

**Comprehensive monitoring report
on
Cyprus's
preparations for membership**

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A. INTRODUCTION

The accession negotiations with Cyprus were successfully concluded on 13 December 2002 and the Treaty of Accession was signed on 16 April 2003. Following ratification of the Treaty of Accession, Cyprus will join the EU on 1 May 2004.

In its Strategy Paper “Towards the enlarged Union”, which accompanied the 2002 Regular Reports, the Commission stated that:

“Acceding countries need to implement the acquis by the date of accession, except in cases where transitional arrangements have been agreed. Commitments undertaken in the negotiations must be fully met before accession. The Regular Reports point to a number of areas where further improvements need to be made in the context of the political and economic criteria and in relationship to the adoption, implementation and enforcement of the acquis. These should be vigorously pursued. In order to analyse progress and to facilitate successful membership of the European Union, the Commission will regularly monitor this and report to Council. The Commission will produce six months before the envisaged date of accession a comprehensive monitoring report for the Council and the European Parliament.”

The Copenhagen European Council in December 2002 concluded that:

“Monitoring up to accession of the commitments undertaken will give further guidance to the acceding states in their efforts to assume responsibilities of membership and will give the necessary assurance to current Member States.”

and the Thessaloniki European Council in June 2003 stated that:

“...the ten acceding States are encouraged to keep up their efforts so that they are fully prepared to assume the obligations of membership by accession. This also includes the necessary translation of the Community acquis. With a view to making a success of enlargement, the monitoring of these preparations has been intensified on the basis of reports submitted regularly by the Commission.”

As the accession date of 1 May 2004 draws closer, this report presents a comprehensive state of play of the findings of the regular monitoring carried out by the Commission, building upon the findings of the 2002 Regular Report for Cyprus. The report contains two main parts.

The first part deals with economic issues. It describes briefly economic developments in Cyprus, and then goes on to assess the implementation of the necessary economic reforms in the areas highlighted in the conclusions of the 2002 Regular Report for Cyprus as being in need of further improvements.

The second part gives an overview of where Cyprus stands in implementing all commitments and requirements arising from the accession negotiations for each *acquis* chapter, both in terms of legislation and from the perspective of implementing structures, including administrative capacity and enforcement. In view of their importance for the implementation and enforcement of the *acquis*, the overall state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures are assessed in an introductory section to this part.

This report reflects the situation at the end of September 2003. It records decisions actually taken, legislation actually adopted, measures actually implemented and structures actually in place and functioning by that date.

The Commission strongly believes that a solution to the Cyprus problem can still be found before 1 May 2004 in order to allow the accession of a united Cyprus. However, in case a comprehensive settlement of the Cyprus problem is not reached before the date of accession, Protocol No. 10 annexed to the Accession Treaty envisages the suspension of the *acquis* in the areas of the country which are not under the effective control of the Government of Cyprus. As such a comprehensive settlement has not yet been reached, this report only monitors the application of the *acquis* in the government controlled part of Cyprus. Any specific measures required to deal with the terms under which EU law will apply to the line between the north and the government controlled areas would be defined before accession.

For each chapter of the *acquis*, this report identifies the areas in which Cyprus is expected to be, or is already, in a position to implement the *acquis* and the areas where further action is still needed. Where relevant, the report also points out issues where lagging or deficient preparations are a cause of serious concern. This assessment starts from the premise that Cyprus must be fully prepared for membership from the date of accession. In cases where transitional arrangements have been agreed in the accession negotiations, their effect on Cyprus's obligations is duly reflected in the assessment.

Numerous sources of information have been used to compile this report. Cyprus was invited to provide information on its state of preparedness. The Report also draws on information provided by Cyprus within the framework of the Association Agreement and the accession negotiations, as well as on peer reviews that have taken place to assess its administrative capacity in specific areas. Council deliberations and European Parliament reports and resolutions have been taken into account in drafting it.¹ Where relevant, the Commission has also drawn on assessments made by various international organisations such as the Council of Europe, the OSCE and the international financial institutions, and by non-governmental organisations.

¹ For the European Parliament the rapporteur is Mr Jacques Poos.

B. ECONOMIC ISSUES

In its 2002 Regular Report, the Commission concluded that

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

Further improvements can be made to the functioning of markets by keeping to plans to liberalise the telecom, energy, air transport and postal services sectors. Adherence to the fiscal consolidation programme will contribute to reducing the current account deficit. Care must be taken to improve co-ordination of the supervision of co-operative financial institutions and banks”.

The principal purpose of this part of the Comprehensive Monitoring Report is to assess the implementation of recommendations for improvements in the areas identified in last year’s Regular Report. The focus is on the change since last year and not on the overall degree of functioning of the market economy or degree of competitiveness. The assessment can be found in Section 2. Section 1 briefly describes recent economic developments in Cyprus including the continuation of the reform path since last year’s Report.

1. Economic developments²

The Cyprus economy slowed down in 2002 -although remaining resilient while inflation, the current account and the government deficit deteriorated. For 2002, GDP growth in Cyprus nearly halved to 2.2%, caused mainly by the weak performance of the external sector and in particular tourism, which accounts for around 20% of GDP and employment. Great geopolitical and economic uncertainty hit exports, and in particular the service account was affected by the drop in tourist arrivals of more than 10%. Consequently, total exports dropped by nearly 5%. At the same time, imports declined by 3%. Overall, the current account deficit deteriorated in 2002 to 5.3% of GDP, largely financed by large inflows of foreign direct investment. Domestic demand was the leading growth factor in 2002, despite a marked deceleration of private consumption expansion, related, *inter alia*, to declining consumer confidence. At the same time, investment growth accelerated sharply in 2002, largely explained by high activity in the construction sector and one-off factors linked to government investment. The Iraq war and SARS in early 2003 further negatively affected this year’s tourist season -exacerbated by low EU

² This report covers those areas of the Republic of Cyprus in which the government of the Republic of Cyprus exercises effective control. As regards the areas where the government of the Republic of Cyprus does not exercise effective control, per capita income stands at around € 4 400 against € 15 010 for the rest of the island. The monetary union and high trade dependence of the northern part of Cyprus with Turkey effectively make the economy an extension of the economic situation there. Modest growth was reported in the north in 2002. Inflation, directly imported from Turkey, has been coming down but is still unsustainably high (24.5% in 2002). The fiscal deficit reached about 17% of the GDP, entirely financed by transfers from Turkey whereas the current account deficit fell below 1% of GDP. Behind seemingly full employment numbers, there is large hidden unemployment in the economy where the public sector is the largest employer. Public ownership or control is widespread, and price control is pervasive. Reform programmes have been put into effect during the last two years but there is still a long way ahead and a great need for technical and financial assistance to construct and implement structural transformation. Note that the data on the areas where the government of the Republic of Cyprus does not exercise effective control could not be independently verified.

growth- despite various policy measures to counter the effects, and growth for this year therefore is likely to remain relatively weak. Despite being affected by the economic slowdown, the relatively flexible labour market (as also noted in the Joint Assessment of the Employment Policy Priorities and subsequent progress reports) has held up relatively well and continued to operate at near full-employment levels. The unemployment rate decreased to 3.8% in 2002 and stood at 4.3%³ in August of this year. Inflation climbed to 2.8% in 2002, mainly due to domestic reasons such as increases in VAT linked to EU harmonisation. Similarly, this year the expected rate peaks at 4.6%, again mostly linked to tax harmonisation. By August 2003 inflation was running at 2.4% year-on-year. The fiscal performance in 2002 was negatively influenced by the slowdown, as lower economic growth and tax avoidance led to marked revenue shortfalls in that year. At the same time, expenditure pressures, notably in wages and salaries and in defence expenditure, pushed spending. Altogether this brought the budget shortfall to 3.5% of GDP in 2002, instead of a previously planned 2.6%. For this year the fiscal deficit is now expected to reach over 5% of GDP, rendering the fiscal consolidation program defunct, and a new fiscal consolidation programme was adopted. Monetary policy somewhat relaxed in 2002 as the Central Bank of Cyprus (CBC) cut interest rates by 50 basis points in December, mirroring a rate cut by the European Central Bank. Rates were lowered again by the same magnitude in April 2003 as one of the measures to counter negative effects of the Iraq war on the economy. The rising inflation was mainly considered a temporary phenomenon, much like previous spikes linked to tax changes. Despite higher exchange rate risk following the widening of the fluctuation bands against the euro in 2001, the Cyprus pound kept stable against the euro in the course of 2002 and 2003 so far.

³ Seasonally unadjusted.

Main Economic Trends							
Cyprus		1998	1999	2000	2001	2002	2003 latest
Real GDP growth rate	per cent	5.0	4.8	5.2	4.2	2.2	2.4 Q1
Inflation rate	per cent	2.3	1.1	4.9	2.0	2.8	3.9
- annual average							August ^a
- December-on-December	per cent	0.8	3.6	3.7	2.1	3.1	2.4
		:	:	5.2	4.4	3.8	August
Unemployment rate	per cent						:
- LFS definition							
General government budget balance	per cent of GDP	-4.9	-4.5	-3.1	-3.0	-3.5 p	:
Current account balance	per cent of GDP	-6.7	-2.3	-5.1	-4.3	-5.3 p	:
	million ECU/Euro						
Gross foreign debt of the whole economy	Per cent of exports of goods and services	139.4	164.2	162.5	149.7	:	:
- debt export ratio	million ECU/Euro	4 937	6 350	7 236	7 152	:	:
Foreign direct investment in flow	Per cent of GDP	2.9	7.4	9.1 p	7.1 p	4.3 p	:
- balance of payments data	million ECU/Euro	237	642	872 p	728 p	466 ^b	:

Sources: Eurostat. National sources. OECD external Debt Statistics

^a Moving 12 months average rate of change.

^b Source: Website of the National Bank.

P= provisional figures

Structural reform has continued slowly but some long-term issues remain. The crisis in the tourist sector in Cyprus has underlined the increasing economic dependence on this sector, while traditional sources of export earnings, particularly within the manufacturing sector, show a structural decline. The government is well aware of these issues and policy is oriented toward the development of other service sectors (telecom, IT and business services, education), as taken up in the new Strategic Development Plan 2004-2006 as well. Nevertheless, in the past these policies tended to be overwhelmed by the comparative advantage of the tourism sector. With a relatively high employment rate and low unemployment rate, there is a risk of labour shortages in certain sectors and therefore a need to mobilise the potential labour force and make it more adaptable. This calls for an active policy approach to make education and training more responsive to labour market requirements. Capital liberalisation is nearly complete and has not led to increased exchange rate volatility. Cyprus is now in the third (final) stage of the capital account liberalisation process. An important step was the - partial - liberalisation of portfolio investment and real estate for individuals. This contributed to a shift in 2002 toward 'permanent' tourism that partly offsets the volatility in that sector. Some restrictions are still in place but so far capital account liberalisation has not led to any major problems and has been accompanied by both increased inward and outward flows, while the Cyprus pound remained stable against the euro. Water is a crucial scarce asset on the island and poses pressing environmental challenges, but the supply side situation has been improving somewhat through the construction of desalination plants and more

normal rainfall in 2002 and 2003 so far. Nevertheless, the island's aquifers remain in a bad state after long draughts, leading to environmental degradation. However, water rationing has now effectively stopped and water supply prices for the agricultural sector are still low. Therefore, the need to further address the medium- and long term water demand and supply issues remains.

Main Indicators of Economic Structure in 2002		
Population (average)	Thousand	798.9 P
GDP per head ^a	PPS	
	Per cent of EU average	73
Share of agriculture ^b in:		
- gross value added	Per Cent	4.3
- employment	Per Cent	5.3
Gross fixed capital formation/GDP	Per Cent	18.7
Gross foreign debt of the whole economy/GDP ^c	Per Cent	70.0
Exports of goods & services/GDP	Per Cent	43.1
Stock of foreign direct investment ^d	Million Euro	:
	Euro per head	:
Long term unemployment rate	Per Cent of labour force	0.8
<i>Source: Eurostat</i>		

P provisional data

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

b Agriculture, hunting, forestry and fishing.

c Data refer to 2001.

d Data refer to 2000.

2. Implementation of recommendations for improvements

Liberalisation of the telecom, energy, air transport and postal services by 2003 has been implemented in some sectors, but remains to be put into practice in others. The enactment of new legislation aimed at liberalising telecommunications and postal services in January 2003 is a positive step forward, as is the establishment of a new regulator in this sector. Implementation, however, is slow, as decrees to ensure competition in the telecom sector are missing so far while liberalisation in air transport remains to be completed by the time of entry. For the energy sector there is a similar delay, and the opening up of the electricity market is to take place upon accession only.

Fiscal consolidation went markedly off target and the current account deficit widened. The Strategic Fiscal Consolidation Plan, introduced in 1999, was revised and extended in 2001 and again in 2002. It aimed at reducing the deficit to 2.0% of GDP by 2002 while reaching fiscal balance by 2005. However, fiscal performance in 2002 as well as the path to the medium-term fiscal targets slipped again through expenditure overruns and revenue shortfalls, with the government deficit increasing to 3.5% of GDP. Indications are that it will move further upward to an unsustainable 5.3% for this year, with the fiscal consolidation program effectively abandoned. To counter this alarming development, the government adopted a new fiscal consolidation plan in early September 2003, which no longer targets fiscal balance over the medium term but aims to reduce the deficit to 2.2% of GDP by 2006. This is perhaps more realistic yet at the same time much less ambitious. Concomitantly, the current account deficit expanded to over 5% of GDP in 2002. Although financing of the deficits has not been a problem so far, current account deficits

continue to be a weak spot in the economy. It is estimated that for Cyprus a deficit of 3% of GDP would be sustainable in stabilising the ratio of external liabilities to GDP. This appears achievable in the light of the average current account deficit for 1997-2002 of 4.7% of GDP provided the fiscal consolidation program is implemented, although the fiscal budget aims are rather modest.

*Progress has been achieved in **financial supervision** but further improvements remain necessary.* Further steps forward have been made in the institutional arrangements for co-operative bank supervision although the Department of Co-operative Development continues to be the supervisory agency for the co-operative sector. This means that similar financial institutions, i.e. commercial banks and the co-operative banks, are still supervised by different agencies. The Central Bank of Cyprus and the Department did, however, recently conclude a co-operation agreement to provide consolidated supervision. Furthermore, the CBC, Securities and Exchange Commission (SEC) and the Superintendent of Insurance signed a protocol agreement aiming at a closer and more effective regulation of the financial system. Under the agreement, in effect in January 2003, the three regulatory bodies co-ordinate and co-operate on a wide range of financial control issues. As for the supervisory competition between the SEC and the Cyprus Stock Exchange (CSE) pointed at in last year's Regular Report, a blueprint for legislative action clearly delineating the supervisory duties for the SEC and the CSE has been finalised but needs to be further implemented.

C. COMMITMENTS AND REQUIREMENTS ARISING FROM THE ACCESSION NEGOTIATIONS

As we approach the actual date of accession and the entry into force of the mutual rights and obligations enshrined in the Treaty of Accession, it is necessary to focus efforts on ensuring that Cyprus is fully prepared in all areas of the *acquis* from the start of its membership. In other words, Cyprus must meet its commitments and requirements arising from the accession negotiations.

