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REGULAR REPORT

ON

CYPRUS'S

PROGRESS TOWARDS ACCESSION

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2002

REGULAR REPORT

ON

Cyprus's

PROGRESS TOWARDS ACCESSION

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Introduction

Preface

In Agenda 2000, the Commission said it would report regularly to the European Council on progress made by each of the candidate countries of Central and Eastern Europe with preparations for membership, and that it would submit its first Report at the end of 1998.

The Luxembourg European Council decided that:

"From the end of 1998, the Commission will make Regular Reports to the Council, together with any necessary recommendations for opening bilateral intergovernmental conferences, reviewing the progress of each Central and Eastern European applicant State towards accession in the light of the Copenhagen criteria, in particular the rate at which it is adopting the Union *acquis* [...] The Commission's reports will serve as the basis for taking, in the Council context, the decisions on the conduct of the accession negotiations or their extension to other applicants. In that context, the Commission will continue to follow the method adopted by Agenda 2000 in evaluating applicant States' ability to meet the economic criteria and fulfil the obligations deriving from accession."

On this basis, the Commission presented a first series of Regular Reports in October 1998, a second in October 1999, a third in November 2000, and a fourth in November 2001.

its 2001 Enlargement Strategy Paper, which accompanied the 2001 Regular Reports, the Commission indicated that given the pace of negotiations and the progress made so far, the Commission should be able to make recommendations on those candidate countries ready for accession on the basis of its 2002 Regular Reports. At its meeting in Seville in June 2001, the European Council concluded that "in order to enable the European Council to be held in the coming autumn to decide which will be the candidate countries with which negotiations can be concluded at the end of 2002, [...] the Commission will have to draft appropriate recommendations in the light of the Regular Reports." The Commission has prepared this series of Regular Reports with a view to the Brussels European Council in autumn 2002.

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The structure followed for this Regular Report is largely the same as that used for the 2000 and 2001 Regular Reports. In line with previous Regular Reports, the present Report:

- describes the relations between Cyprus and the Union, in particular in the framework of the Association Agreement;
- analyses the situation in respect of the political criteria set by the 1993 Copenhagen European Council (democracy, rule of law, human rights, protection of minorities);
- assesses Cyprus's situation and prospects in respect of the economic criteria defined by the Copenhagen European Council (a functioning market economy and the capacity to cope with competitive pressures and market forces within the Union);
- addresses the question of Cyprus's capacity to assume the obligations of membership, that is, the *acquis* as expressed in the Treaties, the secondary legislation, and the policies of the Union. In this part, special attention is paid to nuclear safety standards, which were emphasised by the Cologne and Helsinki European Councils. This part includes not only the alignment of legislation, but also the development of the judicial and administrative capacity necessary to implement and enforce the *acquis*. The European Council stressed the importance of this latter aspect at its meeting in Madrid in 1995 and on a number of subsequent occasions, most recently at Seville in June 2002. At Madrid, the European Council stressed that the candidate countries must adjust their administrative structures, so as to create the conditions for the harmonious integration of these States. The Seville European Council also stressed how important it was that candidate countries should continue to make progress with the implementation and effective application of the *acquis*, and added that candidate countries must take all necessary measures to bring their administrative and judicial capacity up to the required level.

This Report takes into consideration progress since the 2001 Regular Report. It covers the period until 15 September 2002. In some particular cases, however, measures taken after that date are mentioned. It looks at whether planned reforms, referred to in the 2001 Regular Report, have been carried out, and examines new initiatives. In addition, this Report provides global assessment of the overall situation for each of the aspects under consideration, setting out for each of them the main steps still to be taken by Cyprus in preparing for accession.

Furthermore, in view of the fact that the 2002 Regular Reports will provide the basis on which the Commission will formulate its recommendations as to which countries are ready to conclude negotiations, this Report includes an evaluation of Cyprus's track record since the 1998 Regular Report. For the economic criteria the track record covers the period since 1997 and the report also provides a dynamic, forward-looking evaluation of Cyprus's economic performance.

Finally, for each of the negotiating chapters, this Report provides a summary evaluation of the extent to which commitments made in the negotiations have been implemented, as well as an overview of transitional arrangements that have been granted. The commitments made by each country reflect the result of the accession negotiations, and, in accordance with the principle of differentiation underlying the negotiation process, may differ between countries. Where negotiating countries have committed themselves to completing specific measures by the time of accession, the Commission assesses the relevant preparatory processes. For chapters on which the accession negotiations continue, and final commitments remain to be defined, an indicative assessment is given of the state of implementation of the commitments that have been made to date.

The Report includes a separate section examining the extent to which Cyprus has addressed the Accession Partnership priorities. This section also assesses the progress Cyprus has made in implementing the measures set out in the Action Plan for strengthening administrative and judicial capacity that the Commission developed with each negotiating country in the spring of 2002.

As has been the case in previous Reports, "progress" has been measured on the basis of decisions actually taken, legislation actually adopted, international conventions actually ratified (with due attention being given to implementation), and measures actually implemented. As a matter of principle, legislation or measures which are in various stages of either preparation or Parliamentary approval have not been taken into account. This approach ensures equal treatment for all the candidate countries and permits an objective assessment of each country in terms of their concrete progress in preparing for accession.

The Report draws on numerous sources of information. The candidate countries have been invited to provide information on progress made in preparations for membership since the publication of the last Regular Report. The information each of the candidate countries has provided within the framework of the Association Agreement and the negotiations, the National Programmes for the Adoption of the *Acquis* where they are available, as well as the process of developing the Action Plans, and various peer reviews that have taken place to assess candidate countries' administrative capacity in a number of areas, have served as additional sources. Council deliberations and European Parliament reports and resolutions have been taken into account in the preparations. The Commission has also drawn on assessments made by various international organisations, and in particular the contributions of the Council of Europe, the OSCE and the international financial institutions, as well as those of non-governmental organisations.

Relations between the European Union and Cyprus

Recent developments under the Association Agreement, including bilateral trade

Relations between the EU and Cyprus are based on the Association Agreement of 1973, which contains arrangements on trade and customs matters, and the Accession Partnership (AP) of March 2000. Cyprus has continued to implement the Association Agreement correctly.

The Association Council did not meet over the reporting period. The last meeting was held in May 2001 (see Regular Report 2001).

The *EU-Cyprus Joint Parliamentary Committee*, held its 20th meeting in October 2001 in Brussels and its 21st meeting in May 2002 in Nicosia. Both meetings underlined that Cyprus had made good progress in the accession negotiations. Solution of the Cyprus problem before Cyprus's accession to the Union would be beneficial for all parties but was not a precondition for EU membership. The 21st meeting also discussed the Euro-Mediterranean Partnership, the future of Europe, and the protection of Cyprus's environment and the cultural heritage.

In December 2001, the Association Council adopted a decision setting up a Joint Consultative Committee between the Committee of the Regions and the Cypriot Liaison Committee for Co-operation with the Committee of the Regions. A delegation of the Economic and Social Committee visited Cyprus in March 2002 and issued a report on the economic and social situation in the Republic of Cyprus and in the North.

A decision on the conclusion of an Additional Protocol to the Association Agreement concerning bilateral concessions relating to trade in fish and fishery products entered into force in January 2002.

In February 2002, the Council adopted a mandate authorising the Commission to open negotiations with Cyprus on improving agricultural trade concessions. Liberalisation proposals were presented to Cyprus along the lines of the approach adopted for the countries of Central and Eastern Europe in the "double profit" negotiations.

As regards EC-Cyprus trade in 2001, it amounted to € 2.6 billion of exports to the EC (55.5% of total) and € 0.9 billion of imports from the EC (49% of total). The current account deficit stands at € 1.7 billion. Concerning trade by products, transport equipment represents the largest sector for EC imports from Cyprus followed by agriculture, machinery and textiles. As regards exports to Cyprus the transport equipment and machinery followed by agriculture and chemical products.

In March 2002, in response to protectionist measures taken by the US, which greatly restricted access to their market and created the risk of considerable trade diversion, the EU initiated provisional safeguard measures, with erga omnes effect, on imports of certain steel products. The measures were partly confirmed in September 2002.

Accession Partnership

A revised Accession Partnership entered into force in February 2002. Its implementation is reviewed in Part D of this Report.

