

EU entry negotiations on course

A forecast that Cyprus will complete its negotiations on accession to the European Union (EU) by mid-2002 was given on 21 June by the EU's Chief Negotiator on Cyprus, Leopold Maurer. Earlier in the month, closure of the negotiating chapter on free movement of people brought the number provisionally finalized to 22 out of 29.

Speaking in Nicosia at a joint press conference with Cyprus' Chief EU Negotiator George Vassiliou, Herr Maurer said that the seven remaining negotiating chapters should be finalized by the end of the Spanish Presidency of the EU in the first half of 2002. He expressed his team's satisfaction with the progress made by the Cyprus Government in implementing the EU's *acquis communautaire* and confirmed that Cyprus would receive EU financial aid of 54 million euros over the next five years to support the harmonization process.

While in Cyprus Herr Maurer visited the British sovereign base areas (SBAs) to inform himself on how the SBAs operate and to discuss the arrangements to be applied after Cyprus becomes an EU member. Noting that the SBAs were not included when the UK joined the EU in 1973, so that their borders would become EU "external borders" when Cyprus became a member, he expressed

confidence that this "technical issue" would present no difficulties for Cyprus' accession to the EU.

The Government's readiness to hold consultations with Britain on the status of the SBAs after Cyprus' EU accession was confirmed on 21 June by Spokesman Michalis Papapetrou, who said that the two scenarios were that the SBAs would become part of the EU when Cyprus joined or that they would remain outside under special arrangements. On 25 June Mr Papapetrou stressed that the Government had no desire to question the UK sovereignty of the SBAs under the 1960 Treaty of Establishment and ruled out the idea of holding a referendum on their status.

The provisional closure of the free movement of people chapter was achieved at the seventh EU-Cyprus Ministerial Conference held in Luxembourg on 12 June and attended by Foreign Minister Ioannis Kasoulides. A notable aspect of the agreement was that full free movement will operate at accession, so that Cyprus (together with Malta) will not be subject to the transitional period to be applied to the Central and Eastern European states. □

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

US report sees enormous benefits for "single Cyprus"

A US Government-commissioned report published on 15 June foresaw enormous economic benefits for both the Greek Cypriot and the Turkish Cypriot communities if Cyprus operated as "a single bizonal entity" after it joined the European Union (EU).

Sent to President Clerides and to Turkish Cypriot leader Rauf Denktaş, the report said that a federal settlement "would raise the prospect of sharp and long-term increases in rate of growth in real GDP to levels of 5.5 per cent per annum or even higher". It estimated that Turkish Cypriot growth could be 60 to 150 per cent higher under such a scenario and Greek Cypriot growth 5 to 20 per cent higher.

The report concluded that the accession of a whole Cyprus to the EU would give access to "very significant capital resources, especially for the Turkish Cypriot community". The economic "peace dividends", it suggested, would include a reduction of risks to foreign investors and the removal of hidden costs such as the flight of human resources. □



• End in sight... EU Negotiator Maurer (left) with House EU Committee Chairman Tassos Papadopoulos.

Oil co-operation

Co-operation between Cyprus and Egypt on oil exploration and exploitation in the Eastern Mediterranean was agreed in principle by the two sides on 26 June.

Announced after a meeting in Nicosia between Commerce, Industry and Tourism Minister Nicos Rolandis and an Egyptian Government delegation, the agreement will be elaborated when Egyptian Petroleum Minister Amin Sameh Fahmi makes a scheduled visit to Cyprus in late July. The co-operation will focus on the Mediterranean basin lying between Cyprus and Egypt, where preliminary research has confirmed the existence of promising structures. □

Economic targets spelt out for EU accession

The Government's economic programme for accession to the European Union (EU), submitted to the European Commission in late May and published on 27 June, deals with medium-term macroeconomic policy (to 2004) and places emphasis on public finance objectives and structural reforms intended to achieve harmonization with the EU's *acquis communautaire*. The priorities are:

- maintaining high rates of economic growth
- preserving conditions of full employment
- preserving conditions of internal and external stability (low inflation and a healthy balance of payments)
- maintaining social cohesion.

Stating that fiscal policy is one of the keys to achieving the above objectives, the programme records that concrete measures have been incorporated in the Government's "ambitious yet feasible" Fiscal Consolidation Programme covering the period 2000 to 2004 and aiming at the achievement of a balanced budget by 2004. These measures include:

- harmonizing indirect tax rates to those prescribed by the *acquis*
- reducing the ratio of government debt to gross domestic product (GDP) from 60.6% in 2000 to below 49% by 2004

- containing government expenditure, including a significant moderation of public sector employment growth to an average of no more than 0.5% per annum.

The income tax system will be reformed and modernized to reduce and further improve the distribution of the tax burden while at the same time, enhancing tax buoyancy and the efficiency of the system. Higher expenditure on social benefits will be directed to the low-income class, as a counterbalance to increased in indirect taxes.

Structural reforms

The programme states that "the major objective of structural reforms is to enhance the effectiveness of the market mechanism mainly through the elimination of the remaining market rigidities, thus making the Cyprus economy...viable and competitive under the conditions of the unified market of the EU". Particular objectives include creating conditions conducive to a higher level of more productive investment and designing measures which make adjustment to intensified competition socially and environmentally sustainable.

The wide range of structural reforms

already achieved in Cyprus in recent years are listed in the programme as follows:

- the effective liberalization of trade within the framework of the 1987 Customs Union Protocol with the EU and the commitments of Cyprus *vis à vis* the World Trade Organization
- the liberalization of interest rates as from 1 January 2001 and the simultaneous liberalization of medium- and long-term borrowing in foreign currencies by residents, from banks in Cyprus or from abroad
- the abolition of all restrictions on foreign direct and portfolio investment in Cyprus (except for banks) by residents of the EU, as from 1 July 2000
- the introduction of market-based methods of financing public sector requirements
- the abolition of almost all price controls (those still in place being restricted to pasteurized milk, bread and cement)
- the sale of the Government's stake in the Cyprus Tourist Development Agency (owner of the Hilton Hotel) and in Cyprus Industrial Pipes, as well as part of its stake in Cyprus Airways, reducing it from 80% to 66.11%
- the introduction of the private finance initiative (PFI) method for the financing and operation of infrastructural projects. □