In the 2002 Regular Report on Cyprus, the Commission found that:

“Cyprus is generally meeting the commitments it has made in the negotiations. However, delays have occurred with regard to the establishment of the fishing vessel register, and in the legal alignment as regards oil stocks and with the electricity Directive. These issues need to be addressed.”

Bearing in mind the progress achieved since the 1998 Regular Report, the level of alignment that Cyprus has achieved at this point in time, and its track record in implementing the commitments it has made in the negotiations, the Commission considers that Cyprus will be able to assume the obligations of membership in accordance with the envisaged timeframe. In the period leading to accession, Cyprus needs to continue its preparations, in line with the commitments it has made in the accession negotiations.”

As regards the administrative capacity to implement the *acquis*, the overall findings were as follows:

*“Cyprus has further strengthened its administrative capacity. Additional staff has been recruited in key areas and has been included in the Supplementary Budget for 2002, which is not yet approved. In important areas such as capital movement, competition, agriculture, taxation, customs, environment, and justice and home affairs enforcement structures have been reinforced. Close attention is required as regards the structures which are necessary to implement the *acquis* which will be applicable only upon accession, in particular as regards sound and efficient management of EC funds.”*

As part of its continuous monitoring, the Commission services addressed two letters to Cyprus in February and June 2003 expressing concern over the transposition of the electricity directive (including removal of price distortions) and the gas directive as well as the transposition of the legislation on oil stocks within the energy chapter, the drafting and approval of a new Internal Audit Act within the financial control chapter and the preparation for the application of the *acquis* within the customs union chapter, and calling for urgent action to remedy these shortcomings.

In order to give further guidance to Cyprus in its preparation efforts and to give the necessary assurance to current Member States and other future Member States, this part of the comprehensive monitoring report, in Section 2, gives an overview of where Cyprus currently stands in implementing all commitments and requirements arising from the accession negotiations for each of the 29 chapters of the *acquis*. It covers the whole body of the *acquis*, on a chapter-by-chapter basis, both in terms of legislation and from the

perspective of implementing structures, including administrative capacity and enforcement.

The principal commitment undertaken by Cyprus in the accession negotiations is to be fully prepared for membership in all areas by the date of accession. In a number of areas, however, commitments were made to put in place and implement the *acquis* according to specific timetables even before accession. This report examines the extent to which these commitments have been met, and where delays have occurred, but the principal focus of the assessment remains the requirement that Cyprus must be fully prepared as from accession. Naturally, in cases where transitional arrangements have been agreed, their effect on Cyprus's obligations is duly reflected in the assessment. On the other hand, it should be underlined that, in order for Cyprus to make effective use of its eligibility for Community structural funds from 1 January 2004, the relevant *acquis* in areas such as public procurement, state aid and environmental protection will need to be fully respected from 1 January 2004 in relation to the implementation of structural funds actions⁴.

For each chapter, a conclusion is provided, which is structured in the following way.

Firstly, it identifies those areas where Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be, or is already, in a position to implement the *acquis* from accession. This does not exclude the possibility that certain actions are still to be taken, but these should under foreseeable circumstances not pose particular difficulties.

In a *second* paragraph, the assessment identifies any areas where important further action is still needed in order to complete preparations for membership. In some cases these preparations are ongoing, but enhanced efforts or quicker progress may be called for. These are issues which can still be remedied taking into account the accession date of 1 May 2004 but which require the special attention of the authorities.

Thirdly, where relevant, the assessment also identifies issues that are of serious concern. These are areas where serious shortcomings exist which are likely to persist after accession unless immediate remedial action is taken. These issues require the urgent attention of the authorities. In view of their importance for the implementation and enforcement of the *acquis*, the *overall* state of readiness of the public administration and the judicial system and the development of effective anti-corruption measures are evaluated in a separate Section 1.

⁴ See also the Commission Communication on the implementation of commitments undertaken by the acceding countries in the context of accession negotiations on Chapter 21 – Regional policy and coordination of structural instruments, 16 July 2003 (COM(2003) 433 final).

1. Administrative and judicial capacity

Public administration

The central government consists of the institutions of the President and the Council of Ministers (11 ministers). At the local level Cyprus as a whole is subdivided into six districts with two types of local government, municipalities (33) and community councils (570), which are mainly financed from the central budget.

The Public Service Law of 1990 is the framework for the functioning of the civil service. There are more than 15 000 posts of statutory civil servants, of which only 12 700 are actually taken up. The power to appoint, promote, transfer, retire and exercise disciplinary control over public officers is vested in the Public Service Commission, a five-member body provided for in the constitution. All its members are appointed by the President. There has been public criticism of the appointments made as being too political in view of the impartial character of the civil service. Decisions of the Public Service Commission can only be challenged before the Supreme Court. The appraisal system for civil servants shows weaknesses which the Public Service Commission considers as undermining the principles of justice and merit in the civil service.

As regards equal opportunities, there has been a marked improvement over the years in the appointment of female candidates to the civil service, who now account for more than 50 % of new appointees.

Whereas an internal code of conduct for the administration is still under development, a "citizens' charter" assists citizens in exercising their rights vis-à-vis the administration. Citizens' information centres are soon to operate in all ministries offering direct services to the citizen. The Cypriot administration has introduced in some ministries an automation system that accelerates access to documentation.

Administrative decisions can be challenged only before the Supreme Court as there are no specialised administrative courts. Apart from this, an Ombudsman (Commissioner for Administration) raises individual citizens' complaints (around 1 500 annually) with the administration. Most cases concern the areas of labour, education and immigration.

The reform of the state public administration is an ongoing process. The prospect of EU membership has accelerated the establishment of new structures aimed at coping with the requirements of the *acquis*. However, the level of staffing and training in some areas is still too low. This concerns particularly bodies implementing the *acquis* in the field of asylum, telecommunication, energy, maritime safety and agriculture. A large recruitment package of 344 posts in view of EU accession has been approved in 2003 by the House of Representatives. Special training on EU issues is being offered by the Cyprus Academy of Public Administration and needs to be continued and extended. There is a considerable number of lawyers dealing with EU law in the public administration. However, they are concentrated in the horizontal Law Office of the government, whereas in the medium term their presence will be crucial in the ministries themselves.

Judicial capacity

Cyprus has a two-tier judicial system consisting of first-instance courts and the Supreme Court. Under the constitution judges are obliged to be impartial. They are independent

from the 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 are protected by law against arbitrary interference. The total number of Cypriot judges is 88 with four vacancies to be filled by end October 2003. The right to fair trial is guaranteed by the constitution.

The length of court proceedings gives grounds for concern, in particular in civil matters, where it takes an average of three years at first instance until a judgement is issued. The appeals procedure consumes another 12 to 15 months. This regrettable situation has already been stressed by two judgements of the European Court of Human Rights, which found that civil proceedings were not handled in a reasonable time by the District Court of Nicosia in 1986-1997⁵ and 1998-1999⁶.

The number of cases pending at first instance is still very high (67 332 at the end of 2002, almost one case per 10 citizens), although this figure has been slowly decreasing in recent years. As regards the Supreme Court, the number of pending cases at the end of 2002 was 3 841 for all jurisdictions. In criminal cases, the average length of proceedings in the first instance is about one and a half years. Some criminal proceedings have had to be invalidated on account of inordinate delay. This shortcoming has also been highlighted by the European Court of Human Rights, which concluded in May 2002⁷ that a criminal case that lasted over six years was not handled in a reasonable time at the District Court level.

Further efforts to reduce the length of proceedings are necessary in order to ensure the proper enforcement of the *acquis*. The establishment of an automated Court administration system and of a legal information bank would help.

The training programme on EU law established by the Supreme Court is aimed at meeting the urgent need of judges to become familiar with the *acquis* and needs to be widened.

Anti-corruption measures

Cyprus has a comprehensive legal framework against fraud and corruption. 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 provides for sanctions to be taken against 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 "MOKAS" (*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

⁵ Alithia Publishing Company v. Cyprus, Application no. 53594/99 of 11 July 2002.

⁶ Markass Car Hire Ltd. v. Cyprus, Application no. 51591/99 of 2 July 2002.

⁷ Georgiades v. Cyprus, Application no. 50516/99 of 14 May 2002.

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. The above-mentioned bodies are now part of a new anti-fraud co-ordination structure which has been established to improve co-operation among them, as the lack of a common approach has so far been one of the main weaknesses of the system.

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's application to join the OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions is pending (*see also chapter 24 - 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 were 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 the funding of political parties. The report further finds that, although the country can 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 that the powers of the Audit Office are in some respects unduly restricted. In conclusion, GRECO addressed 10 specific recommendations to Cyprus that should be taken into consideration in establishing a national strategy for the fight against corruption. The Government is making an effort to address the majority of the recommendations. In particular it decided to set up a co-ordinating body on corruption, which encompasses representatives of both the public and private sectors. This body is to advise the Council of Ministers on policy issues concerning corruption and propose measures for the more effective implementation of the legislation in this area. Furthermore the government decided to create a specialised complaints unit within the police to examine complaints about police officers concerning alleged corruption. Finally, the mandate and power of the Auditor General has been extended vis-à-vis any person or legal entity using public funding. However, an amendment of the Public Service Law including an explicit obligation for civil servants to report instances of corruption still needs to be enacted by Parliament.

2. The chapters of the *acquis*

As indicated, the following review of Cyprus's ability to assume the obligations of membership has been structured in accordance with the list of 29 *acquis* chapters. Accordingly, this section opens with an assessment of the *acquis* relating to the cornerstones of the internal market which are known as the "four freedoms", and continues with a systematic review of each of the chapters, covering all aspects of the *acquis*, including sectoral policies, economic and fiscal affairs, regional policy, environment, justice and home affairs, external policies, and financial questions.

Chapter 1: Free movement of goods

The principle of the free movement of goods implies that products must be traded freely from one part of the Union to another. In a number of sectors, this general principle is supplemented with a harmonised regulatory framework, following the "old approach" (imposing precise product specifications) or the "new approach" (imposing general product requirements). The transposition of harmonised European product legislation represents the vast majority of the content of this chapter. In addition, efficient administrative capacity to apply horizontal and procedural measures in areas such as standardisation, certification and market surveillance is essential. This chapter also covers detailed EC rules on public procurement, requiring specialised implementing bodies.

In the area of **horizontal and procedural measures**, Cyprus has fulfilled its commitments with the adoption of the framework legislation for the application of the *acquis* on standardisation, accreditation, certification and notification procedures; it will enter into force upon accession. Nevertheless, although the relevant administrative capacities are in place and operational, a need exists for the institutional framework on standardisation activities to be structured uniformly and transparently. For this purpose, the Action Plan developed by Cyprus Certification Company should be implemented without delay. Full membership of CEN and CENELEC should be pursued.

As far as **sector specific legislation** under the **new approach** is concerned, legislative transposition is advancing at good pace. Implementing legislation should still be adopted in the sector of cableway installations and medical devices.

As regards **old approach** directives, the *acquis* on pharmaceuticals for human use has been largely transposed. The only pending measures relate to the adoption of implementing legislation for good clinical practice in the conduct of clinical trials. Concerning pharmaceuticals for veterinary use, Cyprus still needs to adopt implementing legislation on maximum residue limits of veterinary medicinal products and to amend the framework law for transposition of the directive on the Community Code relating to veterinary medicinal products.

In the course of the accession negotiations Cyprus has been granted a transitional period relating to the renewal of marketing authorisations for pharmaceutical products until the end of 2005.

Concerning foodstuffs, administrative structures for the official control of foodstuffs are in place. However, Cyprus should improve its institutional framework by reducing overlaps between the inspection service of the Ministry of Health and the municipalities. Also no guides to good hygiene practice are yet in circulation. The training of inspectors

needs to be reinforced. Implementation of Hazard Analysis Critical Control Points (HACCP) and the control thereof as well as the training of inspectors need to be further enforced. A HACCP assessment team was established in July 2002 and is co-ordinated by a senior health inspector from the Ministry of Health. Preparations for participation in the Rapid Alert System for Food and Feed (RASFF) and for control of genetically modified foods need to be sustained. Aspects of food safety are also covered under *Chapter 7 – Agriculture*.

As regards **public procurement**, a good level of alignment has been reached with the recently adopted legislation, even if some adjustments are still needed in order to attain full compatibility with the *acquis*. The institutional structures for the effective implementation of the *acquis* are in place. There is, however, a need to continue training and to complete the recruitment of additional staff for the Public Procurement Directorate. Implementing regulations still need to be adopted for new legislation transposing the classical sectors and utilities sectors directives.

In the **non-harmonised area**, Cyprus has conducted an initial screening of national legislation possibly in contradiction with the principle of free movement of goods; the screening must now be completed and incompatible legislation needs to be removed. The transposition of the directive on arms control remains to be adopted. Finally, Cyprus needs to appoint specific contacts points for the implementation of the regulation on control of product safety at external borders.

Conclusion

Cyprus is essentially meeting the requirements for membership as regards **horizontal and procedural measures, new approach sectoral legislation and public procurement**, and in the **non-harmonised area**, and should be in a position to implement this *acquis* from accession. Cyprus needs to complete preparations, in particular as regards the institutional framework on standardisation, the implementation of public procurement rules, and the elimination of obstacles contrary to the principle of free movement of goods.

Cyprus is partially meeting the commitments in the field of sector specific legislation under the **old approach directives** with regard to food safety. The implementation of the foodstuffs *acquis* needs to be improved.

Chapter 2: Free movement of persons

The *acquis* under this chapter provides for non-discriminatory treatment of workers who are legally employed in a country other than their country of origin. This includes the possibility of cumulating or transferring social security rights, which requires administrative cooperation between Member States. In order to facilitate the practice of certain professions, the *acquis* under free movement of persons also includes specific rules concerning mutual recognition of qualifications and diplomas; for certain professions a harmonised training curriculum must be followed to be able to use the professional title. Furthermore, this area also covers the residence and voting rights of EU citizens in any Member State.

In the field of **mutual recognition of professional qualifications**, Cyprus has yet to complete the implementation of its commitments with regard to legislative alignment

with the *acquis* as some important provisions remain to be adopted. The law transposing the third general system directive needs to be enacted. With regard to the sectoral directives, Cyprus still has to adjust legislation on doctors, dentists and architects. Concerning lawyers, an amendment to the law in force to take into account recent Court of Justice case law was adopted in September 2003. As regards administrative capacity, implementation structures need to be strengthened. Cyprus is completing the preparatory steps for the creation of a national co-ordinator for providing information to EU citizens on the various regulated professions within the Ministry of Labour and Social Insurance. Additional staffing and training is needed.

In the area of **citizens' rights**, transposition is advancing at a steady pace. Cyprus still needs to enact legislation in order to transpose the *acquis* on voting rights in both municipal and European Parliament elections. The main administrative structures are in place but need to be further enhanced in terms of additional staffing and computerisation within the Migration Department and the Public Registry of the Ministry of Interior.

As for **free movement of workers**, transposition has been completed with the adoption of the legislation on the right of free movement of workers and residence of the nationals of the Member States and of the members of their families.

