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**TRADE POLICY REVIEW**

**CYPRUS**

**Report by the Government**

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), Cyprus's Government's initial policy statement is attached.

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**Note:** This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Cyprus.



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## I. EXECUTIVE SUMMARY

1. Cyprus welcomes the opportunity to participate for the first time in the trade policy review process under which its economic and trade policies are reviewed. The WTO's Trade Policy Review Mechanism, particularly through detailed research of the Secretariat, provides valuable transparency in the evolution of Member economies' trade regimes and their progress towards the WTO ideal of free and open trade in goods and services.

2. This report by the Government of Cyprus focuses on trade policies and developments during 1994-1996, the period in which Cyprus signed the Uruguay Agreement in 1994 and became a Member of WTO on 30 July 1995. It also evaluates the progress of the 1994-98 Strategic Development Plan, the economic relations between Cyprus and the European Union and the future policy directions in various sectors.

3. The general objectives of the 1997-98 Development Plan are to achieve the highest possible rate of economic growth, given external and internal restrictive factors, the maintenance of conditions of full employment and the consolidation of conditions of internal and external stability. A basic condition is the containment of the fiscal deficit and public debt to levels conforming with the relevant Maastricht Convergence Criteria. For the period 1994-1996, the Cyprus economy registered an average annual rate of growth of GDP around 4.5 per cent in real terms, slightly higher than the targeted value in the plan.

4. In line with Cyprus' firm commitment to trade liberalization with the multilateral trading system, it participated in the Uruguay Round of multilateral trade negotiations which were concluded during that period. Cyprus has put a lot of effort in implementing the changes stemming from the new order. Despite the difficulties in adjusting to the new trade rules and market opening commitments, teething problems have been overcome. The bureaucratic and inefficient regulations of trade through import licensing and quantitative restrictions have been abolished.

5. The challenge for Cyprus lies in continuing to secure access for its products and services to the global market. To this end, Cyprus aims to maintain its competitive edge by adhering to the free market principles, open competition and rational economic policies, as well as investing in human resources infrastructure, technology and innovation. Cyprus' ability to sell its products and services depends on a barrier - free world trading environment. In that respect, Cyprus is firmly committed to the multilateral trading system as the principal and most effective platform for trade and investment liberalization.

6. In addition to the fundamental and successful trade liberalization objectives, Cyprus remains committed to pursuing an active trading relationship and is harmonising its policies with the Acquis Communautaire, with a view to prepare the smooth integration of Cyprus in the United Europe.

7. By keeping pace with developments within the European Union (EU), Cyprus is well on its way to achieving another major strategic objective: positioning itself to join the EU during the next round of enlargement. Cyprus has been working towards admission since 1972, when it signed an Association Agreement. It later signed a Customs Union Protocol in 1987 and submitted a formal application for membership in July 1990. The October 1993 seminar decision of the Council of Ministers recognized the European identity and character of Cyprus and its vocation to belong to the Community. The Council "invited the Commission to open substantive discussions with the Government of Cyprus to help it prepare for the accession negotiations to follow later on ...". These negotiations are now set to begin six months after the completion of the Intergovernmental Conference, as confirmed by the Council in March 1995 and reconfirmed since then. The EU is thus committed to include Cyprus in the next phase of its enlargement.

## II. ECONOMIC POLICY ENVIRONMENT

8. Cyprus economy was destroyed by the 1974 Turkish invasion and occupation of the northern 37 per cent of its territory which caused the displacement of one third of Cyprus population. By 1978 however, the war torn economy has rebounded, the economically-devastated refugees were housed in temporary housing, unemployment dropped to 2 per cent from 30 per cent high four years earlier, GDP begun to grow by an average 6 per cent and inflation was kept under control.

9. Through hard work, sacrifice and cohesive strategic Government plans per capita income in Cyprus has grown rapidly in the last ten years from US\$4,570 in 1985 to US\$13,650 in 1996, which provides Cypriots a high standard of living. Besides the importance of services, salient economic features of Cyprus are the openness of the economy (trade in goods and services as a percentage of GDP fluctuate around 100 per cent), strong trade and economic relations with the European Union (EU), a highly educated labour force and full employment combined with low inflation.

10. The general objectives of the 1994-98 Strategic Development Plan are to improve the standard of living in Cyprus, and to upgrade the environment and cultural development. The realization of the above objectives fully conforms with the efforts for harmonisation with the EU, and the preparation for the accession negotiations between Cyprus and the EU, expected to begin in early 1998.

