatment from 1 January 1998?

The Government of Cyprus since 19 June 1996 reverted to a direct import regime for imports of frozen sheepmeat. It is not anticipated that the need of a "combined" duty rate to imports of frozen sheepmeat will again be necessary.

Will the current import regime for frozen sheepmeat apply beyond 1998?

Cypriot import regime for frozen sheepmeat applicable beyond 1998 will depend on the outcome of the future negotiations between Cyprus and the EU in passing to the second phase of the CUA.

Could Cyprus explain whether it has a plan and schedule for a formation of a Customs Union with the EC within a reasonable length of time? Could details be provided? Does Cyprus intend to include sheepmeat in a phased reduction programme of tariffs?

The question of inclusion of sheepmeat in a tariff reduction programme will depend on the outcome of negotiations of Cyprus with the EU in passing to the second phase of the Customs Union Agreement.

Tariff rates on fresh fruit and vegetables are high and these products also appear to benefit from export subsidies. Could Cyprus explain the need for protection/assistance in this sector?

Cyprus is presently applying two tariff rates for these products as many of them are included in the Customs Union Agreement (CUA). As from the completion of the first phase of the CUA and the beginning of the second phase, Cyprus will adopt the same tariff rates as the EU. The MFN tariffs were the result of the tariffication procedure, according to the method given. As regards the comparative advantage that Cyprus appears to have on fresh fruit and vegetables, the situation is not quite so, given that the cost of labour in Cyprus has become considerably high and also taking into consideration the scarcity and cost of water. On the other hand, the products in question do not benefit to any considerable extent from export subsidies but mostly rely on internal support measures and/or coverage of marketing services and promotional expenses. In fact Cyprus considers the level of export subsidies committed quite low. A restructuring programme of the fruit sector is under study. The restructuring programme will include incentives for the introduction of new technology, new varieties, etc., which are expected to improve the competitiveness of the fruit sub-sector.

QUESTION FROM NORWAY

Is any notification on safeguards by Cyprus in the pipeline?

The Notification of Safeguards (submitted in March, 1995) marked the potential right of Cyprus to maintain quantitative restrictions then in force. In the meantime, with effect from 1 January 1996 the import licensing regime has been abandoned (with the exception of a few products where import licensing is maintained for the protection of health, safety, environmental factors etc. pursuant to GATT Articles XX and XXI and imports are freely allowed subject only to tariffs. For the foreseeable future there is no intention on the part of the Cyprus Government to reinstate any of the quantitative restrictions.

QUESTIONS FROM THE UNITED STATES

Para. 60 of the Secretariat Report refers to exclusive dealerships and parallel imports. What aspect of the law precludes exclusive dealerships and what is the policy rationale? What legal distinctions are being made with respect to authorized and unauthorized parallel imports?

As to parallel imports we have no provisions for or against parallel imports. If a product is a legitimate original product it may be imported. We consider that parallel imports is a private right that the principal and agent agree upon by private contact.

Paragraph 58 of the Secretariat Report mentions that the proposed patent bill would provide for compulsory licensing if the patent is not used or the product not included. What are the time limits for a rightholder to make the product available in Cyprus before the provisions become applicable? Are there any safeguards provided to limit injury to the legitimate interests of the rightholder?

Referring to the patent bill on compulsory licenses the time limits for a rightholder to make a product available in Cyprus before the provisions become applicable is not mentioned in the proposed bill but a three year period will be included in the Regulations (Supplementary Legislation) before a compulsory license can be granted. The Regulations will incorporate all the requirements provided by the Final Agreement to protect the legitimate interests of the rightholder e.g. the license will only be given for Cyprus, not for export and it will not be an exclusive license.

Do the restrictions under the Exchange Control Law on investment abroad still apply to corporations formed in Cyprus but owned by foreign enterprises? Does this law in any way affect the ability of such corporations to remit profits and other investment-related funds to the home country?

The restrictions under the Exchange Control Law on investment abroad still apply to corporations formed in Cyprus and owned by foreign enterprises. Remittance of profits emanating from an investment in Cyprus, as well as remittance of capital proceeds, including capital appreciations, in the case of liquidation/sale of the investment, is allowed without restriction.

We understand that under the new policy the Central Bank can prohibit a foreign investment if it is found to be in "conflict with economic interest". Against what kind of harm is this measure directed? Could it be used to protect domestic industries from competition from foreign-owned enterprises?

Firstly it should be clarified that a foreign investment in Cyprus is not prohibited on grounds of "conflict with economic interest", but in accordance with the new liberal investment policy the relevant overall economic criterion is "the Cypriot economy is not harmed". This requirement replaced the previously applied approval criterion "the foreign investment must be beneficial to the Cypriot economy", which evidently was more prohibitive. It is a general requirement which, certainly, is not intended to protect the local industries from foreign competition but is included in the list of requirements in order to give to the authorities the ground to reject cases (rather unspecified) which evidently may result to the detriment of the Cypriot economy e.g. cases that, if approved, may create monopolistic conditions.

QUESTIONS FROM THE DISCUSSANTS

What policy does Cyprus pursue in the context of the Strategic Plan in order not to neglect its relationship outside Europe? Could you elaborate on the priorities in the economic and trade policy dealing with this important additional dimension? How are the objectives to become a member of the EU and a regional centre related?