With regard to **co-ordination of social security systems**, no transposition into national legislation is needed to achieve alignment with the *acquis*, but appropriate administrative capacity needs to be ensured. In this context, further work to develop the necessary administrative structures, in particular a substantial reinforcement of staff, needs to be completed and training needs to be continued.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **free movement of persons** and it is expected to be in a position to implement this *acquis* from accession. In order to complete preparations for accession, further efforts are required as regards the legislative process so that the necessary legal and institutional framework is in place upon accession. Cyprus must ensure that timely preparations be made to allow EU citizens in Cyprus to take part in the European Parliament elections of June 2004. Concerning administrative capacity, reinforcement of staff and training is required to put the administration in a position to effectively implement the *acquis* in the areas of mutual recognition of professional qualifications and co-ordination of social security systems.

Chapter 3: Freedom to provide services

Under this chapter, Member States must ensure that the right of establishment and the freedom to provide services anywhere in the EU is not hampered by national legislation. In some sectors, the *acquis* prescribes harmonised rules which must be respected if the internal market is to function; this concerns mainly the financial sector (banking, insurance, investment services and securities markets) but also some specific professions (craftsmen, traders, farmers, commercial agents). Harmonised rules concerning personal data protection and certain information-society services must also be respected.

In the field of the **right of establishment and the freedom to provide non-financial services**, Cyprus has eliminated most of the identified legal and administrative restrictions except those concerning private schools and tutorial establishments.

In the field of financial services, Cyprus is completing the implementation of its commitments with regard to legislative alignment with the *acquis* in the **banking sector**. Among the few outstanding issues is the directive on electronic money institutions, which still needs to be enacted. Furthermore, the deposit guarantee schemes have not yet been expanded to cover foreign currency deposits as far as the co-operative credit and savings societies are concerned. Cyprus has committed itself to ensuring full application of the *acquis* in respect of co-operative credit institutions by the end of 2007, in accordance with the transitional arrangement it has been granted.

The central bank essentially has the required infrastructure and human resources to deal with the *acquis*-related tasks as a supervisory authority in the field of banking. There is, however, a need to maintain the same level of inspections for all banks. Also, the administrative capacity of the Department of Co-operative Development, i.e. the competent supervisory authority for the co-operative credit and savings societies, needs further strengthening, including completion of the computerisation process. Co-operation between the supervisors in the financial services sector needs to be further intensified.

As regards the **insurance sector**, legislative alignment has been largely completed, although further fine-tuning is needed. Cyprus will have to make sure that the remaining off-shore insurance companies continue under the harmonised legal framework, failing which they will have to be dissolved.

The supervisory authority (Insurance Companies Control Service) is staffed with competent personnel, but additional staff for the approved posts should be recruited and further training is needed.

In the field of **investment services and securities markets**, the legislation is broadly in line, although further legislative amendments are still needed, in particular regarding the transposition of recent *acquis*. The law implementing the initial directive on undertakings for collective investment in transferable securities has been in force since March 2003. The proper implementation of this law should be a matter of priority, bearing in mind the well-developed market for “off-shore” investment funds which are being phased out. Moreover, the recent directives in this field still need to be transposed. The same applies to the directive on financial collateral. The capital adequacy directive has not been transposed yet for investment firms. The implementation of the investment-services directive needs some further fine-tuning.

Administrative capacity has reached an adequate level. Regarding supervisory independence, the Securities and Exchange Commission's budgetary independence still has to be achieved. Furthermore, the responsibilities and powers of the Securities and Exchange Commission and the Cyprus Stock Exchange need to be more clearly separated by spelling out that the former is responsible for licensing and fees and the latter for membership, facilities, remote trading and sanctions on members. A stable system of financing the Securities and Exchange Commission that does not endanger the independence of this institution has still to be found.

Concerning the **protection of personal data and the free movement of such data**, Cyprus has reached a high level of alignment. By accession, a number of provisions of

the Data Protection Act need to be fine-tuned to achieve full alignment with the relevant directive including additional elements to strengthen the independence of the supervisory authority. This authority would benefit from further strengthening with additional resources, especially more staff and training, to bring it in the position to be fully operational, particularly as regards on-site inspections.

As regards **information-society services**, only the rules on conditional access have been transposed. The more recent *acquis* on e-commerce still needs to be transposed and implemented before accession. The building-up of the necessary administrative capacity for the implementation of these directives needs to be accelerated.

Conclusion

Cyprus is essentially meeting the requirements for membership in the area of **banking and insurance services**, the **protection of personal data** and the **right of establishment and the freedom to provide non-financial services**, and is expected to be in a position to implement this *acquis* by the time of accession. Cyprus should lift the remaining administrative and legal restrictions to EU service providers upon accession, and preparations in the banking sector should be completed.

Cyprus is meeting the majority of the requirements for accession in the area of **investment services and securities markets**, as well as in the field of **information-society services**. In order to complete preparations for membership, a number of major directives still need to be transposed in these areas. This work must now be accelerated.

Chapter 4: Free movement of capital

Under this chapter, Member States must remove all restrictions in national law on the movement of capital between themselves, but also with third countries (with some exceptions) and adopt EU rules to guarantee the proper functioning of cross-border payments and transfers of all forms of capital. The *acquis* under this chapter also includes harmonised rules on payments systems and the fight against money laundering, requiring adequate enforcement capacity.

In the field of **capital movements and payments**, the liberalisation of capital movements has continued and Cyprus is still on course to complete its progressive alignment by accession. Cyprus has significantly reduced the number of sectors in which foreign capital is not allowed and abolished certain thresholds (e.g. banking sector). The elimination of sector-specific restrictions on direct investment is stipulated for most sectors in legislation that will enter into force by accession (e.g. tourism, electricity, tertiary education), but some of these restrictions emanating from post-1993 legislation remain vis-à-vis third countries. Exchange control restrictions which remain to be abolished relate to short term foreign currency borrowing by residents, borrowing from non-residents in Cyprus pounds, the free conversion of Cyprus pounds into foreign currency by residents and some capital transfers such as portfolio investments abroad by residents other than banks and insurance companies, foreign bank deposits and the purchase of mutual funds, insurance products, and property abroad.

In the course of the accession negotiations Cyprus was granted a transitional period which allows the maintenance of national provisions on the acquisition of residences for

secondary use as in force on 31 December 2000 for a five year period following accession.

In the field of **payment systems**, alignment has been largely completed and the administrative capacities required are in place and function adequately. The transposition of the *acquis* on cross-border credit transfers has been accomplished through of a Central Bank directive which entered into force in September 2003 and requires institutions offering money transmission services to comply with the cross border credit transfers directive. The recommendation on electronic payment instruments has been transposed through a Central Bank directive issued in August 2003.

As regards **money laundering**, Cyprus has undertaken a series of legislative changes and its legal structure, based on the existing *acquis* as well as on international anti-money-laundering standards, is comprehensive. The second money laundering directive has been very largely transposed, the only exception being the directive's requirement for real estate agents and dealers in high value goods to be also subject to the anti-money-laundering obligations which will be transposed by the end of 2003. The reinforcement of the Unit for Combating Money Laundering (MOKAS) should be completed with additional recruitment. The Central Bank must continue to monitor its administrative capacity, in terms of human resources and technology available and to assure the same degree of care to all other institutions, including lawyers and accountants. The Central Bank and MOKAS should continue to promote money laundering awareness issues and training, particularly with the Money Laundering Compliance Officers (*see also chapter 24 – Justice and home affairs*).

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **free movement of capital** and it is expected to be in a position to implement the *acquis* in this field from accession. As far as money laundering is concerned, Cyprus needs to rapidly complete the envisaged reinforcement of the Unit for Combating Money Laundering (MOKAS) and the Central Bank, and MOKAS should continue to promote money laundering awareness issues and training. Furthermore, full alignment with the second Money Laundering directive needs to be quickly achieved.

Chapter 5: Company Law

Under this chapter, Member States must adopt and apply harmonised rules required for the proper operation of companies in the internal market. They concern five legislative fields: company law in the strict sense, accounting law, intellectual property rights, industrial property rights, and the recognition and enforcement of judgements in civil and commercial matters as well as of contractual obligations.

With regard to **company law** as such, with the adoption of the amendment to the Companies Law of June 2003 to fulfil the requirements of i.a. the Second Directive (co-ordination of safeguards), Third Directive (mergers), Sixth Directive (division of public limited companies) and Eleventh Directive (disclosure requirements), legislative action has been taken aimed at completing the alignment to Cyprus commercial law with the company law *acquis*. As regards administrative capacity, the recruitment of 34 new staff at various levels to boost the Department of the Registrar of Companies and Official

Receiver (DRCOR) approved by House of Representatives in July 2003, remains to be completed. Computerisation of the DRCOR is well advanced and needs to be finalised.

Concerning **accounting**, Cyprus' legislation is largely in line with the *acquis*. A draft law incorporating the outstanding alignment with the relevant accounting directives (Fourth, Seventh and partly Eleventh Directive) has been adopted in September 2003 by the House of Representatives. There are however concerns about the amendment to the Company Law adopted in October, which would infringe upon the *acquis* by allowing non-qualified auditors to practice, and even to audit the accounts of publicly listed companies.

In the field of **protection of intellectual and industrial property rights (IPR)**, on copyright and related rights, transposition has been completed to a large extent but still does not ensure full alignment notably on the exclusions to the rights, term of protection and exhaustion. Further, full transposition of the Directive on copyright in the information society needs to be completed.

As a result of the negotiations, specific transitional rules will apply in relation to the granting of supplementary protection certificates for medicinal and plant protection products, as well as in relation to the extension of registered or pending Community trademarks to the territory of Cyprus.

As regards enforcement of IPR, administrative structures are largely in place. In order to improve the fight against piracy and counterfeiting, a task force with the participation of all services involved (Police, Ministry of Justice and Public Order, Ministry of Education and Culture, Law Office of the Republic, Department of Customs, VAT Service, Inland Revenue Department and Department of the Registrar of Companies and Official Receiver) was established. However, further efforts are needed especially to cope with the high level of piracy in music and video products. Staffing has increased and training has been given but there remains a need to increase overall enforcement capacity. Training, in particular of judges and prosecutors needs to be intensified. Better co-ordination among enforcement bodies (in particular customs, police and judiciary) needs to be pursued.

The **Regulation replacing the Brussels Convention** on mutual recognition and enforcement of foreign judgements in civil and commercial matters will be directly applicable upon accession and accession to the **Rome Convention** will only be possible upon accession. Cyprus has already designated the relevant courts or other authorities to ensure swift implementation of these provisions.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the negotiations in the field of **company law** as well as the **Regulation replacing the Brussels Convention** and the **Rome Convention**, and it is expected to be in a position to implement the *acquis* in this field upon accession. The enhancement of administrative capacity in the area of company law needs to be completed.

The majority of commitments and requirements arising from the accession negotiations in the field of **accounting** and the **protection of intellectual and industrial property rights** have been met. Further legislative adjustments are required in respect of copyright and related rights, including with respect to the information society. Although the

administrative structures and the respective legislation on enforcement is mostly in line, enhanced efforts are in particular needed to strengthen the enforcement of intellectual and industrial property rights. Better co-ordination and training of enforcement bodies is required (mainly, customs, police and judiciary) and the efficient functioning of a well-trained judiciary should be given particular attention. As regards accounting, Cyprus should ensure that the recently adopted legislation is made fully compatible with the *acquis*.

Chapter 6: Competition Policy

The competition *acquis* covers both anti-trust and state aid control policies. It includes rules and procedures to fight anti-competitive behaviour by companies (restrictive agreements between undertakings and abuse of dominant position), and to prevent governments from granting state aid which distorts competition in the Internal Market. Generally, the competition rules are directly applicable in the whole Union, and Member States must fully co-operate with the Commission on the enforcement of these rules.

In the **anti-trust** sector, Cyprus has adopted legislation containing the main principles of Community anti-trust rules as regards restrictive agreements, abuse of dominant position and merger control. Preparations should continue for the application of the EU's new procedural regulation.

Cyprus has the necessary implementing structure in place, and the Commission for Protection of Competition (CPC) is functioning well. In view of the decentralised application of the antitrust rules under the EU's new procedural regulation, further strengthening of the administrative capacity would still be opportune. Further efforts are needed to raise awareness of the anti-trust rules of all market participants and to build up a credible and transparent competition culture. Special training for judges should be further developed.

The enforcement record is generally satisfactory. However, in order to ensure further strengthening, priority needs to be given to cases which most seriously distort competition. Furthermore, the policy on sanctions (fines on competition infringements) should be further reinforced.

In the field of **state aid**, Cyprus has adopted state aid rules covering the main principles of the *acquis*. The necessary implementing structures are in place, and the Office of the Commissioner for Public Aid is functioning well. Further efforts are needed to raise awareness of the state aid rules among all market participants and aid grantors. Cyprus must also pay further attention to training the judiciary.

The enforcement record is generally satisfactory. Cyprus should continue to ensure that all aid measures are monitored and controlled.

Cyprus benefits from a transitional arrangement to phase out incompatible fiscal aid for off-shore companies (international business enterprises) by the end of 2005.

As regards public undertakings and undertakings with special or exclusive rights, certain state monopolies are still in place in the field of processing and marketing of agricultural products. These include the Cyprus Potato Marketing Board, Cyprus Milk Industry Organisation, Vine Products Commission, and Cyprus Grain Commission.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations on **competition policy** and is expected to be in a position to implement this *acquis* from accession. In completing preparations for membership, Cyprus must continue to develop a track record of proper enforcement of both anti-trust and state aid legislation. In completing preparations for membership, full alignment with the *acquis* still needs to be achieved for the legislation governing the existing monopolies.

Chapter 7: Agriculture

The agriculture chapter covers a large number of binding rules, many of which are directly applicable. The proper application of these rules and their effective enforcement by an efficient public administration are essential for the functioning of the common agricultural policy. This includes the setting up of management systems such as a Paying Agency and the Integrated Administration and Control System, which are covered under "horizontal issues" below, and also the capacity to implement rural development actions. The acceding countries must be ready to be integrated into the common market organisations for a range of agricultural products, including arable crops, fruits and vegetables, and meat. Finally, this chapter covers detailed rules in the veterinary field, which are essential for safeguarding animal health and food safety in the internal market, as well as in the phytosanitary field, including issues such as seed quality, harmful organisms and plant protection products.

Horizontal issues

The Law establishing the **Paying Agency** has entered into force. Substantial work however remains in order to ensure the full establishment of the Paying Agency before accession, including staff appointments, development of procedures, agreements with delegated bodies and completion of IT structures.

A system similar to the **Integrated Administration and Control System (IACS)** is already operational in Cyprus for a national area based scheme. Cyprus has, in general, made good progress with implementation of the *acquis* in this area.

The Ministry of Commerce, Industry and Tourism has been designated as the competent authority for implementing the **trade mechanisms** under the responsibility of the Paying Agency. The relevant control tasks will be under the responsibility of the customs services. However, administrative structures and procedures remain to be established and work needs urgently to be accelerated.

The responsibility of **quality policy** and **organic farming** rests with the Department of Agriculture which will need to be further strengthened in terms of staffing and training in this area. Legislation is mainly in place.

The **Farm Accountancy Data Network (FADN)** liaison office and a structure of FADN regions compatible with NUTS and FSS regions have been established. However there are problems faced in the collection and processing of data and Cyprus has yet to define the required sample for this purpose. Enhanced efforts are therefore required if Cyprus is to have a functioning FADN by accession.

State aid measures in the field of agriculture remain to be brought in line with the *acquis* at the time of accession. During the course of the negotiations, Cyprus was granted a transitional period to provide certain supplementary state aids until 2010.