11. At the macroeconomic level, the Plan's main objectives are to achieve the highest possible rate of economic growth, given external and internal constraints, the maintenance of conditions of full employment and the consolidation of conditions of internal and external stability. A basic condition is the containment of the fiscal deficit and public debt to levels conforming with the relevant Maastricht Convergence Criteria.

12. The economy during the period 1994-1996 is in general positive, and the average annual rate of growth of GDP amounted to around 4.5 per cent in real terms, slightly higher than the targeted value. This rate of growth is slightly lower compared to that achieved during the period covered by the previous Plan. It is however still considered satisfactory given the adverse external environment. i.e. The gradual reduction of Customs tariffs followed by Cyprus since 1988, and the low rates of economic growth exhibited by EU member States which are our main trading partners.

13. On the demand side, economic growth relied mainly on private consumption, which was bolstered by the surpassing of the set monetary and credit targets, despite the fact that according to the assumptions and targets of the Plan, external demand should have been the basic leverage to growth. Investment activity fell short of the target set, whereas its restructuring in favour of machinery and equipment was not achieved to the desired extent.

14. The gap between investment activity and savings grew significantly. Domestic savings fell from 24 per cent of GDP in 1993 to 20 per cent in 1996 (the target of the Plan was 22.3 per cent). This development resulted in increased dependence on external sources to finance investment.

15. From the sectoral point of view, the private services sectors, excluding tourism, have been the main motor of growth, as provided in the Plan. In contrast, the Plan's ambitious objectives to modernize, upgrade the quality and restructure the sectors of agriculture, manufacturing and hotels and restaurants (tourism) were not realized to the expected degree. In consequence, the growth rates of these sectors fell far behind the targeted ones.

16. The rate of unemployment was, on average, 2.8 per cent of the economically active population during the 1994-96 period, implying a realization of the Plan's strategic objective for consolidating conditions of full employment.

17. The rate of improvement of productivity was an average of 1.8 per cent in the 1994-96 period as against the target of 2.8 per cent. This reflects the divergence as far as the objectives of the Plan are concerned in the use of advanced technology and modern methods of management, design, production and marketing, and constitutes the main factor for the downward trend exhibited by the export sectors of the economy, particularly manufacturing.

18. During the 1994-96 period salary increases rose annually by 5.5 per cent in nominal terms on average, a rate lower than the 6.6 per cent target of the Plan. In the EU, however, labour costs exhibited an even lower increase of 3.5 per cent on average. As a result, despite the relative moderation exhibited by the social partners in recent collective bargaining agreements, there was a further erosion of the competitiveness of the Cyprus economy with regard to labour costs.

19. The rate of inflation - excluding the effects of increases in the VAT rate in 1993 - fluctuated at around 3 per cent during the 1994-96 period and compares favourably with the target of the Plan which was set at 3.6 per cent, simultaneously satisfying the relevant Maastricht Convergence Criterion. This development reflects the very small increases in the prices of imported goods and is attributed to the pegging of the Cyprus pound to the ECU as from June 1992, in conjunction with the fall in the average rate of inflation in the EU and the liberalization of the regime governing imports.

20. The current account of the Balance of Payments exhibited a surplus in 1994 and deficits during the 1995-96 period, whereas the Plan provided for a surplus of 1.5 per cent of GDP. Deviations were observed with regard to both domestic exports and receipts from tourism, as well as imports, which increased their share in the domestic market.

21. External debt continued its downward trend as a percentage of GNP from 33 per cent in 1993 to about 24 per cent in 1996, due mainly to the Government shifting to internal borrowing to finance its deficits. This development is in line with the targets of the Plan.

22. Foreign exchange reserves rose from about £1,350 million in 1993 to £2,015 million in 1996 and correspond to 11.5 months of imports of goods and services. This compares very favourably internationally and is attributed to the increase in the foreign exchange accounts of non-residents of Cyprus, particularly off-shore companies.

23. As from June 1992, the Cyprus pound was pegged to the ECU. The Cyprus pound exhibited vis-à-vis the pound sterling a slight appreciation, from 1,34 sterling pounds per Cyprus pound in 1993 to 1,37 in 1996. A significant appreciation was observed vis-à-vis the US dollar from 2\$ per pound in 1993 to 2,14 in 1996. The nominal appreciation of the Cyprus pound during the 1994-96 period helped consolidate conditions of internal stability as reflected in the relatively low rate of inflation.

