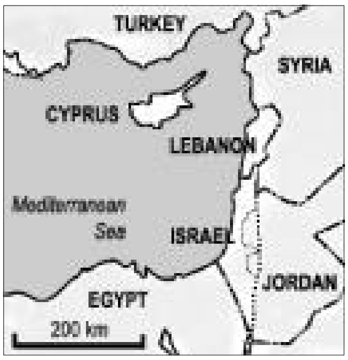
Cooperation on oil reserves planned

Government Spokesman Michalis Papapetrou announced on 23 August that Cyprus officials would have meetings with Government representatives of Egypt, Lebanon, Israel and possibly Libya on issues relating to exploitation of oil and gas reserves in the Eastern Mediterranean, including within Cyprus' economic zone. Similar talks were held with Syria earlier in the month.

When asked whether there were any positive scientific indications of the existence of oil and gas reserves in the region, Mr Papapetrou replied in the affirmative, although without elaborating. However, commenting on local press reports, the Spokesman said that preparations for the delimitation of Cyprus' 200-mile economic zone had been concluded. He added that political contacts had been initiated with other countries of the region with the aim of getting agreement on the delimitation of economic zones without entering into legal procedures.

Mr Papapetrou's announcement followed the third meeting of the special Committee of Ministers dealing with oil and gas issues, during which a technical sub-committee was created to submit proposals on many aspects, including the appointment of experts.

●Commerce, Industry and Tourism Minister Nicos Rolandis had talks in Nicosia on 6 August with the Syrian Petroleum and Mineral Resources Minister, Mohamad Maher Jamal, during which the two sides agreed to work for the speedy delimitation of the exclusive economic zone and the continental shelf between the two countries. Mr Rolandis confirmed afterwards that the Government would give serious consideration to a Syrian proposal to supply natural gas to Cyprus via a specially constructed pipeline.❑



Lombard rate and euro margins cut

A 0.5 per cent cut in the Lombard interest rate, to 6.5 per cent, was introduced by the Central Bank of Cyprus on 13 August, together with an increase in the permitted fluctuation margins of the Cyprus pound against the euro, from 2.25 to 1.5 per cent. Also applied was a 0.5 per cent reduction, to 3.5 per cent, in the interest rate of the Bank's deposit facility.

Central Bank Governor Afxentis Afxentiou said that the reduction in the Lombard rate—charged by the Central Bank on overnight borrowings by commercial banks—was intended to curtail an increasing trend for loans to be contracted in foreign currencies, especially the euro, and to avert a possible economic downturn. He said that "rising loan demand in euros is creating a tendency to increasing total liquidity in the banking system and is upsetting our goals".

Referring to the general state of the economy, Mr Afxentiou described it as "very good", with national income rising at a satisfactory rate, full employment, inflation at around 2 per cent and a low public deficit. The only serious problem, he said, was the large deficit in the current account of the balance of payments.❑

Progress in EU negotiations continues

The Government's Chief European Union (EU) Negotiator, George Vassiliou, commented on 7 August that Cyprus was making good progress in amending its legislation to the requirements of the EU *acquis communautaire*, although he warned that there was still a lot of hard work ahead, especially with regard to taxation and agricultural policy.

Speaking after review meetings with President Clerides and with Agriculture, Natural Resources and Environment Minister Costas Themistocleous, Mr Vassiliou noted that Cyprus had provisionally closed 23 out of the 29 EU negotiating chapters and that 95 per cent of EU-related legislation passed by the House of Representatives was being implemented. He also pointed out that 50 per cent of the *acquis* related to fisheries, environmental policy and agriculture, the first two of which policy areas had been concluded in the Government's negotiations with the European Commission, whereas agriculture was not expected to be closed until the first half of 2002.

The other five negotiating chapters still to be dealt with are those covering financial and budgetary arrangements, justice and home affairs, free movement of people, competition policy and taxation. The expectation is that most of these will be provisionally closed in further negotiating sessions under the current Belgian Presidency of the EU running for the second half of 2001.

Dealing with the need to reform the taxation system (see adjoining report), the EU Chief Negotiator said that value-added tax (VAT) "has to go up to 15 per cent", from the 10 per cent rate currently in force, that the taxation threshold must be higher and that other indirect taxation "must increase and the disparity between offshore units and companies operating in Cyprus must be abolished". In particular, income tax should be reduced, the ceiling for tax-free income raised and other social measures introduced. He added that consultations with the political parties would be carried out, with a view to a package deal of tax reforms being submitted to the House of Representatives in the autumn.

Mr Vassiliou said that the EU negotiating chapter on agricultural policy was likely to be the last to be closed, since it was the most difficult not only for Cyprus but also for the other candidate countries. He reported that his meeting with Mr Themistocleous had covered forestry, animal husbandry and agricultural production, all areas needing special attention.

In further talks with Mr Themistocleous and Agriculture Ministry officials on 29 August, Mr Vassiliou pursued the progress being made on harmonization with the EU *acquis*, on which a meeting with the Cypriot Farmers' Union and other agricultural organizations was scheduled for early September.

Speaking to journalists after the meeting, Mr Vassiliou praised the Ministry for its efforts in providing convincing arguments for the EU accession negotiations. For his part, Mr Themistocleous expressed confidence that the small agricultural sector in Cyprus posed no major obstacles to EU accession, although the agriculture chapter would be the last one to be closed in the EU negotiations because it was sensitive in view of the importance of agricultural spending within the overall Brussels budget.

●Figures issued by the EU's Eurostat statistical office on 15 August showed that in 2000 gross domestic product (GDP) per capita in Cyprus reached 82 per cent of the average EU level, placing Cyprus in the forefront of progress towards achieving EU economic standards among the 13 applicant countries.❑

Link: www.cyprus-eu.org.cy
Cyprus-EU Negotiations (three languages)

Klerides unveils far-reaching tax reform plans

Forthcoming tax reforms to be introduced by the Government, as confirmed by Finance Minister Takis Klerides on 26 August, will include agreed tax increases for offshore companies and tax cuts for Cypriot companies and for workers in the lower-paid bracket.

Mr Klerides was speaking at the conclusion of a three-day international conference in Nicosia which considered the tax aspects of Cyprus as an international business centre in light of prospective accession to the European Union (EU) and efforts to eliminate harmful taxation. The Minister said that EU accession provided the opportunity to carry out a substantive reform of the tax system to make it more just, productive and simple, and also to render the Cyprus economy more competitive. Apart from the offshore sector, the Government had decided "not to use these reforms to increase taxation", said Mr Klerides, who expressed his belief that the Government's proposals would maintain Cyprus' international status as an attractive centre for the location offshore companies.

In his submission to the conference on 24 August, Mr Klerides said that the Government's "strategic vision" was "to strengthen and continuously upgrade the role of Cyprus as a centre of excellence for reputable international businesses". He pointed out that as from January 2000 the Government had undertaken not to introduce new tax measures deemed to be harmful under the EU code of conduct aimed at preventing harmful tax competition. It had also, he said, taken the political decision "to associate itself with the OECD's work to eliminate harmful tax practices by the end of 2005".❑