As concerns direct payments to farmers, Cyprus has not yet decided whether or not to apply the single area payment scheme (SAPS).

Common market organisations

For **arable crops** the bodies responsible for intervention, export/import licences, inspection and authorisation of payments have been designated, although actual administrative capacity remains to be established. The monopoly of the Cyprus Grain Commission has to be abolished before accession. Cyprus is continuing to progress as regards the administrative capacity necessary in the area of tobacco.

Implementing legislation as regards marketing standards for **fruit and vegetables** as well as the establishment of producers organisations has been adopted. Implementing legislation regarding the procedures for recognition of producers' organisations and for control of operational funds is at the stage of legal vetting. Attention must be given to the application of marketing standards on the national market.

In the area of **wine and alcohol**, the Common Market Organisation (CMO) for **wine** remains to be fully set up. However, no particular problems are anticipated at this stage regarding the complete implementation of the CMO for wine. Legislation on quality standards for spirit drinks is in place. The vineyard register needs to be fully aligned. The existing Vine Produce Council needs restructuring and reorganisation and work on ex-officio protection needs to be completed.

Legislation concerning EU quality standards for **olive oil** is in place. A control agency for olive oil has been established under the State Food Quality Inspection. The existing monopoly was abolished and operates now as an olive oil intervention agency. Progress has been made on setting up the Geographical Information System. The registration of olive growers has been completed.

The implementing legislation for the marketing standards for **bananas** has been adopted. Implementing legislation defining the minimum standards and procedures for recognition of Producer Organisations still needs to be adopted.

Since 1999 Cyprus has had a **milk** quota system in place which remains, however, to be fully aligned with EU requirements. New rules for the milk quota system are being prepared. They are based upon a revised law to implement the legislative requirements needed for setting up the CMO for milk and milk products, which still remains to be adopted. The Cyprus Milk Industry Organisation will implement most of the mechanisms of the CMO.

Legislative measures have been adopted regarding carcass classification and price reporting for **beefmeat, sheepmeat and pigmeat** as well as for beefmeat labelling. The establishment of appropriate administrative structures is however delayed. Controls on carcass classification need to be reinforced.

For **eggs and poultry**, legislative measures as well as administrative structures are in place but marketing standards and price reporting for eggs remain to be set up.

Rural development

The Law on Rural development sets out the principles for the agricultural and rural development policy. The department of Agriculture has been designated as the managing authority for the Rural Development Plan. A formal draft Rural Development Plan for EAGGF Guarantee expenditure has been transmitted. Legislation on forest fire prevention has been amended along the lines of the *acquis*. Administrative capacity for forest fire prevention is fully in place.

Veterinary and phytosanitary issues

Transposition of legislation on transmissible spongiform encephalopathies (TSEs) and **animal by-products** has been largely achieved. Implementation, however, needs to be accelerated. There is a high risk that the collection system for cadavers will not be in place at accession. TSE surveillance is close to compliance with some shortcomings. Rendering plants remain to be upgraded. A total feed ban is now in place.

The draft legislation on the **veterinary control system in the internal market** has to be implemented. Cyprus has joined the computerised network linking veterinary authorities, ANIMO. The law transposing the main parts of the *acquis* for identification and registration of animals is in place. According to information provided by Cyprus, all bovine animals are eartagged and have been registered in the central bovine database. The law on financing veterinary inspections and controls has been transposed but not yet implemented. Legislation regarding veterinary checks of imports from third countries and rules for imports is in place but has yet to be implemented. The border inspection posts in compliance with EU requirements at Larnaca airport and Limassol are not yet in full operation.

Regarding **animal disease control** measures, national contingency plans on foot and mouth disease, classical swine fever, Newcastle disease, avian influenza and TSE have been provided. Cyprus has joined the Animal Disease Notification System (ADNS).

Most of the legislation on **trade in live animals and animal products** has been transposed but remains to be fully implemented.

Legislation on **public health** protection has been largely adopted but only partly implemented. Significant work remains to be carried out in order to upgrade establishments, although the main slaughterhouse has been upgraded and is being screened for approval.

The *acquis* on **common measures** (including zoonoses) has been transposed except that the legislation on residues has still to be adopted.

The *acquis* in the field of **animal welfare** has largely been transposed but efforts are needed in order to ensure actual implementation and enforcement.

In the field of **zootechnics**, steps have been taken to align the Cypriot legislation with the EU *acquis*.

Legislation on **animal nutrition** still needs to be adopted and the registration and approval of establishments needs to be completed. Further efforts will be needed in this field to build up the capacity of the inspection and control bodies.

In the field of **phytosanitary** legislation, the Framework Law on Plant Protection and the Law on Seed Quality Regulation to a large degree transpose the *acquis* on plant health (harmful organisms) and quality of seeds and propagating material. Legislation pertaining to the placing on the market of plant protection products is under approval procedure. An important number of implementing decrees, however, still remain to be adopted.

Cyprus has to ensure that international veterinary and phytosanitary agreements are brought into compliance with the EU *acquis* by accession.

In order to ensure a comprehensive approach to enhancing food safety throughout the food chain, the Food Safety Council was established under the joint authority of the Ministry of Agriculture and the Ministry of Health. Aspects of food safety are also covered under *Chapter 1 – Free movement of goods*.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations, among the horizontal issues as regards the **Integrated Administration and Control System (IACS)**, **quality policy** and **organic farming**, and **state aid**; among the common market organisations (CMOs) as regards **arable crops**, **fruit and vegetables**, **wine**, **olive oil**, **bananas**, **milk**, **beef**, **sheep and pigmeat**, and **eggs and poultry**; and as regards **rural development**. In the veterinary and phytosanitary field, Cyprus is essentially meeting the requirements relating to **animal disease control measures**, **trade in live animals and animal products**, **animal welfare** and **zootechnics**. Subject to good progress being maintained in these areas, Cyprus should be in a position to implement this *acquis* from accession.

Cyprus is partially meeting the commitments and requirements for membership as regards the veterinary and phytosanitary field, Cyprus is only partially meeting requirements relating to **Farm Accountancy Data Network (FADN)**, **veterinary control systems in the internal market**, **TSE and animal by-products** (as regards collection of cadavers), **public health** (as regards upgrading of agri-food establishments), **common measures** (as regards residues), **animal nutrition** and **phytosanitary** (as regards plant passports). Unless efforts are accelerated in these areas, there is a risk that functioning systems will not be in place at accession.

There are serious concerns about Cyprus' preparations in the area of the **Paying Agency** and **trade mechanisms**. Substantial efforts are urgently needed in both areas. Unless immediate remedial action is taken, Cyprus will not have a functioning system in place and will not be in a position to implement the *acquis* by the date of accession.

Chapter 8: Fisheries

The *acquis* on fisheries consists of regulations, which do not require transposition into national legislation. However, it requires the introduction of measures to prepare the administration and the operators for participation in the Common Fisheries Policy (in the areas of market policy, resource and fleet management, inspection and control, structural actions and state aid). In some cases, existing fisheries agreements or conventions with third countries or international organisations need to be adapted.

In the field of **resource and fleet management, and inspection and control**, the Law on Fisheries has been amended in line with the *acquis*. Legislation on commercial fishing is also in line with the *acquis*. The Fishing Vessel Register (FVR) is now operational but it must be demonstrated in more detail that all the required fleet parameters are recorded in the register. 75% of the fleet has been re-measured. The number of vessels from foreign countries longer than 24 metres and under the Cypriot flag has been reduced to eight. These remaining vessels should leave the Cypriot fleet before accession. An amendment to the law allowing vessels caught in any port without a valid licence to be deleted from the register remains to be adopted. Cyprus has ensured the creation, the reinforcement, and the operational capacity of institutions in this field. However, the satellite monitoring of fishing vessels is not yet in place and the tendering procedure has had to be re-launched. The Fishing Vessels Monitoring Centre (FMC) has been established, but two remote stations and a computer specialist are not yet operational. Furthermore, legislation on fleet registration and safety requirements has not yet been adopted.

In the area of **structural actions**, the Cypriot Single Programming Document (SPD) is currently being negotiated with the European Commission. The administrative capacity in the managing authority (Planning Bureau), paying authority (Treasury), intermediary body (Ministry of Agriculture, Natural Resources and Environment) and the final beneficiary (Department of Fisheries and Marine Research) is considered sufficient for implementation of the fisheries programme.

Regarding **market policy**, a law on the recognition of producers' organisations for fisheries and aquaculture products has been enacted. A system for recording land prices was adopted and is in compliance with the *acquis*.

As regards **state aid** to the fisheries sector the subsidy scheme for trawling in international waters has been terminated.

Concerning **international fisheries agreements**, Cyprus has now ratified the 1993 FAO Agreement on Conservation, the 1995 UN Agreement on Conservation, the International Convention for the Conservation of Atlantic Tuna (ICCAT) and the Amendments to the General Fisheries Commission for the Mediterranean (GFCM).

Conclusion

Cyprus has met its commitments in the area of **international fisheries agreements**. Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the areas of **structural actions, market policy** and **state aid** from accession. Cyprus needs to complete the Fishing Vessel Register and proceed with the strengthening of administrative capacity for structural actions.

Cyprus is meeting the majority of the commitments and requirements for membership in the areas of **resource and fleet management, and inspection and control**. In order to complete preparations for membership Cyprus needs to amend its maritime law and the Law on Fisheries. The Vessel Monitoring System (VMS) is still to be established. Administrative capacity needs to be strengthened, in particular as regards the Fishing Vessels Monitoring Centre.

Chapter 9: Transport policy

EC transport legislation aims at improving the functioning of the Internal Market by promoting efficient and environment- and user-friendly transport services. The transport *acquis* covers the sectors of road transport, railways, aviation, maritime transport and inland waterways. Member States are required to adopt and implement legislation concerning technical and safety standards as well as social standards. In order to further develop the European Single Transport Market, EC legislation also includes rules on market liberalisation. An important aspect of EC maritime policy is the establishment of Union-wide maritime safety standards.

The extension of the **trans-European transport networks** has been defined. The necessary implementing structures in this area are in place and the capacity of the Ministry of Transport to prepare, manage and monitor transport projects is established.

In the land transport sector, Cyprus needs to complete legislative alignment with the **road transport acquis**. Alignment is still awaited in the field of the transport of dangerous goods. In the technical field, implementing legislation remains to be adopted, notably with regard to transportable pressure equipment, technical roadside inspections, roadworthiness of commercial vehicles and driving licences. Enhanced efforts are required regarding the enforcement of the social and technical *acquis*. The necessary administrative structures in this area are in place, but the road transport control division of the Department of Road Transport needs to be further strengthened.

Cyprus was granted a transitional arrangement until the end of 2005 as regards the requirement to install and use recording equipment for existing vehicles engaged in national transport.

In the area of **air transport**, the relevant framework legislation has been transposed and is largely in line with the *acquis*, but some modifications are needed, notably with regard to slot allocation and noise restriction. Implementing legislation is still being adopted. Administrative capacity needs further strengthening. Full membership of the Joint Aviation Authorities (JAA) remains to be achieved and efforts will need to be made to become a full member before accession as required by the *acquis* and irrespective of the setting up of the European Aviation Safety Agency (EASA).

In the field of **maritime transport**, framework legislation is in place and in line with the *acquis*. However, the adoption of implementing legislation remains to be completed, in particular in relation to the *acquis* on classification societies, port state control, Vessel Traffic Management Information System, port reception facilities, system of mandatory surveys for the safe operation of regular ro-ro ferry and high-speed passenger craft services, marine equipment and fishing vessels. The alignment with the relevant safety *acquis* is at this stage not completed. The *Cyprus Flag* is still on the blacklist of the Paris Memorandum of Understanding. The relevant administrative structures in this area are in place, but need further strengthening. The department of merchant shipping needs to increase staffing levels, provide for a clear allocation of tasks and introduce modern management techniques. Full computerisation urgently needs to be achieved, in particular regarding ship-file management. The strengthening of Flag State implementation policy and resources remains an area for special concern. During 2002, Cyprus hardly carried out any port state control, but there has been some improvement in 2003. Cyprus must substantially enhance its efforts to increase the performance on Port State Control. According to statistics for 2002 under the Paris Memorandum of Understanding, the

percentage of Cyprus flag vessels detained following Port State control was 7.4%, a further decrease compared with 2001 (8.9%) and 2000 (9.7%). This compares with an average for EU-flagged vessels of 3.5% in 2002. Efforts should be sustained to ensure that Cyprus will meet its objective of removing the Cypriot flag from the Paris MoU black list.

Conclusion

Cyprus is essentially meeting the requirements arising from the negotiations as regards **trans-European transport networks**, where administrative capacity needs to be strengthened.

Cyprus is meeting the majority of commitments and requirements in the area of **road transport and air transport**. In the road transport sector enhanced efforts are needed concerning the adoption of *acquis* on the transport of dangerous goods and implementing legislation in the technical field, as well as enforcement in the road transport sector. In the air transport sector enhanced efforts are needed in order for Cyprus to become a full member of the Joint Aviation Authorities.

Cyprus must give urgent attention to adopting implementing legislation and further reinforce its administrative capacity including computerisation to implement the *acquis* in the area of **maritime transport**. There are serious concerns as regards Flag State policy and resources, as well as Port State control in the maritime sector. The implementation of these tasks requires urgent improvement. Unless immediate remedial action is taken, Cyprus risks not meeting the requirements for membership in the area by the time of accession.

Chapter 10: Taxation

The *acquis* on taxation largely covers a large proportion of indirect taxation, as concerns VAT (value-added tax) and excise duties. It lays down definitions and principles of VAT. Excise duties on mineral oils, tobacco products and alcoholic beverages are regulated at EU level as concerns the structure of the duty, the level of minimum rates and the holding and movement of excisable goods. As concerns direct taxation, the *acquis* covers some aspects of corporate taxes and aims mainly at removing obstacles to cross-border activities between enterprises. Finally, the Community legislation in the area of administrative co-operation and mutual assistance provides tools to prevent intra-Community tax evasion and tax avoidance on both direct and indirect taxation.

Concerning indirect taxation, Cyprus is almost fully in line with the *acquis* on **VAT**, and the remaining alignment is taking place according to schedule. Alignment needs to be completed in particular as concerns the elimination of zero rates in a few areas, where no transitional periods have been granted during negotiations (see below). Cyprus will also have to introduce VAT on immovable property and the provisions for intra-community transactions. Finally, Cyprus will have to revise its provisions for VAT adjustments for capital goods. Overall, administrative capacity including the appropriate human resources to effectively manage, implement and enforce the *acquis* is in place.

In the course of negotiations Cyprus obtained transitional periods relating to the application of the reduced VAT rate on restaurant services (until 31 December 2007), and to maintain the zero VAT rate on foodstuffs for human consumption and pharmaceuticals

(until 31 December 2007). Cyprus also obtained a VAT exemption on the supply of building land (until 31 December 2007) and was granted the possibility of applying a cash accounting scheme and a simplified procedure for the value of supplies between connected persons (until 1 year after accession). Finally, Cyprus obtained derogations as concerns the application of a VAT exemption and registration threshold of €15 600 for small and medium-sized enterprises, and to exempt from VAT the supply of international passenger transport.