24. The relatively good picture presented in general by the balance of payments situation, is rather an unstable one, given the great dependence on tourism. Moreover, if the current account deficit in the magnitude observed during the last two years, continues in the future, this will inevitably lead, in the medium-term, to an increase in foreign debt, and a reversal of the trend of the last few years.

25. The fiscal deficit improved substantially up to 1995, but more recently it exhibited a deterioration. More specifically the fiscal deficit fell from about 5 per cent of GDP in 1992 to 1 per cent in 1995, whereas it rose to 2.9 per cent in 1996. The improved situation up to 1995 is due mainly to increased revenue, from 30.5 per cent of GDP in 1993 to 32.5 per cent in 1995 and is basically attributed to the increase in the rate of VAT from 5 per cent to 8 per cent in October 1993, and to the improved effectiveness of the taxation system. The deterioration in 1996 is attributed, on one hand, to the relative restraint in economic growth, which had an adverse effect on public revenue, and the income tax reliefs

granted, and on the other, the significant increase in public consumption expenditure, including defence spending. It is important to note that public revenue increased from 33.5 per cent of GDP in 1995 to about 35.5 per cent in 1996.

26. Public debt, excluding intergovernmental debt<sup>1</sup>, amounted to 54 per cent of GDP in 1996 as against 59 per cent in 1993 and 54.3 per cent which was the target set by the Plan.

27. Despite the upward trend of 1996, both the fiscal deficit and public debt remained at levels which satisfy the relevant Maastricht Convergence Criteria.

28. Monetary and credit targets were surpassed during the 1994-96 period, resulting in a rise in private consumption, and were reflected in an instability in the current account of the Balance of Payments.

29. In general terms, the targets of the Plan with regard to the growth rate of GDP, the rate of unemployment and inflation, have been realized. The main deviations concern the structure of production (in particular the falling share of manufacturing to GDP), the fall of domestic savings as a percentage of GDP, the containment in the rate of improvement of productivity, and the growing deficits in the current account of the Balance of Payments.

### III. CURRENT INDUSTRIAL POLICY AND EXTERNAL TRADE DEVELOPMENT

#### A. CURRENT INDUSTRIAL POLICY

30. A vital component of Cyprus' industrial strategy is the modernization and technological upgrading of the country's industrial base. The margins for development based on the mass production model, which was placing emphasis on labour intensive products with low technological content, have been reduced. The comparative advantage of the sector now lies with the production of higher quality, technologically more advanced products requiring skilled labour. Attention is also focused on the need to strengthen existing enterprises by improving their structure. The creation of linkages between local industries in order to increase the domestic value added of manufacturing output and to achieve economies of scale is another central aim of Government policy.

#### B. EXTERNAL TRADE DEVELOPMENTS

##### 1. Total Trade

31. External trade is one of the main sectors of the Cyprus economy, contributing considerably to the economic activity of the country.

32. Over the period 1992-1996 the value of foreign trade increased with a moderate annual average growth rate of 6.7 per cent reaching in 1996 £2,506.5 million in comparison with £1,933.9 million in 1992.

##### 2. Total Imports

33. Total Imports during the period 1992-1996, increased by 24.6 per cent reaching in 1996 £1,857.5 million from £1,490,8 million in 1992.

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<sup>1</sup>It basically constitutes the Government debt to the Social Insurance Funds.



34. The European Union countries were in 1996 the major suppliers of goods to Cyprus and accounted for 48.6 per cent of total imports, valued at £902,2 million. The major European Union countries exporting to Cyprus were the United Kingdom, Italy, Greece, Germany and France.

35. Imports from other European countries, including the former socialist countries, account for 7.0 per cent of total imports and in 1996 they provided goods valued at £128,7 million. The major supplier of this group was Russia.

36. Imports from Arab countries reached in 1996 £78,9 million and accounted for 4.2 per cent of total imports. Syria and Egypt were the major suppliers, mainly of crude petroleum products.

37. Imports from the USA, one of the biggest suppliers of Cyprus, reached in 1996 £312,9 million, corresponding to 16.8 per cent of total imports. In the same year, imports from Japan were £110,8 million and accounted for 6.0 per cent of total imports (See chart).