Action Plan for reinforcing administrative and judicial capacity

As announced in the Commission's 2001 Enlargement Strategy, in spring 2002 the Commission and Cyprus jointly developed an Action Plan to strengthen Cyprus's administrative and judicial capacity, on which common understanding was reached in April. The revised Accession Partnership that was adopted in February has served as the point of departure for this exercise.

The purpose of this Action Plan is to jointly identify jointly the next steps required for Cyprus to achieve an adequate level of administrative and judicial capacity by the time of accession, and ensure that all necessary measures in this regard are taken, providing Cyprus with targeted assistance in areas that are essential for the functioning of an enlarged Union. As such, the Action Plan is a key tool for meeting the common objective of the EU and Cyprus, i.e. to ensure that Cyprus's preparations for accession take place as effectively as possible within the planned timeframe.

The implementation of the Action Plan is reviewed in Part D of this Report.

National Programme for the Adoption of the Acquis

Cyprus has not updated its National Plan for the Adoption of the Acquis (NPAA) since August 2001.

Community Assistance

In May 2000, following the expiry of the 4th Financial Protocol at the end of 1999, the Council adopted a Regulation laying down the conditions for Community assistance to Cyprus. It provides for pre-accession aid to Cyprus for the period 2000-2004 amounting to € 57 million, to be used mainly for strengthening of institutional capacity, as well as for participation in Community programmes. One third of the funds should be used to finance bilateral projects (activities to contribute to the reconciliation of the two Cypriot communities). The Regulation also provides for Cyprus's participation in MEDA regional programmes. In addition, Cyprus is eligible for the EIB pre-accession facility and for the € 6.425 billion EIB facility for Mediterranean countries.

The 2000 pre-accession allocation (€ 9 million) was earmarked for activities in the following sectors: taxation, customs, Schengen Information System, administrative co-operation, bi-communal projects, and participation in the Community programmes on education (Socrates, Leonardo, Youth).

The 2001 allocation (€ 11.5 million) went to the following fields: environment (in particular waste water treatment), the internal market (more specifically VAT and customs harmonisation, accreditation and standardisation), the social sector, administrative co-operation and participation in Community programmes. Three projects were also programmed to support reconciliation between the two Cypriot communities.

The main projects planned for 2002 (€ 11.5 million), apart from bi-communal projects, concern free movement of goods and the internal market (standardisation, telecommunications and customs), preparations for EU policies (CAP enforcement, preparations for the Structural Funds), maritime transport, justice and home affairs (drugs), statistics, administrative co-operation and participation in Community programmes.

As mentioned above several **bi-communal projects** have been programmed under the 2000, 2001 and 2002 budgets. The EC is contributing € 7 million to urban regeneration and historical preservation schemes under the Nicosia Master Plan. This Plan aims to preserve the cultural and historical heritage of the walled city, so as to provide a new impetus for private investments and improve the urban fabric of the city. The EC projects will be implemented through the executing agency of United Nations Development Programme UNOPS (United Nations Office for Project Services), which has been actively involved in the Nicosia Master Plan since 1998. € 0.3 million in EC funds is being used to help to strengthen the links between Greek Cypriot and Turkish Cypriot trade unions and develop their shared interests with a view to accession. A communication strategy (€ 0.4 million) is also focusing on increasing public awareness of and interest in the EU among both Greek and Turkish communities. Bi-communal projects in 2002 also include a business support scheme based on co-operation between the chambers of commerce of the two communities.

As regards **Community Programmes**, Cyprus is currently participating in Media II, Life II, the fifth R&D Programme, Socrates, Leonardo, Youth, and the Multi-annual Programme for Enterprises and Entrepreneurship. It also plans to take part in Customs 2000, Save, Altener, Culture 2000, Media Plus and Fiscalis in the near future. Cyprus has also been participating in the activities of the European Environment Agency since 2001.

Twinning

One of the main challenges still facing the candidate countries is the need to strengthen their administrative and judicial capacity to implement and enforce the *acquis*. As of 1998, the European Commission began to mobilise significant human and financial resources to help them with this process, using the mechanism of twinning administrations and agencies. In 2001, the Commission strengthened this emphasis on institution building further, through the launch of the Action Plans for strengthening administrative and judicial capacity.

The twinning process makes the vast body of Member States' expertise available to the candidate countries through the long-term secondment of civil servants and accompanying short-term expert missions and training.

A total of 503 twinning projects were funded by the Community between 1998 and 2001. Between 1998 and 2000, these projects primarily targeted the main priority sectors identified in the Accession Partnerships: agriculture, the environment, public finance, justice and home affairs and preparation for the management of Structural Funds. Since 2000, other important sectors of the *acquis* have also been addressed through twinning, such as social policy, the fight against drugs, transport, and telecommunications regulation. Twinning now covers all sectors pursuant to the *acquis*.

Thanks to the strong support of the EU Member States, 103 twinning partnerships were funded by Phare 1998, involving all the candidate countries and almost all the Member States. These first-generation projects have already come to an end. Under Phare 1999 a further 123 projects are currently being implemented and the programming exercise for Phare 2000 included a further 146 twinning projects. The 2001 programming exercise includes 131 twinning projects embracing all the Phare beneficiary countries, as well as Cyprus and Malta. Under the 2002 programming exercise, 119 twinning projects have already been planned, and approved for implementation. A substantial number of additional twinning projects are planned, and these should be approved and implementation launched before the end of 2002. They include twinning projects identified in the Action Plans for strengthening administrative and judicial capacity in the negotiating countries. It is estimated that around 300 twinning projects are operational throughout the candidate countries at any one time. Furthermore, the candidate countries are being offered a further way of drawing on Member States' expertise through "Twinning light", a mechanism to address carefully-circumscribed projects of limited scope which emerge during the negotiation process as requiring adaptation.

There are currently several twinning projects running in Cyprus in fields including the Structural Funds, state aids, metrology, insurance and asylum.

Negotiations

Since the opening of accession negotiations, substantive discussions on the individual chapters of the *acquis* have started and negotiations on all the chapters (except Chapter 31 – Other) have been launched.

By the end of September 2002 negotiations on the following 28 chapters had been provisionally closed: Free movement of goods, Free movement of persons, Freedom to provide services, Free movement of capital, Company Law, Competition policy, Fisheries, Transport policy, Taxation, Economic and monetary union, Statistics, Social policy and employment, Energy, Industrial policy, Small and medium-sized enterprises, Science and research, Education and training, Telecommunications and information technologies, Culture and audio-visual policy, Regional policy and co-ordination of structural instruments, Environment, Consumers and health protection, Co-operation in the field of Justice and home affairs, Customs union, External relations, Common foreign and security policy and Financial control. Good progress on the remaining chapters of Agriculture and Budget can be reported.

The British Sovereign Base Areas after Cyprus's Accession

During the last year, bilateral meetings between the United Kingdom and the Commission as well as trilateral meetings together with Cyprus have been held. Issues discussed included how Cyprus's accession to the EU would affect the British Sovereign Base Areas (SBA) on Cyprus, with a view to maintain the special arrangements agreed between the United Kingdom and Cyprus under the Treaty of Establishment of 1960 and to ensure that the Cypriots living a king in the SBA's should have the same treatment, for certain EU policies, as those living and working in the Republic of Cyprus.

Criteria for membership

Political criteria

Introduction

The political criteria for accession to be met by the candidate countries, as laid down by the Copenhagen European Council in June 1993, stipulate that these countries must have achieved "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities."

The Commission has repeatedly concluded that Cyprus fulfils the Copenhagen political criteria.

In its 2001 Regular Report, the Commission found that:

"Cyprus continues to fulfil the Copenhagen political criteria. Further efforts have been made to prepare the administration for operation within the EU, and the authorities' record on democratic and human rights remains generally good."

The section below provides an assessment of developments in Cyprus, seen from the perspective of the Copenhagen political criteria, including the overall functioning of the country's executive and its judicial system. Such developments are in many ways closely linked to developments regarding Cyprus' ability to implement the *acquis*, in particular in the domain of justice and home affairs. Specific information on the development of Cyprus' ability to implement the *acquis* (Chapter 24 – Cooperation in the field of justice and home affairs) of part B.4.1. of this Report.

Recent developments

No elections have taken place in Cyprus since the last Regular Report. The coalition of the Democratic Rally and the United Democrats has continued to govern the country under the Presidency of Mr Clerides.