As concerns **excise duties**, further efforts are still required to increase the level of duty rates on some categories of products and to complete the duty suspension arrangements, including for intra-community movements. Furthermore, Cyprus needs to address certain discrepancies with regard to the tax structure of sparkling wine and cigarettes and to complete the elimination of existing import duties and the replacement by excise duties. The necessary administrative structures for excise duties are in place, although the system based control methods should be completed.

In the course of negotiations Cyprus obtained transitional periods relating to the exemption from excise duties for mineral oils used for the production of cement (until 1 year after accession) and to continue to apply reduced excise duty rates on all types of fuel used for local passenger transport (until 1 year after accession).

In the field of **direct taxation**, Cyprus still needs to transpose the Directive on indirect taxes on the raising of capital, interest and royalties and on taxation of savings income. The administrative capacity of the tax administration is satisfactory overall but a formal risk assessment system should be put in place.

On **administrative co-operation and mutual assistance**, Cyprus is taking the necessary steps to transpose the *acquis* and implement it by accession, both from the legislative point of view and as concerns organisational structures including information technology systems. The Central Liaison Office (CLO) is operational and the Excise Liaison Office (ELO) is in the process of being established. Cyprus' level of information technology is progressing satisfactorily and no problems are expected in achieving the required level upon Cyprus' accession.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the **taxation** chapter and it is expected to be in a position to implement the *acquis* from accession. Cyprus needs to adopt some legislation to complete alignment in all areas. Cyprus should continue its efforts to set up the information technology systems allowing for the exchange of computerised data with the Community and its Member States.

Chapter 11: Economic and monetary union

EC legislation on Economic and Monetary Union (EMU) contains specific rules ensuring the independence of central banks in Member States, prohibiting indirect financing of the state by the central bank, and disallowing privileged access of the public sector to financial institutions. These rules must be transposed into the national legislation, despite the fact that Cyprus will not yet adopt the euro as a currency from accession. EMU policy

also includes the co-ordination of exchange rate and economic policies, adherence to the stability and growth pact and the statutes of the European System of Central Banks.

Cyprus has met the commitments and requirements arising from the accession negotiations in the area of **economic and monetary union** and is in a position to implement the *acquis* as from accession.

Chapter 12: Statistics

The *acquis* in the field of statistics requires adoption of basic principles such as impartiality, reliability, transparency, confidentiality of individual data and dissemination of official statistics. It also covers methodology, classifications and procedures for data collection in various areas such as statistical infrastructure, macro-economic and price statistics, business statistics, transport statistics, external trade statistics, demographic and social statistics, agricultural statistics and regional statistics. The focal point of the statistical system of a country is the National Statistical Institute, which acts as the reference point for the methodology, production and dissemination of statistical information.

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **statistics** and is expected to be in a position to implement the *acquis* as from accession. Cyprus needs to enhance its efforts to produce financial accounts and financial balance sheets and ensure minor improvements concerning the quality and the timeliness of national account and government finance statistics. Furthermore, Cyprus needs to build up a data-base on regional data and to improve the coverage of the business register.

Chapter 13: Social policy and employment

The *acquis* in the social field includes minimum standards in fields such as labour law, equal treatment of women and men in employment and social security, and health and safety at work. Specific binding rules have also been developed in public health (on tobacco control and surveillance and control of communicable diseases) and recently also with respect to non-discrimination on grounds of racial or ethnic origin, religion or belief, disability, age or sexual orientation. The European Social Fund (ESF) is the main financial tool through which the EU supports the implementation of its Employment Strategy and contributes to social inclusion efforts (implementation rules are covered under Chapter 21, which deals with all structural instruments). The acceding countries are expected to be able to participate in social dialogue at European level, and in the EU policy processes in the areas of employment, social inclusion and social protection.

In the area of **labour law**, transposition of legislation is still required as regards working time for workers in civil aviation. Some legal adjustments are also necessary to complete transposition the Working Time (Framework) Directive. Legislation aiming at the transposition of the Posting of Workers Directive has been adopted and will enter into force upon accession. Transposition of the new *acquis* concerning involvement of workers in the European Company and information and consultation of workers is foreseen after accession. The independent guarantee fund for employees is in place.

Cyprus has transposed all legislation in the field of **equal treatment of women and men**, and, in general, the legislative transposition is in line with the *acquis*. However, the pensionable age for male and female civil servants will need to be equalised upon

accession, when the pension scheme constitutes pay within the meaning of the Treaty and EC case law. Moreover, the exclusion of women from certain activities in the police force and underground work should be brought in line with the *acquis*. Implementing structures are in place and have been recently strengthened.

In the area of **health and safety at work**, most of the legislation has been transposed. However, the Directives establishing lists of indicative occupational exposure limit values (chemical agents at work) remain to be transposed. Transposition of the Directive regarding work at a height (new *acquis*) is foreseen after accession. The National Labour Inspectorate is in place. Additional posts have been approved and the recruitment of inspectors is ongoing. Further strengthening in terms of technical facilities is needed, too. Particular attention should be paid to the application of the *acquis* in small and medium-sized enterprises.

Social dialogue is well established and the institutional and administrative framework is in place. Autonomous bipartite social dialogue between employer and worker representatives should also be developed at more decentralised levels.

In the field of **public health**, the legislative transposition of the tobacco and communicable disease *acquis* remains to be completed. There is still a lot of work to do in order to guarantee successful incorporation of the country into the EU structures in the area of communicable disease surveillance and control. Efforts should continue in order to complete a health monitoring system with a view to obtaining health data and indicators comparable with the Community health monitoring system.

Concerning **employment policy**, efforts are still needed to effectively implement the priorities identified in the Joint Assessment of the Employment Priorities (JAP). It is important to enhance human resources development in particular through a coherent life-long learning system, to address the emerging skills gap and to better integrate foreign labour.

As regards the **European Social Fund (ESF)**, the administrative framework is in place. The management structures to implement the programme need to be set up without delay. The capacity of the Ministry of Labour and Social Affairs (one of the intermediate bodies for the human resource development priority) should be strengthened to effectively monitor, evaluate and financially manage the fund. Preparations for participating in the transnational operations of the EQUAL initiative need to be reinforced.

The Commission and Cyprus are finalising the Joint Memorandum on Social Inclusion (JIM), which identifies key challenges and possible policy orientations for promoting **social inclusion**. On this basis, an integrated strategy and a national action Plan on social inclusion will have to be developed. Analytical work and social statistics systems on poverty and social exclusion should continue to be developed in line with the EU commonly agreed indicators on social inclusion.

In the field of **social protection**, special attention needs to be paid to elderly and foreign workers.

Concerning **anti-discrimination**, legislation remains to be prepared to ensure full alignment with the *acquis* and the Equality Body required by the *acquis* needs to be established.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **labour law, equal treatment of women and men, health and safety at work, social dialogue, employment policy, social inclusion and social protection** and is expected to be in a position to implement this *acquis* from accession. Certain specific aspects in the field of labour law still need to be put in place. As regards health and safety at work and equal treatment of women and men, some further alignments will be necessary for a full transposition of the *acquis*. As regards employment policy, the effective implementation of the priorities identified in the Joint Assessment Paper is necessary to prepare for full participation in the European Employment Strategy.

Cyprus is meeting the majority of the commitments and requirements for membership in the areas of **public health, European Social Fund** and partially **anti-discrimination**. In order to complete preparations for membership, attention must be given to completing legislative transposition and implementation in the field of public health. Enhanced efforts should be undertaken in order to guarantee a successful incorporation to EU structures in the area of communicable diseases surveillance and control. With regard to ESF, including EQUAL, while considerable progress has been achieved during the last few months, further efforts are urgently needed in order to strengthen the administrative capacity for management, implementation, monitoring, audit and control at both national and regional level. Efforts should be accelerated in view of adopting the necessary anti-discrimination legislation.

Chapter 14: Energy

EU energy policy objectives include the improvement of competitiveness, security of energy supplies and the protection of the environment. The energy *acquis* consists of rules and policies, notably regarding competition and state aids (including in the coal sector), the internal energy market (for example, opening up of the electricity and gas markets, promotion of renewable energy sources, crisis management and oil stock security obligations), nuclear energy and energy efficiency. This chapter also covers important aspects on the safety of nuclear installations.

With respect to **security of supply**, and in particular oil stocks, there is a considerable delay in the transposition of the *acquis*. Framework legislation is in place, while implementing legislation remains to be adopted. This framework legislation enables the establishment of an oil stocks body, which however is not yet in place despite a commitment to establish such a body by 2002. Actual building up of oil stocks is delayed too, as current stocks are at 42 days rather than the 60 days required today. During the course of the negotiations, Cyprus obtained a transitional period until the end of 2007 to establish the minimum level of stocks required by the *acquis* (*90 days*). The recent decision by the government to close an oil refinery and to use its capacity for storage of oil stocks should help to address the situation.

In the field of **competitiveness and the internal energy market** (electricity and gas sectors), a Law on Electricity has recently been adopted, but the implementing legislation still remains to be put in place. Cyprus remains to transpose the gas directive in line with its commitments, despite the absence of natural gas in its economy. Cyprus remains to start market opening in the electricity sector upon accession. Cyprus has started recently

to remove electricity price distortions. In view of catching-up delays a new plan to remove these distortions has recently been approved. It must now be implemented with a sense of priority. The Chairman of the Energy Regulatory Authority of Cyprus has very recently been appointed, but the authority is not yet *de facto* in place. Cyprus should transpose the recently adopted electricity and gas directives in line with the timetable laid down by this *acquis*.

In the area of **energy efficiency and renewable energy**, legislative alignment has been largely completed, except for the newest *acquis*, which should be transposed according to the timetables laid down in the directives. Administrative structures in this area are in place and have recently been strengthened. The government has adopted a new grant scheme for energy conservation which also addresses renewable energy issues.

In the field of **nuclear energy and nuclear safety**, Cyprus meets the commitments and requirements arising from the accession negotiations and is in a position to implement the Euratom *acquis* as from the date of accession. During the accession negotiations, Cyprus committed itself to providing additional information on measures taken to implement the recommendations of the June 2001 Council Report on Nuclear Safety in the Context of Enlargement. Cyprus provided such information in December 2001 and January 2002. In July 2003, Cyprus submitted additional information covering recent progress made in various fields of nuclear safety and radiation protection, including *inter alia* legislative aspects and administrative structures (staffing, support institutions).

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations as regards **efficiency and renewable energy** and in **nuclear energy and nuclear safety** and is expected to be in a position to implement the *acquis* in these areas by accession. It needs to complete alignment in particular regarding the newest energy efficiency *acquis*.

Cyprus is partially meeting the commitments and requirements arising from the accession negotiations in the areas of **security of supply** and **competitiveness and the internal energy market**, which remain a matter of concern. In order to complete preparations for membership, Cyprus must urgently focus on completing legal alignment with the electricity directive by adopting implementing legislation. It needs to ensure the opening up of the electricity market as planned. Cyprus should accelerate its efforts to *de facto* establish the Energy Regulatory Authority, while in general it needs to continue to further strengthen administrative capacity in the energy sector. Alignment with the gas directive should also be given attention. On security of supply, Cyprus must urgently adopt the required implementing legislation. In addition, it must urgently set up the required administrative capacity and build up oil stocks in line with its commitments. Unless enhanced additional efforts are made, there is a risk that Cyprus will not be in a position to comply with the relevant *acquis* by accession.

Chapter 15: Industrial policy

EC industrial policy seeks to enhance industrial competitiveness and rates of employment, whilst operating in markets open to international competition. Its aim is to speed up adjustment to structural change, encouraging an environment favourable to initiative and to the development of undertakings throughout the Community. EC

industrial policy mainly consists of policy principles and horizontal and sectoral industrial policy communications.

Cyprus' **industrial strategy** essentially complies with the concepts and principles of EC industrial policy, i.e. it is market-based, stable and predictable. The industrial policy guidelines should be further implemented. The necessary administrative structures in this area are in place, but are still weak.

In the area of **restructuring and privatisation**, Cyprus should ensure that its industrial policy is implemented in conformity with the EC state aid and competition rules in order to create efficient and competitive firms. The main administrative structures for implementation in this sector are in place, but remain to be strengthened.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the **industrial policy** chapter and is expected to be able to implement the *acquis* as of accession. Cyprus should continue to strengthen its administrative capacities.

Chapter 16: Small and Medium-sized Enterprises

SME policy aims to improve the formulation and co-ordination of enterprise policy across the internal market with a view to supporting the development of SMEs. In doing so, it seeks to improve the overall business environment in which SMEs operate. SME policy consists largely of consultation fora and Community programmes, as well as of communications, recommendations and exchanges of best practices.

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter **small and medium-sized enterprises**. Alignment with the new Commission recommendation on the SME definition should be carried out. The implementation of the European Charter for Small Enterprises should be maintained.

Chapter 17: Science and Research

Due to its specificity, the *acquis* in the field of science and research does not require any transposition in the national legal order. However, the necessary implementing capacity needs to be created to allow for effective participation in activities under the Framework Programmes in the field of research.

Cyprus has met the commitments and requirements arising from the accession negotiations in the area of **science and research** and will be in a position to implement the *acquis* as from accession.

Chapter 18: Education and training

Education, training and youth is primarily the competence of the Member States. The Community's *acquis* consists of a directive on education of the children of migrant workers, and of action programmes and recommendations. The necessary implementing capacity needs to be in place to allow for effective participation in the Community programmes related to this chapter (Leonardo da Vinci, Socrates and Youth).

Cyprus has met the commitments and requirements for membership in the area of **Community programmes**, and will be in a position to implement this *acquis* from accession. The implementing capacity for Community programmes will need to be enhanced to benefit from additional allocations for decentralised actions following accession.

In the area of **education of children of migrant workers**, due implementation of the *acquis* needs to be ensured.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **education and training** and is expected to be in a position to implement this *acquis* from accession. Efforts to implement the *acquis* on education of children of migrant workers should continue.

Chapter 19: Telecommunications and information technologies

The *acquis* in the field of telecommunications consists mainly of the 1998 regulatory framework and a 2000 regulation, and is aimed at the elimination of obstacles to the effective operation of the single market in telecommunications services and networks, and the achievement of universally available modern services. A new regulatory framework on electronic communications was adopted in 2002 and must be implemented. As regards postal services, the objective is to implement the single market by opening up the sector to competition in a gradual and controlled way, within a regulatory framework which assures a universal service (1997 and 2002 *acquis*).

In the field of **telecommunications**, Cyprus' framework legislation is now in line with the *acquis* adopted in the period 1998 to 2000. The major parts of the implementing legislation have been adopted. The 2002 *acquis* remains to be transposed and implemented. Several general authorisations and licences have been issued for data and Very Small Aperture Terminals (VSAT) services as well as the licence for the provision of leased lines by an alternative network provider. In order to develop further competition in the market, cost oriented rates for international leased lines have to be introduced, local loop unbundling needs to be implemented and the price re-balancing process has to be finalised. The second licence for mobile telephony has recently been issued with the objective to start the operation of the network before the end of this year. The administrative capacity in this sector has been strengthened, by completing the recruitment of the staff of the Office of the Commissioner of Telecommunications and Postal Regulation; its effectiveness in implementing fair competition needs to be ensured.

In the area of **postal services**, Cyprus' legislative alignment remains to be completed in particular as regards the license regime, accounting systems for universal services, market authorisations, administrative charges and quality of services. The 2002 *acquis* remains to be implemented.