38. The overwhelming majority of the 1996 imports were raw materials for the manufacturing sector. Intermediate inputs, (raw materials), in 1996 amounted to £623,7 million and their share to total imports was 33.6 per cent.

39. Imports of consumer goods, followed with £614,2 million and accounted for 33.1 per cent of total imports.

40. Imports of transport equipment and parts were next with £188,8 million and 10.2 per cent.

41. In the same year, imports of capital goods were £170,7 million and accounted for 9.2 per cent of total inputs. Lastly, imports of fuels and lubricants reached £156,8 million and accounted for 8.4 per cent of the total.

### 3. Domestic Exports

42. Domestic exports during the period 1992-1996 increased by 3.6 per cent and in 1996 amounted to £228,4 million in comparison with £220,5 in 1992.

43. Manufactured products constitute the bulk of Cyprus's domestic exports with a 60.2 per cent share in 1996. Raw and processed agricultural products followed with 24.1 per cent and 14.1 per cent share of total exports.

44. The European Union countries constitute the major markets for Cyprus and in 1996 absorbed 55.4 per cent or £126,6 million of Cyprus' domestic exports. The major EU export markets for Cyprus products is the United Kingdom, followed by Germany and Greece.

45. Exports to Arab countries, followed, and in 1996 amounted to £43,8 million or 19.2 per cent. Cyprus' major markets in this group include Lebanon, the United Arab Emirates, Saudi Arabia, Syria and Egypt.

46. Exports to other European countries, comprising mostly Eastern European countries were in 1996, £26,4 million with a share to the total of 11.6 per cent. The major export markets were Russia, Romania, Switzerland and Norway.

47. Finally, domestic exports to the rest of the world, mainly to the USA, Israel and Hong Kong, were in 1996 £24,5. Their share to the total was 10.7 per cent (See chart).

IV. TRADE AND INVESTMENT POLICY DEVELOPMENTS, 1994-1996

48. Cyprus' Trade Policy activities over the past two years have focused particularly on implementing the Uruguay Round Agreements and coordinated efforts to harmonize with the Acquis Communautaire, with a view to prepare the smooth integration of Cyprus in the United Europe.

49. These initiatives include developments in the following areas:

- (i) Discretionary import licensing, to protect local production, was abolished, along with remaining quantitative restrictions, with effect from 1 January 1996; tariffs are now the main instrument of the import regime. Surcharges, incorporated in the customs duty, have replaced quotas on certain products, defined as sensitive within the terms of the Customs Union Agreement with the EU. During the Uruguay Round, Cyprus bound approximately 80 per cent of industrial tariff lines at 40 per cent, and all agricultural tariff lines are bound.
- (ii) Implementation of WTO Agreements.
- (iii) Reductions in tariffs and tariff simplification.
- (iv) Elimination of Quantitative Restrictions and Quotas.
- (v) Application of the provisions of the WTO Agreement on Sanitary and Phytosanitary Measures (SPS).
- (vi) Competition policy to consolidate existing legislative framework and to make it comparable to the EU regulatory framework.
- (vii) Price controls on locally produced and imported consumable goods were reduced to a limited number of goods.
- (viii) Protection of intellectual property rights.
- (ix) Environmental policies.
- (x) Change in regulations regarding life and non-life insurance activities regarding foreigners.
- (xi) A new policy governing foreign direct and portfolio investment.
- (xii) Standards and Technical Regulations.
- (xiii) Customs Valuation.

V. ECONOMIC RELATIONS BETWEEN CYPRUS AND THE EUROPEAN UNION

50. The period since the issuing of the Avis by the European Commission regarding the application of Cyprus for full membership to the European Union, in June 1993, is characterized by the coordinated and systematic efforts on the part of Cyprus to harmonize with the Acquis Communautaire, with a view to prepare the smooth integration of Cyprus in the EU.

51. The decision of the Council of Ministers on 6 March 1995 for the start of the accession negotiations with Cyprus six months after the completion of the Intergovernmental Conference, in conjunction with the subsequent confirmation of this decision in all meetings of the European Council which followed, indicates the importance attached by the EU to a balanced expansion to the south. The shaping of the new Euro-Mediterranean Partnership enhances even more the role which could be played by Cyprus as a future member of the EU for the successful promotion of this desired cooperation.