On 16 January 2002, Mr Clerides and Mr Denktash, as leaders of their communities, started direct talks under the auspices of the United Nations to reach a political settlement (see Part B. 2. Prospects for a political settlement).

Democracy and the rule of law

Cyprus has achieved stability of institutions guaranteeing democracy and the rule of law. This was the conclusion of previous Regular Reports, and has been confirmed by developments over the past year. This section focuses on the most significant developments since the last Regular Report.

The parliament

The Parliament has continued to function in full respect of democratic principles, and has again made considerable efforts to align a substantial amount of legislation with the *acquis*.

The special Committee for European Affairs that was established following the parliamentary elections of May 2001 examines EU-relevant bills and regulations. Upon approval by this Committee, the House can apply a fast-track procedure to adopt them in the plenary. Over the last year, the Cypriot Parliament has made extensive use of this possibility and has adopted the majority of *acquis*-related laws and regulations in this way. To assist the members of the European Affairs Committee in their task, the House has also established a European Affairs Department consisting of legal officers who have received specialised training in European law.

The executive

The institutions of the President and the Council of Ministers, consisting of 11 Ministers, have continued to operate smoothly.

Under the Public Service Law of 1990 civil servants are bound to act according to the law. The power to appoint, promote, transfer, retire and exercise disciplinary control over public officers is vested in the Public Service Commission. A Citizen's Charter assists citizens in exercising their rights vis-à-vis the administration.

The reform of the state public administration is an ongoing process. During the last year the Public Administration and Personnel Service has completed a number of studies to enhance the efficiency and effectiveness of the civil service. Accordingly, 185 additional posts were created in 2001. The Cypriot administration has also introduced in some Ministries an automation system that accelerates access to documentation.

The Chief Negotiator is responsible for EU accession negotiations and co-ordinates the harmonisation process. The pre-accession strategy is implemented by the Planning Bureau, whose staff was reinforced on a temporary basis in summer 2002. There are one or two co-ordinators in each Ministry for both the harmonisation process and the pre-accession strategy. To inform the public at large, the Office of the Chief Negotiator has created an Internet website in which important developments regarding the negotiation and harmonisation process are presented in Greek, Turkish and English.

Within the Law Office, the posts of 20 specialised lawyers working within the European Law Section have been transformed from temporary into permanent posts. In addition, the Attorney-General has assigned experts for the drafting of bills relating to certain highly technical aspects of the *acquis*. In the first five months of 2002, the Law Office completed legal vetting of over 200 pieces of *acquis*-related legislation.

Training has been continuously promoted. From July 2001 to April 2002, the Public Administration and Personnel Service subsidised the participation of officials in various general seminars to improve their technical, management and IT skills. In addition, the Cyprus Academy of Public Administration trains civil servants specifically on European Union issues to deepen understanding of the EU's institutions, structures and policies and their impact on the Cypriot administration after accession. The same is true for the Cyprus Police Academy, that has incorporated in its training programmes modules relating to justice and home affairs and human rights as well as other EU-related matters.

There are no significant developments to report as regards regional and local administration. Cyprus continues to be subdivided into 6 districts with two types of local government, i.e. Municipalities (33) and Community Councils (576), which are mainly financed by government subsidies.

The judicial system

The two-tier structure of the Cypriot judicial system (first instance courts and Supreme Court) has remained in place. Under the Constitution judges are bound to be impartial. They are independent from the other branches of government. Whereas first instance judges are appointed, transferred and promoted by, and are subject to the disciplinary jurisdiction of, the Supreme Council of Judicature (composed of members of the Supreme Court), the Supreme Court judges are appointed by the President. The remuneration and tenure of judges is protected against arbitrary interference by law. The right to fair trial is guaranteed in Article 30 of the Constitution.

The total number of Cypriot judges remains at 84, although in 2001 the judiciary again asked for an increase of the number of District Judges. Parliament has not yet approved the relevant bill, but following the construction of new buildings the Nicosia District Court has increased its capacity and can now house up to 8 new judges.

Two judgments of the European Court of Human Rights of July 2002 found that civil proceedings were not handled in a reasonable time by the District Court of Nicosia between 1986-1997 viz. 1998-1999. The measures to expedite the administration of justice at first instance referred to in the last Regular Report (expansion of powers of District Courts, changes in the rules of civil and criminal procedure, delivery of judgments within 6 months of the conclusion of the hearing) are, however, bearing fruit this year. The number of cases pending at first instance at the end of 2001 has further decreased (71 542 in 2001 as compared to 74 452 in 2000). Further efforts to reduce the length of proceedings are necessary in particular with a view to EU accession. In 2001, the Supreme Court concluded more appeals in civil cases, reducing the number of pending cases to 397 (compared to 418 in 2000). However, as regards criminal cases, the number of appeals filed with the Supreme Court is slightly larger than the number of judgements handed down, and some criminal proceedings had to be invalidated on account of inordinate delay. This shortcoming was also highlighted by the European Court of Human Rights, which concluded in May 2002 that a criminal case that lasted over six years was not handled in a reasonable time at the District Court level.

During the last year, Cyprus has created 50 new posts of prosecutors at the Law Office of the Republic. They replace the prosecutors of the Police. At the time of writing at least 8 posts have been filled, whilst the selection procedure for the remaining posts is under way.

The training programme established by the Supreme Court in 2000 has continued over the last year. Cypriot judges attended five seminars on, *inter alia*, EU law in general and specialised subjects like European competition and environmental law.

Anti-corruption measures

Cyprus has a comprehensive legal framework against fraud and corruption. As observed in previous Regular Reports, the Penal Code defines a series of offences of official corruption, such as extortion by public officers, abuse of office, or neglect of official duty. In addition, the Prevention of Corruption Law sanctions both public and private corruption. The Public Service Law of 1990 contains special anti-corruption provisions and a corresponding code of conduct allows for compulsory retirement or dismissal after a disciplinary punishment.

The Unit for Combating Money Laundering at the Law Office (*for further details see also Chapter 4 - Free movement of capital*), the Financial Crime Unit of the Police and the Special Investigation Unit at the Department of Customs and Excise are responsible for enforcement. Furthermore, investigation units in the Income Tax and VAT Departments continue to deal with cases of irregularities including fraud. The Attorney General co-ordinates all investigations concerning fraud and corruption. He may also appoint an independent criminal investigator upon a written complaint against a member of the Police Force for an alleged criminal offence.

Cyprus ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime in 1997. Whereas the Council of Europe Criminal Law Convention on Corruption entered into force in Cyprus in July 2002, ratification of the Civil Law Convention on Corruption that it signed in November 1999 is still outstanding. Cyprus' application to join the OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions is pending (*see also Chapter 24 - Co-operation in the field of Justice and Home Affairs*).

As a member of the Group of States Against Corruption (GRECO) of the Council of Europe, Cyprus received a mission from three experts in December 2000. According to the evaluation report that was adopted and made public in December 2001, Cyprus appeared to belong to the group of GRECO members that are least affected by corruption. However, the report adds that there existed several factors that rendered the country to a certain degree vulnerable. While the authorities appeared to be well aware of the risks and had taken a number of initiatives with a view to tightening up their criminal legislation on corruption, Cyprus still lacks a comprehensive anti-corruption policy in the wider sense as is evidenced by the absence of any regulation on funding of political parties. The report further finds that, although the country could rely on a range of independent and adequately skilled authorities for the fight against corruption, its law-enforcement mechanism does not use sufficiently proactive methods and its intelligence-gathering system has several pitfalls. The report adds that the internal complaints system of the police has not been sufficiently tested in practice and the competence of the Audit Office is in some respects unduly restricted. In conclusion, GRECO addressed 10 specific recommendations to Cyprus, which it is strongly encouraged to follow up.

Human rights and the protection of minorities

Cyprus continues to respect human rights and freedoms. This was the conclusion of previous Regular Reports, and has been confirmed over the past year. The following section focuses on the most significant developments since the last Regular Report.

Cyprus has ratified all major *human rights conventions* (see Annex). In early 2002, it acceded to the Optional Protocol to the UN Convention on the Elimination of Discrimination against Women. This allows individuals to submit communications to the international supervisory body after having exhausted local remedies. Cyprus also ratified Protocol No. 12 to the European Convention on Human Rights (ECHR) in April 2002 prohibiting discrimination on any grounds. Cyprus signed Protocol No. 13 to the ECHR concerning the abolition of the death penalty in all circumstances in May 2002.