Contrary to the impression given, Cyprus' commitment to join the EU does not in any way come contrary to the development of its ties with its Middle Eastern and North African neighbours. Indeed, the basic strategic objective for Cyprus as a prospective member of the EU is to accelerate the process of making Cyprus into a regional centre of business activity of international calibre, and transforming it into a gateway for Europe into the Middle East and North Africa. Cyprus' geographic position, the friendly relations cultivated over the post-independence period with virtually all Middle East and North African countries, the relatively well developed infrastructure, particularly in telecommunications, ports and airports, its human capital endowment as well as the successes achieved so far in the direction of converting Cyprus into a regional service centre, are factors on which Cyprus tries to build.

How is Cyprus going to tackle the vulnerability of its economy to external shocks?

Through the promotion of a more balanced growth, aiming at reducing the dependence of the economy on tourism, while simultaneously taking into consideration the comparative advantages of Cyprus. This strategic objective incorporates a promotion of the services sectors, beyond tourism, as well as the restructuring of the manufacturing sector towards the production of high value added products, in which the emphasis is on the quality and the design of the product rather than on the price. In addition, as far as the sector of agriculture is concerned, emphasis is given to the restructuring of the sector towards the production of products, in which Cyprus has comparative advantages due to its favourable climatic conditions. Through the enhancement of the competitiveness with the promotion of measures aiming at increasing the rate of improvement of productivity, such as the provision and upgrading of existing training courses, the introduction of flexible systems of remuneration entailing incentives for a higher level of productivity, the exercise of moral suasion for the containment of wage and salary increases, as well as the encouragement of the introduction of innovations - new products and new methods of production.

What is the impact of defence spending on the budget?

Defence spending fluctuates around 4% to 5% of GDP. There is a Defence Fund whose main financing source is the special contribution. Employees and employers pay a 2% tax on the wage bill, while other incomes are charged with a rate of 2,5%. From a medium-term perspective defence spending has more or less a neutral effect on the overall fiscal deficit. This is also the fiscal aim of the Government.

When would Cyprus sign more WTO Agreements?

Cyprus is following very closely the progress of negotiations in the WTO in various fields such as financial, telecommunications, maritime, etc. and its trade policy is under continuous review taking into account the harmonization process with the *acquis communautaire* of the European Union. To his respect, the signing of other WTO Agreements will depend on the progress of the above harmonization process as well as the level of development of the sectors concerned.

There is a high concentration in the banking sector, with two banks controlling two thirds of deposits. It would be useful to know what the intentions of Cyprus are in regard to this very important sector.

There exists aggressive competition between the existing banks. There is a large number of co-operative credit institutions which account for about 1/3 of deposits and loans and contribute to a very competitive environment for banking services. Despite the small size of the market, given the present state of economic development, the Central Bank would welcome applications for establishment of more banks in the form of branches or subsidiaries of banking institutions of prime international standing. In such cases up to 100% foreign participation may be allowed. Cyprus offers national treatment to all banking institutions and all criteria used in evaluation are the same for both nationals and foreigners.

It might be that the desired level of investments in the tourist sector would be promoted if greater than 50% foreign investment was freely available. Amplification of the changes introduced in February 1997 (para. 63 of WT/TPR/G/5) on the certainty of allowing 100% foreign participation would be useful.

The tourist sector in Cyprus, which is considered a heavily invested sector, has been regulated and controlled by Government decisions aiming at mitigating the problems encountered in recent years in the tourist industry and attributed to a large extent to the fact that the sector has by far exceeded

its optimum expansion. Within this context, the Government has decided to restrict foreign participation in hotels and tourist villages up to 49%, so that existing problems may not be further aggravated. On the other hand, the tourist policy encourages the establishment by foreign investors of new supplementary tourist projects such as golf courses, marinas and leisure centres which would enrich the tourist product. In the latter cases the foreign ownership may be up to 100%.

The Government report mentions under performance in terms of expected improvements in productivity attributed to difficulties in the use of advanced technology. Could you elaborate what plans and steps have been taken to overcome these difficulties?

- (i) The introduction of a scheme of grants and subsidized interest rates for investment in machinery and equipment in the manufacturing sector, aiming at a technological upgrading of the sector.
- (ii) The creation of the Institute of Technology having as its objectives the technological upgrading, the restructuring and enhancement of the competitiveness of the manufacturing sector. The Institute of Technology subsidizes studies undertaken by manufacturing units in their effort to achieve the above set objectives.
- (iii) The creation, through government assistance, of a Resource Centre for the sub-sector of clothing by the private sector, providing information to enterprises in the areas of fashion, design, technology and market research.
- (iv) The creation of a Foundation for Research Promotion aiming at encouraging applied research, through the provision of grants for the undertaking of research schemes.
- (v) The provision of post graduate courses through the Mediterranean Institute of Management run by the Cyprus Productivity Centre.
- (vi) A further liberalization of foreign investment.

There are considerable subsidies in the agricultural sector. What are the longer term plans in this area?

The total support provided by the Government to the agricultural sector is not high, as compared to the support provided by the EU and other countries. The total AMS in 1995 was only £C 36,5 million as compared to our committed AMS level of £C 58,4 million. AMS which is subject to an annual reduction level will be £C 50,6 million by 2004. Cyprus is now in the process of adjusting its agricultural policy to CAP mechanisms and support provided by the EU. At the same time, adjustments are necessary to alleviate the effects of the liberalization on the local production of agricultural products. The long-term plans include the implementation of structural adjustment programs in order to improve the competitiveness of the sub-sector and to reduce its dependence on government support. These programs include the introduction of new varieties, new technology as well as financial support, always within the commitment levels to WTO.

With the EU CCT, Cyprus will have to implement quotas just like the EU, for textiles and negotiate for compensations upon introduction of such quotas?

For the time being there is no decision to introduce quotas for textiles products. The alignment with EU policy on this issue will be considered in the context of the completion of the Customs Union Agreement with the EU.