Conclusion

Cyprus is meeting the majority of the commitments and requirements arising from the accession negotiations in the **postal services** sector and is partially meeting the commitments and requirements arising from the accession negotiations in the **telecommunications** area. In order to complete preparations for membership on

telecommunication, Cyprus must complete the transposition of the *acquis*, achieve cost-orientation of prices and put in place local loop unbundling. Attention must be given to the full liberalisation of the telecommunications markets. The effectiveness of the regulator has to be strengthened. In order to complete preparations for membership on postal services, enhanced efforts must be made with regard to the transposition of the new *acquis* in the postal sector. Cyprus must ensure the correct application of the universal service *acquis*.

Chapter 20: Culture and audio-visual policy

The culture and audio-visual policy chapter requires legislative alignment with the Television without Frontiers directive and contains the community programmes Culture 2000, Media Plus and Media Training. Alignment with the Television without Frontiers directive creates the conditions for the free movement of television broadcasts within the Community. It implies basic common requirements concerning advertising; the protection of minors and public order; and the promotion of European works.

In order to complete alignment with the **audio-visual** policy *acquis*, Cyprus must introduce a small number of legal amendments, e.g. to definitions. Administrative capacity for implementation of the audio-visual *acquis* is satisfactory but the Regulatory Body should continue to be strengthened in order to ensure adequate monitoring for all broadcasters.

Cyprus meets the requirements for participation in Community activities in the field of **culture**.

Conclusion

Cyprus has met the requirements for membership in the area of **culture**.

Cyprus is meeting the majority of its commitments and requirements arising from the accession negotiations on **audio-visual policy** and is expected to be in a position to implement the *acquis* by accession, provided the remaining legal changes are introduced without further delay.

Chapter 21: Regional policy and co-ordination of structural instruments

The *acquis* under this chapter consists mostly of regulations, which do not require transposition into national legislation. They define the rules for drawing up, approving and implementing Structural Funds programmes and Cohesion Fund actions. These programmes are negotiated and agreed with the Commission, but implementation is the responsibility of the Member States. It is essential that Member States respect Community legislation in general, for example in the areas of public procurement, competition and environment, when selecting and implementing projects, and have the necessary institutional structures in place to ensure implementation in a sound and cost-effective manner from the point of view of both management and financial control.

Cyprus has agreed with the Commission on a NUTS classification of its **territorial organisation**.

As regards the **legislative framework**, the existing legal framework ensures the multi-annual budget programming for the development budget and sufficient flexibility for its adjustment.

The legislative framework for financial control and compliance with other Community policies is monitored in other chapters. However in order for Cyprus to make effective use of its eligibility for structural funds from 1 January 2004, the relevant *acquis* in the areas such as public procurement, state aid and environmental protection will need to be fully respected from that date.

The necessary **institutional structures** for the preparation and implementation of the Structural and Cohesion Funds have been designated. As regards the division of responsibilities between the managing authority and the intermediate bodies, certain tasks have been delegated to the intermediate bodies through a Council of Minister decision of 30 April 2003. However, no written agreements or procedure manuals between the managing authority and the intermediate bodies have yet been developed.

Staffing levels in the managing authority and the intermediate bodies need to be increased, and further training needs to be provided. Attention should also be given to ensure adequate preparation of final beneficiaries. Delays have occurred in the preparation of computerised manuals, including project application forms and selection criteria, monitoring systems and training programmes.

The bodies responsible for the implementation of the specific financial control provisions have been identified. Cyprus is in the process of establishing a new independent structure, which will assume responsibility for carrying out system audits as well as the 5% and 15 % on-the-spot checks. The legal basis for this new structure has been created, but the staff still needs to be recruited. Internal audit units have been established in the ministries involved in the implementation of the Single Programming Documents. The questions of their functional independence and legal status as well as procedural matters have been dealt with satisfactorily.

With regard to **programming**, the three Single Programming Documents (SPD) for Objective 2, Objective 3 and fisheries have been submitted to the Commission. Each SPD was accompanied by an ex ante evaluation. Submission of the programme complements is expected by November 2003.

Broad consultations with partner organisations took place during the programming phase. It is expected that the Monitoring Committees will be established on the basis of the consultative structures used for the preparation of the SDPs and will comprise all relevant stakeholders. Cyprus is planning to use the same computerised management information system as Greece. The system, however, still has to be adapted and this leaves little time for testing and adequate personnel training before accession.

Considerable and sustained efforts are needed to establish a pipeline of projects that are ready to be implemented in technical and financial terms so as to enable Cyprus to benefit fully from Community funds as soon as the programme starts.

The arrangements for **financial management and control** are generally satisfactory.

Additionality will be verified before approval of the Single Programming Documents.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the negotiations on this chapter, in particular as regards **territorial organisation**, the **legislative framework**, **programming** and **financial management and control**. Provided the further work programme is carried out as envisaged, Cyprus should be in a position to meet all requirements in these areas by the start of the programme. Concerning the legislative framework Cyprus needs to make sure that final beneficiaries will be in a position to effectively apply the rules and procedures resulting from the new public procurement law. As regards programming, Cyprus needs to focus on establishing an adequate pipeline of well-prepared projects and on setting up a functioning computerised monitoring system. In the area of financial management and control, staff recruitment for the new independent structure for financial control needs to be accelerated.

Cyprus is partially meeting the commitments and requirements as regards **institutional structures**. Cyprus needs to address staffing needs in the implementation structures, clarify the division of responsibilities among the different bodies, and accelerate the preparation of manuals and training programmes.

Chapter 22: Environment

Community environment policy aims to promote sustainable development and protect the environment for present and future generations, and is based on the integration of environmental protection into other Community policies, preventive action, the polluter pays principle, fighting environmental damage at source, and shared responsibility. The *acquis* comprises over 200 legal acts covering horizontal legislation, water and air pollution, management of waste and chemicals, biotechnology, nature protection, industrial pollution and risk management, noise, and radiation protection. Ensuring compliance with the *acquis* requires significant investments, but also brings significant benefits for public health and reduces costly damage to forests, buildings, landscapes and fisheries. A strong and well-equipped administration at national, regional and local level is imperative for the application and enforcement of the environment *acquis*.

Horizontal legislation is in place and is in line with the *acquis*, except for the recent *acquis* on strategic environmental impact assessment, which needs to be transposed and implemented by July 2004 in line with the Directive. While the relevant administrative capacities are in place and function adequately, the Environment Service, under the Ministry of Agriculture, Natural Resources and Environment (MANRE), needs to be formally designated as the competent authority for strategic environmental impact assessment.

In the **air quality** sector, legislation is in place and is in line with the *acquis*, except for the quality of petrol and diesel and the sulphur content of liquid fuels. Administrative capacities are in place and function adequately. Air quality plans and programmes need to be completed and monitoring enhanced by accession. As regards the sulphur content of liquid fuels, a transitional arrangement until 1 May 2005 has been agreed.

As regards **waste management**, legislation is in place and is in line with the *acquis*. Administrative capacities are in place, but require further strengthening. The national waste management plan has still not been adopted. The supervision system for waste

shipments will need to be fully implemented by accession. The permit and deregistration system for end-of-life vehicles needs to be established. The establishment of collection systems (including for batteries) and recovery and disposal facilities needs to continue. The development of a hazardous waste management programme is still pending. A transitional arrangement until 31 December 2005, with intermediate targets, has been agreed for the implementation of rules on packaging waste.

In the area of **water quality**, legislation is in place and is in line with the *acquis*, except for some amendments to the sewage and drainage law and the recent framework *acquis* on water, which need to be adopted by accession. Administrative capacities are in place and function. Zones vulnerable to nitrate pollution need to be designated, and the inventory of discharges of dangerous substances needs to be updated. Programmes for nitrates and dangerous substances need to be finalised and adopted by accession. As regards urban waste water, a transitional arrangement until 31 December 2012, with intermediate targets, has been agreed.

In the field of **nature protection**, legislation is in place. Fragmentation of responsibilities may, however, lead to problems in the effective implementation. Enhanced efforts are required to finalise the preparation of a list of proposed sites of Community interest and to designate the special protection areas by accession, including the completion of the consultation process. Cyprus needs to ensure that the relevant protection measures are applied by accession.

The legislation on **industrial pollution and risk management** is in place and is in line with the *acquis*, except for the recent *acquis* on large combustion plants and national emission ceilings, which need to be transposed by accession. Permits need to continue to be issued and complied with for installations subject to the rules on integrated pollution prevention and control (IPPC) according to the *acquis* deadlines (until October 2007). As regards major accident hazards, internal emergency plans need to be revised and external emergency plans established by accession. Administrative capacities are in place and function. Special arrangements have been agreed with Cyprus regarding large combustion plants.

The legislation concerning **chemicals and genetically modified organisms (GMOs)** is in place and is in line with the *acquis*, except for contained use of GMOs. The law on biocides has to be adopted. Administrative capacities are in place and function, but notification procedures for the contained use of GMOs and authorisation systems and procedures for biocides need to be completed with the adoption of the relevant laws. Co-ordination between the organisations involved must continue to be ensured.

Transposition of the *acquis* on **noise** is proceeding according to schedule and the legislation is in line with the *acquis*, except for the recent *acquis* on ambient noise, which needs to be transposed by July 2004 in line with the Directive. Testing bodies need to be approved.

On **nuclear safety and radiation protection**, legislative alignment has been completed and the legislation is in line with the *acquis*. Administrative capacities in this area are in place and function adequately.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be in a position to implement the *acquis* in the areas of **horizontal legislation, air quality, waste management, water quality, industrial pollution and risk management, chemicals, noise and nuclear safety and radiation protection** by accession. Cyprus still needs to finalise the legal alignment as regards the following areas: horizontal legislation, air quality, water quality, industrial pollution, chemicals and noise. It needs to complete air quality plans and programmes and continue to enhance air quality monitoring. Moreover, Cyprus must complete inventories of discharges of dangerous substances, finalise the necessary programmes on water, and complete the identification of zones vulnerable to nitrate pollution. The administrative capacity for waste management requires particular attention. The national waste management plans need to be adopted and a supervision system for waste shipments set up. The establishment of waste collection systems and recovery and disposal facilities needs to continue. On industrial pollution and risk management, permits for IPPC installations need to be issued and complied with according to *acquis* deadlines, and the implementation of provisions on major accident hazards needs to be completed. Authorisation procedures for biocides need to be established.

Cyprus is partially meeting the commitments and requirements in the areas of **genetically modified organisms (GMOs) and nature protection**. In order to complete preparations for membership, the legislation on the contained use of genetically modified micro-organisms must be adopted by accession. In the area of nature protection, fragmentation of responsibilities may lead to problems in the effective implementation of nature protection legislation. Enhanced efforts are required to prepare the lists of proposed nature protection sites and special bird protection areas, including the completion of the consultation process.

Chapter 23: Consumer and health protection

The *acquis* covers protection of the economic interests of consumers (concerning misleading and comparative advertisement, price indication, consumer credit, unfair contract terms, distance and doorstep selling, package travel, timeshare, injunctions for the protection of consumers' interests, and certain aspects of the sale of consumer goods and associated guarantees) as well as the general safety of goods (liability for defective products, dangerous imitations and general product safety). Recently adopted legislation includes rules on general product safety and distance marketing of consumer financial services. The acceding countries need to effectively enforce the *acquis* through appropriate judicial and administrative systems, including market surveillance and a role for consumer organisations.

With regard to **safety-related measures** Cyprus has completed alignment in most of the areas but still has to transpose the revised directive on general product safety. The administrative structures are in place but need to be strengthened. **Market surveillance** relating to general product safety is well developed. However, Cyprus needs to improve the infrastructure of testing the safety of products to better satisfy the market surveillance requirements. Consumer associations should take a bigger role supporting market surveillance activities. Cyprus has created the relevant policy, management structures and information system. These structures should be strengthened in terms of both financial and human resources.

As regards **non-safety related measures**, Cyprus has recently transposed legislation in the areas of injunctions for the protection of consumer interests and certain aspects of the sale of consumer goods and associated guarantees. Enforcement activities relating to the protection of the economic interests of consumers are partly developed. However there is a need to further develop and strengthen the administrative structure with regard to arbitration bodies, which play an important role in solving consumer cases.

With regard to **consumer organisations** the role of non-governmental organisations needs to be further promoted in order to develop and implement consumer policy and encourage more active involvement in developing consumer product safety standards. The level of consumers' and businesses' awareness of their rights and responsibilities needs to be increased.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **safety-related measures** and **consumer organisations** and is expected to be in a position to implement this *acquis* as from accession. Cyprus needs to complete alignment on the *acquis* of the revised general product safety directive.

Cyprus is meeting the majority of the requirements for membership in the area of **market surveillance** and **non-safety related measures**. In order to complete preparations for membership Cyprus needs to improve market surveillance to ensure the proper enforcement of legislation on safety and non-safety related measures including by strengthening the administrative capacity and structures, and transpose and implement missing legislation in specific areas.

Chapter 24: Justice and home affairs

The most developed part of this chapter is the Schengen *acquis*, which entails the lifting of internal border controls. However, much of this *acquis* will not apply to the acceding countries upon accession, but only after a later separate Council Decision. The Schengen Implementation Action Plan aims at preparing this on the basis of a credible schedule for the introduction of the Schengen provisions. Binding rules which must be put in place as from accession include part of the rules on visas, rules on external borders and the *acquis* on migration, asylum, police co-operation, combating organised crime, fight against terrorism, fraud and corruption and drugs, customs co-operation as well as human rights legal instruments. On issues such as border control, illegal migration, drugs trafficking and money laundering, organised crime, police and judicial co-operation, data protection and the mutual recognition of court judgements, acceding countries need to be equipped to meet adequate standards of administrative capacity. The establishment of an independent, reliable and efficient judiciary and police organisation are also of paramount importance.

Preparation with regard to Schengen provisions (**Schengen Action Plan**) relevant for accession is still satisfactory. Attention needs to be paid to the timely purchase of equipment in order to ensure the required level of border control. Preparations for the separation of passengers at air- and seaports are continuing and should be implemented according to a detailed timetable. Cyprus should continue its preparations for the lifting of internal borders and full implementation of the Schengen *acquis* on the basis of a

further decision to be taken by the Council. The preparation for the integration into the Schengen Information System (SIS) II needs to be continued.

In the field of **data protection**, the legal framework is in place, but the Office of the Commissioner for Data Protection needs to become fully operational to fulfil all the obligations arising from the *acquis*. Although additional staff has been recruited in July, reinforcement of the Office needs to be continued.

Cyprus has aligned its **visa policy** with the *acquis* except in the case of the Russian Federation, whose nationals are still exempted from the visa requirement, based on a bilateral agreement. On 30 September 2003, Cyprus gave notice of its decision to terminate the agreement and to introduce visas for Russian nationals as from 1 January 2004. As regards the issuing of visas at the borders, attention should be paid to the timely implementation of the *acquis* in this field in particular as regards Gulf States, Jordan, Ukraine, Belarus and Syria. Cyprus still needs to ensure alignment with the Common Consular Instructions, which will be done through a comprehensive new law on migration. As regards implementation and administrative capacity further efforts are needed in relation to infrastructure and recruitment of staff. Equipment to detect forged and falsified documents was installed in all diplomatic missions in April 2003.