As observed in previous Regular Reports, any direct or indirect *discrimination* against any person on the grounds of his community, race, religion, language, sex, political or other convictions, national or social descent, birth, colour, wealth, social class, or any ground whatsoever, is prohibited under Article 28(2) of the Cypriot Constitution. Cyprus still needs to ensure full transposition and implementation of the EC anti-discrimination *acquis* based on Article 13 of the EC Treaty (*see Chapter 13 - Social policy and employment*).

The Office of the Ombudsman, whose task is to investigate, report on and make recommendations concerning acts or omissions of the administration, including local authorities, as well as alleged ill-treatment by members of the police, continues to function well. During 2001, the Ombudswoman dealt with 1 331 cases, mainly in the areas of labour and education, immigration and concerning the relationship between public bodies and citizens. Presenting the annual report to Parliament in spring 2002, the Ombudswoman, however, complained that several governmental and local bodies were uncooperative during her investigations and that her suggestions were not applied in full.

Civil and political rights

Civil and political rights continue to be generally respected. *Inter alia*, the procedure for the protection of refugees has improved, and some progress can be reported as regards those issues that exist due to the Cyprus problem.

The *death penalty* remains in the Cypriot Military Criminal Code for six military offences if committed in times of war. With the signature of Protocol 13 to the ECHR in May 2002 the Cypriot government demonstrated its intention to abolish this provision in the near future.

Torture, inhuman or degrading treatment is prohibited by Cypriot law. Since April 2001 the Attorney General has had the power to appoint special investigators to look into alleged criminal offences by the police force not only upon submission of a written complaint, but also *ex officio*. The Attorney General exercised this right in more than thirty cases in the period from April 2001 to July 2002.

As was noted in the previous Regular Report, the European Court of Human Rights found in two cases, relating to events in 1995 and 1994 respectively, that policemen had gone beyond reasonable use of force against suspects who were Turkish Cypriots. In the period under review, the Government paid the outstanding compensation as ordered by the Court in the second case. As a reaction to both cases, the Attorney-General circulated instructions to the Chief of Police, the Ministry of Justice and Public Order and the Ministry of Interior to acquaint all members of the security forces exercising powers of arrest, detention and interrogation with the two judgments. Despite the Attorney General's remark in his circular that mistreatment of persons within the meaning of Article 3 of the European Convention on Human Rights is a criminal offence under Cypriot law and that there would be no impunity, the responsible authorities have not yet initiated criminal proceedings or taken disciplinary measures against the perpetrators in the Deniczi case, which the Commission notes with concern.

Trafficking in human beings constitutes a criminal offence in Cyprus. In particular, the sale of children and the exploitation of women and children by prostitution are outlawed. The relevant law of 2000 also provides for the appointment of a guardian for the protection of the victim. However, the recruitment of young women, mainly from Eastern Europe, for prostitution has continued during the last year. Three individuals were charged with trafficking under the new law.

The right to liberty is protected by Article 11 of the Constitution. As observed in previous Regular Reports, various remedies exist to challenge the validity of *pre-trial detention*. The bill proposed by the Government in April 2001 with the aim of providing payment of just and reasonable compensation to persons having partially served a term of imprisonment following conviction for a criminal offence, when their conviction is quashed on appeal, is still pending at the time of writing.

Cyprus has continued to upgrade its *prison conditions* during the last year. The renovation of two old wards of a prison is to be completed by the end of 2002. 48 new posts of prison personnel that were created in 2001 have been filled (permanently or temporarily) in the course of 2002. In addition, two new posts of Senior Prison Officers were created during 2002.

According to Article 30(3) of the Constitution, every person has the right to have free *legal aid* where the interests of justice so require and as provided by law. The law for the statutory introduction of legal aid, which includes family law cases was approved in July 2002.

Cyprus amended its *refugee law* in January 2002. Taking over the responsibility of the UNHCR, the newly established Refugee Authority processes *asylum* applications in its own premises in the Migration Department's building complex of the Ministry of Interior. The first interviews with asylum seekers started in March 2002. Interpreters are available for Farsi, Turkish, Arabic, Russian and Serbo-Croat. The Refugee Authority has prepared an informative booklet for applicants and the eligibility officers receive ongoing training by UNHCR. The land on which a reception centre for refugees is to be built by the end of 2002 has been secured.

In February 2002, the Council of Ministers adopted a comprehensive National Report on the Implementation of the Conclusions of the European and World Conferences against *Racism*. First case law arose under the Cypriot statute implementing the UN Convention on the Elimination of All Forms of Racial Discrimination. An Inter-Ministerial Committee was appointed to monitor the Action Plan contained in the Convention. It focuses on further improvement of the legal framework and suggests additional educational measures. A Cypriot NGO alleged that the immigration services were badly treating foreigners in several cases in spring 2002.

Freedom of speech, which is guaranteed under Article 19 of the Constitution, continues to be generally respected. Independent newspapers and periodicals can voice criticism of the government. Private television and radio stations compete with the stations that are owned by the state.

Article 18 of the Constitution protects the *freedom of religion*. There is no state religion in Cyprus and no law makes any distinction between religions. The freedom to profess a faith and to manifest a religion or belief, in worship, teaching, practice, or observances can be freely exercised in practice.

On 11 July 2002, Parliament fixed the age of consent for both heterosexual and homosexual relationships at 17 years. The new penal law thereby abolishes the previously existing difference in age as regards consent, depending on *sexual orientation*.

Article 21 of the Constitution affords to every person the right to freedom of *peaceful assembly and of association* with others. The Government continues to respect these rights in practice.

There are various *non-governmental organisations (NGOs)* in Cyprus that promote human rights education and awareness among the public at large. The Government supports and subsidises their programmes and activities. A specialised NGO runs a shelter for battered women in Nicosia and a fund for legal aid to victims of domestic violence.

Some progress has been made in tackling the specific issues in relation to various civil and political rights that were noted in the previous report as existing due to the Cyprus problem.

The restrictions to the *right to marry* for Turkish Cypriots living in the south have been abolished after the European Court of Human Rights, in September 2001, had declared an application of a Turkish Cypriot admissible under various Articles of the ECHR. A law of May 2002 now allows civil marriages to be celebrated by mayors as marriage officers irrespective of the faith of one or both parties involved, superseding previous legal provisions according to which only judges of the Turkish Communal Courts could act as marriage officers in these cases.

The Turkish Cypriots living in the government controlled areas cannot exercise their *right to vote*. Participation in national elections would entail a constitutional revision. A bill according to which Turkish Cypriots would be allowed to participate in municipal and communal elections was tabled in Parliament in November 2001, but it has not yet been adopted.

Economic, social and cultural rights

As regards *equal opportunities*, Cypriot women have the same legal status as men (*for further detail see chapter 13 – Social Policy and Employment*). However, under-representation of women in political life persists. Of the current 56 Members of Parliament, only six are women. There is no female Minister in the Government. Since April 2002, the National Machinery for Women's Rights has organised a training programme on Gender Mainstreaming the gender focal points and high-ranking officials from various Ministries, with the aim of creating awareness among officers and decision makers concerning gender equality issues.

Children's rights are taken seriously. Free education is available at all levels until the age of 18. Education is compulsory up to the age of 15, and children may not be employed in the industrial sector below the age of 16. Labour inspectors enforce the law effectively.

Fair treatment of *disabled persons* in Cyprus remains ensured. They enjoy privileged access to the public sector as long as their qualifications are the same as those of other applicants. In February 2002, due to an investigation launched by the parliamentary Human Rights Committee, public attention was drawn to the fact that mentally handicapped suspects were not subject to any special treatment. It was agreed between deputies and police representatives that pre-trial detention in prison should be avoided for people with special needs.

Approximately 70% of workers belong to independent *trade unions*, exercising their right under the Constitution. They also enjoy the right to strike, but there were no strikes in 2001.

