Fontaine stresses certainty of EU accession

The Cyprus Government expressed "deep satisfaction" with the views expressed by the President of the European Parliament (EP), Nicole Fontaine, during an official visit to Cyprus on 22-23 November. Fontaine's remarks came after Turkey had again threatened to annex the Turkish-occupied area if Cyprus was admitted to the European Union (see page 1). Earlier in the month the Government had also welcomed the generally positive evaluation of Cyprus' credentials for EU membership given in the European Commission's latest progress report on the enlargement process published on 13 November.

An MEP of the centrist Union for French Democracy (UDF) and President of the EP since the June 1999 Euro-elections, Mme Fontaine had talks with President Clerides and other officials, including the President of the Cyprus House of Representatives, Demetris Christofias. Speaking after her meeting with Mr Clerides, she expressed the hope that Cyprus' EU accession would be "a catalyst" for unblocking the path to a political settlement, but stressed that "under no circumstances" would the absence of a settlement prevent the accession of Cyprus.

In a direct message to the Turkish Cypriots, Mme Fontaine appealed to them to "make some gesture" towards a settlement, warning that the policy of blocking a settlement was not in their interests. She said that Cyprus was among the countries most prepared for accession and that under the envisaged timetable Cyprus would participate in the 2004 Euro-elections as an EU member.

Commission progress report

The European Commission's latest report combined high praise for Cyprus' preparations for membership with identification of some shortcomings which required remedial action. The Commission repeated the EU's call for the Turkish Cypriots to join in the accession negotiations and the search for a political settlement so that a reunified Cyprus could join the EU.

Covering the 12-month period to September 2001, the report condemned the withdrawal of Turkish Cypriot leader Rauf Denktash from the UN proximity talks and stressed the EU's preference for a political settlement before accession. Such a settlement, it pointed out, must be in line with EU principles by allowing Cyprus to speak with one voice within the EU and to undertake EU obligations as a single member state. But it also re-emphasized the December 1999 Helsinki Council decision that a solution to the Cyprus problem was not a pre-condition for accession.

The report congratulated Cyprus on its solid progress in bringing its laws and administrative structures into line with the EU *acquis communautaire*, giving particular praise to fiscal consolidation and structural reforms in the financial, social and environmental spheres. It described Cyprus as "a functioning market economy" which "should be able to cope with competitive pressure and market forces within the Union" and noted that almost all economic indicators had shown further improvement in the period reviewed.

Negative aspects noted by the report included the substantial recent increase in the current account deficit, on which the Commission called for urgent remedial action. Also highlighted was the need to accelerate the abolition of state monopolies in the agricultural and utilities sectors and to open up telecommunications and the postal service to competition.

In a section on developments in the Turkish-occupied area, the report noted that it was in the grip of a deepening economic crisis, propped up by large financial subsidies from the Turkish government. It therefore repeated the EU call for the Turkish Cypriot leadership to accept the standing invitation to become a party to the accession negotiations in the interests of improving the economic prospects of the people of the area and enjoying the same benefits as the Greek Cypriots.

●The Commission's report was described as "very positive" by Cyprus' Chief EU Negotiator, George Vassiliou. He warned, however, that a great deal remained to be done to complete the negotiations and harmonization with the *acquis* in 2002.❑

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

· *European visitor... EP President Fontaine meets the House European Affairs Committee in Nicosia.*

Rates cut again

Responding to growing evidence of a world economic downturn, the Central Bank of Cyprus on 2 November announced a further 0.5 per cent cut in the Lombard interest rate, taking it down to 5.5 per cent with effect from 5 November. The overnight deposit facility rate was also reduced by 0.5 per cent, to 2.5 per cent.

The latest interest rate reductions followed two previous 0.5 per cent cuts in August and September, the latter applied in the wake of the terrorist attacks on America on 11 September. Central Bank Governor Afxentis Afxentiou warned that the resultant international crisis was creating global economic uncertainty which was likely to have adverse repercussions on Cyprus, especially on the tourist industry.

Mr Afxentiou added that interest rates were only one of many economic tools and that the Bank now expected the Government to speed up its own development projects to assist with the maintenance of economic buoyancy.

●The interest rate cuts had a positive impact on the Cyprus Stock Exchange share price index, which climbed sharply to close to the psychologically important 150-point barrier, although it fell back at the end of the month.❑

Major tax reform package unveiled

Higher tax-free personal income, sharply reduced corporate tax and increased value-added tax (VAT) featured in the Government's keenly awaited tax reform plans unveiled by Finance Minister Takis Klerides on 5 November. Including compensatory measures for pensioners and low-income families, the package is intended to prepare Cyprus for accession to the European Union (EU) and to bring tax policy into line with EU requirements.

Subject to parliamentary approval, the plans will be implemented in two stages in 2002 and 2003. Mr Klerides said that the benefit accruing from lower personal taxation would far outweigh the negative effect of higher indirect taxes, while lower corporate tax would boost economic activity and encourage inward investment in a period of probable world downturn. The principal measures planned are as follows:

●VAT will be increased from 10 to 13 per cent early in 2002 and later to the minimum EU level of 15 per cent.

●The threshold for the start of personal income tax will rise from C£6,000 to C£9,000, with the minimum rate remaining at 20 per cent but with the top rate being cut from 40 to 28 per cent, payable on income of C£15,000 and above.

●Basic pensions, child benefit and other welfare payments will be increased at a total annual cost of C£88 million.

●Corporation tax will be cut to 10 per cent for all companies, from the current 20-25 per cent range depending on profits.

●Offshore companies will lose their preferential 4.25 per cent corporation tax rate and be required to pay the 10 per cent rate, although the Government will seek EU authority to delay full application until the expiry of existing offshore laws, while foreign shareholders will be exempt from withholding tax on dividends.

●The 2-3 per cent defence levy on salaries, pensions, rent and dividends will be phased out as VAT goes up, although the defence levy on interest income will be increased from 3 to 10 per cent.

Mr Klerides expressed confidence that the reforms would be well received by ordinary people and urged the political parties to study them carefully before reaching a verdict. However, whereas the centre-right parties gave broad approval, the immediate reaction of the left-wing AKEL party and the PEO trade union federation was to condemn what they saw as the unfair burden of higher indirect taxation on the low-paid and pensioners.❑