The management of the future **external borders** is developing in a positive manner. The facilities and personnel used for border checks and surveillance are of high quality. However, Cyprus should fulfil its commitments as regards purchase of equipment (radars, helicopters and patrol boats) which should provide necessary implementation capacity as regards both situational awareness and reaction capability. Cyprus should also continue its efforts as regards the conclusion of co-operation agreements, namely with non-neighbouring countries like Poland, France and Russia.

In the area of **migration**, Cyprus still needs to fully align with the *acquis* as regards in particular legislation on long-term residents. In this context, Cyprus should accelerate the adoption of amendments to the Aliens and Immigration Regulations. Cyprus is taking action to conclude readmission agreements, however further improvement is required, in particular with regard to neighbouring countries. Administrative structures are in place but a coherent training system for all migration services needs to be continued as regards in particular the fight against illegal employment.

In the field of **asylum**, Cyprus has completed legislative alignment. The second amendment to the Refugee Law of 2001 was adopted by Parliament in June 2003. The Refugee Law is now also harmonised with the *acquis* regarding manifestly unfounded applications for asylum, minimum guarantees of asylum procedures, a harmonised approach to questions concerning host third countries and the rights of recognised asylum seekers. However, the implementation of the Refugee Law by the relevant authorities (asylum unit, Refugee Authority, Review Authority) has been seriously hampered due to the considerable delay in the adoption in June 2003 of amendments to the Refugee Law of 2001 (originally envisaged for March 2002) and a lack of human resources. This has also resulted in a considerable backlog in asylum applications. Although Cyprus has recently recruited additional temporary staff and is envisaging new amendments in order to make the administrative framework for asylum procedures more efficient, a speedy and efficient asylum procedure is not fully established. Cyprus should accelerate its envisaged measures considerably. In September 2003 the Council of Ministers approved the internal rules and functional procedures of the reception centre in Kofinou. However the centre is not yet operational. Cyprus should continue its preparation (technical and organisational)

for active participation in EURODAC and Dublinet, including the establishment of the corresponding National Action Points, in order to ensure full implementation by accession.

In the area of **police co-operation and combating organised crime**, Cyprus has made progress but efforts are still required to ensure that Cyprus has an accountable, reliable and fully co-ordinated police organisation by accession. Continuous attention is needed as regards the co-operation and co-ordination between the police and the prosecuting and judicial bodies. Information sharing in the field of combating economic and organised crime needs to be considerably improved and sufficient financial means allocated to implement all the envisaged measures. International co-operation is well established and supported by sufficient co-operation agreements, in particular the conclusion of an agreement (signed in July 2003) with Europol. Attention should be paid to the timely preparation of national procedures in order to ensure the swift ratification of the Europol Convention upon accession to the EU.

In the **fight against terrorism**, Cyprus has ratified the most important Conventions, in particular the 1999 UN Convention for the Suppression of the Financing of Terrorism. Cyprus has yet to designate a National Central Office, dealing notably with the banknote and coin analysis. Cyprus should accelerate its preparatory efforts in order to accede to the Convention on Mutual Assistance in Criminal Matters between the EU Member States upon accession.

As regards the **fight against fraud and corruption**, Cyprus has still to ratify the Council of Europe Civil Law Convention on Corruption. As regards the protection of the euro against counterfeiting, Cyprus should ensure full alignment with the Council Framework Decisions as well as its full implementation. In September 2003 Cyprus ratified the Convention on the protection of the European Communities' financial interests and its Protocols. A co-ordinating body on corruption was set up by a Decision of the Council of Ministers on 23 April 2003. As regards corruption, see also *Section C.1 — Administrative and judicial capacity*.

On the **fight against drugs**, Cyprus has completed the National Anti Drug Strategy. However, this Strategy will be reviewed with support of Member States experts. Adoption and implementation needs further attention, including the necessary administrative capacity and the allocation of sufficient financial resources. The institutional infrastructure of the National Focal Point for the future co-operation with the European Monitoring Centre for Drugs and Drug Addiction needs to be further strengthened particularly as regards the recruitment of additional personnel.

As regards **money laundering**, Cyprus has undertaken a series of legislative changes and its legal structure, based on the existing *acquis* as well as on international anti-money-laundering standards, is comprehensive. The second money laundering directive has been very largely transposed, the only exception being the Directive's requirement for real estate agents and dealers in high value goods to be also subject to the anti-money laundering obligations which is expected to be transposed by the end of 2003. Administrative capacity needs further monitoring and strengthening. Cyprus should continue to promote money laundering awareness issues and training (*see also Chapter 4 – Free movement of capital*).

In the area of **customs co-operation**, Cyprus is in the process of aligning its legislation. The Convention on the Use of Information Technology for Customs Purposes still needs

to be ratified. Cyprus should continue to prepare and conclude Memoranda of Understanding on co-operation between customs and business organisations in combating drug trafficking.

In the area of **judicial co-operation in civil and criminal matters** legislative alignment, where still necessary, is ongoing and Cyprus should be ready upon accession to apply it and accede to the relevant conventions. Particular attention is needed for alignment with the Council Framework Decision of 13 June 2002 on the European arrest warrant and the surrender procedure between Member States. Administrative structures for direct contacts between competent judicial authorities are in place and need to be further strengthened.

As regards the *reform of the judiciary* in general, a detailed analysis is provided in *Section C.I. — Administrative and judicial capacity*.

All the **human rights legal instruments** under the justice and home affairs *acquis* have been ratified by Cyprus.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement by accession the *acquis* in the areas of **Schengen Action Plan, data protection, external borders, migration, police co-operation and combating organised crime, fight against terrorism, fight against fraud and corruption, drugs and money laundering, customs co-operation, judicial co-operation in civil and criminal matters and human rights legal instruments**. Cyprus needs to complete preparations in terms of legislative alignment as well as regards administrative capacity concerning the Schengen Action Plan, data protection, migration, external borders, police co-operation and combating organised crime, the fight against terrorism, the fight against fraud and corruption, the fight against drugs, customs co-operation and judicial co-operation in civil and criminal matters

Cyprus is partially meeting the commitments and requirements for membership in relation to the **visa policy** and in the area of **asylum**. Cyprus needs to adopt and implement the necessary legislation as regards the issuing visas at the borders and fully align with the visa Regulation as regards Russians citizens. Urgent action must be taken in order to ensure the proper implementation of the existing asylum legislation as well as the recently proposed measures as regards the enhancement of the administrative structures for which amendments to the existing legislation are required. Attention should also be given to the technical and organisational preparations necessary to implement EURODAC and Dublin II.

Chapter 25: Customs union

The Customs Union *acquis* consists almost exclusively of legislation which is directly binding on the Member States and does not require transposition into national law. It includes the Community's Customs Code and its implementing provisions; the Combined Nomenclature, Common Customs Tariff and provisions on tariff classification, customs duty reliefs, duty suspensions and certain tariff quotas; and other provisions such as those on customs control of counterfeit and pirated goods, drugs precursors and cultural goods and on mutual administrative assistance in customs matters as well as Community agreements in the areas concerned, including transit. Member

States must ensure that the necessary enforcement capacities, including links to the relevant EC computerised customs systems, are in place.

Cyprus' **customs legislation** is largely in line with the *acquis* up to 2002. Implementation of the provisions which have not been aligned, such as the provisions on precursors, on the binding nature of tariff information, on customs warehouses and the new 2003 *acquis*, will take place upon accession, when the EC customs legislation becomes directly applicable. National provisions superseded by the *acquis* are to be repealed at the time of accession and agreements on mutual administrative assistance in customs matters are to be amended as necessary.

The preparation of the necessary **administrative and operational capacity** is on track. Cyprus should implement its plans to issue new authorisations for warehouse operators based on Community conditions in time for accession in order to avoid disruption in this area. Concerning the implementation of the Department of Customs and Excise computerisation project, all projects are on track to be functional in time for accession.

Specific training on all elements of the *acquis* planned for customs staff (and in some cases, traders) for the period October 2003-January 2004 remains to be completed. Customs services' capacity to combat fraud and economic crime, in close co-operation with other enforcement bodies, should continue to be strengthened.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in this area and is expected to be in a position to implement the **customs union** *acquis* with the necessary administrative and operational capacities upon accession. In completing preparations for membership, Cyprus needs to continue developing and implementing the computerized customs systems, solve other interconnectivity-related issues, and carry out planned training on those measures and provisions which will be introduced at the time of accession.

Chapter 26: External relations

The main element in this chapter, the common commercial policy, is made up of directly binding EU legislation, which does not require transposition into national law. The acceding countries were requested to align before accession with the *acquis* on dual-use goods and, where applicable, export credits. Acceding countries committed themselves to ensure compatibility with the *acquis* of their bilateral agreements with third countries. In the area of humanitarian aid and development policy, countries need to ensure capacity to participate in the EC's development and humanitarian policies.

The administrative structures for dealing with the issues related to the **common commercial policy** are essentially in place and sufficient.

Cyprus has co-ordinated its positions and policies with the Commission with regard to the Doha Development Agenda. Cyprus should continue close co-ordination and co-operation with the Commission, mainly in order to carry on preparing the convergence of its GATS commitments and Most Favoured Nations exemptions into the EU ones (consolidation EU 25), to be finalised upon accession. Cyprus co-operated with the Community in the process of its third stage notification under the Agreement on Textiles and Clothing, thus avoiding further discrepancies between integration schedules.

On trade in dual-use goods, Cyprus has reached a high degree of alignment with the *acquis*. However, further alignment, in particular regarding the list of dual-use items, needs to be achieved, as export control regimes continue to adopt decisions, which the EU integrates into its legislation. Membership in all export control regimes is a crucial factor enabling implementation of export controls by Cyprus. Based on the Thessaloniki Action Plan to support the acceding countries' membership in export control regimes, the EU supports Cyprus' accession to the regimes to which it has already applied but is not yet a member (Missile Technology Control Regime). While acknowledging the human resources cost of participating to all export control regimes, the Commission draws Cyprus' attention to the opportunity of applying officially to the Wassenaar Arrangement before accession to the EU. Full alignment as regards the Community general export authorisation can only take place upon accession.

Cyprus does not currently provide medium and long term export credits; should it start doing so, requirements of the *acquis* will need to be strictly followed.

Cyprus still needs to complete the analysis of its **bilateral agreements with third countries** in order to ensure their compliance with the *acquis* and has provided only a partial list of the agreements concerned. It has committed itself to keeping the Commission informed about measures to renegotiate or terminate any agreements that are found to be incompatible with its EC obligations.

In the area of **humanitarian aid and development policy**, Cyprus needs to pursue the shaping of a development policy in line with EU principles.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations and is expected to be able to implement the *acquis* on the **common commercial policy** and **humanitarian aid and development policy**. In order to complete preparations in the area of development policy, Cyprus should take further steps to provide itself with a policy framework in line with EU principles.

Cyprus is meeting the majority of the commitments and requirements for membership in relation to **bilateral agreements with third countries**. In order to complete preparations in this area, Cyprus must take decisive steps towards renegotiating or terminating its bilateral agreements to make sure that they are compatible with the *acquis* upon accession.

Chapter 27: Common foreign and security policy

The *acquis* related to the common foreign and security policy (CFSP) is essentially based either on legally binding international agreements or on political agreements to conduct political dialogue in the framework of CFSP, to align with EU statements, and to apply sanctions and restrictive measures where required.

Cyprus continues to participate in the **political dialogue** and has regularly aligned its positions with those of the Union, including **sanctions and restrictive measures, statements, declarations and démarches**, if invited to do so. The administrative structures in this area in Cyprus are in place and satisfactory.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the chapter on the **common foreign and security policy**, and is expected to be able to participate in the political dialogue and to align with EU statements, sanctions and restrictive measures by accession.

Chapter 28: Financial control

The *acquis* under this chapter consists mostly of general, internationally agreed and EU-compliant principles of public internal financial control that need to be transposed into the control and audit systems of the entire public sector. In particular, the *acquis* requires the existence of adequate ex ante financial control and functionally independent internal audit systems; an independent external audit of the public internal financial control systems in the public sector; an appropriate financial control mechanism for EU pre-accession funding and future structural action expenditure; and arrangements on the protection of EC financial interests. In addition, an anti-fraud co-ordination service, capable of co-operating with the Commission's Anti-fraud Office OLAF at an operational level, is to be designated.

In the area of **public internal financial control**, Cyprus has put framework legislation in place which is in line with the *acquis*. However, the implementing legislation still has to be drafted on the basis of the newly adopted Internal Audit Act. The process of institution building linked to the adoption of the new Act still has to be completed. The Commissioner for Internal Audit has recently been nominated. The newly independent Internal Audit Service needs to be adequately staffed in a permanent manner, and the relevant training strategy implemented.

In the field of **external audit**, framework and implementing legislation is in place and in line with the *acquis*. The financial independence of the Auditor General however needs to be further enhanced. The scope of public external auditing should be extended further to include state-controlled companies.

As regards **control over structural action expenditure**, framework and implementing legislation in Cyprus is in place and in line with the *acquis*. Further work needs to be done in order to enhance the capacity of the Cypriot administration in the field of monitoring and evaluation.

In the area of the **protection of EC financial interests**, the framework and implementing legislation needs to be further refined. Cyprus has designated the Attorney General's Office as the anti-fraud co-ordination service (AFCOS). Its competencies in the area of the protection of the Communities' financial interests and its relations with other relevant institutions and bodies, including OLAF, need to be clarified. Practical co-operation with OLAF through the anti-fraud co-ordinating service has started, but the AFCOS' operational capacity should be further reinforced.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the areas of **external audit, control over structural action expenditure and protection of EC financial interests** and is expected to be in a position to implement the *acquis* in this field from accession. As regards external audit, the

financial independence of the Auditor General should be further enhanced, and the scope of public external audit should be extended to state-owned companies. As regards the protection of the EC financial interest, the legislative framework should be further refined and administrative capacities should be further strengthened.

Cyprus is meeting the majority of the commitments and requirements arising from accession negotiations in the area of **public internal financial control**. In order to complete preparations for membership, Cyprus must adjust the implementing legislation to the recently completed legal framework in the area of public internal financial control and strengthen its administrative capacity in this field.

Chapter 29: Financial and budgetary provisions

Chapter 29 covers the rules concerning the financial resources necessary for the funding of the EC budget ('own resources'). These own resources are made up mainly from contributions from Member States based on 1) traditional own resources from customs and agricultural duties and sugar levies, 2) a resource based on VAT and 3) a resource based on the level of gross national income (GNI). Member States must ensure the creation of appropriate administrative capacity to adequately co-ordinate and ensure the correct calculation, collection, payment and control of own resources and reporting to the EU for implementation of the own resources rules.

As regards the **traditional own resources (TOR)**, a national reporting system on cases of fraud and irregularity has been established in Cyprus but fine-tuning of the procedures for reporting to the Commission in line with the OWNRES system is required. Procedures and systems for the A and B accounts in line with the EC system still need to be established. In this respect, the customs clearance and accounting system needs to be developed according to schedule.

Cyprus must develop further its ability to correctly calculate the **VAT-based resource**, in particular as regards the calculation of the weighted average rate in accordance with ESA95.

For calculation of the **GNI-based resource**, continued efforts are needed to further improve the quality and reliability of the national accounts and GNI calculations in line with ESA95, including their exhaustiveness.