Cyprus continues to be a party to the *European Social Charter* (both the original and the revised Charter) and the Additional Protocol. Between July 2001 and June 2002, the European Committee of Social Rights examined the 20th report submitted by Cyprus in August 2001. It repeated its previous view that most of the provisions of the Charter are respected, but that Article 1(2) on the prohibition of forced labour was not fully complied with, referring to the still existing Defence Regulations 79A and 79B. These entitle the Council of Ministers to requisition workers in a certain number of cases and to adopt decrees prohibiting strikes. It should be noted that in practice no cases of forced labour occurred during the period under review. According to the European Committee of Social Rights, however, the non-application of these provisions is not sufficient to demonstrate that a state is in conformity with the Charter. In addition, the Committee concluded that the additional duration of sixteen months of alternative service (42 months altogether) as compared with 26 months of military service is excessive and amounts to a disproportionate restriction on the right of the worker to earn his living in an occupation freely entered upon as provided by Article 1(2) of the Charter.

Minority rights and the protection of minorities

Cyprus has ratified the Framework Convention for the Protection of National Minorities. According to Article 2 of the Constitution, all Cypriots are deemed to belong to either the Greek Community or the Turkish Community. The three minority religious groups – Armenians (0.4%), Maronites (0.6%) and Latins [Roman Catholics] (0.1%) – which were given the option of becoming members of either the Greek or the Turkish Community, opted to belong to their own. In April 2001, the Advisory Committee on the Framework Convention expressed the view that this constitutional provision is not compatible with Article 3 of the Framework Convention, under which every person belonging to a national minority shall have the right freely to choose whether to be treated as such. The Council of Europe's Committee of Ministers concluded in February 2002 that this issue needs to be addressed.

In addition to their normal voting rights, the Armenian, Maronite and Latin [Roman Catholic] groups elect non-voting representatives to the House of Representatives who attend as observers and advise on religious and educational matters affecting their group. In its conclusion the Committee of Ministers of the Council of Europe recommended that consideration should be given to making this participation more effective.

In the period under review, the five major religious groups continued to receive government subsidies and to be exempted from taxes. Free education is safeguarded, which is documented by the fact that Armenians run primary schools of their own with financial assistance from the State. The Committee of Ministers took note of these commendable efforts, as well as of the free access to radio broadcasting for minorities.

As observed in the Regular Report, Cyprus set up an elementary school for Maronites in 2001. However, since the 4,500 members of this community are divided between the north and the Government controlled areas following the events of 1974, the survival of the Maronites as a distinct group is still at risk. The Committee of Ministers recommended further measures to promote the conditions necessary for the Maronites to maintain and develop the essential elements of their identity relating to their specific ethnic origin and – at least for some of them – to a specific Arabic dialect.

Prospects for a political settlement

The UN process

As reported last year, the UN proximity talks were not continued in 2001, and the invitation of the UN Secretary-General to resume the search for a comprehensive settlement in early September had been declined by the Turkish Cypriot side.

After an exchange of letters in late autumn, the leaders of the two communities, Messrs Clerides and Denktash, met on 4 December 2001 and agreed on a different procedure. They stated that "the UN Secretary General, in the exercise of his mission of good offices, would invite them to direct talks, that these talks will be held in Cyprus, starting in January 2002 on United Nations premises, that there will be no preconditions, that all issues will be on the table, that they will continue to negotiate in good faith until a comprehensive settlement is achieved, and that nothing will be agreed until everything is agreed".

Both leaders crossed the green line for the first time since 1974 and met on 5 and 29 December. They discussed, *inter alia*, how to accelerate the exchange of information on missing persons. At the end of January 2002, papers were exchanged to enable the UN Committee on Missing Persons to resume its activities.

The direct talks started on 16 January 2002 at premises in the United Nations Protected Area in the presence of the UN Secretary General's Special Adviser on Cyprus, Mr. A. de Soto. The leaders exchanged position papers on the core issues of constitution, security, territory and property. Initially, at the proposal of Mr. Denktash, they envisaged the end of June as a date at which a framework settlement should be ready for signature.

In early May, following an interim report from Mr. de Soto, the members of the UN Security Council issued a press statement. They "expressed the view that it was time to record on paper the areas of common ground between the two sides, with the aim of establishing the component parts of a comprehensive settlement which takes full consideration of relevant UN resolutions and treaties; and, where differences remain, to narrow and remove those through a process of negotiation focussed on compromise formulations. They urged both sides, in particular the Turkish side, to cooperate fully with the Secretary General's Special Adviser in such an effort".

With the endorsement of the Security Council, UN Secretary-General Annan visited Cyprus on 14-16 May. He said that, despite their differences on substance and on the timeframe, he was still convinced that between May and the end of June the two sides could resolve all the core issues, provided they acted decisively and with the necessary political will. He also called on Greece and Turkey for sustained and constructive support. Although no joint declaration was issued, the two leaders assured the UN Secretary-General that they would intensify their efforts and continue the talks in a genuine spirit of give-and-take. However, by 2 August, after five rounds of talks, a total of over 50 sessions had been held without agreement on any core issue.

Meeting on 9 July, the members of the UN Security Council heard a further briefing from Mr. de Soto. In a statement to the press, the members "welcomed the support given to the talks by the EU Heads of State and Government meeting in Seville on 21-22 June" (*see below*). They "expressed disappointment that, despite the Secretary-General's valuable personal involvement, including when he visited the Island in May, progress remained disappointingly slow and the June date for agreement had not been met. They noted in this regard that the Turkish Cypriot side had been less constructive in its approach so far and had declined to support the goal of resolving the core issues by the end of June. They also noted with regret that the call by the members of the Council on 2 May that the UN should play a fuller part in the talks had not yet received the requisite response". The members "urged both sides to work with the UN Secretary-General's Special Adviser to enable him to establish the component parts of a comprehensive settlement which takes full consideration of relevant Security Council resolutions and treaties. They strongly underscored the need for the Turkish side in particular to move in this direction".

The talks were resumed on 27 August. On 6 September 2002, UN Secretary-General Annan met the leaders of the two communities in Paris. According to his statement to the press, he asked the leaders to go back to the island and to work with Mr. de Soto on the issues that he highlighted to them, and to meet him once more in New York on 3 and 4 October. Mr. de Soto would be working with them to help them to achieve the requisite progress. The Secretary-General said that he continued to believe that the gaps dividing the parties could be bridged and, on some issues, that they were quite a bit smaller than when the talks began.

The UN Peacekeeping Force in Cyprus (UNFICYP) destroyed in April 2002 some 4,500 weapons that had been purchased by the Government of Cyprus in 1972 and later guarded by UNFICYP in the United Nations Protected Area.

The military situation along the cease-fire lines remained calm, and air violations decreased by 50 % during the last year. However, according to the UN Secretary-General's report of June 2002, restrictions imposed on UNFICYP by the Turkish forces/Turkish Cypriot security forces in July 2000 continued to hamper UNFICYP operations while, similarly, the military *status quo* in the village of Strovilia was unchanged. On June 13, the Security Council extended the mandate of UNFICYP a further six months to December 2002.

EU position

The conclusions of the European Council at Helsinki in December 1999 remain the basis of the EU position: "...a political settlement will facilitate the accession of Cyprus to the European Union. If no settlement has been reached by the completion of the accession negotiations, the Council's decision on accession will be taken without the above being a precondition. In this the Council will take account of all relevant factors."

The European Council at Laeken in December 2001 welcomed the meetings that had taken place towards the end of that year between the leaders of the Greek and Turkish Cypriot communities and encouraged them to continue their discussions with a view to an overall solution.

The Seville Summit in June 2002 stated that the EU's preference continued to be for the accession of a reunited island. It fully supported the efforts of the UN Secretary-General and called upon the leaders of the two communities to intensify and expedite their talks in order to seize the unique window of opportunity for a comprehensive settlement, consistent with the relevant UN Security Council resolutions, before the completion of the accession negotiations. The conclusions also stated that the EU would accommodate the terms of a comprehensive settlement in the Treaty of Accession in line with the principles on which the European Union is founded; as a Member State, Cyprus would need to speak with a single voice and ensure proper application of EU law. The EU would make a substantial financial contribution to support the development of the northern part of a reunited island.

The EU has recalled its position to the interested parties on numerous occasions over the last year. Representatives of successive EU presidencies, the European Parliament and the Commission have undertaken visits to the island to explain the EU position.