52. The accession course of Cyprus and other candidate members is closely associated with important developments in the EU in 1996, particularly the inauguration of the sessions of the Intergovernmental Conference, aiming at revising the Treaty of Maastricht.

#### A. PLANNED ACTION FOR THE PROMOTION OF ACCESSION

53. Following the issue of the Avis by the European Commission on the application of Cyprus for full membership, the efforts for harmonisation and adjustment to the Acquis Communautaire constitute a priority for Government policy. Both the Strategic Development Plan 1994-98 and the Fourth Financial Protocol between Cyprus and the EU, covering the same period, are concentrated on the achievement of this goal.

54. As from 1994, 22 working groups were set up with a view to study in detail the Acquis Communautaire in relation to the practices in Cyprus, identify possible divergences and prepare a plan of action for harmonisation. The reports of the working groups were presented to the Ministerial Committee on EU matters. These proceedings made clear that a sectoral approach on its own was not sufficient to satisfy the set targets, and that a synthesis of the partial conclusions and suggestions was necessary within a unified plan of action covering all sectors of economic and social activity.

55. Under this unified action plan the Government of Cyprus will undertake sectoral and intrasectoral comparison and analysis and will proceed to an evaluation, priority ranking and classification of the proposed measures, according to the expected impact on the economy. The basic objective of the harmonisation programme will be the achievement of the greatest possible degree of preparation for accession, with a minimization of the potential adverse repercussions.

#### VI. FUTURE POLICY DIRECTIONS

##### (i) Regional Cooperation - Harmonisation to the European Legislation Practices

56. The intensive efforts of the Cyprus Government during the last few years for an adjustment of laws, institutional framework, administrative, infrastructure and organisation and in general of all policies and practices with the European Acquis, continued during 1996 bearing in mind the full development of the proceedings of the Intergovernmental Conference and the time limits set for the beginning of the accession negotiations. More specifically:

- The working groups proceeded to the preparation of action plans and the adoption of harmonization measures, such as legal adjustments, regulations and technical and sanitary standards.
- Systematic efforts were undertaken so that the new bills submitted to the House of Representatives comply with the corresponding Community legislation.

- During 1996 measures were implemented liberalizing, to a greater extent, the trade relations between Cyprus and the EU, resulting from the ratification of the latest GATT agreement and the participation in the newly created World Trade Organisation.
- Furthermore, as from the beginning of 1996, new instruments for the exercising of monetary policy were introduced within the framework of the liberalization efforts of the monetary credit system.
- The realization of harmonization studies in basic sectors was promoted, such as land and air transport, shipping and offshore activities, whereas the study on telecommunications was completed.
- An agreement of cooperation was signed between the Ministry of Finance and the European Institute of Public Administration in Maastricht, aiming at expanding and deepening the knowledge of the Cyprus Government on European subjects such as legislation, organs and institutions, public administration and specific policies of the EU.
- In parallel, a further participation of both the public and the private sector in programmes and initiatives of the EU was made possible.
- In June 1996, the procedure for the setting up of a European Institute in Cyprus was completed. The Institute is expected, through its planned information, research and educational activities on EU issues, to contribute to the development of a European conscience and the preparation of the Cyprus economy and society for a smooth integration in the EU.
- Last, but not least, various programmes for the familiarization and specialization of the competent public and private bodies with the Acquis Communautaire were continued such as (a) training on the job of civil servants at the European Commission as to the practical implementation of the Acquis Communautaire and the internal operation of the services of the Commission, (b) the organizing of educational missions of senior government officers to the European Commission in Brussels, within the framework of the educational programme for civil servants from third countries, organised and financed by the EU, (c) the organizing of informative educational events/seminars in Cyprus, with the participation of the private sector, on specialized issues, such as the research programmes of the EU, the policy of the EU for the development of mountainous regions etc. and (d) the organizing by the Academy of Public Administration of various introductory and specialized courses on EU matters, attended by a large number of civil servants.

(ii) Implementation of first and second stage of the Customs Union Agreement with the EU

57. Cyprus will implement the first stage of the Customs Union Agreement of 1987, which provides for gradual abolition of all Cypriot duties and quantitative restrictions on industrial and a number of agricultural products originating in the EU, with the exception for some sensitive products, and the adoption by Cyprus of the Common External Tariff for the same products by 31 December 1997.