All institutions necessary for application of the own resources system in Cyprus exist. The Directorate of Budget and Fiscal Control in the Ministry of Finance is responsible for co-ordinating own resources issues.

Conclusion

Cyprus is essentially meeting the commitments and requirements arising from the accession negotiations in the area of **financial and budgetary provisions** and is expected to be in a position by accession to implement the relevant *acquis*. Cyprus should now focus attention on completing preparations under this chapter by further improving the reliability of GNI statistics, establishing the procedures for the A and B accounts, improving the calculation of the VAT-based resource, and finalising procedures for reporting on cases of fraud and irregularity to the Commission (OWNRES).

D. CONCLUSION

The Cyprus economy slowed down in 2002 - although remaining resilient - while inflation, the current account and the government deficit deteriorated. Structural reform has continued slowly but some long-term issues remain.

As regards the areas where last year's report suggested improvements, some progress has been made, but challenges remain. Liberalisation of the telecom, energy, air transport and postal services by 2003 has been implemented in some sectors, but remains to be put into practice in others. Fiscal consolidation went markedly off target and the current account deficit widened. Progress has been achieved in financial supervision but further improvements remain necessary. As regards overall administrative and judicial capacity, sufficient conditions are in place for the implementation of the *acquis* by the Cypriot public administration and judiciary, but there is room for further improvements. In the field of public administration, the impartial character of the civil service needs to be strengthened and weaknesses as regards training and staffing concerning a number of bodies implementing the *acquis* need to be addressed. In the field of the judiciary, the length of court proceedings should be reduced to ensure the proper enforcement of the *acquis*. Cyprus should continue to fight corruption on the basis of a comprehensive anti-corruption policy, including regulations on the funding of political parties.

As regards the implementation of the *acquis* in specific policy areas, the findings of this report are set out below.

Firstly, it should be noted that Cyprus has reached a **high level of alignment with the acquis** in most policy areas.

It is expected to be in a position to implement the *acquis* as required in the following areas by accession : horizontal and procedural measures, new approach legislation, public procurement and the non-harmonised area in the *free movement of goods* chapter; mutual recognition of professional qualifications, citizens' rights, free movement of workers and co-ordination of social security systems, in terms of *free movement of persons*; the banking sector and insurance sector, the protection of personal data, the right of establishment and the freedom to provide non-financial services in the area of *freedom to provide services*; *free movement of capital*, including money laundering; *company law* and accounting; and *competition policy*. In the area of *agriculture*, Cyprus is expected to be in a position by accession to implement the *acquis* in a number of horizontal areas including the Integrated Administration and Control System, in the common market organisations, in rural development, and in the veterinary issues of animal disease control, trade in live animals and animal products, animal welfare and zootechnics; and in *fisheries*, in the areas of structural actions, market policy, state aid and international agreements.

Cyprus is also expected to be in a position to implement the *acquis* by accession in: trans-European transport networks in the area of *transport policy*; *taxation*; *economic and monetary union*; *statistics*; labour law, equal treatment of women and men, health and safety at work, social dialogue, employment policy, social inclusion and social protection in the area of *social policy and employment*; efficiency and renewable energy, nuclear energy and nuclear safety in the *energy* sector; *industrial policy*; *small and medium-sized enterprises*; *science and research*; *education and training*; culture in the area of *culture and audio-visual policy*; the legislative framework, programming and financial management and control for *regional policy and co-ordination of structural instruments*;

horizontal legislation, air quality, waste management, industrial pollution and risk management, water quality, chemicals, noise and nuclear safety and radiation protection in the *environment* chapter; safety-related measures and consumer organisations in terms of *consumer and health protection*; most aspects of *justice and home affairs*; *customs union*; the common commercial policy, humanitarian aid and development policy in the *external relations* acquis; *common foreign and security policy*; external audit, control over structural action expenditure and the protection of EU financial interests in *financial control*; and *financial and budgetary provisions*.

Secondly, in certain areas Cyprus partially meets the commitments and requirements and needs to make **enhanced efforts** in order to complete its preparations for accession.

This includes the old approach sectoral legislation relating to the *free movement of goods*; in the area of *free movement of services*, the fields of investment services and securities markets, and information society services; and, within the area of *company law*, the protection of intellectual and industrial property rights. In the *agriculture* area it concerns the Farm Accountancy Data Network, the veterinary control system, transmissible spongiform encephalopathies (TSEs) and animal by-products, public health in agri-food establishments, common measures, animal nutrition and some aspects of phytosanitary legislation; and as regards *fisheries* policy, the resource and fleet management, and inspection and control.

This also includes the fields of: road transport and air transport in the area of *transport policy*; public health, the European Social Fund and anti-discrimination in the area of *social policy and employment*; security of supply and competitiveness and the internal energy market in the area of *energy*; *telecommunications and information technologies*, including postal services; audio-visual policy in the area of *culture and audio-visual policy*; institutional structures in the field of *regional policy and co-ordination of structural instruments*; nature protection and genetically modified organisms in the area of *environment* policy; market surveillance and non-safety related measures in the area of *consumer and health protection*; visa policy and asylum policy in the area of *justice and home affairs*; *external relations*, as regards screening of bilateral agreements with third countries; and public internal financial control in the area of *financial control*.

Thirdly, Cyprus must take immediate and decisive action to address three issues of **serious concern** in two chapters of the *acquis* if it is to be ready by the date of accession.

This concerns the field of *agriculture*, in particular Cyprus's preparations to put in place its Paying Agency, and to prepare for the application of external trade mechanisms. It also concerns the field of *transport policy*, as regards maritime safety.

STATISTICAL ANNEX

	1998	1999	2000	2001	2002
Basic data	in 1000				
Population (average)	767.3	774.8	781.9	789.2	797.8
	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	4,698	5,030	5,512	5,880	6,192
	1000 Mio ECU/euro				
Gross domestic product at current prices	8.1	8.7	9.6	10.2	10.8
	ECU/euro				
Gross domestic product per capita b) at current prices	11.900	12,600	13,800	14,500	15,000
	% change over the previous year				
Gross domestic product at constant prices (nat. currency)	5.0	4.8	5.2	4.2	2.2
Employment growth	1.1	1.1	4.0	1.9	0.3
Labour productivity growth	3.9	3.7	1.0	3.5	0.5
Unit labour cost growth	-6.6	-0.1	:	:	:
	in Purchasing Power Standards				
Gross domestic product per capita b) at current prices	15.800	17,500	17,000	17,100	17,400
	in % of EU-15 average				
GDP per capita b) at current prices in PPS	78	82	75	73	72
Labour productivity (GDP per person employed in PPS)	79	84	77	75	75
Structure of production	% of Gross Value Added c)				
- Agriculture	4.4	4.2	3.8	4.0	4.3
- Industry (excluding construction)	13.8	13.3	13.2	12.9	12.7
- Construction	8.0	7.7	7.1	7.1	7.4
- Services	73.7	74.9	76.0	76.0	75.6
Structure of expenditure	as % of Gross Domestic Product				
- Final consumption expenditure	86.5	83.0	84.9	85.7	85.9
- household and NPISH	68.5	67.1	69.4	69.1	69.2
- general government	19.2	17.1	16.6	17.7	17.7
- Gross fixed capital formation	19.2	18.1	17.6	17.3	18.7
- Stock variation	1.5	1.5	2.3	1.0	1.2
- Exports of goods and services	43.5	44.5	46.4	46.8	43.1
- Imports of goods and services	51.1	47.5	52.0	51.6	49.6

Inflation rate	% change over the previous year				
Consumer price index	2.3	1.1	4.9	2.0	2.8

	1998	1999	2000	2001	2002
Balance of payments	in Mio ECU/euro				
-Current account	-541	-204	-494	-441	-575 f)
-Trade balance	-2,175	-2,166	-2,826	-2,848	:
<i>Exports of goods</i>	955	938	1,031	1,090	:
<i>Imports of goods</i>	3,130	3,104	3,857	3,939	:
-Net services	1,634	1,916	2,219	2,421	:
-Net income	-26	-36	-24	-38	:
-Net current transfers	26	82	136	24	:
- of which: government transfers	23	82	139	26	:
- FDI (net) inflows	237	642	872 p	728p	466 f)

Public finance	in % of Gross Domestic Product				
General government deficit/surplus	-4.9	-4.5	-3.1	-3.0	-3.5p
General government debt d)	61.7	62.1	61.7	64.2	58.6p
Financial indicators	in % of Gross Domestic Product				
Gross foreign debt of the whole economy	60.7	73.1	75.3	70.0	:
	as % of exports				
Gross foreign debt of the whole economy	139.4	164.2	162.5	149.7	:
Monetary aggregates	1000 Mio ECU/euro				
- M1	1.3	1.8	1.7	1.8	1.8
- M2	8.8	10.4	11.4	12.9	14.2
- M3	:	:	:	:	:
Total credit	11.1	12.5	14.3	16.4	18.0
Average short-term interest rates	% per annum				
- Day-to-day money rate	4.8	5.2	6.0	4.9	3.3
- Lending rate	8.0	8.0	8.0	7.5	7.2
- Deposit rate	6.5	6.5	6.5	5.7	4.6
ECU/EUR exchange rates	(1ECU/euro=..Cyprus Pound)				
- Average of period	0.577	0.579	0.574	0.576	0.575
- End of period	0.582	0.577	0.574	0.575	0.573
	1995=100				
- Effective exchange rate index	108.3	106.0	102.3	106.0	108.8
Reserve assets	Mio ECU/euro				
- Reserve assets (including gold)	1,299	1,959	2,009	2,711	3,032
- Reserve assets (excluding gold)	1,184	1,829	1,873	2,566	2,885

External trade	Mio ECU/euro				
Trade balance	-2,330	-2,422	-2,990	-3,289	-3,470
Exports	407	393	440	491	452
Imports	2,737	2,815	3,430	3,780	3,922
	previous year=100				
Terms of trade	:	:	:	:	:
	as % of total				
Exports with EU-15	54.3	55.0	56.5	50.9	48.0
Imports with EU-15	61.9	57.3	55.9	55.5	55.8

	1998	1999	2000	2001	2002
Demography	per 1000 of population				
Natural growth rate	5.1	5.0	4.5	4.8	3.8
Net migration rate (including corrections)	4.9	4.5	4.2	5.1	8.0
	per 1000 live-births				
Infant mortality rate	7.0	6.0	5.6	4.9	4.7
Life expectancy :	at birth				
Males:	:	75.3	:	76.1	:
Females:	:	80.4	:	81.0	:

Labour market (Labour Force Survey) e)	% of population				
Economic activity rate (15-64)	:	68.3	68.9	70.7	70.9
Employment rate (15-64), total	:	:	65.7	67.8	68.6
Employment rate (15-64), males	:	:	78.7	79.3	78.8
Employment rate (15-64), females	:	:	53.5	57.2	59.2
	as % of the total population of the same age group				
Employment rate of older workers (55-64)	:	:	49.4	49.1	49.2
Average employment by NACE branches	in % of total				
- Agriculture and forestry	9.1	4.7	5.4	4.8	5.3
- Industry (excluding construction)	14.5	14.5	14.0	13.9	13.3
- Construction	9.1	9.9	9.8	9.8	9.9
- Services	67.3	71.0	70.8	71.5	71.6
	% of labour force				
Unemployment rate, total	:	:	5.2	4.4	3.8
Unemployment rate, males	:	:	3.2	2.9	2.9
Unemployment rate, females	:	:	7.8	6.4	5.0
Unemployment rate of persons < 25 years	:	11.9	10.2	8.2	7.7
Long-term unemployment rate	:	:	1.2	0.9	0.8

Social cohesion	ratio of top quintile to lowest quintile				
Inequality of income distribution	:	:	:	:	:
	% of population aged 18-24				
Early school-leavers	:	15.0	15.0	14.8	14.0
	% of population aged 0-65				
Population in jobless households (persons aged 0-65)	:	:	6.8	6.0	6.0

Standard of living	per 1000 inhabitants				
Number of cars	367	374	386	399	404
Main telephone lines	596.1	617.8	634.5	620.2	600.9
Number of subscriptions to cellular mobile services	171.5	220.9	314.8	448.2	587.6

Infrastructure	in km per 1000 km²				
Railway network	0	0	0	0	0
	Km				
Length of motorways	204	216	240	257	268

	1998	1999	2000	2001	2002
Industry and agriculture	previous year=100				
Industrial production volume indices	102.6	102	104.5	99.7	100.1
Gross agricultural production volume indices	109.4	107.4	91.5	105.7	103.8

Innovation and research	as % of GDP				
Spending on Human Resources (public expenditure on education)	5.79	5.66	5.61	5.86E	6.09
	as % of GDP				
Gross domestic expenditure on Research & Development	0.23	0.25	0.26	:	:
	per 1000 inhabitants				
Level of Internet access - households	:	:	14	20	:

Environment	tonnes CO2 equivalent per capita				
Total greenhouse gases emissions	120	140	140	:	:
	kg of oil equivalent per 1000 euro of GDP				
Energy intensity of the economy	307.3	279.8	287.1p	:	:
	as % of total electricity consumption				
Share of renewable energy	:	:	:	:	:
	as % of total freight transport				
Modal split of freight transport	100	100	100	100	:

p=provisional figures

E=estimated data

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.

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

c) Including FISIM.

d) With the agreement of the Cyprus authorities, Eurostat has corrected gross debt by CYP +266.15 mio for 1999, +394.77 mio for 2000 and +507.71 mio for 2001, reflecting net contributions to government sinking funds.

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 year 1998 are compiled from a number of administrative sources. Data on employment are calculated on a FTE basis.

f) Source: Website of the National Bank

Methodological notes

Inflation rate

For details please refer to the following link to the Eurostat website:
http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/ecobac_ir.htm

Finance

Public finance: The general government deficit / surplus refers to the national accounts concept of consolidated general government net borrowing / net lending (EDP B.9) of ESA95. General government debt is defined as consolidated gross debt at end-year nominal value.

External trade

Imports and exports (current prices). The data is based upon the special trade system. Trade Classification: Trade in goods are recorded using the commodity classification according to the Combined Nomenclature. Imports are recorded on CIF basis, exports on FOB basis.

Imports and exports with EU-15. Data declared by Cyprus.

Labour market

Indicators are harmonised annual figures with the exception of average employment by NACE branches and unemployment rate of persons < 25 years, which are for the 2nd quarter of the respective year. The results are based on the European Union Labour Force Survey (LFS). The EU LFS is conducted on a quarterly basis in accordance with Council Regulation (EEC) No. 577/98 of 9 March 1998.

For details please refer to the following link on the Eurostat website:

<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/emploi.htm>

Social cohesion

For details please refer to the following link on the Eurostat website:

<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/socohe.htm>

Industry and agriculture

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

Gross agricultural production volume indices. Gross agricultural production volume indices are calculated in constant prices of 1995.

Innovation and research

For details please refer to the following link to the Eurostat website:

<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/innore.htm>

Environment

For details please refer to the following link to the Eurostat website:

<http://europa.eu.int/newcronos/suite/info/notmeth/en/theme1/strind/enviro.htm>

Sources:

Total area, External trade, Demography, Standard of living, Infrastructure, Industry and agriculture: National sources. Other indicators: Eurostat.