On 25 October 2001, in a speech held in Nicosia, Commission President Prodi said that reaching a political settlement before the end of the accession negotiations would allow Turkish Cypriots to participate in these negotiations. It would further enable the accession arrangements to take account of the settlement, thus reflecting the concerns of all parties. Commissioner Verheugen visited Cyprus in March 2002 and conveyed to the leaders of the two communities the importance attached by the EU to the achievement of a settlement in good time. He also referred to the Commission's proposal of 30 January 2002 to reserve an amount of € 206 million that could be spent in the years 2004-2006, in the event of a settlement, to help the northern part of the island to catch up.

The prospects for a settlement were discussed at meetings of the EU/Cyprus Joint Parliamentary Committee (in November 2001 and May 2002). The President of the European Parliament, Pat Cox, met the two leaders in Cyprus in early May 2002, and the European Parliament has frequently addressed various issues arising from the political situation.

Commissioner Verheugen has consulted regularly with Mr de Soto, and has been in constant touch with all those in the international community who are active on this issue. Senior Commission officials have held frequent meetings with Greek and Turkish Cypriot leaders and with Mr de Soto's team, notably to clarify *acquis*-related issues arising in their efforts to achieve a settlement. The requirements of the *acquis* were explained in the following terms:

The efforts to find a settlement have also been raised regularly in the enhanced political dialogue and in the Association Council with Turkey in April 2002. The EU considers that Turkey has an important contribution to make towards these efforts. The Cyprus problem has also been discussed in bilateral contacts with other third countries, especially permanent members of the UN Security Council.

As requested by the General Affairs Council in 1995, the Commission has continued to promote bi-communal projects, mainly in cooperation with the UN. A EU project manager for civil society projects has begun work in Nicosia, and a first set of projects have been selected by a bi-communal board. Commissioner Verheugen opened an EU information centre within the premises of the Turkish Cypriot Chamber of Commerce during his visit to the island in March 2002. The functioning of the information centre has encountered difficulties. As part of the Commission's information efforts, several lectures on Community policies were given to Turkish Cypriot businesspeople and other interested persons in the framework of the Chamber of Commerce. These were interrupted in late May due to newly imposed entry restrictions for Commission officials.

*Efforts to resolve the Cyprus problem are continuing in the knowledge that the Commission has proposed a financial package to help overcome economic disparities between different parts of the island, following a settlement. This, together with the clarifications provided concerning the *acquis*, has improved awareness throughout Cyprus of the fact that the EU, its *acquis*, institutions and policies favour the efforts of those who are working towards a settlement.*

The situation in the northern part of the island

The main political event in the northern part of the island was the holding of local elections on 30 June. The National Unity Party (NUP) won 16 out of 28 municipalities, Republican Turkish Party (RTP) 5, Democratic Party (DP) 4, Nationalist Justice Party (NJP) 2, and one municipality was won by an independent candidate. The Republican Turkish Party which favours a settlement in the framework of a bi-zonal and bi-communal federation and EU accession of a united Cyprus made important advances compared with previous elections and holds the mayor's post in three of the largest cities, including Nicosia.

The opposition newspaper "Avrupa" had its material confiscated in December 2001 following a judicial decision that found the paper's chief-editor guilty of libel against Mr. Denktash. Later on, the paper was re-founded under the name "Africa". A teacher was suspended from her job in November 2001 after writing an article for "Avrupa/Africa" in which she named Turkey as an occupation force in northern Cyprus. On 8 August 2002, the newspaper's editorial writer was sentenced to six months in prison for an article published in July 1999 that was said to have contained an "insult against the President". The judgement was criticised by the leaders of the Turkish Cypriot opposition parties and several international human rights organisations as a severe violation of the right to free speech. On appeal the judgement was reversed, and the two journalists were released in early October.

Disciplinary measures were taken against those teachers who attended a concert of the Cyprus bi-communal choir in Istanbul in June 2002. They have been accused of "leaving the country without permission of the relevant Ministry in order to perform illegal political activities". In some cases, Turkish Cypriot participants have been denied access to the Ledra Palace or passage to the south for bi-communal events.

The 41 NGOs Platform campaigning under the slogan 'This Country is Ours' called international attention to the deteriorating economic situation, the hardening of repressive policies and has asked for direct involvement of the EU in the search for a political solution. On 9 August, 86 NGOs which represent about 38,000 members, signed a declaration, entitled the "Common Vision of the Turkish Cypriot Civil Society", calling for a solution to the Cyprus problem and EU membership by the end of the year 2002. It states, *inter alia*, that the two politically equal sides should establish a Partnership state with a single international legal identity and with an effective legislative, administrative and judicial structure that is sufficient to carry out its relationship with the European Union. According to the "Vision", the parties will not be asking for two separate and sovereign states.

On 24 June and 22 July 2002, the Council of Ministers of the Council of Europe agreed to resume consideration of the non-execution of the judgments of the European Court of Human Rights in the cases of *Loizidou* and *Cyprus v. Turkey* at its meeting in October. 110 applications against Turkey concerning the north of Cyprus are pending before the Court.

The *economic situation* in the northern parts of Cyprus is still very weak and the population is undergoing severe hardships more than a year after the economic and banking crises in Turkey had damaged economic activity in the north. Real output growth contracted by 3.6% in 2001, following a 0.6% fall in 2000. Consequently, per capita income has continued to decline in 2001, with the economic crisis aggravating the income gap with the rest of the island. Estimates put income at some €4,000 per head in 2001.

The northern part of the island has no independent monetary policy and uses the Turkish lira as its currency. As a result, high inflation is imported from Turkey and currently stands at more than 75% on an annual basis. Coupled with an attempted freeze on wages in the large public sector – public-sector wages were raised by only 8% for 2001 – the high inflation rate has undermined real wages. The loss of purchasing power by private-sector workers is of a similar order of magnitude.

The northern part of Cyprus remains heavily dependent on fiscal transfers from Turkey. On an annual equivalent basis, Turkey provides at least € 100-200 million in economic and financial support, in the form of direct aid, loans, subsidies and other grants. Turkey has promised aid of about € 225 million for 2002-2005. However, the amount is set in Turkish lira, which effectively reduces real annual economic support by the high rate of inflation. In addition, it was announced that \$ 260 million will be given according to an investment incentive plan, but here the same remark applies. There have been further agreements on an *ad hoc* basis to support different items such as a protocol signed in July 2002 to finance the purchase of wheat and barley from producers in the north.

High inflation in combination with large trade and budget deficits of around 34% of GDP and 11% of GDP, respectively, have created an economic situation only sustained by transfers from Turkey. Trade is heavily dependent on the Turkish market. A new economic programme, the "Economic Stability and Transition Programme based on Production Growth" was presented in September 2001 and revised in February 2002. Its primary aim is to set up a common economic area with Turkey, thereby further reinforcing the economic dependence on the latter. "Duties" between Turkey and the northern part of the island have been suppressed, as long as products from the northern part of the island have received a certificate of origin issued by Turkish representatives in Nicosia.

The northern part of the island continues to face severe shortages of capital, skills and business. There is an increasing tendency that members of the younger generation with higher education emigrate to work abroad. The public sector is the largest employer, and public ownership or control is widespread, with price control pervasive. During the first 11 months of 2001, 424 enterprises in the northern parts of Cyprus have closed down, with the textile industry among the most affected. Eight banks have collapsed since late 1999 and the banking sector remains weak.

As last year, output in the agricultural sector, the largest sector in terms of employment after public services, has also increased this year. Rainfall has been sufficient, following severe droughts in recent years. However, the increase in the local supply of agricultural products has led to a decline in prices set by the authorities, although on the other hand credit and fertiliser are still subsidised. Plans to end intervention in agricultural markets in line with the economic and social package have been abandoned.

Educational establishments have become an important source of earnings, generating around 15% of gross income in the northern part of the island. The substantial tourism potential remains largely undeveloped: the northern part of the island possesses some of the most beautiful coastline of the island but only received 84,000 tourists, or 3% of the 2.7 million arrivals in the south.

A political settlement and EU accession

The analysis set out in last year's Regular Report for Cyprus as concerns the prospects for a re-united Cyprus within the European Union remains valid. EU membership, following a political settlement, will provide an effective framework for guaranteeing fundamental democratic and human rights and for raising living standards and reducing disparities in income. Participation in EU programmes and networks and specific EU policies to promote structural development will underpin economic development in the north.