58. Customs duties are being abolished at a rate of 9 per cent per annum; by the end of 1997, tariffs had been reduced by 90 per cent for certain "sensitive" products the initial rate was set low to be increased progressively. The Community abolished its duties on industrial products originating

in Cyprus in 1977. Duties on a number of agricultural products (mainly fruit and vegetables) originating in Cyprus were abolished by the EU in 1988 (for some of them in the limits of tariff quotas and/or calendars).

59. The second phase of the Customs Union Protocol (1998 to 2001 or 2002), provides for the elimination of all remaining restrictions so as to achieve the free movement of goods covered by the Protocol. Rules of origin will be abolished, and some principles of the Common Agricultural Policy will apply to Cyprus. Cyprus will apply the relevant agricultural policies and mechanisms of the Community for those products included in the Protocol. According to the provisions of the Protocol Cyprus will apply also some other accompanying policies such as competition rules, state aids, taxation of products and approximation of laws.

(iii) Sectoral Policy Direction

1. Domestic Support - Export Assistance to Agriculture

60. Under the WTO Agreement on Agriculture, Cyprus agreed to reduce levels of domestic support to agricultural products from a total of £C58,4 million in the base period (1986-1988) to £C50,6 million by 2004. The total aggregate measure of support (AMS) in 1995 amounted to £C36,5 million, about one-sixth of agricultural value added. Significant reductions have taken place in the total outlay on the feedgrain subsidy, from £C17,9 million a year in 1989-91 to £C11,3 million in 1995.

61. Export subsidies commitments of approximately £C9 million in the base period (1986-1988), mainly for vegetables, fruit and wine will be reduced progressively by 24 per cent by 2004.

2. Anti-Dumping and Countervailing Measures

62. Cyprus has taken so far no Anti-Dumping or Countervailing actions and has notified the WTO accordingly. Its law is in the process of being amended in order to bring it in line with the relevant provisions of WTO Agreement and the EU legislation (Council Regulation No. 3283/94 and 3284/94).

3. Overseas and Foreign Direct Investment

63. A new policy governing foreign direct and portfolio investment was introduced with effect from 10 February 1997. Restrictions on foreign investment have been relaxed: the current regime allows foreign participation up to 100 per cent in a wider range of activities. The previous policy towards foreign direct investment (first set forth in November 1986 by the Council of Ministers) limited foreign participation to minority control (49 per cent), with the exception of manufacturing exclusively for export. The new policy aims at attracting more foreign direct investments to Cyprus.

4. Insurance Activities

64. Cyprus has made commitments, according national treatment, in both the life and non-life insurance sectors during the Uruguay Round negotiations. All forms of insurance activities are open to foreign suppliers; the sector has been further liberalized and is open to foreign investment with up to 100 per cent foreign equity permitted under the 1997 investment regime.

5. Agreements on the Reciprocal Promotion and Protection of Investments

65. The right of property is safeguarded by Cyprus' Constitution which does not discriminate between citizens and non-Cypriot aliens. Cyprus has concluded eight bilateral agreements for the reciprocal promotion and protection of investments, while a further 20 are under negotiation. In 1996, Cyprus

ratified the Convention on the Settlements of Investment Disputes between States and Nationals of Other States administered by the World Bank and is a signatory to the Multilateral Investment Guarantee Agency Agreement which insures foreign investors against non-commercial risks.

6. Control of Concentrations

66. A Law regarding the Control of Concentrations between Enterprises, with no sectoral exceptions, based on the EC Merger Control Regulation is currently discussed at the House of Representatives and is expected to come into effect during 1997.

7. Abolition of Price Controls

67. Price controls on basic consumer goods were originally imposed during the 1974 oil crisis, with a view of restraining inflationary pressures. Up to 1994 the prices of 62 locally produced and imported consumables were set by the Ministry of Commerce, Industry and Tourism. By February 1997 the number of goods under control was reduced to 14 with the view of abolishing price controls altogether by the end of 1998.

8. Intellectual Property Rights

68. Laws to protect intellectual and industrial property rights in Cyprus are extensive and measures to deal with cases of infringement and counterfeit have been enforced. Most of the main international Conventions (Paris, Berne, Universal, Geneva, Trade Marks Law Treaty) have been ratified by Cyprus. The Registrar for Trade Marks and Patents, in the Ministry of Commerce, Industry and Tourism, handles registrations of trade marks and patents and implements relevant legislation.