Last year the Commission expressed the view that matters arising from a settlement, which have implications for the *acquis*, could be accommodated in the accession framework in line with the principles on which the European Union is founded. It also pointed out that a Member State was free to determine its own constitutional arrangements provided that it could speak with one voice in the EU decision-making process and ensure fulfillment of its EU obligations. These positions were subsequently set out by the European Council in Seville in June 2002 (*see above*).

The Commission wrote last year that "There is a window of opportunity for reaching a settlement, reflecting the concerns of the respective parties, before the end of the accession negotiations. This will allow the Turkish Cypriots to be part of the accession process and to enjoy the benefits of accession." Progress towards a settlement has been slow and the deadline of end-June for resolving the core issues, set by the Greek Cypriot and Turkish Cypriot leaders themselves, was not met.

All the parties concerned should now make a determined effort to achieve a settlement this year, so that the benefits of accession to the EU of a re-united Cyprus can accrue to all Cypriots.

General evaluation

The Commission has repeatedly concluded that Cyprus fulfils the political criteria. This was the conclusion of previous Regular Reports, and has been confirmed over the past year. Cyprus continues to fulfil the Copenhagen political criteria.

The state public administration has been considerably strengthened by the creation of new posts and the promotion of regular training.

Cyprus continues to respect human rights and freedoms. Cyprus has improved the procedure for the protection of refugees. It has abolished restrictions on the right to marry for Turkish Cypriots living in the south.

Economic criteria

Introduction

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

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

In its 2001 Regular Report, the Commission found that:

"Cyprus is a functioning market economy. It should be able to cope with competitive pressure and market forces within the Union."

In examining economic developments in Cyprus since the first Regular Report, the Commission's approach was guided by the June 1993 conclusions of the Copenhagen European Council, which stated that membership of the Union requires;

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

In the analysis below, the Commission has followed the methodology applied in the previous annual Regular Reports. The analysis in this year's Regular Report takes stock of developments since 1997.

Summary of economic developments since 1997

Cyprus has achieved robust economic growth, while the fiscal imbalance has gradually been reduced and the current account deficit has remained rather high. Steady and high real GDP growth averaging 4.2% has been driven mainly by domestic demand, while the high growth in tourism has also contributed significantly. In 2001, real GDP growth was affected by the slowdown of foreign demand, exacerbated after 11 September by a stark decline in tourist arrivals. The government deficit, climbed to 5.2% of GDP in 1997, but was steadily brought down to 3.0% by 2001. Despite fiscal consolidation, the current

Account deficit fluctuated around a relatively high average of 4.5% of GDP with no clear downward trend, heavily influenced by energy prices and constant outlays. Inflation was generally kept under control at an average of 2.7%, dropping to 2% in 2001 after a mainly oil-price and VAT-induced spike to 4.9% in 2000. To confront the challenges posed by greater capital mobility, the Central Bank introduced a more flexible exchange rate regime in 2001.

Main Economic Trends								
Cyprus		1997	1998	1999	2000	2001	Average	2002 latest
Real GDP growth rate	per cent	2.4	5.0	4.6	5.1	4.0	4.2	2.9p Q1
Inflation rate ^a - annual average	per cent	3.3	2.3	1.1	4.9	2.0	2.7	2.3 July
- December-on-December	per cent	3.8	0.8	3.6	3.7	2.1	2.8	3.8 July
Unemployment rate	per cent	3.4	3.4	5.9	4.9	4.0	4.3	:
d- IFS definition								
General government budget balance	per cent of GDP	:	:	:	:	:	:	:
Current account balance	per cent of GDP	-4.0	-6.7	-2.3	-5.2	-4.5	-4.5	
	Million ECU/€	-299	-541	-204	-495	-457p ^c	-399p	:
Gross foreign debt of the whole economy - debt export ratio	per cent of exports of goods and services	312.4	138.2	164.5	162.4	:	:	
	Million ECU/€	11,030	4,892 ^b	6,350	7,121	:	:	
Foreign direct investment inflow - balance of payments data	per cent of GDP	0.9	0.8	1.3	1.8	1.8	1.3	
	Million ECU/€uro	67	62	114	174	182 ^c	120	:

Sources: Eurostat, National sources, OECD external Debt Statistics

a PROXY HICP since 1998 (see methodological notes).

b series break as a result of some technical changes to the definition. Data adjusted from 1998 for offshore centre financial activity.

c Moving 12 months average rate of change.

d 1997 and 1998: Registered unemployment. As from 1999: Legally EU-registered IFS.

e Source: Welfare of the National Bank.

f The unemployment rate is defined as the number of persons who are unemployed divided by the total number of persons in the economy and is expressed as a percentage. It is calculated on the basis of the number of persons who are unemployed divided by the total number of persons in the economy. The number of persons who are unemployed is defined as the number of persons who are not working and are not actively seeking work. The total number of persons in the economy is defined as the sum of the number of persons who are employed and the number of persons who are unemployed. The unemployment rate is expressed as a percentage of the total number of persons in the economy.

Main Indicators of Economic Structure in 2001		
Population (average)	Thousand	762,3
GDP per head ^a	PPS	18,500
	per cent of EU average	80
Share of agriculture ^b in: - gross value added - employment	per cent	3.9 4.9
Gross fixed capital formation/GDP	per cent	:
Gross foreign debt of the whole economy/GDP ^c	per cent	74.9
Exports of goods & services/GDP	per cent	46.9
Stock of foreign direct investment	Million € € per head ^d	: :
Long term unemployment rate	per cent of labour force	0.9

a Figures are calculated using the population from the National Accounts, which may differ from those in demographic statistics.

b Agriculture, forestry and fishing.

c Data refer to 2000.

d Excludes the 1997-2000 period.

The existence of a functioning market economy

The existence of a functioning market economy is a key criterion for accession to the EU. It is defined as the ability of a country to operate in a market economy that is open to competition, to allocate resources efficiently, to provide a stable legal and judicial system, and to maintain a sound financial system. The Commission assesses the existence of a functioning market economy based on a number of indicators, including the level of competition, the efficiency of the judicial system, the stability of the legal system, and the soundness of the financial system. The Commission also considers the country's ability to attract foreign investment and to integrate into the EU market. The Commission's assessment is based on a number of indicators, including the level of competition, the efficiency of the judicial system, the stability of the legal system, and the soundness of the financial system. The Commission also considers the country's ability to attract foreign investment and to integrate into the EU market.

The capacity to cope with competitive pressures and market forces within the union

The capacity to cope with competitive pressures and market forces within the union is a key criterion for accession to the EU. It is defined as the ability of a country to withstand the competitive pressures and market forces within the EU market. The Commission assesses the capacity to cope with competitive pressures and market forces based on a number of indicators, including the country's ability to attract foreign investment, to integrate into the EU market, and to maintain a sound financial system. The Commission also considers the country's ability to withstand the competitive pressures and market forces within the EU market.

Introduction

The Commission's assessment of the capacity to cope with competitive pressures and market forces within the union is based on a number of indicators, including the country's ability to attract foreign investment, to integrate into the EU market, and to maintain a sound financial system. The Commission also considers the country's ability to withstand the competitive pressures and market forces within the EU market.

... in the area of human rights, and to ensure that the standards set by the ...

Conclusion

... the Commission established in order to monitor the progress of implementation ...

Conclusion

... the Commission has expressed its concern ...

Accession Partnership and Action Plan for strengthening administrative and judicial capacity: Global assessment

... the Commission has expressed its concern ...

Political criteria

... in the area of human rights, and to ensure that the standards set by the ...

Economic criteria

... the Commission has expressed its concern ...

Ability to assume the obligations of membership

Chapter 1: Introduction
Chapter 2: Political criteria
Chapter 3: Economic criteria
Chapter 4: Ability to assume the obligations of membership
Chapter 5: Accession Partnership and Action Plan

Annexes

Table with 13 columns (BG, CY, CZ, EE, HU, LV, LT, MT, PL, RO, SK, SI, TK) and 15 rows of international treaties including ECHR, Protocol 1, Protocol 4, Protocol 6, Protocol 7, European Convention on the Prevention of Torture, European Social Charter, Revised European Social Charter, Framework Convention for National Minorities, ICCPR, Optional Protocol to the ICCPR, Second Optional Protocol to ICCPR, and ICESCR.

... the Commission has expressed its concern ...

social and Cultural rights)														
CAT (Convention against Torture)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
CERD (Convention on the Elimination of All Forms of Racial Discrimination)	X	X	X	X	X	X	X	X	X	X	X	X	X	O
CEDAW (Convention on the Elimination of All Forms of Discrimination against Women)	X	X	X	X	X	X	X	X	X	X	X	X	X	X
Optional Protocol to the CEDAW	O	X	X	O	X	O	O	O	O	O	X	O	O	O
CRC (Convention on the Rights of the Child)	X	X	X	X	X	X	X	X	X	X	X	X	X	X

Monetary aggregates	1000 Mio ECU/euro				
- M1	1.2	1.3	1.8	1.9	1.9
- M2	8.1	8.8	10.2	11.1	12.6
- M3	:	:	:	:	:
Total credit	9.9	11.1	12.5	14.3	16.5
Average short-term interest rates	% per annum				
- Day-to-day money rate	4.7	4.8	5.2	6.0	4.9
- Lending rate	8.1	8.0	8.0	8.0	7.5
- Deposit rate	6.3	6.5	6.5	6.5	4.8
ECU/EUR exchange rates	(1ECU/euro=Cyprus Pound)				
- Average of period	0.583	0.577	0.579	0.574	0.576
- End of period	0.580	0.582	0.577	0.574	0.575
	1995=100				
- Effective exchange rate index	102.8	108.3	106.0	102.2	104.9
Reserve assets	Mio ECU/euro				
-Reserve assets (including gold)	1,385	1,299	1,959	2,009	2,711
-Reserve assets (excluding gold)	1,263	1,184	1,829	1,873	2,565
External trade	Mio ECU/euro				
Trade balance	-2,141	-2,330	-2,422	-2,990	-3,289
Exports	403	407	393	440	491
Imports	2,544	2,737	2,815	3,430	3,780

	1997	1998	1999	2000	2001
Basic data					
in 1000					
Population (average)	743.5	748.8	753.2	757.0	762.3p
in km²					
Total area	9,251	9,251	9,251	9,251	9,251
National accounts					
Mio Cyprus Pound					
Gross domestic product at current prices	4,369	4,694	5,019	5,487	5,865
1000 Mio ECU/euro					
Gross domestic product at current prices	7.5	8.1	8.7	9.6	10.2
ECU/euro					
Gross domestic product per capita b) at current prices	11,500	12,300	13,000	14,300	15,100
% change over the previous year					
Gross domestic product at constant prices (nat. currency)	2.4	5.0	4.6	5.1	4.0
Employment growth	-0.3	1.0	1.3	2.8	:
Labour productivity growth	2.7	3.9	3.2	2.2	:
In Purchasing Power Standards					
Gross domestic product per capita at current prices	16,100	17,000	18,100	17,600	18,500
Structure of production					
in % of Total Gross Value Added					
- Agriculture	4.3	4.4	4.2	3.7	3.9
- Industry (excluding construction)	14.2	13.8	13.2	13.1	12.4
- Construction	8.4	8.0	7.7	7.1	7.1
- Services	73.1	73.8	74.9	76.1	76.6
Structure of expenditure					
as % of Gross Domestic Product					
- Final consumption expenditure	84.8	86.7	83.4	85.1	86.1
- household and NPISH	66.0	67.5	65.7	:	:
- general government	18.8	19.3	17.7	:	:
- Gross fixed capital formation	18.1	17.2	16.1	:	:
- Stock variation	1.1	1.1	1.6	:	:
- Exports of goods and services	47.1	43.6	44.6	46.5	46.9
- Imports of goods and services	52.1	51.1	47.6	52.3	51.8
Inflation rate					
% change over the previous year					
Consumer price index c)	3.3	2.3	1.1	4.9	2.0
Balance of payments					
in Mio ECU					
-Current account	-298.5	-540.9	-203.9	-495.0	-457.0
-Trade balance	-1,827	-2,175	-2,166	-2,826	:
Exports of goods	1,099	955	938	1,031	:
Imports of goods	2,926	3,130	3,104	3,857	:
-Net services	1,516	1,634	1,916	2,212	:
-Net income	-10	-26	-36	-18	:
-Net current transfers	23	26	82	136	:
-of which: government transfers	15	23	82	139	:
- FDI (net) inflows	67	62	114	174	182.0
Public finance					
in % of Gross Domestic Product					
General government deficit/surplus	:	:	:	:	:
General government debt	:	:	:	:	:
Financial indicators					
in % of Gross Domestic Product					
Gross foreign debt of the whole economy d)	147.0	60.2	73.4	74.9	:
as % of exports					
Gross foreign debt of the whole economy d)	312.4	138.2	164.5	162.4	:

Terms of trade	previous year=100				
	:	:	:	:	:
as % of total					
Exports with EU-15	50.2	54.3	53.7	51.5	49.0
Imports with EU-15	56.3	61.9	57.3	55.9	55.5
Demography					
per 1000 of population					
Natural growth rate	6.3	5.2	5.2	4.6	4.3p
Net migration rate (including corrections)	0.7	2.0	-0.8	1.1	4.1p
per 1000 live-births					
Infant mortality rate	8.0	7.0	6.0	5.6	5.0p
Life expectancy :	at birth				
Males:	75.0	:	75.3	:	:
Females:	80.0	:	80.4	:	:
Labour market (Labour Force Survey) e)					
% of population					
Economic activity rate (15 - 64)	:	:	68.3	69.0	70.8
Employment rate (15-64), total	:	:	64.2	65.5	67.9
Employment rate (15-64), male	:	:	78.7	78.9	79.7
Employment rate (15-64), female	:	:	50.2	52.5	56.5
Average employment by NACE branches					
in % of total					
- Agriculture and forestry	9.2	9.1	4.7	5.4	4.9
- Industry (excluding construction)	15.0	14.5	14.6	14.1	14.0
- Construction	9.4	9.1	10.0	10.0	10.0
- Services	66.4	67.3	70.7	70.5	71.1
% of labour force					
Unemployment rate, total	3.4	3.4	5.9	4.9	4.0
Unemployment rate, males	2.7	2.9	4.5	3.2	2.2
Unemployment rate, females	4.5	4.2	7.9	7.4	5.8
Unemployment rate of persons < 25 years	:	:	11.9	10.5	8.4
as % of all unemployed					
Long-term unemployment share	7.9	8.0	22.1	25.8	21.9

Infrastructure		in km per 1000 km²				
Railway network	0	0	0	0	0	
		km				
Length of motorways	199	204	216	240	257	
Industry and agriculture		previous year=100				
Industrial production volume indices	99.8	102.6	102.1	104.5	99.7	
Gross agricultural production volume indices	88.3	109.4	107.4	91.5	106.4p	
Standard of living		per 1000 inhabitants				
Number of cars	359.0	377.0	387.0	400.0	416.0	
Main telephone lines	589.8	612.8	637.9	657.7	644.9	
Number of subscriptions to cellular mobile services	140.5	176.3	228.1	326.3	466.1	
Number of Internet subscriptions	24.6	44.4	55.4	89.1	99.5	
p=provisional figures						

a) Data provided refer to the Government controlled area only, with the exception of data on total area, population and the various demographic indicators which refer to the whole of Cyprus. Indicators expressed in per capita were calculated on the basis of the mid-year population in the Government controlled area: 1996: 648.1; 1997: 654.5; 1998: 660.4; 1999: 664.8; 2000: 669.1 and 2001: 674.5 (P).

b) Figures have been calculated using the population figures from National Accounts, which may differ from those used in demographic statistics.

c) Changes in Methodology: PROXY HICP since 1998 (see methodological notes).

d) Series break in 1998: adjusted for offshore financial activity.

e) Data for the years 1999 - 2001 based on largely EU-harmonised LFS data collected in the second quarter of each year (April - June). Data for the years 1997 - 1998 are compiled from a number of administrative sources. Data on unemployment refer to the registered unemployed. Data on employment are calculated on a FTE basis.

f) Source: Website of the National Bank

Methodological Notes

Source: Eurostat. The data are based on the most recent available data. For the years 1997-1999, the data are based on the most recent available data. For the years 2000-2001, the data are based on the most recent available data. For the years 1997-1999, the data are based on the most recent available data. For the years 2000-2001, the data are based on the most recent available data.

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