Trade Marks

69. Cyprus is adopting the new international directives regarding registration procedures according to the Trade Marks Law Treaty which will be simpler and in line with the international models.

Patents

70. A forthcoming Patent Bill, to update that inherited from the United Kingdom, will ratify the European Patent Convention and the Patent Cooperation Treaty and bring patent law into conformity with the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS). The changes required for conformity to be brought about is the creation of a national registry, registration through international search and new procedures. Cyprus is also drafting legislation to adopt the International Convention for the Protection of New Varieties of Plants (UPOV). Under our current law there is no provision for compulsory licence. The new law provides for compulsory licence only if the patent is not used or the product is not imported. Working of a patent is allowed after the expiration of the patent protection (i.e. 20 years).

9. Promotion of exports of goods and services and overseas direct investments to new and existing markets

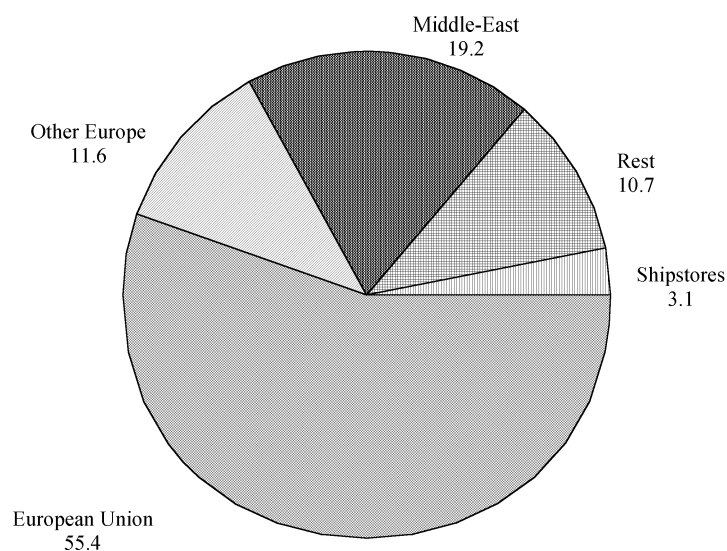
71. Cyprus will ensure that Cypriot exporters capitalize on the business opportunities presented by an increasing global market. This involves generating greater interest among exporters in opportunities in international markets and attracting investment to Cyprus. Cyprus will also maintain the close trade relationship with the EU in order to take advantage of the benefits that Cyprus derives from its most important export market.

10. Research and Development

72. Cyprus will be specializing in specific niches and investing in more research and development (R&D). In an effort to stimulate R&D activities the Government set up in 1995 the Foundation for the Promotion of Research, whose functions are to extend grants for research projects in the Public or in the Private Sector, and to advise the Government on various issues related to R&D.

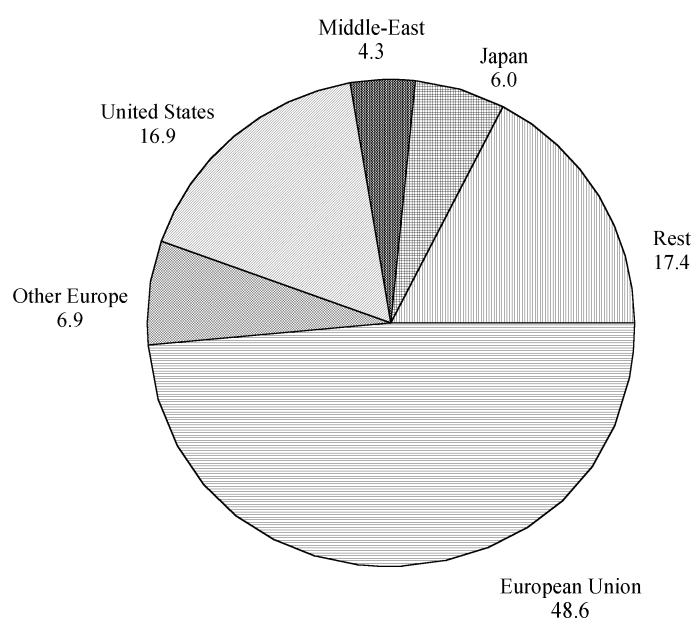
### Domestic exports by destination, 1996 (C£ million pounds)

Per cent



### Imports by origin, 1996 (C£ million pounds)

Per cent



Source: Government of Cyprus.